Political Economy Analysis for FCDO’s Pakistan's Real Economy Programme (PHASE-II)

cdpr Consortium for Development Policy Research
Cowater UK Ltd
TAF 2+ TRADE AND INVESTMENT ADVOCACY FUND

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This work has been done for FCDO Pakistan’s Jobs and Economist Transformation Programme, commissioned to Consortium for Development Policy Research through Cowater UK Ltd. The team lead for this project was Umair Javed. The sector reports were prepared by Kabeer Dawani, Hina Shaikh, Usman Khan, Umair Javed, and Zara Salman. Ijaz Nabi served as the Senior Political Economy Advisor and Suleman Ghani was the Senior Public Policy Advisor for this project.

Executive Summary

Introduction

This assignment, spread over two phases, aims to document the political economy of growth in key areas of Pakistan’s economy; it is primarily motivated by the wide degree of variation in economic performance across different eras in the country’s history. Between 1947 and 1967, Pakistan made impressive infrastructure investments, enabling the development of a substantial manufacturing base from scratch, and the adoption of ‘green revolution technologies’ that led to an average growth rate of 6 per cent per annum. However, since then, despite the periodic impetus of technocratic reform efforts, Pakistan’s economic growth remains anaemic, exports do not demonstrate the same dynamism as comparator countries in the region and beyond, and periodic current account and fiscal deficits produce boom-bust cycles with alarming frequency. Sustained growth and development remains elusive, which is a fact that can be traced to variations in the political economy context, rather than in the selection of policy choices.

To contextualize this very briefly, the temporarily stable arrangement of state-led development through a cohesive, elite-controlled bureaucracy, generous donor-support, and an incubated class of private sector entrepreneurs that dominated the 1950s and 1960s, was unable to sustain itself in the face of challenges posed by groups locked out of the development process. Subsequently, since the 1960s, the nature of economic policy-making and implementation has had to contend with factional and distributional conflicts of institutional (civil versus military), ethnic and class-based variants, without the requisite development of conflict-limits or broader rules for conflict resolution. This produces repeat cycles of political and economic instability, as factional conflicts resemble zero-sum games and no one faction or group is able to establish clear dominance over an extended period of time.

Given this context, this report sets out two tasks: the first is to provide a broad (horizontal) desk-based overview of the political economy of private sector economic activity in Pakistan, to uncover determinants of the state’s behaviour that is central to the overall functioning of the economy, and which ***<u>in the view of this report, has led to the cyclical pattern of macroeconomic growth witnessed in the preceding five decades.</u>*** This analysis is complemented with a review of the entrenched barriers to development as well as the nascent opportunities for transformation afforded by the current political-economy dispensation. The second objective is to uncover how country-level macro and sector-level micro-political economy factors shape growth prospects and hindrances in private sector activity in five priority sub-sectors: Chemicals and Plastics; Road Transport and Logistics; Bed Linen, Pharmaceuticals, and E-Commerce.

Our headline finding in this domain is that sectoral growth remains constrained by both macro and micro-level factors, which includes the historical track record of government’s economic management exemplified through persisting fiscal imbalances generated through imprudent and ad-hoc expenditure and constrained revenue collection (both dictated by political economy considerations), the insulated and heavily bureaucratized nature of decision-making, and entrenched patterns of rent-seeking within key sectors.

Methodology

The assignment was undertaken in two phases: Phase 1 (horizontal PEA report and priority economic sector PEA profiles) and Phase 2 (further horizontal analysis and PEA profiles of additional economic sectors). Across both phases the task involved identifying key stakeholders and then understanding the role and power dynamics across these players spanning the selected priority sectors. This current report (Phase 2) adds further insight into the key findings determined during Phase 1 of the assignment

The analysis in this report is conducted at both the country/macro and sector-level. The political behavior of actors at both these levels is determined by their interests, ideology, and institutional and regulatory structures within which they operate or are bound by.

Sector-level analysis across both phases of this assignment was developed using primary and secondary data. A desk review was carried out for each sector, which collated key facts and figures on sector size, evolution, productivity, export history, employment trends, and value-addition. An accompanying literature and policy review was able to establish patterns of governmental regulation governing the sector.

To uncover political economy trends that often remain unreported in the policy literature, detailed semi-structured interviews were carried out with key informants in each sector. These included representatives of large and small firms, associational representatives, and in some cases, relevant government officials. The instrument utilized to guide interviews is attached as an appendix to the report. The narrative data from interviews was systematically analysed, in light of the desk-review, using stakeholder-influence alignment charts.

Cross Cutting Political Economy Analysis Summary

In the contemporary period, the political economy of private sector growth in Pakistan is conventionally characterized as elite-captured, patronage-based or clientelistic, and said to be marked by entrenched patterns of rent-seeking behaviour. Understanding this characterization involves exploring the structural and institutional determinants of state-economy relations, including how various forms of interactions have germinated and become path-dependent over time, the historical legacies that shape actor and/or group behaviour, and how the formal and informal institutional make-up of the political and economic sphere functions.

Melding together an analysis of institutional actors, societal groups, and historical and structural determinants can best be done through the political settlement approach. A political settlement, for the sake of this assignment, can be defined as a combination of interactions involving the aforementioned agents that produces a particular distribution of power, and a given set of consequences.

Key Findings (Horizontal): Power Relations

1. **Extensive State Involvement:** The main finding from the literature review highlights that the state – the permanent bureaucracy, the military, and elite politicians – exercise considerable influence over the form and direction of private sector economic activity. The degree to which the state exercises autonomy in its management of the economy remains contingent on the level of organization within the sub-sector, its centrality to fiscal and foreign exchange goals, and its degree of embeddedness within key decision-making actors[1]. This evidence of this is available within this second phase of our sub-sector analysis, which shows government developing concessionary policies for those categories and entrepreneurs that have lobbying capacity and can access political networks (such as politically salient embedded pharmaceutical companies), often to the detriment of higher value-added firms (large firms in pharmaceuticals) and sub-sectors (bed linens). At the same time, sectors like e-commerce, which carry immense growth potential, but are not embedded with decision-makers or considered to be important sources of government revenue, are regulated in an ad-hoc manner.

[1] For more on the rise of new groups and its impact on Pakistan’s economic growth see Ali Cheema, “State and Capital in Pakistan: The Changing Politics of Accumulation,” in *Corporate Capitalism in Contemporary South Asia: Conventional Wisdoms and South Asian Realities*, ed. A M Reed (London: Palgrave, 2003), pp. 82 -110

2. **Imprudent Macroeconomic Management Anchored in a Fragmented Rent-Seeking Landscape:** Nearly every major industrial and services sub-sector – either collectively or in the shape of individual firms - tries to retain cross-party relations in order to extract favours, navigate enforcements, and ensure protection from excessive predation. This is alongside other ascriptive factions (such as ethnic groups and local patron-client ties) which are also competing for public resources, and thus dictate the government’s expenditure and revenue-generating priorities. The key power relational outcome is that the number of economic claim-makers within the political sphere has expanded, and the avenues of claim-making – afforded by the opening up of participatory politics in various periods that link politicians to the private sector – have also become enlarged. Depending on internal organization and other characteristics of the sector, state actors can be found either enforcing autonomous decisions or providing expenditure and subsidy concessions to influential private-sector actors. These lead to worsening economic fundamentals in the medium-term, thus perpetuating forced slowdowns of the economy and creating cyclical patterns of growth across sectors. To use an example, the over-valuation of the exchange rate between 2013-2017 that led to export weakening and a subsequent fiscal crisis, was pursued by a government that was closely reliant on importers and traders for its political support. Similarly, in the sectors studied here, the case of the transport sector is instructive as the state retains an indirect economic stake through the largest firm and is thus distorting competition through concessionary policies such as provision of ad-hoc tax relief or preferential treatment in procurement.

Key Findings (Horizontal): Barriers to Development

Our analysis reveals that there are certain overarching political economy dynamics in Pakistan that impact all aspects of economic activity. These include corruption and rent seeking; predation by higher and local level bureaucracies; insulated decision-making processes; and low levels of policy and administrative capacity.

1. **Corruption and Rent-Seeking:** The scale of rent-seeking and suppression of competition varies from sector-to-sector, but is usually made possible through the utilization of sector (and sometimes even firm-specific) Statutory Regulatory Orders (SROs) granting particular types of concessions or exceptions, as witnessed in the analysis of the chemicals and plastics sector; the imposition of import tariffs and non-tariff barriers that hinder the emergence of downstream economic activity (chemicals), administrative decisions preventing particular types of economic enterprise, and the persistence of ad-hoc price regulations (as in the case of pharmaceuticals). While such instruments have enabled economic vibrancy and welfare outcomes in other regional contexts, such as East Asia or even India’s pharmaceutical sector, their utility is contingent on the ability of the state to enforce conditionalities, rules and laws in isolation from private actors. That commensurate ability, while once present in Pakistan during the 1950s and 1960s, is no longer present due to persisting institutional-factional conflict, a decline in state cohesion, and erosion in bureaucratic competence.

2. **Predation by the Bureaucracy:** In sub-sectors marked by small and medium-sized enterprises, the burden of unfavourable and ad-hoc regulation and predation is often highest, as bureaucratic actors exercise a high degree of discretion. Such businesses often have to encounter high costs of compliance, as well as experience harassment by local state officials. Here too the case of ad-hoc price increments being given to favoured firms in the pharmaceutical sector to the detriment of more dynamic firms is instructive. Basic regulatory tasks such as registration of businesses with local authorities, renewal of licenses, clearance of goods at ports and borders, and submission of tax returns and payments, are characterized by bureaucratic rents ranging from small, everyday bribes to large-scale extortion. Over and above these issues, features such as price-capping in

certain sub-sectors and other types of bureaucratic control also hinder the entry of new firms and prevent the growth of small and medium-sized enterprises.

3. **Insulated and Ad-Hoc Decision Making:** The persisting hold of the bureaucracy in economic policy formulation and implementation processes also lends itself to highly insulated decision-making, which either provides preferential treatment to the bureaucracy itself, or to particular favoured private sector actors, while generally excluding much of the private sector from substantive representation. This is made worse by political and bureaucratic instability, in which government priorities and human resources often shift to short-term rent distribution and attainment, leading to no sustained commitment to a fixed policy regime that would rationalize business behaviour and generate sustained growth. From our sector analysis, the case of plastic manufacturers versus importers and traders remains instructive as the customs duty structure around the sector remains determined by political allegiances and social and political embeddedness with the bureaucracy.

4. **Absence of Policy and Administrative Capacity:** Another persisting issue within the management of the economy is the general lack of capacity within government on key technical issues pertaining to economic reform, and the refusal to provide space to technocratic expertise in key departments. Several exemplary cases of this can be found within the federal government, where generalist bureaucrats continue to occupy the senior-most technical offices in ministries such as finance, petroleum, energy, and planning and development, and in key regulatory and advisory positions. Combined with a general scepticism towards private economic activity as a whole, the retention of bureaucratic oversight and control – which manifests in politically-dictated preferential treatment and ad-hoc government fiscal behaviour - are key hindrances towards sustained private sector-led growth. What contributes to the exacerbation of the problem in the contemporary era is that sections of the elite bureaucracy have been fairly adept at evading accountability and reform, through strong reactive collective action, exemplified by pen-down strikes, backdoor manoeuvring, and withholding information; and by making themselves indispensable for the achievement of political (rather than economic) objective, through their control over localized administrative structures that are used to direct patronage, and through their broader management of government spending, as exemplified through the cases of the pharmaceutical pricing regime and the structure of taxation in chemicals and plastics. This ensures that each regime, civilian or military, has to rely on the bureaucracy for distributional purposes, leaving no space for bureaucratic reform or accountability.

5. **Associational Imbalances:** Finally, the close review of 10 priority sectors through the course of this assignment reveals associational imbalances as an important constraining variable in sectoral growth. Business associations, in coordination with constituent businesses and government priorities, can provide services that enable competitiveness and growth. This includes access to supply chains and markets, marketing instruments and strategies, scale-based cost savings, dispute resolution, and skills-upgradation. However, these are not visible in most sectoral associations in Pakistan. The reasons are multiple, but our analysis has narrowed it down to regulatory structures shaping trade organizations, which place no compulsion on bodies to be professionally governed and productive, and the distribution of sectoral size – a relatively small number of large firms leads to cartelization and rent-seeking as seen in the case of textiles and the automobile industry; while the prevalence of a large number of small firms leads to associational weakness, informalization, and the use of associations for reactive or selective rent-seeking purposes by status-seeking entrepreneurs. The latter is particularly visible in the case of livestock, horticulture, and pharmaceuticals.

The following table provides a summary of the nature of horizontal factors constraining sector growth performance across the 10 priority sectors analysed in Phase I and Phase II:

Table 1: Summary of the horizontal factors constraining sector growth performance

Sector	Macroeconomic Fiscal Mismanagement	Corruption and Rent-Seeking	State Predation	Insulated Decision-Making	Associational Imbalances
Livestock					
Garments					
ICT					
Auto-parts					
Horticulture					
Chemicals/Plastics					
Pharmaceuticals					
Transport/Logistics					
Bed Linen					
E-Commerce					

Key Findings (Horizontal): Opportunities for Transformation

Based on the assessment of the sub-sectors and the overall country-level political economy, there are two key areas that provide immediate opportunities for transformation and can act as capable drivers of change:

1. **Government Commitment:** Since stepping into office in 2018, the current PTI-led government has repeatedly stated its commitment to reforming the economy, enhancing productivity, improving the business environment, and eradicating corruption. The fact that the government places a strong rhetorical focus on rules-based governance is a welcome step, one that is made more salient by its commitment to an export-led growth agenda. It has signalled its seriousness on this front by adopting a more flexible exchange-rate policy, granting increased operational and policy autonomy to the State Bank, and initiating efforts at broadening the tax base to historically evasive sectors (such as retail and wholesale trade) so as to reduce the quantum of trade-related taxes. It has also been able to harness considerable foreign-qualified and highly skilled human resource talent in key governmental and quasi-governmental roles, which would increase baseline policymaking and implementation capacity. If successful, these steps would go some way in improving the persisting issue of rule-defying factional behaviour within state-business relations, as well as low-levels of state capacity by making the bureaucracy more accountable and amenable to private-sector activity.

2. **Dynamic Entrepreneurship in New Sectors:** Outside of traditional manufacturing sectors, a fast urbanizing and educated population is also making its mark across a range of services-based economic activity through dynamic entrepreneurship, such as in telecommunications, finance and banking, and ICT-related activity. While the overall scale of such sectors may be small (in terms of labor absorption in particular), the growth of the start-up space, with fast-growing ventures in the technology sector, is a cause for optimism, and signals Pakistan's potential for harnessing growth and export potential through new trajectories.

3. **Pressures on Performance-Based Legitimacy:** More generally, the rise of an educated middle class, with its vocalized demand for accountability and improved governance, and its desire for a higher standard of living, will continue to act as conducive sources of pressure on the government to pursue the kind of reform required to make the economy grow on a sustained footing. In terms of size estimates, the middle class (broadly defined as those who can consume beyond necessities) in Pakistan is now estimated to be around

35% of the total population and is the most rapidly urbanizing in the South Asia region, with its economic dependence on the rapidly growing services sector. This is a significant change in a country historically characterized as overwhelmingly rural and agrarian and carries implications for how electoral accountability works and on what issues.

Accompanying this transformation is the rise of new institutional channels of information dissemination and sharing, such as electronic and social media. The use of social and traditional media to channelize demands for improved governance (previously absent due to weak parties and the lack of systematic state-citizen conduits of communication) is demonstrating its impact on the policy space and accountability, with federal and provincial governments eager to showcase their commitment to development and growth in order to garner public support. This eagerness is also visible in the way party manifestos have shaped up for the last two (2013, 2018) general elections, with each political party showcasing flagship development and reform projects from the sub-national level.

Sector Summaries

Key Findings: Chemical & Plastics Sector

Sector Overview: Chemical sector is part of Large Scale Manufacturing (LSM) in Pakistan, producing more than 70,000 products for various industries and consumers[2]. The plastics sector is one of the main downstream industries of the chemical sector. With urbanization and changes in living standards, the demand and consumption for plastics has been increasing in Pakistan. Currently, the plastic sector in the country is growing at an average rate of 7–9% annually, with major consumption concentrated in the domestic market[3]. However, the chemicals sector, which provides raw materials to the plastics industry, has witnessed a decreasing trend in its growth rate. In FY 2018, the growth rate fell to -0.3%, and then further declined to -3.6% in FY 2019[4], according to State Bank's latest annual report.

Key Actors: Key actors in Chemicals and Plastics include the Ministry of Industries, Ministry of Commerce, Ministry of Interior, Provincial Environmental Departments, Pakistan Chemical Manufacturers Association (PCMA), Pakistan Plastic Manufacturers Association (PPMA), Pakistan Chemicals and Dyes Merchants Association (PCDMA), Flexible Packaging Association of Converters of Pakistan (FPACP).

Sectoral Power Relations

1. **Manufacturers vs Importers:** In terms of power structure in Chemicals there remains a constant tussle between these large local manufacturers and importers. Importers are sometimes able to strike better deals from international and regional suppliers and dump chemical in local markets at a much lower price. This distorts sales of large manufacturers and creates a glut as local installed capacity is already far more than demand. One of the primary reason is that large chemical plants have a minimum size capacity, while market demand keeps dwindling based on business cycles of other value added businesses.

2. **Size and Rents:** The power dynamics in the Plastics sector need to be understood from two dimensions, one being size and the other being nature of business (traders versus manufacturers). In terms of size, the top few players like Jilani Plastic, Pakistan Poly and few other manufacturers are market makers and have individual annual sales crossing the PRK 10 billion mark. These companies also lie in the top 20 taxpayers of Pakistan as given the direction consumption nature of the product sales tax collection is substantial in addition to import duties. Therefore, these bigger companies do enjoy a stronger access

[2] "PCMA," PCMA, n.d., https://www.pcma.org.pk/.
[3] "Voice of Pakistan Plastic Industry" (Pakistan Plastic Manufacturers Association, n.d.), pp. 17.
[4] State Bank of Pakistan, *Annual Report 2018-2019 (State of the Economy)*, 2019, pp.19.

with the government. However, even within these bigger companies, those that are based North of the country manipulate contacts in government more in getting trade SROs to export and trade with Afghanistan.

3. **Traders versus Manufacturers in Plastics:** The second dimension includes the rift between the interests of traders and manufacturers. For manufacturers, especially for the large ones self-import is feasible as they are able to utilize most of the input in self consumption and sale out the excess. However, the main activity of the manufacturers is not trading so they are not able to book import orders at the competitive price points. On the other hand, traders are more specialized and are able to strike better prices. A historic debate between the two has been on the duty structure. Over the years when large traders are closer to the policy makers the tariff structures favor them and in other times the tilt is towards manufacturers.

Barriers to Development

As discussed in the key findings section the following are the major barriers to development:

1. **Limited progress on Naphtha facility:** For both sectors to flourish and grow there is a need to invest in a Naphtha facility. At the moment the plastics industry is 100% reliant on imports and chemical industry is not able to diversify to its full-scale potential. ARAMCO, the Saudi oil giant has committed an investment of US$ 10 billion to develop such a facility at Karachi port. However, the progress to date on this has been limited.

2. **Industry-wide ban on plastic bags:** The second major challenge faced by a substantial segment of the plastics industry is the ban on plastic bags (plastic bags is 60% of the packaging sector that is 50% of total so plastic bags is about 30% of the total plastics sector). The ban may result in significant distortion, job loss and dis-investment in the sector if the government and industry fails to reach a workable solution. The case is in litigation. This has already started to impact the market dynamics and larger players looking at other opportunities. There is a danger that due to COVID-19 and this looming threat of a ban the investment may move away from productive assets into dead assets like property.

3. **Out-dated technology:** The technology across the plastics sector is at least two generations old. There is a need to modernise the sector and bring in better and efficient technologies. The phase 1 report covered the issue of limited capability of the dies and molds sector – he same is applicable to the plastics industry. Several industries feed on to the output of plastic parts and products, however, due to limited design capabilities and production of dies and molds the value-added industry has to rely on imports from China. On the policy reform side, better negotiation of the FTAs and PTAs and bilateral arrangements can help the chemical sector to export. Similarly, duty structures and enforcement measures are required in the plastics sector to reduce price cartelisation by importers and also creating a balance between manufacturers and traders.

Opportunities for Transformation

Given the nature of the sectors and the binding issues being large such as putting a Naphtha facility and deciding on environmental ban there is limited opportunity from a programme point to intervene for reform.

1. **Partnerships for technology transfer:** The main opportunity that exists is similar to the one highlighted under the auto-part sector of the phase-1 report where partnerships for technology transfer may be built to strengthen the dies and molds capabilities. Strengthening this will result in good quality plastic parts being manufactured in the country and this can then feed on to several value-added industries.

2. **Reform duty and tariff structures:** Secondly, a key reform may be to duty and tariff structures and regulating large traders to avoid cartelisation. This will result in a significant control on prices and will result in bigger benefits accruing to manufacturers, especially the medium and small ones. However, the traders in Karachi may be not be forthcoming as it impacts their profitability.

Key Findings: Transport and Logistics

Sector Overview: The transport and logistics sector in Pakistan consists of both transport via physical infrastructure, including road, rail, sea trade and related freight, and services, such as packaging, storage, delivery and trade logistics[5]. The transport segment contributed around 22.3% to the services GDP and also generated $223.5 million average annual FDI during the 2014-2018 period[6]. On the other hand, the logistics sector was estimated to be worth $34.2 billion in December 2018, with an annual growth rate of 18% during the 2017-18 period[7].

Key Actors: Key actors in the transport and logistics sector include Ministry of Communication, Ministry of Maritime Affairs, Ministry of Railways, Pakistan Civil Aviation Authority (CCA), Pakistan International Airlines (PIA), National Highway Authority
Provincial Highway Departments, Ministry of Commerce, Pakistan Post, Customs, National Logistics Cell (NLC), Fleet Operators Association of Pakistan (FOAP), Local Goods and Passenger Transport Associations

Sectoral Power Relations

1. **Role of NLC:** The biggest player in the sector remains the National Logistics Cell (NLC), a company incorporated by the government of Pakistan and run by the military. Its fleet consists of over 800 large vehicles (trucks and tankers). It has a significant share in the transportation of oil and petroleum products, with some estimates suggesting that approximately 35% of all movement in this category takes place through NLC vehicles.

   The NLC exercises a dominant role not just because of its scale but because of its unique position as a parastatal entity. In an interview, NLC management repeatedly stressed that the organization runs along corporate lines and that it does not take any money from the government for its operations. Instead it reinvests most of its profits. However, at various points in the past, NLC has applied for tax exemption in procurement contracts on the basis of its status as a government owned entity. This, according to competitors, provides it with a distinct price advantage in the sector.

2. **Informal Political Networks:** The use of informal networks in the transport sector is pervasive. Obtaining goods transport spots in major hubs (*addas*), subcontracting with the NLC, and evading arbitrary regulation from district and provincial government authorities require access to pre-existing, often political, networks. These political networks consist of several types. At the most localized level, transporters play a role similar to other businesses in their relationship with constituency-level politicians. Election financing, reciprocity through material and non-material favours, and social fraternizing are important aspects of this relationship. Politicians are then crucial in enabling growth of business, largely through their intermediation with key government regulatory authorities. For example, one interviewee stated that these networks are key in the transportation of common smuggled goods (such as vehicle tires), where ties between politicians and

[5] Ministry of Planning Development & Special Initiatives, *11th Five Year Plan - Transport and Logistics*, n.d, pp. 339-359.
[6] Board of Investment, *Sector Profile Logistics.*
[7] Ayesha Shaikh, "Unblocking Pakistan's Logistics Quagmire," *Aurora*, April 15, 2019, https://aurora.dawn.com/news/1143412.

Customs officials are often operationalized to evade scrutiny, or in the case of confiscation, the release of the vehicle. Some major transporters have also entered party politics themselves. The Rokhri family, a major actor in the passenger and freight transport business, based out of the city of Mianwali, have sent several legislators to the national and provincial assembly. Similarly, in Karachi, a number of legislators associated with the Awami National Party (ANP) and the Muttahiq Quomi Movement (MQM) have been involved in the transport sector as well.

Barriers to Development

The barriers to the transport and logistics sector's development and growth, relate to both lack of clarity on the government's part on what it wants from the sector and the layered and at times contradictory regulatory issues. Many of these have been noted in the foregoing analysis, but this section highlights some key ones.

1. **Government's Clarity:** With much effort and political capital being expended on CPEC, the government's own work in enabling the transport sector's formalization and growth remains inadequate. As a result, despite good profit margins and reasonable growth of around 5% per annum over a 20 year period, overall consolidation in the sector remains low.

2. **Regulatory weaknesses:** Rent-seeking by government officials, reinforced by various tiers of mismatched government regulation (such as in axle-load requirements) prevent modernization and enhancement of the road transportation fleet.

3. **Weak Associations:** As a result of the fragmentation in the industry and the presence of one overwhelmingly dominant actor (which does not participate in associational action), trade bodies and associations remain weak as far as productive, growth-enhancing activities are concerned. While they are useful in engaging in reactive collective action to subvert government formulations, they do not act as organizations capable of improving the sector's internal practices.

4. **Persisting High levels of informalization:** Informality in terms of business practices, the reliance on social and political networks, and the general reluctance to engage with formal sector financial institutions also limit growth of the sector and consolidation of businesses. Most entrepreneurs in the sector prefer to use informal sources of credit or their own resources to invest and upgrade.

Opportunities for Transformation

CPEC provides the single biggest opportunity for the transportation and logistics sector in decade. Sector growth has been relatively strong, averaging around 5% in the preceding three decades. However, the scale of the investments being made in both road and rail transport in cooperation with China can really open up the sector for greater movement of goods, greater modernization, and greater formalization.

Key Findings: Pharmaceuticals

Sector Overview: Pharmaceutical products (HS 30) consist of tablets, liquids and syrups, injections, capsules, galenicals (tincture), ointments, and so on, which are used for therapeutic or prophylactic use. Pakistan's pharmaceutical industry was estimated to be US$ 3 billion in 2018. Even though this makes up a miniscule portion of the global pharmaceutical industry – estimated to be approximately $1,105 billion in 2016 – the Pakistani industry has seen double-digit growth in recent times and has been projected by IQVIA, a global healthcare data company, to have significant growth potential.[8] There are more than 750 firms operational in Pakistan, which includes multinational and national companies. Of the US$ 3 billion market, 80% of the products in their final dosage form are manufactured in Pakistan while 20% of the products are imported. However, one factor that has hampered growth of the industry, relative to global competitors, has been the absence of backward linkages. 95% of the raw materials for pharmaceutical products are imported due to the absence of a basic chemicals industry.

Key Players: The Ministry of National Health Services, Regulation and Coordination, Drug Regulatory Authority of Pakistan (DRAP), Provincial Health Departments, Pakistan Pharmaceutical Manufacturers' Association (PPMA), Pharma Bureau, Pharmacy Council of Pakistan

Main Sectoral Power Relations

1. **Persistent Fragmentation:** The most prominent feature of this sector is its fragmentation between small and large firms. There are many more small firms (roughly 600-650) than large firms (approximately 100), but the latter overwhelmingly dominate the market. The interests, objectives, and capabilities of both differs, which has implications for collective action within the sector.

2. **Pervasive Rent-Seeking because of Pricing Regime:** Firms are able to capture rents through (often) firm-specific pricing and registration decisions, thus limiting incentives for collective actions among firms – even the larger ones. The underlying policy for this is discretionary pricing which rests with the government. Although the Drug Pricing Policy 2018 reduced scope for this, the recent decisions to modify it bringing government control back will encourage rent-seeking.

Barriers to Development

The barriers to the pharmaceutical sector's development and growth, beyond a general government indifference towards most low-export sectors in terms of rent distribution, are mainly to do with regulatory issues. Many of these have been noted in the foregoing analysis, but this section highlights some key ones.

1. **Government's Pricing Regime:** A previously ad hoc pricing regime, characterised by rigidity, lends itself to significant rent-seeking. This is why there has been a mushrooming of firms as well, which thrive on high margins.

2. **Corruption and GMP violations:** Rent-seeking by government officials, reinforced by rent-seeking by industry, leads to low quality manufacturing that does not meet regulatory standards necessary for exporting.

3. **Restrictions on Contract Manufacturing:** There is significant excess capacity in Pakistan – evidenced by 650 firms vying for 3% of the market – which remains underutilized due to strict restrictions on contract manufacturing (the sub-contracting of manufacturing by the drug's parent firm to another company for a fee).

4. **Weak Associations:** As a result of the fragmentation in the industry and the disincentives of collective action from individual firm rent-seeking, associations have remained ineffective. They have also not been able to shape public discourse in developmentally beneficial ways; instead, media pressures have created hurdles for their growth.[9]

[8] Kabeer Dawani and Asad Sayeed, "Pakistan's Pharmaceutical Sector: Issues of Pricing, Procurement and the Quality of Medicines" (ACE SOAS Consortium, 2019), pp. 1-33.
[9] Kabeer Dawani and Asad Sayeed, "Anti-Corruption in Pakistan's Pharmaceutical Sector: A Political Settlement Analysis" (London: SOAS Anti-Corruption Evidence (ACE) Research Consortium, 2020).

Opportunities for Transformation

There are opportunities for growth in this sector, provided a cohesive strategy is developed and implemented with due consultation of the industry. Some of these opportunities are opened up because of the following factors:

1. **WHO-Approved Laboratories*:*** There are three WHO approved laboratories in Pakistan, namely (1) Pakistan Drug Testing and Research Centre, Lahore, (2) Drug Testing Laboratory, Faisalabad, Government of Punjab and (3) Prime Health Pvt Ltd.[10] The latter two have only been approved in 2020. PDTRC, despite WHO approval, was not fully functional and was mired in government departmental struggles. Laboratories that meet international standards and operate independently are a condition for exporting, with importing countries usually requiring bioequivalence and bioavailability studies. The alternative to local laboratories is getting these tests done in foreign laboratories, which is much more expensive. The addition of these two laboratories presents an opportunity that can be leveraged for quicker and cheaper testing.

2. **Export Orientation within the Government:** More so than previous governments, the PTI-led government has had a much larger explicit (rhetorical) focus on expanding exports to address long-standing macroeconomic structural imbalances. Pharmaceutical products have been mentioned as one sector of focus, with committees being formed to incentivize this.

3. **Nutraceuticals (Alternative Medicines):** One consequence of rent-seeking by firms has been an expansion in the production of nutraceuticals. Due to less stringent global regulation compared to pharmaceuticals, and increasing global demand, expanding exports in this product range is a relatively low-hanging fruit.

Key Findings: Household/Bed Linen

Sector Overview: Bed linens is a high value-added product of the textile sector, and is the largest in terms of production and exports amongst all textile made-ups in Pakistan. Major export-potential products in this sector include bed sheets (single and double), pillow covers, quilts and bed decorative[11]. Bed linen, table linen, toilet linen and kitchen linen (HS Code 6302) has also been the largest exporting commodity category during the 2016-18 period[12]. This sector caters to both international and domestic demand. In the FY 2017-2018, exports of bedwear in Pakistan amounted to US$ 1,674 million, comprising 27% of the total textile exports of US$ 6,164 million in that financial year[13]. The exports of bedwear products have on average seen a growth rate of 1.02% in the last five years[14].

Key Actors: Ministry of Commerce**,** All Pakistan Bedsheets & Upholstery Manufacturers Association (APBUMA), Small & Medium Enterprises Development Authority (SMEDA)**,** Pakistan Bedwear Exporters Association (PBEA)**,** Pakistan Textile Exporters Association (PTEA).

[10] World Health Organization, *WHO List of Prequalified Quality Control Laboratories*, 2020, https://extranet.who.int/prequal/sites/default/files/documents/PQ_QCLabsList_30.pdf.
[11] "Pre-Feasibility Study Bed Linen Stitching Unit" (Small and Medium Enterprises Development Authority, 2018), pp. 4.
[12] UN Comtrade, 2020, https://comtrade.un.org/.
[13] "Cluster Profile Bedwear, Multan" (Small and Medium Enterprises Development Authority, 2019), pp. 2.
[14] "Cluster Profile Bedwear, Multan", 7.

Sectoral Power Relations

1. **Persisting Marginalization:** The bed linen sector despite its value addition and high share in exports has not been able to carve out a significant place in the textile sector in terms of power dynamics. Many of the big players in this sector like Nishat, Gul Ahmed, Sapphire are large, diversified companies that have bed linen as just one of the divisions in their exports. Hence, they continue to dominate the entire textile sector in terms of power dynamics and do not separate bed linen as a unique sub-sector from the rest of the products when lobbying for any reforms. On the other hand, exporters who only focus on bed linen are mostly small to medium firms that have a limited lobbying voice.

2. **Weak Associations:** APBUMA consists of many medium and small enterprises. Hence, it does not have strong lobbying power. It represents the bed linen sector actively by making efforts to propose budgetary reforms that can help the sector or by talking to Ministry of Commerce or FBR officials to aid in issues affecting the sector. However, its recommendations in this new budget on tax relief were not included. APBUMA has also complained of how constant changes in the leadership of these institutions make it difficult for any reform.

Barriers to Development

1. **Fragmented sector:** One of the biggest challenges the sector faces is lack of organization. The main association APBUMA is not effective in bringing all the firms of the sector together. The larger firms are not part of the association. As they are members of other associations like APTMA, it allows APTMA to lay claim to representing all textile sub-sectors including bed linen. Other associations like PTEA also claim to represent the bed linen sector as some firms have gained prominence through this association. Hence, each association works on its own agenda, unable to keep the overall sector's benefit in mind. Lack of overall leadership from APBUMA has resulted in a fragmented sector, with SMEs on one side and larger firms on the other. It also makes the sector unable to organize itself to compete more effectively against its main competitor countries like India and Turkey. Turkey has positioned itself as a source of high-quality bed linen and uses its main association Tetsiad to organize international fairs and guide its members on global standards and latest trends to maintain this position[15]. APBUMA has not shown such vision so far which has hampered the growth of the sector.

2. **Variance in standards:** The contrast between small and large firms and the products they produce is distinct in this sector. The larger firms like Nishat, Gul Ahmed, Sapphire and Chenab are competing for big clients. Hence, the standard of their products is also higher. The quality of their fabric (higher thread count), the colours used (white base products) and the designs created, all using innovative technology provide them the ability to create more value and more profits. They are able to do so because of the large, integrated setups that allows them to develop everything in house from fabric weaving to dying to printing of the design and the stitching. This reduces cost and allows room for innovation. For smaller units, this is not a feasible option. They have to rely on other vendors for fabrics, which is of low quality (less than 300 thread count). If they do produce their own fabric then, they use power looms instead of auto looms which also affects the quality of the fabric. Hence, smaller units target basic products for mass retailers like Tesco, while larger units provide products to high end brands like Hugo Boss. Consequently, there is a stark difference in the power that large firms hold in comparison to smaller firms. The larger firms do not get involved in the associations for this sector. This leads to medium and smaller firms with no real lobbying power, trying to resolve their issues with the government with little effect.

[15] "Quality Policy," TETSIAD - Quality Policy (TETSIAD, n.d.), http://www.tetsiad.org/en/about-tetsiad-quality-policy.html.

3. **Challenge of taxation:** As was the case with garments, the bed linen sector also cites the sales tax refund as one of the biggest challenges it faces. With the zero-rating policy removed for the entire textile sector by the PTI government, the bed linen sector like other sub-sectors in the textile chain have been struggling to bear the burden of this tax. The associations have been lobbying with FBR and Ministry of Commerce to improve the refund system for quicker refunds. Their argument is that since the bed linen sector consists of mostly SMEs, they cannot afford the liquidity crunch caused by the delays in refund. The leadership of PTEA and APBUMA have made personal efforts by using connections and making regular visits to resolve this issue but have not seen any concrete action in return. They find there is no consistent policy that is being followed by all relevant state institutions. The state in return has been adamant on keeping the sales tax as the current economic situation makes it difficult to allow such concessions. They do not view the bed linen sector as a separate sector that consists of mostly SMEs. It is viewed as part of the textile sector that has historically always been given a lot of protection and concessions.

Opportunities for Transformation

Some key changes in how the state views the bed linen sector and consequently interacts with its players can transform the sector. Following are some recommendations that may provide this opportunity:

1. **Independent recognition*:*** The state views the bed linen sector as part of the overall textile sector. While many of the challenges they face are similar to rest of the textile sector, there is need to recognize the sector independently that contributes 17% of the total textile exports. This will allow the sector to push for reforms that will affect them particularly. It will also give the association (APBUMA) more power as currently APTMA dominates the reform agenda even for bed linen. This may also encourage large, vertically integrated units such as Nishat to become members of APBUMA in order to bring reform in the sector.

2. **Encourage the role of SMEDA:** Since the bed linen sector consists of many SMEs, SMEDA can play a more integral role in supporting this sector. SMEDA has already helped develop a revised national SME policy. It can push for that policy to be approved by the Cabinet so that SMEs can benefit from the new regulation. It can also play an active lobbying role with the Ministry of Commerce for this sector. While it regularly works with the State Bank to ease financing constraints for SMEs and has been successful in bringing revised rules for SMEs, it can also help in their implementation. Firms have complained that commercial banks are more interested in providing loans to the government and large entities, rather than going through procedures with small firms. SMEDA if given the new role under the revised SME policy can advocate and lobby commercial banks to advance credit to SMEs.

3. **Tax relief to help SMEs:** Tax incentives have historically been given along export/non-export lines or on the basis of key sectors. In the current pandemic, and with the new budget, while there has been little tax relief, more tax relief could be provided for SMEs. This would help smaller business to weather the liquidity crunch and ensure they do not completely shut down. SMEDA can play an important role in its advocacy by working with associations.

Key Findings: E-Commerce

Sector Overview: The e-commerce opportunity in Pakistan received global attention in 2018, when it was included among the fastest growing e-commerce markets in the world, mainly due to its rising youth bulge, and is now becoming a major driver of the country’s digital side. Pakistan Telecommunications Authority (PTA) projects that the country’s e-commerce industry is predicted to reach USD 1 bn in 2020[16]. The usage of digital financial services alone is expected to increase Pakistan's GDP by USD 36 bn, creating up to four million jobs by 2025[17].

Key Actors: Ministry of Commerce**,** Ministry of IT & Telecom, Trade Development Authority of Pakistan (TDAP), Pakistan Telecommunication Authority (PTA), Digital Pakistan, Karandaaz Pakistan, Pakistan Software Houses Association for IT and ITES (P@SHA), Pakistan Post, Large Private Firms.

Sectoral Power Relations:

1. **Misaligned interests of stakeholders:** The Ministry of Commerce (MoC) has started focusing on e-commerce to boost exports as well as promote SMEs, entrepreneurship and employment in Pakistan. In fact, in the continued absence of an e-commerce policy, the MOC began playing a more prominent role. However, the multi-dimensional nature of e-commerce requires engagement of several ministries and departments to be engaged, and their interests aligned for ownership of the agenda

2. **Fragmented policy interventions:** Recently Pakistan has seen a proliferation of policy initiatives[18] which has led to a surge in functional mandates along with an associated expansion of organizational structures. For example, the original Ministry of Science and Technology (MoST) became the Ministry of IT and Telecom (MoITT). Now MoST has been reconstituted. There is a National IT Board (NITB), which appears to be an umbrella organisation for many other organisations. The PTI-led government has also constituted a number of provincial and federal task forces such as on IT and Telecom, on Innovation, on Science and Technology, and on Technology Driven Knowledge Economy, in addition to several other committees, councils and working groups[19].

3. **Lack of a dedicated platform/association:** Unlike in most other organized sectors, e-commerce does not have a dedicated association/platform to engage with government to share a collective review. Informal groups of big retailers in the formal sector exist but there is no official channel of communication.

4. **Role of big players:** There is also a tendency for the large players to dominate the market, yet at the same time e-commerce provides a platform to the small players. E-commerce can enable SMEs to extend their reach in ways previously only possible for large players. With a massive potential in digital commerce, and the digital trade economy which can provide a level playing ground to small businesses in Pakistan, the true potential of this economy and its ability to grow has been halted in the market due to bad business practices by the bigger players that have injected money but never succeeded in developing a real technology driven eco system which would be beneficial to all.

Barriers to development

1. **Lack of a viable eco system:** On UNCTAD's B2C e-Commerce Index for 2019, Pakistan is ranked 114 out of 152 countries, with an e-commerce readiness index value of 33.7[20]. This index measures Pakistan's preparedness to support online shopping and is calculated as an average of four indicators shown in the figure below. Pakistan's low performance in

[16] "Digital Pakistan," *Digital Pakistan* (blog) (Digital Pakistan, January 2, 2020), https://digitalpakistan.pk/blog/the-potential-challenges-for-e-commerce-in-pakistan/.
[17] Ministry of Commerce, *e-Commerce Policy of Pakistan*, 2019, pp. 23.
[18] Anum Malkani, "Transforming Transactions: Does Pakistan's e-Commerce Policy Deliver?" (Tabadlab Private Limited, 2019), https://www.tabadlab.com/wp-content/uploads/2020/02/Tabadlab-Working-Paper-04-Transforming-Transactions-ecommerce-policy.pdf.
[19] Ibid.
[20] "The UNCTAD B2C E-Commerce Index 2019" (UNCTAD, 2019).

e-commerce is attributed mainly to low digital and financial inclusion, and poor ICT and logistics infrastructure.

2. **Trust deficit between merchants and buyers:** Fear of low-quality products, transaction frauds, complex and costly return and accountability processes makes customers wary of paying in advance for e-commerce goods and services. Hence, trust deficit remains a key reason for underutilization of payment mechanisms other than CoD and thus customers prefer post-delivery payments. While COD allows e-commerce merchants to acquire customers and gain their trust, it has several downsides. It has prevented the entry of major international players in the Pakistani market. Merchants remain vulnerable to order cancellations and unpaid purchases and may have to pay higher courier fees as couriers need to collect cash and sometimes have to make several delivery attempts to reach the customer.

3. **Excessive reliance on cash on delivery:** A key barrier to the growth of e-commerce is the cash-driven nature of the Pakistani economy though opinions may vary[21]. Reliance on cash transactions, create a working capital gap in the supply chain but it also makes it accessible to a large segment of the population. As businesses scale-up they need a payments system that allows them to trade nationally and internationally. There are several reasons why COD remains the preferred mode of payment.

4. **Delivery models reduce cash flow:** Moreover, reliance on third party logistic companies means that cash flow to small businesses is severely restricted. Most logistics companies have built a business model where they collect cash once done with a delivery, and then keep the cash collected on behalf of multiple small companies doing business in their own accounts to earn interest on the float. This in turn ruins the cash flows of small businesses, who are helpless since they have to depend on such logistics serviced and have no other way of doing their business.

5. **International payment gateways:** The topic of an international payment gateway is crucial for the promotion of exports through e-commerce. Unfortunately, the e commerce policy does not make much progress in this regard and simply states that efforts will be made to invite international payment gateways to Pakistan. Given the failure of PayPal to operate in Pakistan, the policy could do more to understand and address the reasons behind the reluctance of international payments providers to enter the market. PayPal, is not available in Pakistan due to a number of reasons, including payment clearance complications, money laundering issues, and high costs of entry (see section on IT). Having access to PayPal will allow exporters to receive money easily, as it charges only 2.5% as transaction fee and offers an easy dispute mechanism. Availability of PayPal leads to more business due to the trust factor. However, it is not easy for small firms to obtain business credentials as they don't have credible trading history.

Opportunities for transformation

1. **Efforts of the current government:** The current government seems to have some sense of the dispersed and disorganized nature of past efforts and structures and has thus created an overarching initiative called Digital Pakistan that focuses on bringing policy coherence. The NITB is also working to establish the country's first e-commerce export platform similar to Alibaba. According to NITB's chief executive officer Shabahat Ali Shah, a sub-component of the platform is to establish Pakistan's own international payment gateway. This government owned payment gateway will be pre-integrated with PayPal, Visa card, MasterCard and Alipay that can be connected to local banks and microfinance

[21] Detailed discussion on what COD costs merchants: Adam Dawood, "The True Cost of Cash on Delivery (COD)," *Pakistan Today*, July 11, 2020, https://profit.pakistantoday.com.pk/2020/07/11/the-true-cost-of-cash-on-delivery-cod/.

companies. This would imply no need to chase international companies to come to Pakistan.

Key Findings: COVID's Impact on the 5 Sectors

Covid-19 and Chemicals and Plastics

The COVD-19 pandemic has resulted in perpetuating a pre-existing glut and over supply of chemicals as all industries are process based and have a minimum production level. With demand being low from the value-added sector, the production cycles have been disturbed. Some companies have found new opportunities, for example Sitara and Descon are now producing food grade sanitizer that is attracting a large local and export market. The technology deployed by the industry is internationally compliant and given the nature of the product chemicals comply with all international quality and safety standards.

In the plastic sub-sector, COVID-19 has impacted both manufactures and traders as the sector operate sales on credit. The lock down that imposed suddenly broke the credit cycle and manufacturers and traders were unable to recover monies while their shipments were continuously reaching ports. Significant losses and charges were incurred by businesses. Thus, COVID-19 has had a major impact. Similarly, to Chemical Industry, Plastic industry is also likely to gain and lose from setting up of Naphtha facility by Saudi Arabia. The manufacturers are likely to gain, but the large Karachi based importers are likely to lose their market power.

Covid-19 and Transport and Logistics

The pandemic and its ensuing lockdowns created considerable issues for the sector, especially during the months of March, April, and May 2020. However, interviews reveal that the preceding two months have seen a return to normalcy with restrictions on movements being eased of. Some transporters also suggested that the escalation of the e-commerce business in the wake of the pandemic has proved to be helpful for small intra-city commercial vehicle operators in particular.

Covid-19 and Pharmaceuticals

On the whole, Covid-19 proved to be a boost for the pharmaceuticals sector, especially with the sale of local medicines. Following the onset of the Covid-19 global pandemic, there was also an opportunity for export of hand sanitizers, gloves, face masks and so on with significant global demand. Unfortunately, this was squandered due to government regulations. Firms with pre-existing quotas of alcohol had standing orders from the US, however, the Ministry of Commerce (through SRO 239(I)/2020, dated 24th March 2020) banned these items from being exported. This ban was subsequently lifted in June, but by then demand had subsided.

Covid-19 and Bed Linen

The COVID-19 pandemic has created new challenges for the bed linen sector. Similar to all businesses across the board, as the ports were closed, orders ready to ship were halted. Clients cancelled or postponed their orders as lockdowns across the world reduced consumer demand. Even as lockdowns have been lifted and business has resumed to some extent, new orders have been slow to come in from some clients, as their existing stocks have not finished. However, this is for those SMEs exporting to low end brands. Large firms like Nishat Chunian who export to high end brands, did see a halt during the lockdown period but find that orders have not been cancelled. In fact, more orders have been placed as online sales have increased for the brands they supply to. Globally some of the top sales have been for home items including bedding, which has benefited the large exporters in Pakistan who have resumed their orders. The overall assessment of the association is that as summer is the busiest season for bed linen, the next few months will create some demand. However, there is no predictability in the months following that, as countries all over the world face recession and clients are closing stores, while consumers are spending less. Moreover, the firms have to follow SOPs which has reduced production capacity and increased costs as well. This has affected smaller firms more than larger firms as they find it more difficult and costly to adapt to these changes.

The relief provided in the COVID package was a return of refunds that was due to the firms in any case. There was no extra step taken to help firms with the liquidity crunch they still continue to face. The firms were looking towards the state to provide some concessions in the budget 2020 that would help them survive this difficult period, however, they are not satisfied with the concessions. One concession that has been allowed is exemption on customs duty on raw material for the textiles sector. While this may help larger firms, who use imported material in their products, the smaller firms will continue to struggle as they source their material locally. Moreover, the sales tax reduction from 14 to 12% was only seen for local retailers which does not help the exporters in the sector[22]. Energy costs of both gas and electricity continue to be a major cost for firms. While earlier in the year, tariffs were made more competitive, there is no certainty that these will continue especially as energy subsidies have been reduced. The business community has been pushing for more reduction in tariffs especially as oil prices have fallen globally, but the government is not passing on the benefit to firms.

Covid-19 and E-Commerce

E-commerce availability in cases of crisis like the ongoing pandemic have a risk mitigation effect to maintain some semblance of business. As businesses across the country and globally came to a halt, the retail industry has come forward as a lifeline, changing the entire course of such businesses. While the vast majority of retailers, with the exception of grocers and pharmacies, have had to temporarily close their brick-and-mortar locations, they have been able to sell goods to consumers on their websites or the websites of their retail partners or online marketplaces.

The Daraz Index[23] has found that since the outbreak of the coronavirus in Pakistan, demand for (Fast-moving consumer goods) FMCG products has jumped. On Daraz, the contribution of FMCG products to the overall sales doubled in March 2020 and is expected to increase by almost 70%[24]. The report also highlights that the demand for hand washes and hand sanitisers increased by 18 fold while DFresh – the fruits and vegetables channel on Daraz – witnessed an order uplift of 9 fold. Consumer spending patterns are also changing[25]. According to the survey poll, 13.3% that their spending had increased while almost 20% confirmed they were engaging more in online shopping.

Hence, early signs of shifts in consumer behaviour are becoming noticeable. However, these initial behavior shifts may be out of necessity, not due to user experience. Naturally, brands that had already prioritized becoming digital are in a better position to weather what comes next. The success of the retail industry appears to be substantially resting on e-commerce. While the future of retail has been hyped as digital, the pandemic has accelerated that process. Within days of the lockdown, Daraz launched its Humqadam program, inviting Small and

[22] Aamir Shafaat Khan and Khalid Hasnain, "Comments: Budget Fails to Impress Industry," *Dawn*, June 13, 2020, https://www.dawn.com/news/1563178.
[23] "Daraz," Daraz (blog), April 16, 2020, https://blog.daraz.pk/2020/04/16/pakistans-first-e-commerce-index-powered-by-daraz-shows-an-increase-in-digital-payments-and-growing-demand-for-online-shopping/.
[24] "What Do We Know about Pakistan's Ecommerce Industry?," *Dawn*, April 17, 2020, https://www.dawn.com/news/1549691/what-do-we-know-about-pakistans-ecommerce-industry.
[25] "Consumer Behaviour in COVID-19," *Dawn*, July 29, 2020, https://aurora.dawn.com/news/1143780/consumer-behaviour-in-covid-19.

Medium Enterprises (SMEs) from across Pakistan to set up digital ventures on the marketplace platform.

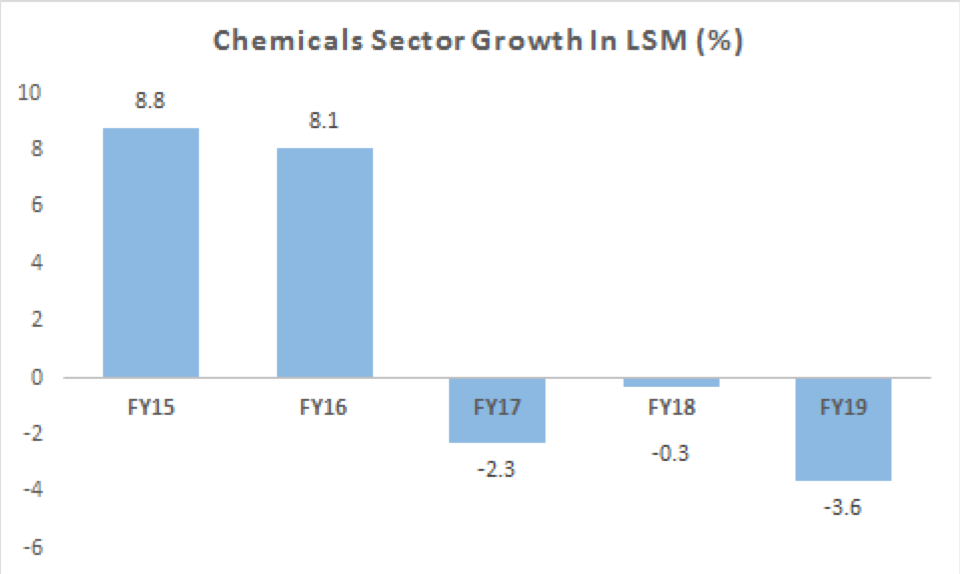
1 Chemical & Plastics

1.1 Sector Overview

Chemical sector is part of Large-Scale Manufacturing (LSM) in Pakistan, producing more than 70,000 products for various industries and consumers[26]. The plastics sector is one of the main downstream industries of the chemical sector. With urbanization and changes in living standards, the demand and consumption for plastics has been increasing in Pakistan. Currently, the plastic sector in the country is growing at an average rate of 7 to 9% annually, with major consumption concentrated in the domestic market[27].

However, the chemicals sector, which provides raw materials to the plastics industry, has witnessed a decreasing trend in its growth rate. In FY 2018, the growth rate fell to -0.3%, and then further declined to -3.6% in FY 2019[28], according to State Bank's latest annual report. The following figure depicts the chemicals sector's growth in LSM.

Figure 1: Chemicals Sector Growth in LSM



Source: State Bank of Pakistan[29]

In Pakistan, the chemical industry witnessed about 10% growth during the financial year 2015-16. This can be traced back to the growth in the sulphuric acid product segment of around 26% as well as impressive gains of 27% in caustic soda and 21% in paints and varnishes[30]. However, chemicals sector production fell by 2.3% in FY 2017 against a rise of 8.1% in FY 2016[31]. This decreasing trend could be owed to the continued absence of a Naphtha Cracker plant in the country which has led to a high dependence on imported chemicals. Moreover, another reason for this decline is the subdued growth in the leather and textile sectors which use chemicals sector products such as soda ash in their production processes. In addition to this, a fall in petrochemicals prices also discouraged production in this sector[32].

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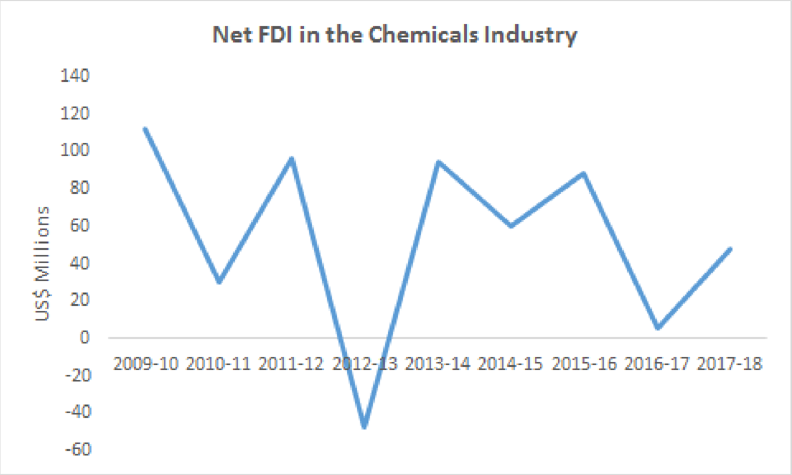
26 "PCMA," PCMA, n.d., https://www.pcma.org.pk/.
27 "Voice of Pakistan Plastic Industry" (Pakistan Plastic Manufacturers Association, n.d.), pp. 17.
28 State Bank of Pakistan, *Annual Report 2018-2019 (State of the Economy)*, 2019, pp.19.
29 Ibid.
30 Brandon Gaille Gaille, "10 Pakistan Chemical Industry Statistics and Trends," Brandon Gaille (Brandon Gaille, February 17, 2019), https://brandongaille.com/10-pakistan-chemical-industry-statistics-and-trends/)
31 State Bank of Pakistan, *Annual Report 2016-2017 (State of the Economy)*, 2017, pp.24.
32 State Bank of Pakistan, *Annual Report 2016-2017 (State of the Economy)*, 2017, pp.24.

Despite this fall in production, the chemicals industry has been a major sector for foreign investors during FY July-April 2016[33]. The following figure shows the net Foreign Direct Investment (FDI) in the Chemicals Industry. This sector generated US$ 48.9 million in net FDI during FY 2017-18[34].

Figure 2: Net FDI in the Chemicals Industry



Source: Board of Investment[35]

1.1.1 Product Categories

The chemicals industry can be classified into three broad categories from a value addition point of view: basic chemicals, speciality chemicals and consumer chemicals[36].

Basic Chemicals

The basic chemicals category includes polymers, petrochemicals and basic inorganics. Polymers form the largest proportion of basic chemicals and include all categories of plastics and man-made fibres. These cater to the major markets for plastics, including packaging, home construction, containers, appliances, toys and transportation. Some of the main polymer products include polyethylene (PE), Polyvinyl chloride (PVC), Polypropylene (PP) and Polystyrene (PS)[37].

It is important to note that bulk petrochemicals are the main raw materials for polymers. In Pakistan, the petrochemicals industry is involved in the production of petroleum intermediates, olefins and BTX (benzene, toluene, xylene). All of these forms the basis for the development of monomers, polymers and plastic industries[38]. Furthermore, Naphtha is a key by-product of oil refineries and when cracked further, it can be used to produce ethylene, butadiene, propylene, benzene, toluene, paraxylene etc. to cater to the demands of these downstream industries. However, Pakistan has not been able to achieve substantial growth in this product category due to the absence of a Naphtha cracking facility[39].

Lastly, inorganic chemicals are one of the oldest categories in the chemical industry. The main products in this category include caustic soda, salt, soda ash, chlorine, acids, titanium dioxide,

[33] "Industry & Economic Bulletin -2018" (National Bank of Pakistan, 2018), pp. 53.
[34] "Statistics," Board of Investment Pakistan (Board of Investment Pakistan, n.d.), https://invest.gov.pk/statistics.
[35] Ibid.
[36] "The Chemical Industry," Essential Chemical Industry (Essential Chemical Industry, n.d.), https://www.essentialchemicalindustry.org/the-chemical-industry/the-chemical-industry.html.
[37] Ibid.
[38] "Industry & Economic Bulletin -2018" (National Bank of Pakistan, 2018), pp. 53.
[39] Abid A Burki et al., "Industrial Policy, Its Spatial Aspects and Cluster Development In Pakistan" (Lahore University of Management Sciences, 2010), pp. 123.

and hydrogen peroxide. Pakistan is self-sufficient in basic commodity chemicals such as soda ash and caustic soda. These products are essentially of a low-value nature and therefore, they face little competition from imports[40]. However, they also suffer from a stagnation in the domestic market and lack of export potential in the international one.

The table below shows the production and growth of the basic commodity chemicals in Pakistan. Soda Ash followed by Caustic Soda has the highest production in Pakistan.

Table 2: Production and Growth of Basic Commodity Chemicals

	PRODUCTION (000 Tons)				GROWTH (%)			
	FY14	FY15	FY16	FY17	FY14	FY15	FY16	FY17
Soda Ash	409	437	469	480	11.75	6.85	7.32	2.29
Caustic Soda	167	184	225	224	(8.74)	10.18	22.28	(0.49)
Chlorine Gas	15	17	17	16		13.33		(4.12)
Sulphuric Acid	85	70	75	56	(4.49)	(17.65)	7.14	(25.33)

Source: National Bank of Pakistan[41]

Specialty Chemicals

Specialty chemicals is a high value, rapidly growing category that sells effect or performance chemicals in diverse end-product markets such as paints, inks, dyes and crop protection. This can be regarded as one of the more profitable product categories. Some of the products in this category are industrial gases, electronic chemicals, adhesives, industrial cleaning chemicals, coatings and catalysts.

Consumer Chemicals

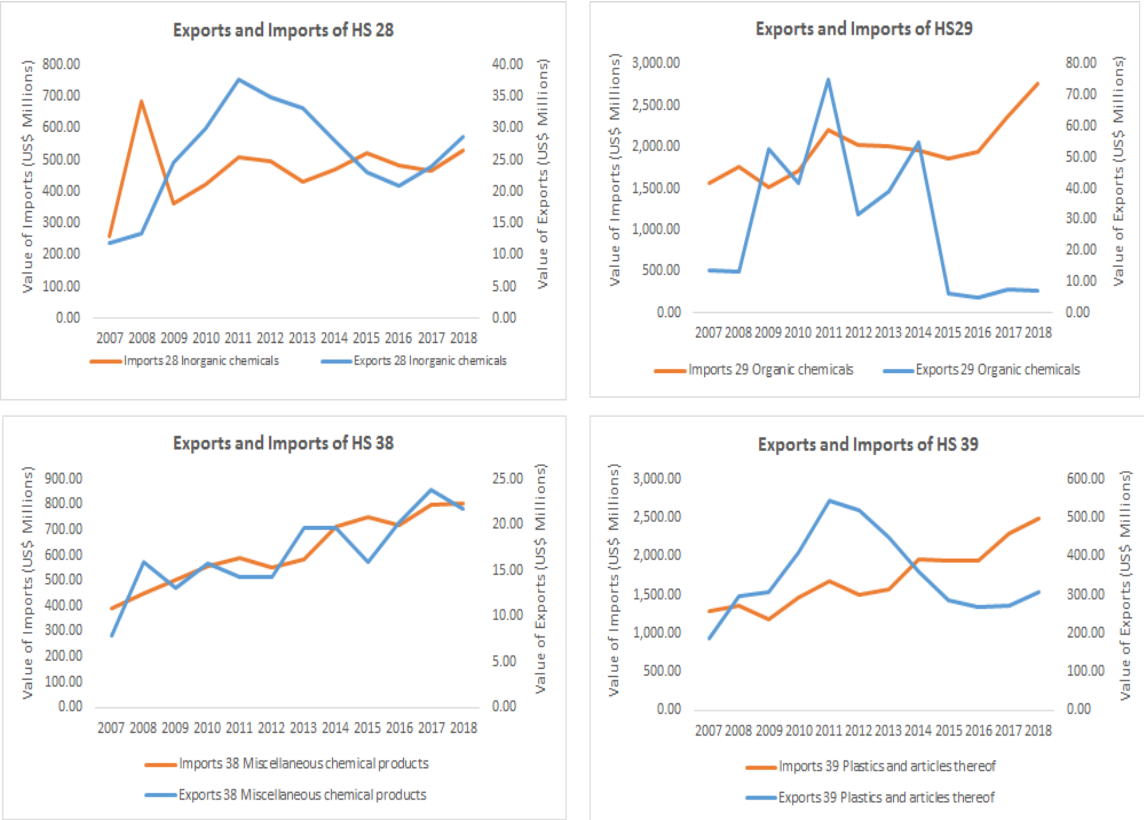
Consumer chemicals are sold directly to the public. These include detergents, soaps, cosmetics and toiletries.

1.1.2 Exports and Imports

Pakistan is a net importer of chemicals and plastics. On a two-digit HS code level, Pakistan's imports for inorganic (HS28), organic (HS29) and miscellaneous chemicals (HS 38), and plastics and articles thereof (HS 39) were greater than its exports from 2007 to 2018[42]. The following figures show exports and imports of chemicals and plastics in these two-digit HS code categories. Moreover, the trade deficit in the chemicals sector reached 29% in the 5 months of FY 2019 in year-on-year numbers; with increase in imports being five times the rise in exports[43]. However, there have been some improvements in chemicals and plastics exports; they rose by US$79 million on a year-on-year basis, depicting a 32% increase[44].

[40] "Chemical's Contradictory Trends," *Business Recorder*, July 20, 2018, https://www.brecorder.com/2018/07/20/429645/chemicals-contradictory-trends/.
[41] "Industry & Economic Bulletin -2018" (National Bank of Pakistan, 2018), pp. 53.
[42] UN Comtrade, 2020, https://comtrade.un.org/.
[43] "Revival of the Chemical Sector," *Business Recorder*, December 29, 2017, https://www.brecorder.com/2017/12/29/389698/revival-of-the-chemical-sector/)
[44] Ibid.

Figure 3-4-5-6: Exports and Imports of HS Codes 28, 29, 38 and 39



Source: UN Comtrade[45]

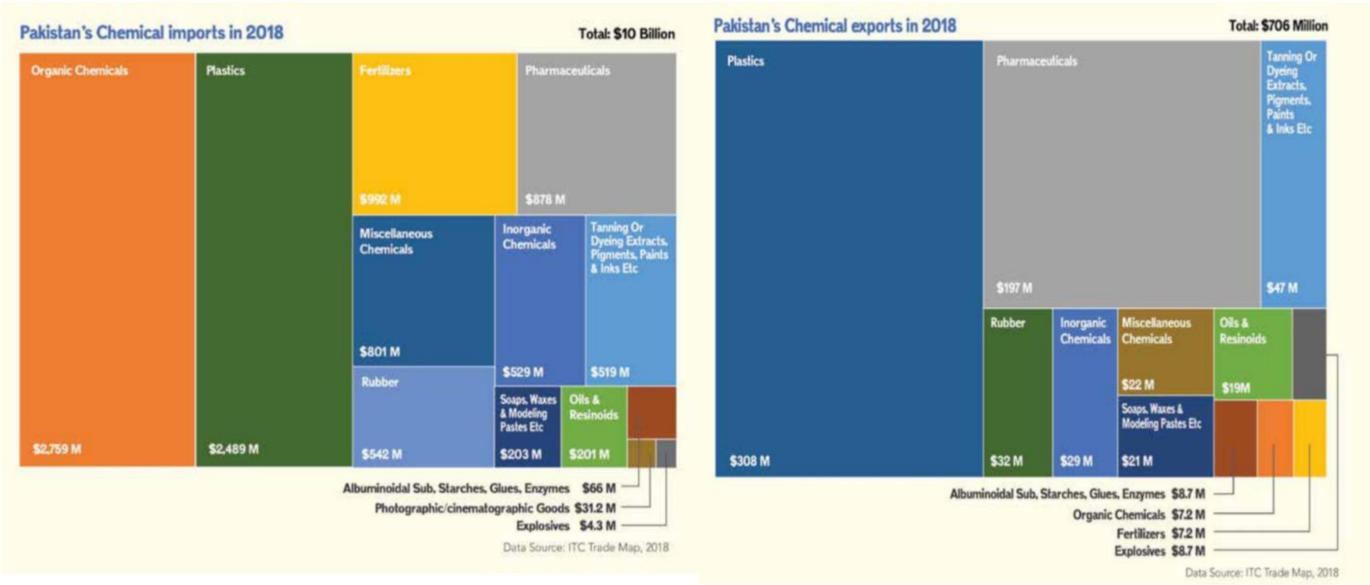
As Pakistan is self-sufficient in basic commodity chemicals such as soda ash and caustic soda and companies involved in manufacturing practice import substitution, these products do not face a lot of competition from imports[46]. On the other hand, a large share of Pakistan's plastic exports is Polyethylene terephthalate (PET). The United States is the biggest consumer of Pakistan's PET exports. Although anti-dumping duties had led to a decline in PET exports[47] previously, the European Union removed these duties after Pakistan won its case in the WTO court, enabling Pakistan to achieve a year-on-year growth of 14% in PET exports[48].

Other chemical exports, except plastics, include a wide range of products including paints, varnishes, soaps, polymers of propylene, styrene, and vinyl chloride. Individually exports of these products do not amount to much, however added together they total to about US$100 million in 2018, which indicates a 20% rise from the last financial year[49]. In addition to this, Pakistan's imports bill for petroleum products and petrochemicals amount to around $12-14 billion every year and 75% of the country's demand is met through imports due to lack of refining capacity in the country[50].

The following figures show the composition of Pakistan's chemical imports and exports in 2018.

Figure 7: Pakistan's Chemical Imports and Export Composition

45 Ibid.
46 "Chemical's Contradictory Trends,"
47 "Revival of the Chemical Sector,"
48 "Chemical's Contradictory Trends,"
49 Ibid.
50 "Need for Investment in Petrochemical Industry Stressed," Mettis Global News, February 4, 2019, https://mettisglobal.news/need-for-investment-in-petrochemical-industry-stressed.



Source: Pakistan Chemical Manufacturers Association[51]

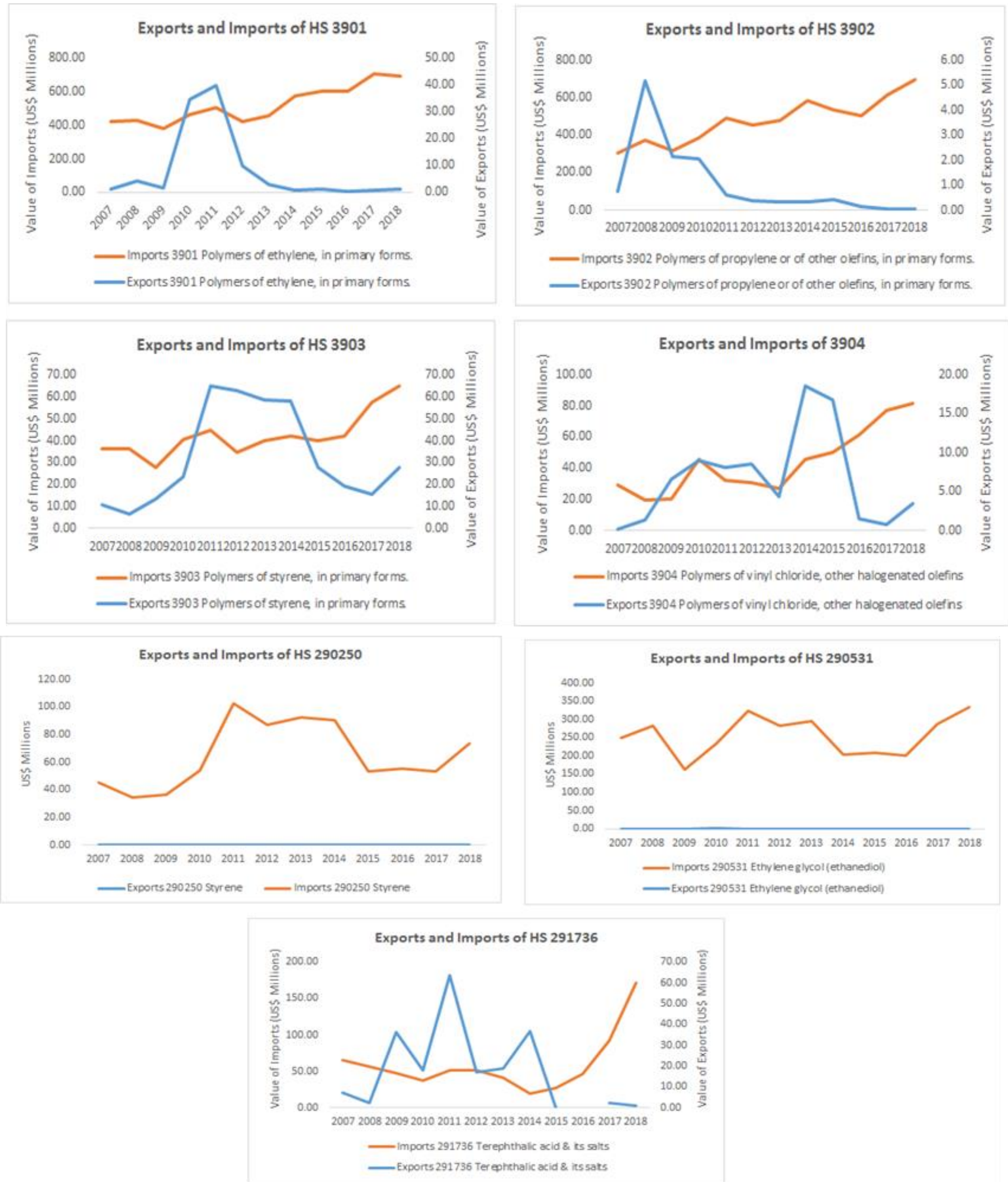
Moreover, Pakistan exports and imports the following basic chemicals at 4 and 6 digit HS code levels.

HS Code	Description
3901	Polymers of ethylene, in primary forms
3902	Polymers of propylene, other olefins in primary forms
3903	Polymers of styrene, in primary forms
3904	Polymers of vinyl chloride, other halogenated olefins
290250	Styrene
290531	Ethylene glycol (ethane diol)
291736	PTA

Pakistan is a net importer in all these categories. However, exports of polymers of styrene (HS 3903) and polymers of vinyl chloride (HS 3904) have started to increase since 2017. For the rest of the categories, exports are falling or negligible like in the case of styrene (HS 290250) and ethylene glycol (HS 290531). Imports in all these categories depict an increasing trend, indicating that Pakistan is still dependent on imports and its domestic chemicals and plastics industry has not been able to achieve import substitution within these categories[52].

[51] "Chem PetroChem Pakistan" (Pakistan Chemical Manufacturers Association, 2019), pp 33.
[52] UN Comtrade, 2020, https://comtrade.un.org/.

Figure 8-9-10-11-12-13-14: Exports and Imports of basic chemicals in 4 and 6 digit HS codes



Source: UN Comtrade[53]

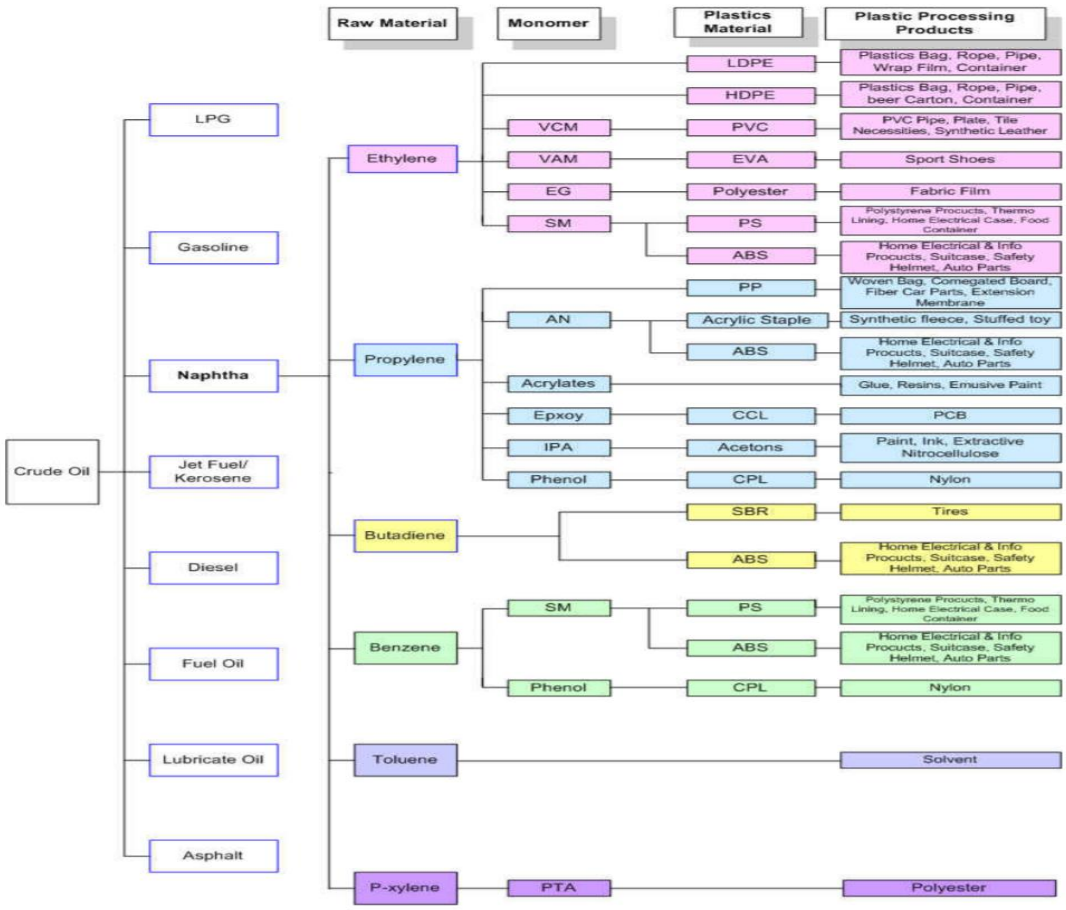
1.1.3 Value Chain

The Chemical and Plastics Value Chain is complex as it involves chemically breaking down of petrochemical to formulate downstream chemicals. Given Pakistan is still debating about investing in a Naphtha facility the value chain in country is only partial. The figure below depicts the value chain of the chemicals and plastics sector. Naphtha is a key by-product of oil refineries. When cracked further, Naphtha produces basic olefins such as ethylene, butadiene, propylene, benzene, toluene, paraxylene etc., which are then used as raw materials in manufacturing plastics. Currently, petrochemicals are mainly a downstream industry, which

53 UN Comtrade.

produces polyvinyl chloride from ethylene imports, synthetic fibres from MEG imports, purified terephthalic acid from paraxylene imports, aromatics and carbon black[54].

Figure 15: Value Chain for Chemicals and Plastics Sector



Source: Burki et al.[55]

1.2 Industrial Landscape & Power Structures

1.2.1 Chemicals

The Chemical sector falls in large scale manufacturing operating with continuous process technologies. There are around 20 key manufacturers in the country having annual turnover of PKR 5 billion or more. The industry is represented through Pakistan Chemical Manufacturing Association and comprise all the big names such as ICI, Descon, Sitara Chemicals and others. There is also a layer of medium enterprises, but these are predominantly import dependent. The large manufacturers produce 'pure' chemicals while the medium ones in addition to selling pure also engage in self-formulation of value-added chemicals.

The association although hosts a number of important personalities is not known for political inclination or manoeuvring. The large sector is well refined and usually approach the government on collective issues. A key concern for which the sector usually approaches the

[54] Abid A Burki et al., "Industrial Policy, Its Spatial Aspects And Cluster Development In Pakistan" (Lahore University of Management Sciences, 2010), pp. 124-125.
[55] Burki, 124.

government is about the pricing and availability of utilities which is the key input into chemical manufacturing (electricity and natural gas).

In terms of competition structure, the large-scale sector at the moment is well balanced as larger players over time have specialised in different products and as they are using similar technology and same priced inputs the cost of production is similar. For example, some of the main chemicals are produced by:

- Soda Ash: 100% of the market share is with ICI and Olympia. Both are exporting and local sale is also at similar price.
- Hydrogen Peroxide: 100% share split between Sitara Chemicals and Descon.
- Castaic Soda: Market equally split between Sitara Chemicals, Engro and Ittehad Chemicals.
- Formic Acid: Tufail Chemicals and Ittehad have the majority market share.
- Soap Noodle: Sitara Chemicals and Nimmer Industries.

In terms of power structure there remains a constant tussle between these large local manufacturers and importers. Importers are sometimes able to strike better deals from international and regional suppliers and dump chemical in local markets at a much lower price. This distorts sales of large manufacturers and creates a glut as local installed capacity is already far more than demand. One of the primary reasons is that large chemical plants have a minimum size capacity, while market demand keeps dwindling based on business cycles of other value-added businesses. The pricing of chemicals by large players is almost similar and is not due to cartelisation or collusion but purely based on similar cost structures.

The Chemical industry is not regulated directly by any ministry or public department, however, dual purpose chemicals such as hydrochloric acid and sulfuric acid are monitored by Narcotics Division, Ministry of Interior. These inspections sometimes suffer from usual governance issues, however, are mostly considered a matter of routine.

Additionally, the sector is sensitive to policies, procedures and processes of departments that control the inputs of the sector. These include Ministry of Water and Power, Ministry of Petroleum and Mines and Minerals Departments. The provincial environment department's also monitor the emissions and treatment of pollutants. Most industries are however fully complaint. The large manufacturers rely solely on local inputs and there is hardly any import reliance. However, despite the availability of locally available inputs, new entry is a barrier both due to substantial upfront capital investment cost and excess installed capacity within existing units. The diversification of the existing industries into more varieties and value-added products is dependent on having a Naphtha Cracker facility. The facility would require a minimum upfront investment of US$ 10 billion or so and therefore requires public sector partnership. The Saudi investment promised a facility to be established in Karachi, however, little progress has been made on this front. The sector has divergent opinions on having this facility in Pakistan as those who argue against it say that given there are a number of such facilities in the region the marginal benefit on the investment in low and it is better to manage the availability of products through trade policy. Some views from both divergent groups have been covered, however, if there is interest to study the sector deeper this political economy around the cracker facility must be researched in more detail.

A key issue highlighted for limited exports from the sector despite excess capacity is lack of incentives as compared to competitive countries. Africa is big market; however, local market fetches a better price due to tariff and duty structures, therefore unable to export. Similarly, in the ASEAN region, most member countries supply chemicals at zero percent, while chemical from Pakistan attracts a duty of 20%. This makes Pakistani product non-competitive. There is a need to re-negotiate FTAs and bilateral trade agreements to help the sector move into export markets.

The main customer for chemical products is value added producers including fertilizer, textiles, detergents, pesticides, construction material, soap and other industrial cleaning and coloring commodities. Therefore, the demand is dependent upon the growth of these sectors. The importance of chemicals is heightened as it is also a key input into most inputs that goes into agriculture sector which is the main stay for the country.

The COVD-19 pandemic has resulted in further glut and over supply of chemicals as all industries are process based and have a minimum production level. With demand being low from the value-added sector, the production cycles have been disturbed. Some companies have found new opportunities, for example Sitara and Descon are now producing food grade sanitizer that is attracting a large local and export market. The technology deployed by the industry is internationally compliant and given the nature of the product chemicals comply with all international quality and safety standards.

1.2.2 Plastics

There are numerous varieties of plastic, however, the parent product of all these sub-groups is petroleum based. Therefore, plastic industry is primarily dependent upon imported inputs that are further used in the manufacturing of value-added products. As per the industry representatives the current technology deployed in the plastic manufacturing sector is at least 2 generations behind the current global technology.

The inputs derived petrochemical base comprise both synthetic and semi-synthetic compounds that are malleable and so can be moulded into solid objectives. A variety of products are manufactured using plastic compounds and main groups include packaging, construction material, toys, furniture and other moulded products. In Pakistan over 50% of the use of plastics is in packaging industry which covers plastic bags and FMCG and beverage packaging. The other major component is pipe and construction material and then consumer products. The focus of consultations has been kept on the packaging industry as that is the largest segment and also one that is facing a critical regulatory challenge at the moment.

The packaging industry in Pakistan comprise over 10,000 units. Among these 100 are large units with annual revenues worth more than PKR 1 billion, 4,000 units are medium sized with annual revenues ranging between PKR. 250 million to a PKR 1 billion and rest are all small units. Pakistan Plastic Manufacturers Association (PPMA) is the formal association that represents over 8,000 manufacturers of plastic bags across the country. In total, incomes of more than 2 million families (or approximately 14 million people) are associated with the sector. The private investment in the sector is over PKR 150 billion and it is ranked in the top 10 tax contributing sectors of the economy. The other association is the Flexible Packaging Association of Converters of Pakistan (FPACP). However, this association is strongly overshadowed by PPMA.

The power dynamics in the sector need to be understood from two dimensions, one being size and the other being nature of business (traders versus manufacturers). In terms of size, the top few players like Jilani Plastic, Pakistan Poly and few others are market makers and have individual annual sales crossing the PRK 10 billion mark. These companies also lie in the top 20 taxpayers of Pakistan as given the direction consumption nature of the product sales tax collection is substantial in addition to import duties. Therefore, these bigger companies do enjoy a stronger access with the government. However, even within these bigger companies, those that are based North of the country manipulate contacts in government more in getting trade SROs to export and trade with Afghanistan. There are not many other examples of SROs of incentives that key players in the sector have availed. However, in terms of representing the requests from the sector the few major players dominate the scene and the medium and small firms just respond in their own interest. The medium companies probably suffer the most as they are competing with both the large players and small players as well. The large players have contacts and are primary winners of large public procurement contacts, while the small do not comply with any regulation and produce similar looking but low-quality product that hurt the medium sized as market at the end is extremely price sensitive.

The second dimension includes the rift between the interests of traders and manufacturers. For manufacturers, especially for the large ones, self-import is feasible as they are able utilize most of the input in self-consumption and sale out the excess. However, the main activity of the manufacturers is not trading so they are not able to book import orders at the competitive price points. On the other hand, traders are more specialized and are able to strike better prices. A historic debate between the two have been on the duty structure. Over the years when large traders are closer to the policy makers the tariff structures favour them and in other times the tilt is towards manufacturers. Moreover, the larger traders also operate as cartels and manage prices when selling to small manufacturers.

COVID-19 has impacted both manufactures and traders as the sector operate sales on credit. The lock down that imposed suddenly broke the credit cycle and manufacturers and traders were unable to recover monies while their shipments were continuously reaching ports. Significant losses and charges were incurred by businesses. Thus, COVID-19 has had a major impact. Similar to Chemical Industry, Plastic industry is also likely to gain and lose from setting up of Naphtha facility by Saudi Arabia. The manufacturers are likely to gain, but the large Karachi based importers are likely to lose their market power.

The spatial spread of the industry is concentrated in Karachi and Lahore, however, there is key difference. Karachi is the hub of largest importers, while Lahore house the main manufacturing firms. There is excess capacity to export, but road freight cost is a major deterrence. The Lahore based manufacturers will initially have to freight on imported material and then freight is added on value added goods sent back to port. Therefore, any export that is happening at the moment is via Afghanistan. One-way freight from Karachi to Lahore is between $80-100 per ton, while the per ton price of the material is around $1,000.

In packaging the largest segment is shopping bag industry. The industry has recently come under fire from Ministry and Provincial Environment Departments. Some particular interest groups are pushing for a complete ban on the shopping bag. There are strong rumours that Islamabad based new manufacturing giant is behind this complete ban which has introduced an alternative bad which is not an alternative as it has the same chemical and decomposition properties. The section below captures the views of existing manufacturers about the ban and possible approach to resolving the issue for the industry.

1.2.3 Current Debate on Environmental Ban

There are many different viewpoints on whether plastic bags are bad for the economy and the environment. While some of the louder voices are proponents of a ban on plastic bags, the industry feels that there is tested and robust evidence that shows these bans have a strong negative impact of the economy and the environment. The sector estimates that, in addition, to the direct impact on loss of jobs (almost 2 million in case of Pakistan), closure of productive activity and loss in tax revenues will also be substantial. Research shows that plastic bag bans increase prices for consumers, decrease profitability and decrease economic activity. This fall in profitability and economic activity further reduces employment – in Los Angeles County, plastic bag bans reduced retail employment by 10

Sustainable Development Goals (SDGs) 11, 12, 13, 14 & 15 all relate to Environment and Green Jobs and Future of Work. Plastic overall has been identified as key irritant to environment and living beings – thus a significant area of focus under the SDGs, however, plastic bags have the least environmental impact. Plastic bags require less energy to produce and are recyclable and create less municipal waste than cloth bag – a popular alternative.

Cloth bags need to be used 104 times before they have an environmental advantage over plastic bag. In a country, where more than 70% of the parents lose track of their child's immunization, expecting them to carry a cloth bag for shopping every time is next to impossible. Reports, documentaries and other pieces of evidence show that straws, product wrappers, plastic cups and plates, plastic utensils, cigarette buds and wipes and cotton swabs are stronger irritants and a bigger problem as there is no alternative use to this waste.

The sector feels that in developing countries a blanket ban may not be an effective solution to the 'plastic bag challenge'. Multiple approaches, such as, increasing bag thickness, levies and taxes, strong awareness, cash-back schemes and incentivizing recycling has attained much better results. For example, complete ban on plastic bags in Delhi had no impact with 95% of consumers continued using plastic bags. However, the alternative strategies reduced it to 57%. The real problem is that of 'solid waste management'. As Pakistan's population urbanized, the old system of scavengers sorting out solid waste for reuse was replaced by mass waste collection dumped at landfill sites – making any form of recycling impossible.

PPMA in partnership with the government has proposed the following actions that offer a more effective, economically productive and a sustainable way to reduce the single use of plastic bag as compared to a Ban:

- Increase the cost of production: increase import duties and increase minimum thickness to 40 microns & increase size. Countries such as Australia, Canada, Ireland and others have found this to be an effective solution.
- Increase awareness: each bag to carry strong messaging regarding reuse, recycle or proper disposal.
- Increase production of Bio-degradable bags: substitute traditional bags with Bio-degradable ones.
- Create social entrepreneurs: PPMA through CSR funds of its members will incentivize creation social entrepreneurs to manage waste. These will act as incentivized scavengers to manage solid waste enterprise. PPMA will set collection centers. The initiative can start with creating 'one green city.'
- Mass Campaign: PPMA will sponsor active social media on 'Reduce, Reuse & Recycle' plastic.

Moreover, the sector feels that this sudden emphasis on ban rather than reform has been to support a few new manufacturers closer to the present government. These companies are being allowed monopoly powers at the cost of entire sector. Given environment is a provincial subject, too much intervention by the federal government suggests some element of lack of transparency. Sindh Government has not gone for a ban instead they have legislated on the issue and came up with a more amicable solution and KPK Government is also moving in the same direction, however, pressure in Punjab is to fully ban. The industry and government are currently in litigation on the issue and the matter is unresolved as of now.

1.3 Key Players

The following table lists the key players in the chemicals and plastics sectors.

Table 3: Key Players in the Chemicals and Plastics Sectors

Name	Classification	Functions
Ministry of Industries and Production	Government Ministry	The Ministry of Industries and Production acts as a facilitator for industrial growth and entrepreneurship in Pakistan.
Ministry of Commerce	Government Ministry	The Ministry of Commerce aims to improve economic

		growth and commerce development and promotion in Pakistan.
Ministry of Interior	Government Ministry	The Ministry regulates some dual-purpose chemicals such as strong acids to keep a control on production as some of them may be used in the production of synthetic drugs.
Provincial Environment Departments	Provincial Government Departments	Inspections and regulations regarding emissions and other environmental issues.
Pakistan Chemical Manufacturers Association (PCMA)	Industry Association	PCMA is responsible for managing the political and regulatory processes of the chemical industry in Pakistan, and aims to enhance the economic health of this sector
Pakistan Plastic Manufacturers' Association, (PPMA)	Industry Association	PPMA is the only association for plastics manufacturers in Pakistan. It aims to unite members of the plastics processing sector to improve the growth potential of this sector.
Pakistan Chemicals and Dyes Merchants Association (PCDMA)	Industry Association	PCDMA aims to promote the business activities of its members and provide them services based on their activities to add value to this sector.
Flexible Packaging Association of Converters of Pakistan (FPACP)	Industry Association	FPACP is a smaller association as compared to the PPMA and works to protect the interests of the packaging industry.
Chemical Industry	SITARA, Descon, Ittehad, Engro, Berger, Tufail, Nimer	Large players
Plastics & Packaging[56]	Spell Enterprises, Jilani Plastics, Pakistan Poly, Getron, Haseeb IMPEX	Large Players

56 http://www.pakplas.com.pk/allpdf/members%20addresses%20for%20Pakplas%202019.pdf

1.4 Stakeholder Influence-Alignment

INFLUENCE / POWER	Low INTEREST	High INTEREST
High	**HANDLE WITH CARE** **MEET NEEDS** **ENGAGE AND CONSULT IN INTEREST AREA** **TRY TO INCREASE LEVEL OF INTEREST** **AIM TO MOVE HERE** **Ministry of Commerce** **Ministry of Interior** **Ministry of Petroleum**	**TOP PRIORITY** **KEY PLAYER** **FOCUS EFFORTS ON THIS GROUP** **INVOLVE IN GOVERNANCE / DECISION MAKING BODIES** **ENGAGE & CONSULT REGULARLY** **Ministry of Industries** **Environmental Departments (Provincial)** **Board of Investment**
Low	**LOW PRIORITY** **LEAST IMPORTANT** **INFORM VIA GENERAL COMMUNICATION** **AIM TO MOVE** **Academia** **Research & Development (technical universities)**	**NEED HELP TO PARTICIPATE** **SHOW CONSIDERATION** **MAKE USE OF INTEREST THROUGH INVOLVEMENT IN LOW RISK AREAS** **KEEP INFORMED & CONSULT ON INTEREST AREA** **POTENTIAL SUPPORTER/ GOODWILL AMBASSADOR** **PCMA** **PPMA** **PCDMA** **FPACP** **Spell Enterprises, Jilani Plastics, Pakistan Poly, Getron, Haseeb IMPEX**

1.5 Barriers to Development

As discussed in the key findings section the following are the major barriers to development:

- For both sectors to flourish and grow there is a need to invest in a Naphtha facility. At the moment the plastics industry is 100% reliant on imports and chemical industry is not able to diversify to its full-scale potential. ARAMCO, the Saudi oil giant has committed an investment of US$ 10 billion to develop such a facility at Karachi port. However, the progress to date on this has been limited.
- The second major challenge faced by a substantial segment of the plastics industry is the ban on plastic bags. The ban may result in significant distortion, job loss and dis-investment in the sector if the government and industry fail to reach a workable solution. The case is in litigation. This has already started to impact the market dynamics and

larger players looking at other opportunities. There is a danger that due to COVID-19 and this looming threat of a ban the investment may move away from productive assets into dead assets like property.
- The technology across the plastics sector is at least two generations old. There is a need to modernise the sector and bring in better and efficient technologies. The phase 1 report covered the issue of limited capability of the dies and molds sector – he same is applicable to the plastics industry. Several industries feed on to the output of plastic parts and products, however, due to limited design capabilities and production of dies and molds the value-added industry has to rely on imports from China.
- On the policy reform side, better negotiation of the FTAs and PTAs and bilateral arrangements can help the chemical sector to export. Similarly, duty structures and enforcement measures are required in the plastics sector to reduce price cartelisation by importers and also creating a balance between manufacturers and traders.

1.6 Opportunities for Transformation

Given the nature of the sectors and the binding issues being large such as putting a Naphtha facility and deciding on environmental ban there is limited opportunity from a programme point to intervene for reform. The main opportunity that exists is similar to the one highlighted under the auto-part sector of the phase-1 report where partnerships for technology transfer maybe built to strengthen the dies and moulds capabilities. Strengthening this will result in good quality plastic parts being manufactured in the country and this can then feed on to several value-added industries.

Secondly, a key reform may be to duty and tariff structures and regulating large traders to avoid cartelisation. This will result in a significant control on prices and will result in bigger benefits accruing to manufacturers, especially the medium and small ones. However, the traders in Karachi may be not be forthcoming as it impacts their profitability.

1.7 Proposed Reforms: Winners and Losers

	Proposed Recommendation	Likelihood of Reform	Winners	Losers
1	Setting up facility and knowledge and design support facilities and institutes to upgrade the dies and moulds value chains and shift the industry towards higher capability of developing 'new' parts.	This is possible if major players in the plastics industry work with relative provincial governments (Lahore and Karachi are the two hubs) to develop design capabilities and development capabilities of dies and moulds that can reverse engineer new products.	Value added industry will be a main beneficiary as will be able to source quality parts locally.	Some of the existing large-scale parts importers will lose and may not support the reform
2	Reduce or eliminate price controls by traders via cartelisation	This will be challenging as the main traders are large and control a significant market share. This may be difficult to implement until Naphtha facility is established and most raw material is available within the country.	Manufacturers especially the small and medium ones who cannot self-import and have to rely on traders.	The large traders will be the key opponents.

2 Road Transport and Logistics

2.1 Sector Overview

The transport and logistics sector in Pakistan consist of both transport via physical infrastructure, including road, rail, sea trade and related freight, and services, such as packaging, storage, delivery and trade logistics[57]. The transport segment contributed around 22.3% to the services GDP and also generated 223.5 million average annual FDI during the 2014-2018 period[58]. On the other hand, the logistics sector was estimated to be worth $34.2 billion in December 2018, with an annual growth rate of 18% during the 2017-18 period[59].

Moreover, the transport and logistic sector constituted 25-30% of the annual Public Sector Development Programme (PSDP). However, this was still deemed as insufficient and about two to three times more investment and harmonious public-private partnerships are required for greater expansion in this sector[60]. According to the World Bank, Pakistan's logistics sector has untapped potential of about $30.77 billion, which can be capitalized by developing its integrated road and rail networks, improving rural-urban connectivity and investing in trade routes with important regional trading partners[61].

The road network in Pakistan spans over 263,000 km. This is inclusive of 12,000 km of national highways, 93,000 km of provincial highways, and the rest is classified as district or urban roads[62]. Furthermore, the national highway system in Pakistan caters to around 80% of commercial traffic. In addition to this, Pakistan has three seaports and five main international airports for passenger and freight movement[63]. Moreover, around 200 freight stations are operated by Pakistan Railways with 16436 freight wagons[64].

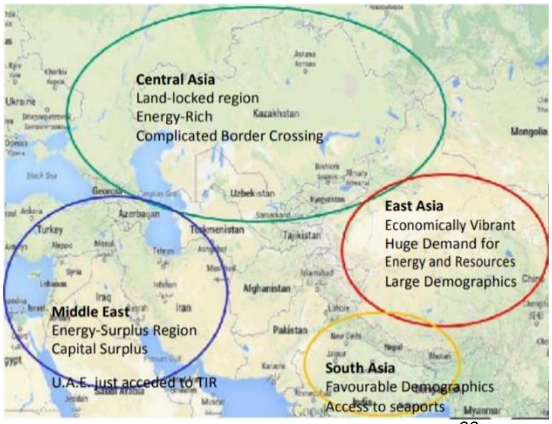
Given the scale and economic importance, this section of the report will focus largely on road freight transport, which constitutes around 90% of total commercial freight activity in the country.

2.1.1 International vs. Domestic transport and logistics

This sector caters to both the international and domestic passenger and freight transport. The international transport system connects Pakistan to the rest of the world via its borders, ports and airports[65]. These international connections are particularly important for the country's economic growth, especially those with its neighbouring countries like China, the Gulf region, which is home to a large proportion of overseas Pakistanis, and the Central Asian region, which has a lot of potential for trade. The following figure depicts Pakistan's strategic location and related growth opportunities in the international transport and logistics sector.

[57] Ministry of Planning Development & Special Initiatives, *11th Five Year Plan - Transport and Logistics*, n.d, pp. 339-359.
[58] Board of Investment, *Sector Profile Logistics.*
[59] Ayesha Shaikh, "Unblocking Pakistan's Logistics Quagmire," *Aurora*, April 15, 2019, https://aurora.dawn.com/news/1143412.
[60] Ministry of Planning Development & Special Initiatives, *11th Five Year Plan.*
[61] Ibid.
[62] "Sector Assessment (Summary): Transport - Country Partnership Strategy: Pakistan, 2015–2019" (Asian Development Bank, n.d.), pp. 1-6.
[63] Ibid.
[64] Board of Investment, *Sector Profile Logistics.*
[65] Ibid.

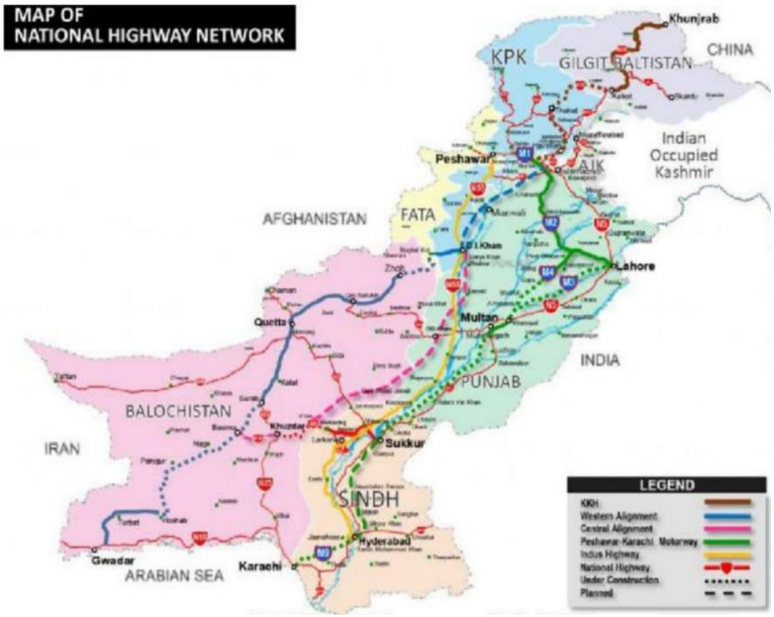
Figure 16: Pakistan's Strategic Location in the Region



Source: Ministry of Communication[66]

On the other hand, inter-urban passenger and freight transport facilitates improved domestic connectivity. The road networks in Pakistan account for 94% of all passenger kilometers (pkm) and 98% of freight tonnes kilometers (tkm), whereas, rail networks accounts for 5% of all pkm and 2% of freight tkm. In addition to this, 80% of the inter-urban passenger and freight transport in Pakistan is via the National Highway Network and a small proportion of around 1% of all pkm is via domestic flights[67]. The figure below shows the map of the National Highway Network in Pakistan.

Figure 17: Map of the National Highway Network in Pakistan



Source: Ministry of Communications[68]

Furthermore, Pakistan currently has 14 dry ports, designed to cater to the country's high value external trade. Whereas in terms of seaports, Port Qasim and Port Karachi are the two main ports in the country that handle 95% of all international trade[69]. Whereas, the Gwadar Port,

[66] Ministry of Communications, *Towards a National Freight and Logistics Policy for Pakistan An Strategic Framework for Further Elaboration*, 2019, pp. 1-48.
[67] Board of Investment, *Sector Profile Logistics.*
[68] Ministry of Communications, *Towards a National Freight and Logistics Policy.*
[69] Board of Investment, *Sector Profile Logistics.*

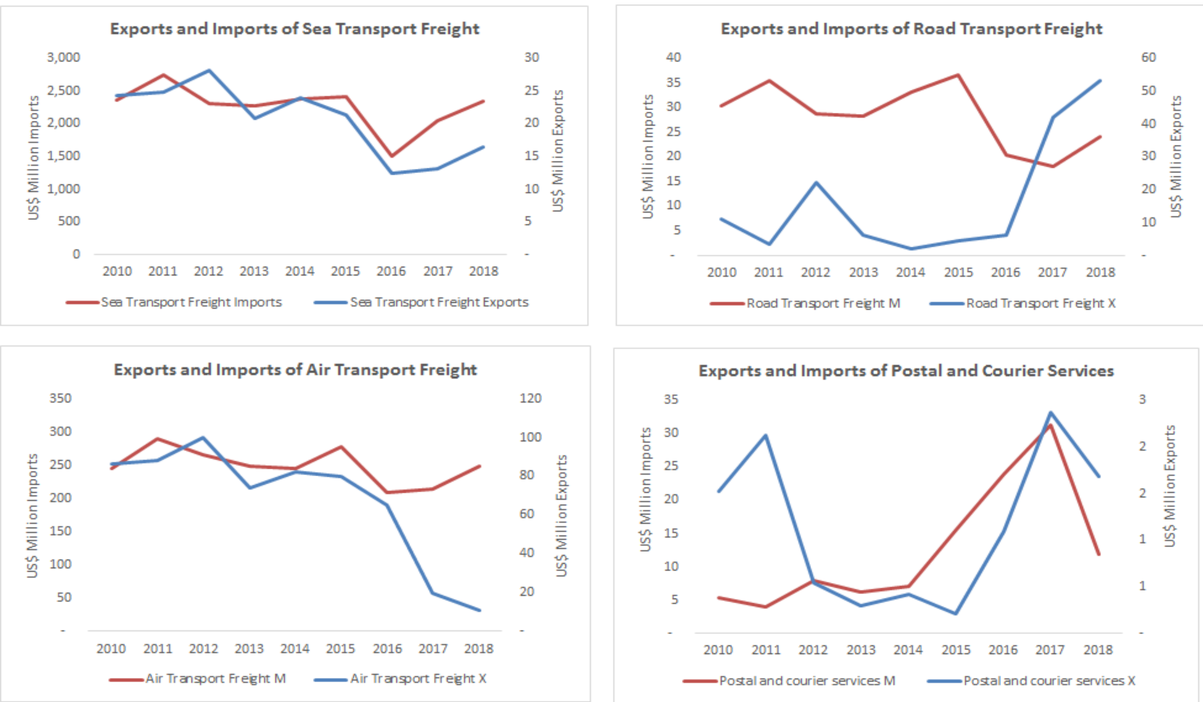
being 2,500 km from Xinjiang and 4,500 km from China's Eastern seaboard, also has the potential to become a key transit point for trade with China and the Middle East[70].

It is important to note that the population in Pakistan travels approximately 400 billion pkm in one year. This is expected to increase to 1,000 billion pkm by 2030 and as the population is expected to rise to 300 million people by 2050, this sector is projected to increase 5-fold to potentially 2 trillion pkm[71]. Furthermore, projected demand for freight transport is also anticipated to double by 2025 and rise six-fold to 600 billion tkm by 2050[72].

2.1.2 Exports and Imports

The figures below show the exports and imports of different segments of the transport and logistics industry, namely sea, road and air transport freight, and postal and courier services. Pakistan is a net importer in all these segments, except road transport freight, where exports of road transport freight were more than its imports in 2017. The exports in the road transport freight category depicts an increasing trend since 2014. Conversely, exports from air transport freight have been decreasing since 2012. In addition to this, despite having a decreasing trend from 2012-2016, exports from sea transport freight increased post-2016. Lastly, exports in postal and courier services witnessed a slump between the 2012 to 2015 period, after which they increased up until 2018, decreasing again[73].

Figure 18-19-20-21: Exports and Imports of Transports and Logistics Segments



Source: State Bank of Pakistan[74]

2.2 Industrial Landscape & Power Structures

There are around 2,500 logistic and freight forwarding companies in Pakistan. These include shipping companies that are involved in transporting cargo and providing end-to-end customer

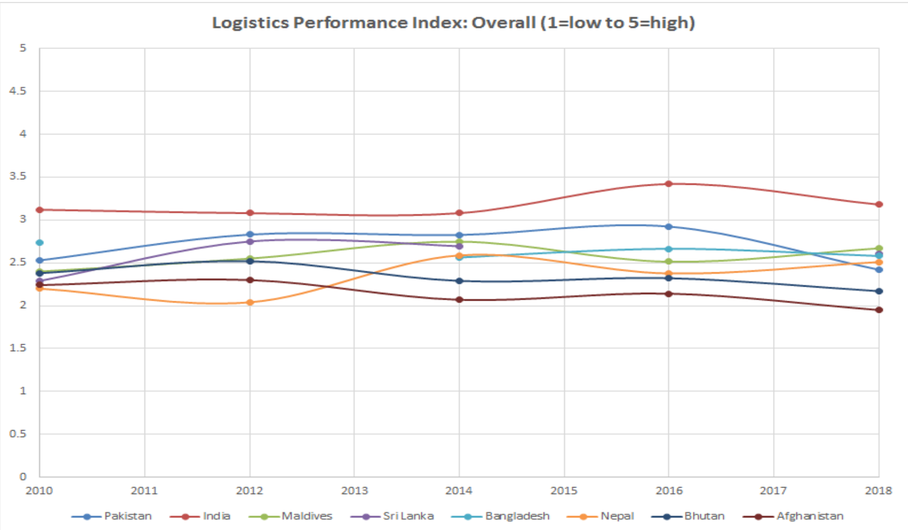
70 Ibid.
71 Ibid.
72 Ibid.
73 "Trade in Services - State Bank of Pakistan," 2018.
74 "Trade in Services - State Bank of Pakistan," 2018.

solutions[75]. However, it is important to note that the private sector is diverse with around 85% of the companies involved in the logistics and road freight sector being owner-operator companies. In addition to this, this sector contributes to approximately 6% of Pakistan's total employment[76], providing about three million jobs, which is predicted to increase to approximately 3.6 million during the 11-year transport plan period[77].

The freight transport and logistics sector is closely aligned with Pakistan's exports and imports. Hence, improving performance of this sector can result in positive effects in the country's export potential. The logistics costs in Pakistan are expected to rise up to 20%, which is high compared to more efficient economies like the USA (9-10%), Europe (10%) and Japan (11%). Moreover, Pakistan also has a skewed modal transportation mix with 95% of the freight transported through the road network, which is significantly larger than those in key developed economies[78]. A freight transport and logistics sector, which is not cost-efficient, will make Pakistan's products uncompetitive in the global market.

The World Bank's Logistics Performance Index (LPI) also ranks Pakistan at 122 in the 2018 LPI index[79]. The following figure shows Pakistan's performance on LPI, compared with its other countries in the region.

Figure 22: Logistics Performance Index



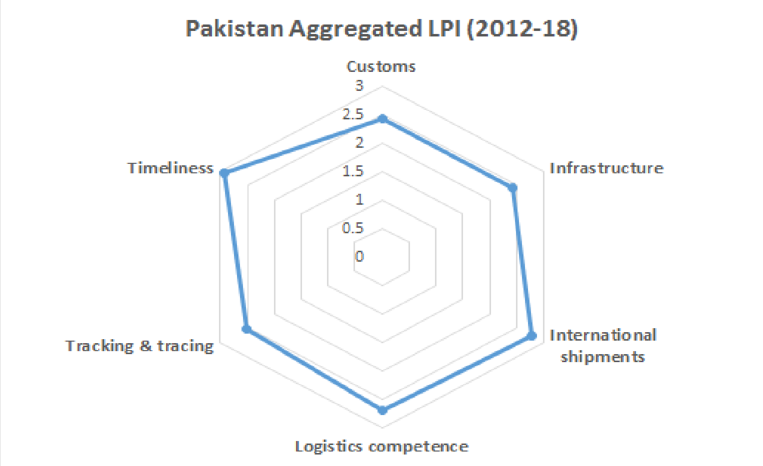
Source: World Bank[80]

LPI is conducted every two years and measures performance along six dimensions: customs, international shipments, infrastructure, tracking and tracing, logistics quality and competence, and timeliness. The Aggregated LPI combines the scores of the four most recent LPI editions to indicate a country's performance in the logistics sector. The Aggregated LPI score for Pakistan was 2.64[81]. The figure below shows the Aggregated LPI scores of the six

[75] "Pakistan's Logistics Industry Hampering Industrialisation and Growth," Global Village Space (Global Village Space, January 10, 2020), https://www.globalvillagespace.com/pakistans-logistics-industry-hampering-industrialisation-and-growth/)
[76] Board of Investment, *Sector Profile Logistics.*
[77] Ministry of Planning Development & Special Initiatives, *11th Five Year Plan - Transport and Logistics*, n.d, pp. 339-359.
[78] Ministry of Communications, *Towards a National Freight and Logistics Policy.*
[79] "World Bank - Logistics Performance Index," 2018.
[80] Ibid.
[81] "World Bank - Aggregated LPI 2012-2018," 2018.

components. It is important to note that on these six dimensions, customs had the lowest score of 2.41, followed by infrastructure (2.43) and tracking and tracing (2.52)[82].

Figure 23: Pakistan Aggregated LPI scores over six dimensions



Source: World Bank[83]

2.2.1 Policy and Regulations

National Transport and Logistics Policy: Vision 2025, National Transport Policy 2018 and 11th Five Year Plan 2013-18

Pakistan's transport and logistics policy is based on Vision 2025, which includes transport and connectivity as one of the seven priorities for sustained and inclusive growth in the country[84]. Moreover, the National Transport policy in 2018 by the previous PML-N government and the 11th Five Year Plan 2013-18 also sets the overarching objectives for this sector. The salient features of these policies are as follows:

- Encouraging public-private partnerships in infrastructure building and financing institutions to expedite infrastructure development;
- Establishing the Bureau of Infrastructure Development (BID) to coordinate and monitor participation of the private sector in infrastructure development;
- Facilitating freight traffic movement from the Special Economic Zones (SEZs) in Pakistan and Western China along the economic corridor;
- Increasing investments in key government agencies regulating key segments in this sector;
- Introducing infrastructure packages for Karachi's infrastructure[85].

CAREC Transport and Trade Facilitation Strategy (TTFS) 2020

In addition to this, the CAREC Transport and Trade Facilitation Strategy (TTFS) 2020 constituted an expanded Central Asian Regional Economic Cooperation (CAREC) transport network. Currently, CAREC corridors 5 and 6 are routing through Pakistan. These link key urban centers in Lahore and Islamabad in the north and Gwadar and Karachi in the south with neighboring countries, including Afghanistan, China and Central Asian countries. The TTFS 2020 aims to ensure the provision of a sustainable transport system in Pakistan[86].

[82] Ibid.
[83] "World Bank - Aggregated LPI 2012-2018," 2018.
[84] Board of Investment, *Sector Profile Logistics.*
[85] Ibid.
[86] "Sector Assessment (Summary): Transport - Country Partnership Strategy: Pakistan, 2015–2019" (Asian Development Bank, n.d.), pp. 1-6.

Pakistan-China Economic Corridor

The Pakistan-China Economic Corridor aims to promote an economic corridor to improve linkages between Pakistan, China, Central Asian countries and the Middle East via the Khunjerab Pass and Gwadar Port, under the One Belt One Road initiative. This initiative also includes construction and up gradation of roads, airports, railways and pipelines, bringing value addition to the country's existing transport and logistics sector.

2.3 Key Players

In Pakistan, different parts of the transport and logistics value chain are managed by different ministries, agencies and associations. The table below lists the key players in this sector.

Table 4: Key Players in the Road Transport and Logistics Sectors

Name	Classification	Functions
Ministry of Communication	Government Agency	The Ministry of Communications is responsible for devising and implementing a central policy on the communications and transport sector in Pakistan. It also aims to integrate remote areas, promote export competitiveness, ensure safe and smooth travel on national roads and make postal services more reliable.
Ministry of Maritime Affairs	Government Agency	The Ministry of Maritime Affairs is responsible for facilitating the ports and shipping industry of Pakistan and devising policy guidelines to encourage growth and development, while also maintaining safety standards in this sector.
Ministry of Railways	Government Agency	The Ministry of Railways plans policy development of the railway network in Pakistan, administers passenger locomotive services, and regulates the railway companies in the country.
Pakistan Civil Aviation Authority (CCA)	Government Agency	CAA is a public sector autonomous body that is responsible for promoting and regulating the Civil Aviation activities in the country and developing safe and efficient infrastructure for more coordinated civil air transport service.
Pakistan International Airlines (PIA)	Public Sector Company	PIA is the national flag carrier of Pakistan. It aims to provide world-class profitable and safe airline services.
National Highway Authority	Public Sector Agency	NHA builds, manages, and operates national highways and motorways across the country. It is thus responsible for maintaining highway safety and operations standards
Provincial Highway Departments	Government Department	PHDs are responsible for building and managing provincial highways and regulating safety and operations standards on them.
Ministry of Commerce	Government Agency	The Ministry of Commerce aims to improve export competitiveness through trade facilitation, improvements in export competitiveness and reductions in the cost of business.
Pakistan Post	State Enterprise	Pakistan Post is Pakistan's national postal communication service, which provides a wide range of postal products and services in the country.
Customs	Government Agency	Pakistan Customs is responsible for facilitating and regulating trade of legitimate cargo and revenue collection from these activities.

National Logistics Cell (NLC)	Military-Run Company	NLC is the largest transport company in the country, operating dry good and liquid freight businesses. It is formally run by the military and was constituted as a company under the Ministry of Planning and Development.
Fleet Operators Association of Pakistan (FOAP)	Trade Body	Constituent members include 42 of the largest transportation and logistics providers
Local Goods and Passenger Transport Associations	Various Trade Bodies	A number of associations operate at the station/port, district, provincial, and regional levels. Periodic umbrella organizations are created to facilitate collective action but none are sustained over longer periods of time.

2.4 Power Relations in the Sector

The internal organization and dynamics of the sector are similar to several other services sectors across the country. 85% of the sector is dominated by small businesses, i.e. proprietors who own and operate their own vehicles, though there is some indication that the partnership model for business growth is being adopted by a number of entrepreneurs. 70% of all businesses, however, remains between 1 to 5 vehicles; approximately 50% of all commercial transporters consist of pick-ups and small delivery vans used for intra-city transport. The remaining 50% consists of trucks, articulated trucks, and tankers that are responsible for moving inland inter-city freight.

The biggest player in the sector remains the National Logistics Cell (NLC), a company incorporated by the government of Pakistan and run by the military. Its fleet consists of over 800 large vehicles (trucks and tankers). It has a significant share in the transportation of oil and petroleum products, with some estimates suggesting that approximately 35% of all movement in this category takes place through NLC vehicles.

The NLC exercises a dominant role not just because of its scale but because of its unique position as a parastatal entity. In an interview, NLC management repeatedly stressed that the organization runs along corporate lines and that it does not take any money from the government for its operations. Instead it reinvests most of its profits. However, at various points in the past, NLC has applied for tax exemption in procurement contracts on the basis of its status as a government owned entity. This, according to competitors, provides it with a distinct price advantage in the sector. More informally, its association with the military provides it with primacy in the eyes of clients, especially in government and with oil marketing companies.

Interviews with small operators reveal that the NLC is also a major actor when it comes to subcontracting. While its own fleet size has hovered around the 800-vehicle mark, in recent years it has passed on much of its contract freight work to smaller actors after deducting a margin for itself.

NLC's position notwithstanding, the rest of the sector is still some way away from achieving formalization and corporatization. Other players considered to be 'large' operate no more than 200 to 250 large vehicles. Given that so much of freight transportation tied to localized movement of goods, the scope for small owner-operators is still significant. A 2018 study on the sector revealed that the profits in the sector were considerable, banking penetration was extremely low, and margins ranged from 20% to over 40% for most small businesses.

Overall, interview analysis revealed that the sector does not have significant 'formal' barriers to entry. Entry into the small commercial segment, which operates intra-city, requires no more than a few hundred thousand rupees, while purchasing second hand larger trucks for inter-city require initial investment of three to four million rupees. However, informal barriers are said to exist. Obtaining goods transport spots in major hubs (*addas*), subcontracting with the NLC, and evading arbitrary regulation from district and provincial government authorities require access to pre-existing, often political, networks.

These political networks consist of several types. At the most localized level, transporters play a role similar to other businesses in their relationship with constituency-level politicians. Election financing, reciprocity through material and non-material favours, and social fraternizing are important aspects of this relationship. Politicians are then crucial in enabling growth of business, largely through their intermediation with key government regulatory authorities. For example, one interviewee stated that these networks are key in the transportation of common smuggled goods (such as vehicle tires), where ties between politicians and Customs officials are often operationalized to evade scrutiny, or in the case of confiscation, the release of the vehicle.

Some major transporters have also entered party politics themselves. The Rokhri family, a major actor in the passenger and freight transport business, based out of the city of Mianwali, have sent several legislators to the national and provincial assembly. Similarly in Karachi, a number of legislators associated with the Awami National Party (ANP) and the Muttahiq Quomi Movement (MQM) have been involved in the transport sector as well.

2.4.1 State Sector Interactions

The transport and logistics sector is loosely regulated, partly by design and partly because of the political economy dynamics listed in the preceding section. Over the past three decades, the government has maintained increased cognizance of the sector's importance, and its potential in spurring economic growth. With the advent of CPEC, and its attendant focus on rail and road logistics, the sector has achieved heightened importance.

The regulatory and policy regime around the sector, however, remains weak. As previously stated, there has been no implementation of a transport plan or a road transportation policy by the Government. A trucking policy was also envisioned and drafted in 2008 but similarly never received any implementation. An overarching National Transport Policy was drafted in 2017 but it has not received much buy-in from the current government. The National Highway Safety Ordinance (NHSO) 2000 provides for the axle-load and vehicle-specific freight limitation guidelines, which were revised recently. However, their implementation is weak and overloading and operation of unsafe axle-loads are common features of the sector.

Part of this regulatory failure is simply down to its diffused and informalized nature, as well as mismatch in regulatory regimes at multiple tiers. Regulating any business with a large and diffused number of owner-operators without formal registration is a challenge regardless of the type of sector. Compounding this are serious gaps in the regulatory regime: For example, axle-load implementation is the mandate of the National Highway Authority (NHA), but the organization itself is only mandated to cover national highways and motorways. Truckers operating at over-capacity choose to take provincial or local routes and thus avoid scrutiny.

At a local level, district and provincial authorities have various legal instruments that are used to adjudicate vehicle fitness among other things. However, frequent localized collective action by truck owners and operators prevent these from being implemented. To give an example, the last time the government stated its resolve to implement traffic rules and increase traffic fines against freight transporters (in January 2020), transporters in Karachi were able to organize a week-long cargo strike, under the newly created umbrella United Goods Transporters Alliance. This resulted in protracted negotiations and an informal withdrawal of the new penalty regime by the government. There have been similar instances of successful collective action designed to evade regulations around vehicle fitness and age, tracking, and axle-load. Even the most formalized and largest entities, such as NLC, privately communicate a reluctance to accept the implementation of the NHSO 2000 regulations.

2.5 Stakeholder Influence Alignment

High **INFLUENCE / POWER**	**NHA, PHDs, CPEC Authority NLC** **HANDLE WITH CARE** **MEET NEEDS** **ENGAGE AND CONSULT IN INTEREST AREA** **TRY TO INCREASE LEVEL OF INTEREST** **AIM TO MOVE HERE**	**Federal Government Ministries, Provincial Transport Departments** **TOP PRIORITY** **KEY PLAYER** **FOCUS EFFORTS ON THIS GROUP** **INVOLVE IN GOVERNANCE / DECISION MAKING BODIES** **ENGAGE & CONSULT REGULARLY** **Top 40 firms represented by FOAP (Key among them BSL, Agiliti, Al-Raaz**
	Local Goods Transport Associations, Vehicle Manufacturers **LOW PRIORITY** **LEAST IMPORTANT** **INFORM VIA GENERAL COMMUNICATION** **AIM TO MOVE**	**Dynamic medium-sized registered firms (50-75 vehicles);** **NEED HELP TO PARTICIPATE** **SHOW CONSIDERATION** **MAKE USE OF INTEREST THROUGH INVOLVEMENT IN LOW RISK AREAS** **KEEP INFORMED & CONSULT ON INTEREST AREA** **POTENTIAL SUPPORTER/ GOODWILL AMBASSADOR**

Low **INTEREST** High

2.6 Barriers to Development

The barriers to the transport and logistics sector's development and growth, relate to both lack of clarity on the government's part on what it wants from the sector and the layered and at times contradictory regulatory issues. Many of these have been noted in the foregoing analysis, but this section highlights some key ones.

- **Government's Clarity:** With much effort and political capital being expended on CPEC, the government's own work in enabling the transport sector's formalization and growth remains inadequate. As a result, despite good profit margins and reasonable growth of around 5% per annum over a 20 year period, overall consolidation in the sector remains low
- **Regulatory weaknesses:** Rent-seeking by government officials, reinforced by various tiers of mismatched government regulation (such as in axle-load requirements) prevent modernization and enhancement of the road transportation fleet.
- **Weak Associations:** As a result of the fragmentation in the industry and the presence of one overwhelmingly dominant actor (which does not participate in associational action), trade bodies and associations remain weak as far as productive, growth-enhancing activities are concerned. While they are useful in engaging in reactive collective action to subvert government formulations, they do not act as organizations capable of improving the sector's internal practices.
- **Persisting High levels of informalization:** Informality in terms of business practices, the reliance on social and political networks, and the general reluctance to engage with formal sector financial institutions also limit growth of the sector and consolidation of businesses. Most entrepreneurs in the sector prefer to use informal sources of credit or their own resources to invest and upgrade.
- **Impact of COVID-19:** The pandemic and its ensuing lockdowns created considerable issues for the sector, especially during the months of March, April, and May 2020. However, interviews reveal that the preceding two months have seen a return to normalcy with restrictions on movements being eased of. Some transporters also suggested that the escalation of the e-commerce business in the wake of the pandemic has proved to be helpful for small intra-city commercial vehicle operators in particular.

2.7 Proposed Reforms: Winners and Losers

Based on the analysis in this chapter, the table below outlines some potential reforms – along with possible winners and losers – that may be feasible.

	Proposed Recommendation	Likelihood of Reform	Winners	Losers
1	Strenuous implementation of revised NHSO 2000 axle-load standards	Not very likely due to collective action of transporters and mismatch of regulatory regimes between federal and provincial governments	Formal large firms due to their pre-existing standards and procedures	Small owner-operator firms who will have to bear cost of compliance
2	Implementing vehicle fitness and age standards by provincial governments	Likelihood has increased inadvertently due to CPEC and advent of new players in the vehicle manufacturing segment	New vehicle manufacturers, large firms	Businesses with dated vehicles
3	Support for fleet upgradation and maintenance by SBP and Banks through creation of specialized instruments	Unlikely unless government provides clarity through transport policy	Formal sector firms that can take advantage of formal banking channels	Small informal firms who rely on informal credit sources for fleet maintenance

3 Pharmaceuticals

The pharmaceutical sector, in addition to having a critical role in public health outcomes, also contributes to economic growth and has significant export potential. In Pakistan, even though the industry has grown significantly over the past decade, the contribution to growth (1% of GDP) and exports (less than 1% of total exports) has been limited.

This chapter provides a political economy analysis of the pharmaceutical sector in Pakistan, with the aim to inform potential reforms for improved growth and exports. It will first provide a historical overview of the salient features of the sector, before honing in on key actors, industry-level collective action issues, and state-sector relations. The chapter will then examine constraints to development and potential opportunities for transformation given the existing distribution of power.

3.1 Sector Overview

Pharmaceutical products (HS 30) consist of tablets, liquids and syrups, injections, capsules, galenicals (tincture), ointments, and so on, which are used for therapeutic or prophylactic use. Pakistan’s pharmaceutical industry was estimated to be US$ 3 billion in 2018. Even though this makes up a miniscule portion of the global pharmaceutical industry – estimated to be approximately $1,105 billion in 2016 – the Pakistani industry has seen double-digit growth in recent times and has been projected by IQVIA, a global healthcare data company, to have significant growth potential.[87]

There are more than 750 firms operational in Pakistan, which includes multinational and national companies. Of the US$ 3 billion market, 80% of the products in their final dosage form are manufactured in Pakistan while 20% of the products are imported. However, one factor that has hampered growth of the industry, relative to global competitors, has been the absence of backward linkages. 95% of the raw materials for pharmaceutical products are imported due to the absence of a basic chemicals industry. This has meant that the pharmaceutical industry has been vulnerable to global supply shocks as well as exchange rate variations, hampering long-term investment.

Pharmaceutical products in Pakistan are also not usually under a patent. In other words, they are primarily generics, of which some national firms market with their own branding as branded generics.[88] Multinational companies, on the other hand, produce ‘originator drugs’ which they have researched and developed – however, in Pakistan, most of the products multinational companies market have had their patent expire.

The most fundamental issue in this sector has been the pricing of products (discussed in more detail in later sections). The universe of products have price ceilings set by the Drug Regulatory Authority in Pakistan (DRAP) and both, price-setting and price increases, have been a contentious issue.

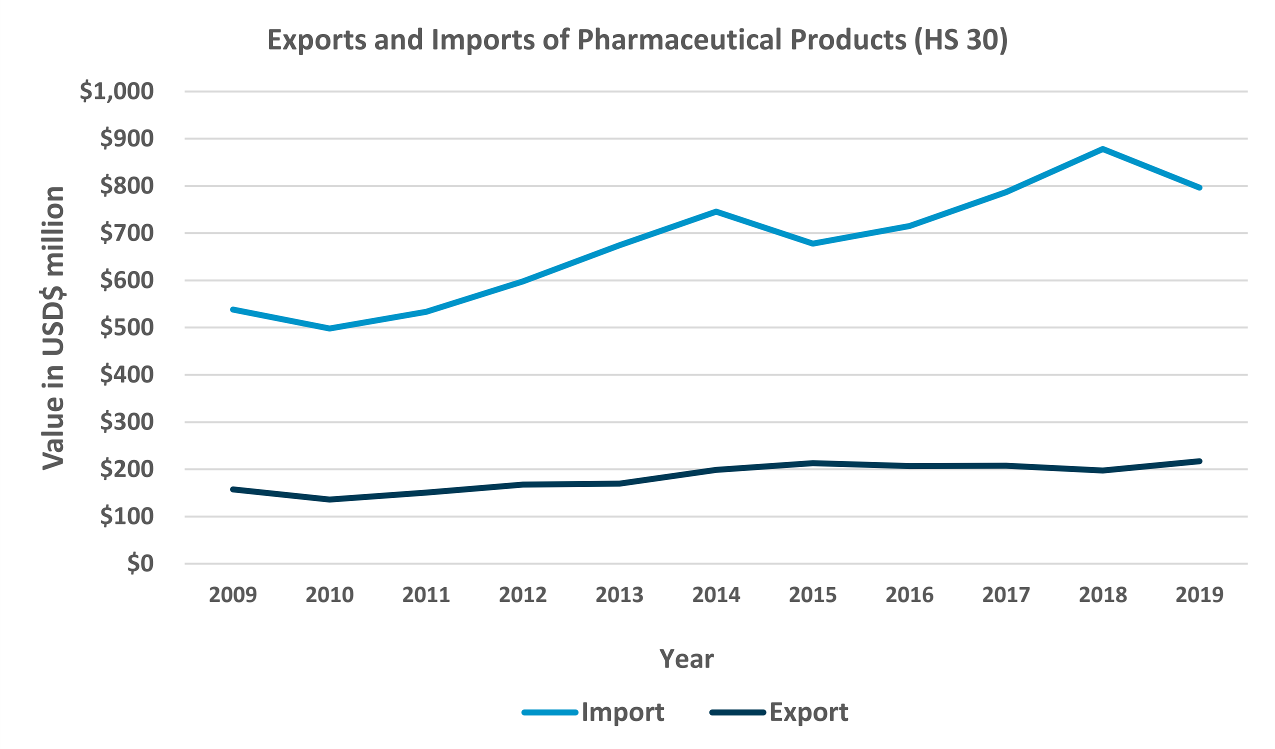
3.1.1 Exports and Imports

Pakistan is a net importer of pharmaceutical products, with imports valued at US$ 797 million and exports at US$ 217 million in 2019. The figure below shows the export and import trends of pharmaceutical products in Pakistan. Over the last ten years, imports have increased significantly, while exports have only increased marginally and have hovered around the

[87] Kabeer Dawani and Asad Sayeed, “Pakistan’s Pharmaceutical Sector: Issues of Pricing, Procurement and the Quality of Medicines” (ACE SOAS Consortium, 2019), pp. 1-33.
[88] Dawani and Sayeed 2019, 8-9.

US$200 million mark for the past five years. Pharmaceutical exports made up less than 1% of Pakistan's total exports in 2019.

Figure 24: Exports and Imports of Pharmaceutical Products



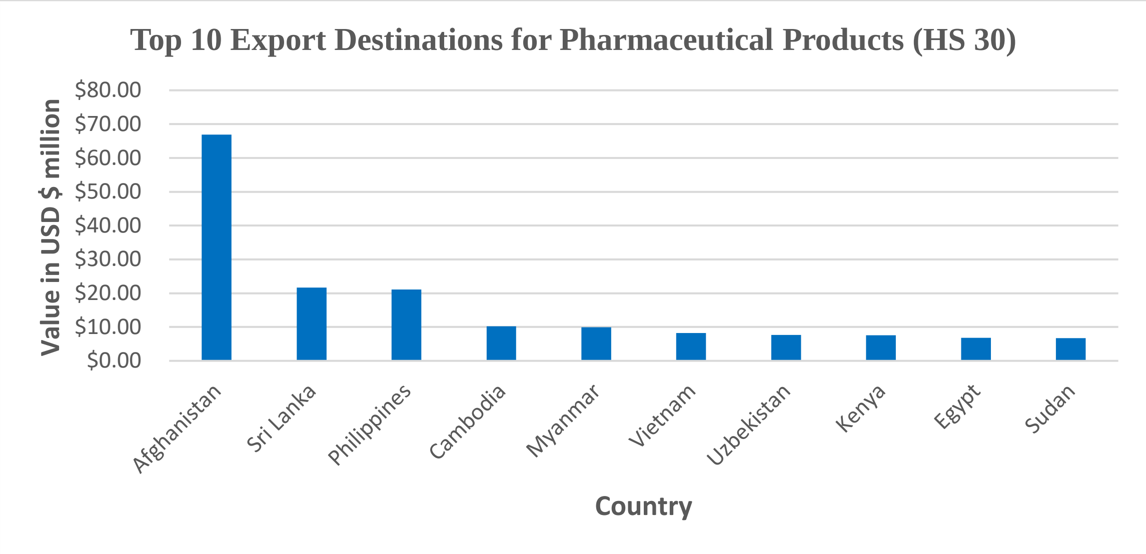
Source: UN Comtrade[89]

Afghanistan is the top export destination for the pharmaceutical sector in Pakistan, with exports valued at US$ 67 million in 2019. This is likely an undercount because there is a substantial amount of informal trade between the two countries, including for pharmaceutical products. The next biggest export destinations are Sri Lanka and Philippines, which had exports of US$ 22 million and US$ 21 million in 2019, respectively. The top ten export partners of Pakistan are shown in the figure below, along with their respective value of exports.

To contextualize this further, three companies – Getz Pharma, Glaxo Smith Kline (GSK) and Herbion – are responsible for approximately 40% of total pharmaceutical exports. The latter specializes in the production of nutraceuticals (alternative medicines) and has significant markets in Central Asian Republics and Russia, but has also recently expanded to Canada.

[89] UN Comtrade, 2020, https://comtrade.un.org/.

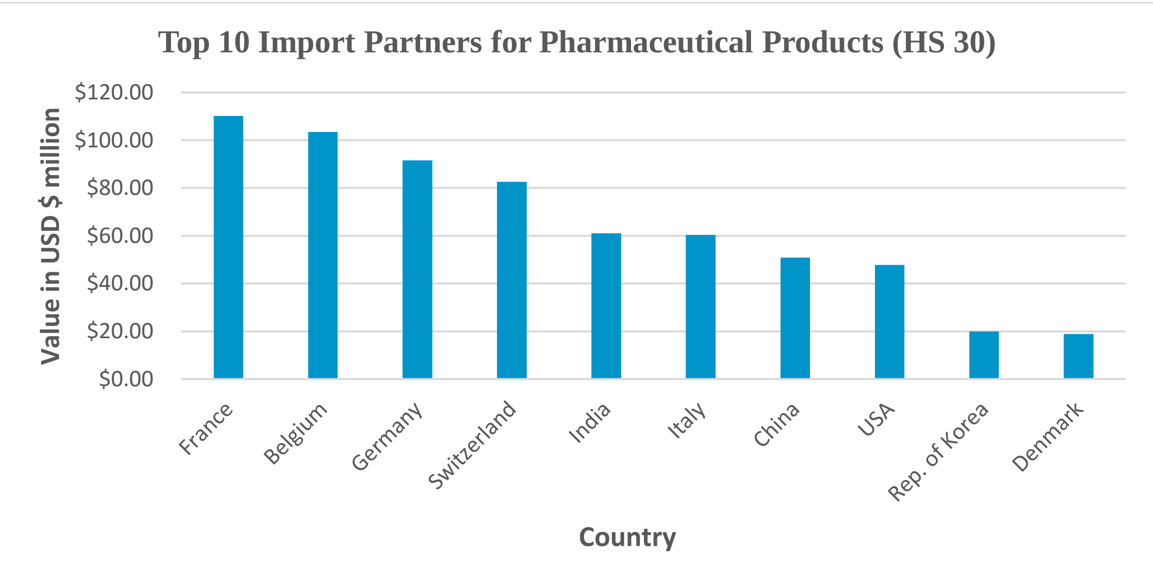
Figure 25: Top 10 Export Partners of Pharmaceutical Products



Source: UN Comtrade[90]

In 2019, the largest import partner of Pakistan was France, with total pharmaceutical imports valued at US$ 110 million. This was followed by Belgium and Germany, with imports valued at US$ 103 million and US$ 92 million respectively. The figure below shows the top 10 import partners with their respective value of imports.

Figure 26: Top 10 Import Partners of Pharmaceutical Products



Source: UN Comtrade[91]

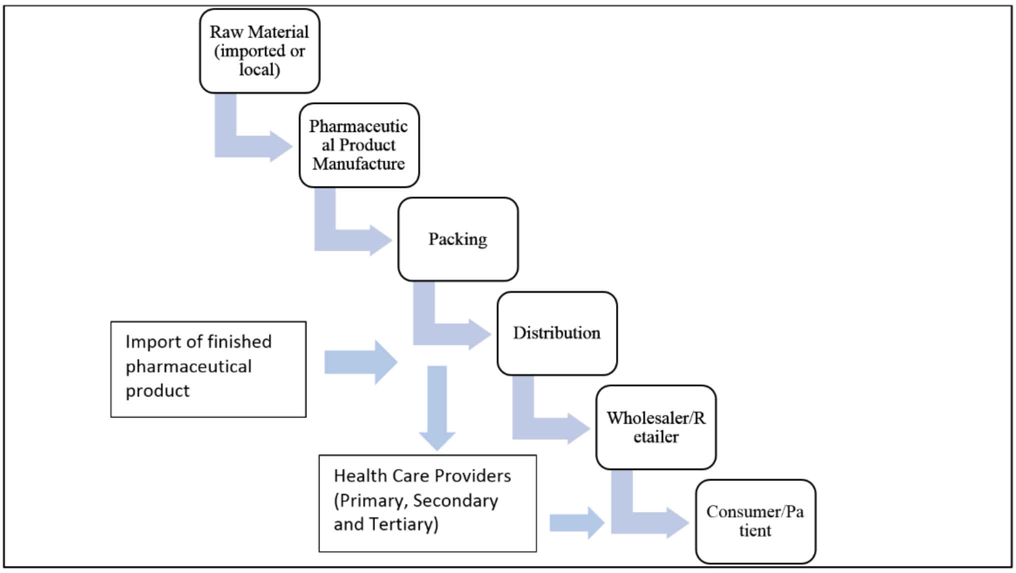
3.1.2 Value Chain

Pharmaceutical products are either manufactured locally or imported as finished goods. Consumers or patients then get them through one of two channels: by purchasing from pharmacies or retailers, or from health care facilities (primary, secondary or tertiary). The value chain process is depicted in figure below.

90 UN Comtrade.
91 Ibid.

It is important to note that, unlike conventional products, the sale of this product is primarily mediated by doctors or physicians (although self-prescriptions are also prevalent and unless it is an over-the-counter product). In the absence of standard marketing mechanisms which are prohibited, large firms develop relationships with doctors, often providing them with financial and material incentives, to prescribe their products (branded generics).[92] This is how they are able to grow. The MNCs are an exception to this model of marketing, however, due to strict rules governing their behavior from their parent companies. Furthermore, small firms that produce generic medicines do not market their products either because they sell in local markets in bulk.

Figure 27: Structure of the Pharmaceutical Value Chain



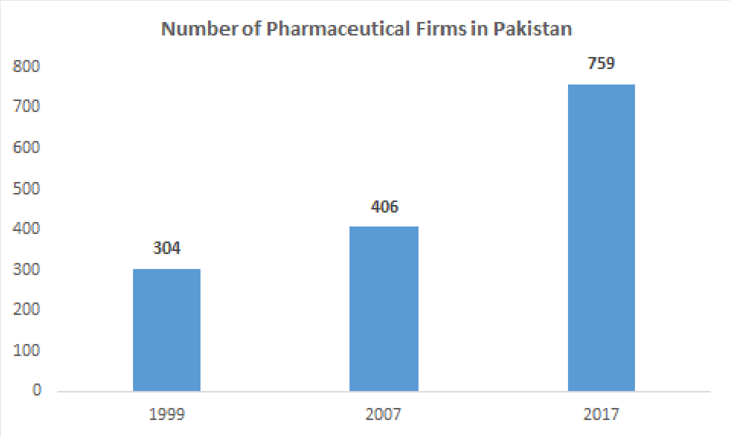
3.2 Industrial Landscape & Power Structures

More than 750 firms are operational in Pakistan, who either manufacture locally or import finished goods to sell. Of these, 22 are multinational companies (MNCs) and the rest are national companies. Over the past two decades, national companies have overtaken the MNCs in terms of market share, catering to 60% of the market with the MNCs catering to the remaining 40%. There has also been a large expansion in the number of firms in Pakistan, as seen in the figure below.

However, the market has a very skewed structure, with the top 50 firms having 89% of the market share while the top 100 firms have 97% of the market share. This means that more than 650 firms compete for the remaining 3% of the market.

[92] Imran Asif and Shehzad Amin, "The Impact of Doctor-Pharma Relationships on Prescribing Practice," *Journal of Basic & Applied Sciences* 8 (2012): pp. 174-180.

Figure 28: Number of Pharmaceutical Firms in Pakistan over time



Source: Pakistan Pharmaceutical Manufacturers' Association[93]

The pharmaceutical industry in Pakistan is concentrated in Karachi in the South and in Lahore and Rawalpindi/Islamabad in the North. Even though Punjab has the largest number of firms, those based in Karachi are better in terms of production, capacity utilization, volume and size of business.[94] There are nevertheless firms spread across the country, including in Balochistan and Khyber Pakhtunkhwa (KP). Although this is a capital-intensive industry, the sector employs approximately 150,000 individuals directly and 300,000 indirectly.[95]

The segmentation of the industry along size – broadly, the top 100 firms are large, while the bottom 650 are small – is important in terms of their outlook, production capabilities, and interests.[96] Large firms tend to follow Good Manufacturing Practices (GMPs), which are a necessary condition for the manufacture of pharmaceutical products of acceptable quality. They also supply to markets across Pakistan, are growth-oriented and market (through doctors) branded generics. On the other hand, smaller firms, which operate on a much lesser scale, do not follow GMPs and mostly sell generic medicines on a local scale.

Globally, pharmaceutical products are strictly regulated. The gold standard of quality is approval by the United States' Food and Drug Administration (USFDA), although the European market is also highly regulated. Pakistan has no manufacturer that has been approved by the USFDA, unlike India which has more than 200 approved plants, or Bangladesh which has 4 approved plants. As such, Pakistani exports have been concentrated in less regulated markets in Asia and Africa.

In addition, it is only the larger firms who have the capacity to engage in exports because they are able to meet the minimum quality required. Exporting pharmaceutical products requires enormous investments, and it is only the large firms who have the capability to do this.
Only one firm – Getz Pharma – till date has received approval from the World Health Organization (WHO) for one of their facilities, which permits them to supply to the WHO. There are, however, other firms who are attempting this also. In addition, there is only one firm – Pacific Pharmaceuticals – which has received regulatory approval from the UK's equivalent of the FDA, Medicines and Healthcare products Regulatory Agency (MHRA), allowing it to export to Europe.

93"Pakistan's Pharmaceutical Industry." Pakistan Pharmaceutical Manufacturers' Association, 2017.
94 Ibid.
95 Vaqar Ahmed and Samavia Batool, "India-Pakistan Trade; A Case Study of the Pharmaceutical Sector," in Nisha Taneja and Isha Dayal, *India-Pakistan Trade Normalisation The Unfinished Economic Agenda* (Puchong, Selangor D.E.: Springer Singapore, 2018).
96 For more details on issues of size and quality of production, see Kabeer Dawani and Asad Sayeed, "Anti-Corruption in Pakistan's Pharmaceutical Sector: A Political Settlement Analysis" (London: SOAS Anti-Corruption Evidence (ACE) Research Consortium, 2020).

3.2.1 State Regulation[97]

The pharmaceutical sector is heavily regulated in Pakistan. This section provides an outline of the regulatory landscape and recent changes in rules that govern this sector, with a particular focus on pricing, which has remained the dominant issue and point of contention between the state and the sector.

The primary legislation governing the pharmaceutical sector is the Drugs Act, 1976. This was enacted under the Zulfiqar Ali Bhutto government to (i) prevent substandard medicines from being consumed and (ii) to keep medicine prices affordable.[98]

Under this legislation, price ceilings were introduced on the universe of medicines; however, these maximum retail prices (MRPs) were established in a largely ad-hoc manner. Different firms with different brands of the same generic medicine would get different MRPs. This was largely a function of rent-seeking and corruption on the part of government (politicians and bureaucrats).

Without a clear policy defining pricing, price increases were also not well-defined. Coupled with a political consensus to keep inflationary pressures on prices of essentials suppressed[99], this meant that prices once-defined remained rigid. In fact, the price rigidity across governments led to a de facto price freeze from 2001 to 2013.

This policy of price rigidity has had adverse consequences as firms, facing decreased profitability due to higher costs of production, have sought to capture rents in other ways. This includes: (i) securing very high margins when MRPs are first set; (ii) introducing higher-priced substitutes, as second and third-generation variants of the same medicine; (iii) importing more expensive alternatives; and (iv) switching to production of alternative medicines (nutraceuticals). Some rents have also been captured through hoarding and smuggling drugs that have been in short supply due to their production being uneconomical. Finally, some firms were also able to get prices increased through 'hardship cases', which again was an ad-hoc process and involved rent-seeking.

The most significant change in regulation has been the introduction of the Drug Regulatory Authority of Pakistan Act, 2012. This enabled the creation of the Drug Regulatory Authority of Pakistan (DRAP). Although envisioned to be an autonomous regulatory body similar to the US FDA, it is administratively under the Ministry of National Health Services, Regulation and Coordination. As such, despite having its own Chief Executive Officer, DRAP is vulnerable to political pressures that effect other regulatory bodies in Pakistan as well and prevent rules from being enforced uniformly. Nevertheless, there has been an improvement in regulation as processes have become more structured.

In 2013, the Nawaz Sharif government increased prices, but under public pressure revoked the increase within a matter of days. Firms, however, had increased their prices already and went to court and got a stay order against the revocation. This initiated a process of judicial intervention, where a series of court cases eventually resulted in the court ordering the introduction of a Drug Pricing Policy. Such a policy was first introduced in 2015, and after further litigation, the latest Drug Pricing Policy 2018 was instituted after due consultations with multiple stakeholders on the Supreme Court of Pakistan's orders.

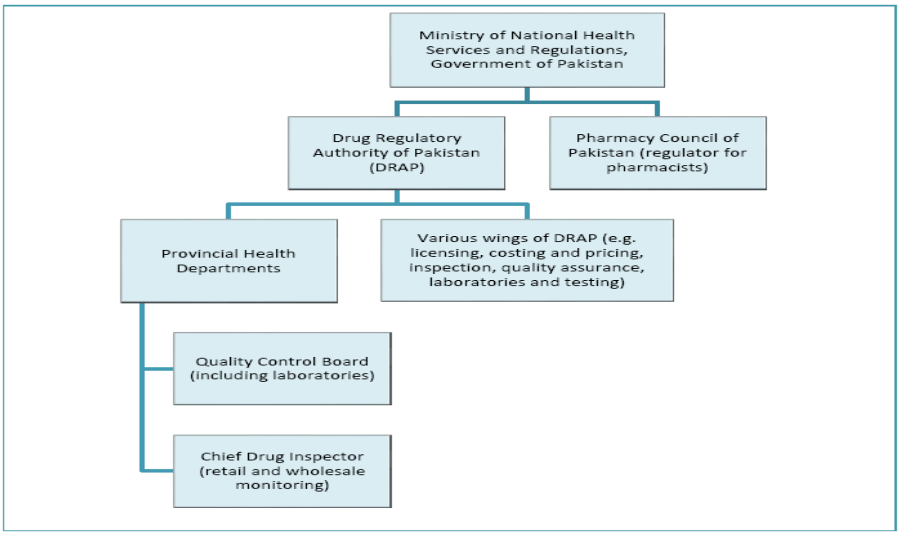
[97] This section is primarily based on Dawani and Sayeed 2019 and 2020.
[98] Adnan Naseemullah, "Spirits of Capitalism: Explaining Industrial Variation in South Asia" (dissertation, 2010).
[99] This has also been seen in food items in Pakistan, as the example of livestock sector illustrated in the report of the first phase for this project. See also Haris Gazdar, "Food Prices and the Politics of Hunger: Beneath Market and State," *IDS Bulletin* 46, no. 6 (2015): pp. 68-75, https://doi.org/10.1111/1759-5436.12188.

The introduction of a formal pricing policy enabled rule-based price setting as well as annual price increases tied to the Consumer Price Index (CPI). This eliminated many of the earlier identified rents and created a uniform playing field for firms to compete on quality and not prices (although legacy effects persist of course). However, in July 2020, on the back of a hue and cry following price increases in early 2019 as well as allegations of corruption, the Imran Khan led government has abolished the CPI-based price increases available to firms.[100] The change has given control of this back to the government (defined as the cabinet), and will likely result in rent-seeking from bureaucrats and politicians.

In addition to pricing, DRAP has the key role of licensing manufacturing facilities and inspecting them to ensure that GMPs are being followed. In reality, lax regulation means that inspectors are usually bribed and firms get away with not following these rules.

Other key regulatory functions are performed by provincial health departments, who are responsible for the sale of pharmaceutical products. They license pharmacies to sell medicines, and inspect and test products being sold to ensure they are not counterfeit, sub-standard, or spurious. The figure below depicts the overall regulatory structure of the pharmaceutical sector in Pakistan.

Figure 29: Regulatory Structure of Pharmaceutical Sector in Pakistan



Source: Dawani and Sayeed 2019[101]

3.3 Key Players

The following table lists the key stakeholders in the pharmaceutical sector in Pakistan along with their key functions.

Table 5: Key Stakeholders in the Pharmaceutical Sector in Pakistan

Name	Classification	Functions
The Ministry of National Health Services, Regulation and Coordination	Government Agency	This federal ministry oversees other regulatory bodies in the health sector, most importantly DRAP. A large number of its health care provision functions were devolved to the

[100] Kabeer Dawani, "Why Amending Pakistan's Drug Pricing Policy Is A Mistake," Naya Daur, July 30, 2020, https://nayadaur.tv/2020/07/why-amending-pakistans-drug-pricing-policy-is-a-mistake/.

[101] Kabeer Dawani and Asad Sayeed, "Pakistan's Pharmaceutical Sector: Issues of Pricing, Procurement and the Quality of Medicines" (ACE SOAS Consortium, 2019), pp. 1-33.

		provinces after the 18th Amendment to the Constitution of Pakistani n 2010, and so its primary role is one of coordination and regulation.
Drug Regulatory Authority of Pakistan (DRAP)	Government Agency	DRAP was created under the Drug Regulatory Authority of Pakistan Act, 2012, and is the primary agency responsible for the regulation of pharmaceutical products, including manufacturing licensing, product registration, price setting, and quality inspection. Although DRAP was created as an autonomous body with its own Chief Executive Officer, it is under the administrative control of the Ministry of National Health Services.
Provincial Health Departments	Government Agency	The Provincial Health Departments exist in Punjab, Sindh, Balochistan and Khyber Pakhtunkhwa. They are responsible for implementing the provincial health strategies in their relevant provinces. Pertaining to the pharmaceutical sector, they are responsible for the regulation of drug sales – licensing of pharmacies as well as drug inspection and drug testing to prevent the sale of counterfeit, spurious or sub-standard products.
Pakistan Pharmaceutical Manufacturers' Association (PPMA)	Industry Association	PPMA is the primary representative body for the pharmaceutical sector in Pakistan, and in particular for national companies. It aims to promote the interests of pharmaceutical manufacturers in this industry and improve their trade potential.
Pharma Bureau	Industry Association	Pharma Bureau is the representative body for MNCs operating in Pakistan, which most recently were 22 in number. It aims to protect and promote the interests of these companies.
Pharmacy Council of Pakistan	Government Agency	The Pharmacy Council of Pakistan is responsible for accreditation and regulation of both pharmacy education and profession in Pakistan.

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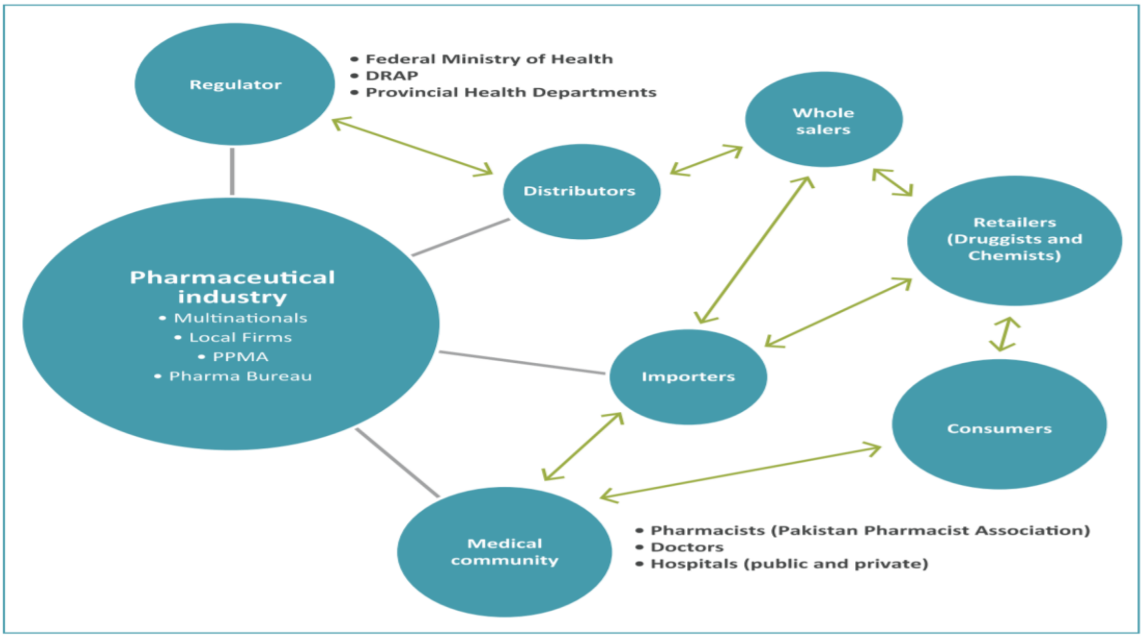
The map in Figure below shows the relationship between these key stakeholders in Pakistan's pharmaceutical sector.

Figure 30: Key Stakeholders in Pakistan's Pharmaceutical Sector



Source: Dawani and Sayeed 2019[102]

In addition to these stakeholders, similar to other industries, the regulatory space is also occupied by the Federal Board of Revenue (FBR), which along with the Ministry of Commerce, also controls the export and import of raw materials and finished goods.

3.4 Power Relations in the Sector

The most prominent feature of this sector is its fragmentation between small and large firms. There are many more small firms (roughly 600-650) than large firms (approximately 100), but the latter overwhelmingly dominate the market. The interests, objectives, and capabilities of both differs, which has implications for collective action within the sector.

The Pakistan Pharmaceutical Manufacturers Association (PPMA) is the industry association body that represents the private manufacturers' interests. It is however dominated by national firms. The MNCs have their own association, called the Pharma Bureau. Exports are primarily an interest of the former and not the latter.

PPMA has approximately 240 member firms, of which 85 are in the South and the rest are in the North. The association has two wings: North and South, both of which have zonal committees. Office bearers in the association are elected, but there is a de facto understanding that the Chairmanship will be rotated between North and South. This north and south division is also seen by some in the industry as an impediment to collective action.

Many of the smaller firms are not interested in joining PPMA because it is either seen as ineffective or they perceive no benefit to their business from joining it. For the smaller firms, price is not a point of contention because they are able to manufacture products at costs much lower than the defined MRP by cutting expenses on GMPs. These firms – the bottom 600-650 – produce generics, which require minimal marketing costs, with sales volumes through

[102] Kabeer Dawani and Asad Sayeed, "Pakistan's Pharmaceutical Sector: Issues of Pricing, Procurement and the Quality of Medicines" (ACE SOAS Consortium, 2019), pp. 1-33.

dispensaries and pharmacies a bigger concern for them. Therefore, collective action on their part is unlikely and nor do they have any significant bargaining power.

On the other hand, price is the biggest issue for the larger firms, whose products are branded generics which are marketed through doctors. However, collective action on this front has also been limited due to a weak association and individual rent-seeking through price setting and hardship cases (see section 1.4). This rent-seeking happens through embedded networks that firms have cultivated in government.

One major recent instance is instructive in this regard. Ferozsons Laboratories, a large firm based in Lahore, secured a manufacturing license from Gilead Sciences in the US to produce a drug for Hepatitis C (*Sofosbuvir*, under the brand name Sovaldi) in 2014.[103] This drug in its oral dosage form was priced at five times lower than competitor treatments at the time. However, even though other firms quickly got access to the generic version and applied for permission to produce it, Ferozsons was able to retain a virtual monopoly over Hepatitis C treatments for nearly three years through its ties to the PML-N government, and specifically Chaudhry Nisar Ali Khan, the Interior Minister at the time, who assisted in delaying the registration of competitor brands of the same drug.

This example illustrates how firms are able to capture rents through pricing and registration decisions, and serves to highlight why incentives for collective actions among firms – even the larger ones – are limited. The underlying policy for this is discretionary pricing. Although the Drug Pricing Policy 2018 reduced scope for this, the recent decisions to modify it bringing government control back will encourage rent-seeking.[104]

In addition, Pharma Bureau, within the wider context of price rigidity, has been able to successfully lobby for a pricing mark up for 'originator drugs' for MNCs, despite them being off-patent. This success has been very limited, however, because a number of MNCs have left the Pakistani market due in large part to pricing issues (the other factor being security in the 2000s and early 2010s). One possible reason for this limited success is that the MNCs are a source of foreign direct investment, which is valuable for governments constantly battling macroeconomic crises.

Given the industry fragmentation and individual firm rent-seeking, power within the sector has been limited. This is best seen through unsuccessful lobbying for favourable pricing policies, the introduction of which has almost entirely been driven through judicial intervention (which has substantial power in the broader political settlement in Pakistan). Further, drug prices have become a signal of pro-poor commitment, resulting in the persistence of rents. Finally, even larger firms are not able to wield any significant power because of low exports and consequently a minimal contribution to the macro-economy.[105] Therefore, industry-wide action is unlikely to be seen in the future as well.

3.4.1 State-Sector Interactions

The primary state entity involved in this sector is DRAP, under the Ministry of National Health Services. Some of the dynamics of state-sector interactions have been outlined earlier, and this section discusses issues around state regulation not mentioned earlier.

Since DRAP's inception in 2012, state-sector interactions have become more structured and less ad hoc. Many things have become more organized with the clear definition of rules and processes, from drug registration and pricing, to manufacturing practices and quality

[103] Asif Chaudhry, "Sovaldi – 'Miracle' Hepatitis C Oral Drug Gets Official Nod," *Dawn*, November 21, 2014, https://www.dawn.com/news/1145916.
[104] Dawani 2020.
[105] Dawani and Sayeed 2020.

assurance tests. These reforms have improved outcomes, in terms of quality as well as growth in the industry.

Having said that, there are numerous issues that persist. Regulation is introduced suddenly – for instance, in December 2018, a Common Technical Dossier (CTD) was mandated as part of drug registration requirements, which is the same document used by the US FDA and has complex requirements that take up to a year to fulfill. Such sudden changes create hurdles for firms to invest. This is in addition to government taking their time with registration and pricing decisions – sometimes pricing approvals sit with the Cabinet[106] for months. Moreover, populist decisions on pricing also maintain some of the ad-hoc processes.

In terms of exports and growth, there have been few incentives from governments over the years. However, the more export-oriented PTI government introduced a notification through DRAP in April 2019, which stated that "for each 50,000 USD worth of exports of medicines during a fiscal year, one molecule will be considered on priority" for registration.[107] However, the incentive has not been realized and exporters have received no benefit thus far. In addition, while the PTI government has publically announced that it plans to prioritize boosting pharmaceutical exports,[108] no plans have been released up to now.

Following the onset of the Covid-19 global pandemic, there was an opportunity for export of hand sanitizers, gloves, face masks and so on with significant global demand. Firms with pre-existing quotas of alcohol had standing orders from the US, however, the Ministry of Commerce (through SRO 239(I)/2020, dated 24th March 2020) banned these items from being exported. This ban was subsequently lifted in June, but by then demand had subsided.

Another instance of misdirected state regulation is a ban on trade with India in 2019 following a border skirmish. The effect on the pharmaceutical industry was that they rely on raw materials from India for manufacturing medicine, and the trade ban would have caused a massive supply shock and subsequent medicine shortage. Following outcry by the industry, the government made an exception in this trade ban for pharmaceuticals, but nevertheless the incident highlights the ad hoc nature of state regulation.

A recent dimension of state-sector interaction, specific to the present government but not unique to the pharmaceutical sector, has been the use of the National Accountability Bureau (NAB) to carry out its anti-corruption agenda. Regardless of the merits of this approach, the consequence has been that bureaucrats refuse to make routine decisions – from public procurement of medicines for government-run hospitals to registration and pricing of new medicines – in the fear that NAB will arrest and investigate them. This serves as a significant disincentive to invest. A former PPMA chairman stated at a Pharma Summit in 2019 that "wealth creation and value addition has become a crime in Pakistan" in the context of NAB investigations into pricing decisions.[109]

Domestic standard setting, which will translate into export competitiveness, has also not been achieved due to lax enforcement and corruption on the part of drug inspectors. An illustration of this is the 2012 Punjab Institute of Cardiology incident, where more than 200 people died

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[106] The Supreme Court of Pakistan defined government to mean the Cabinet, and subsequently ruled that all pricing decisions have to be approved by government.
[107] "Notification No. F.63-DRAP/2019-PE&R," Drug Regulatory Authority of Pakistan, Ministry of National Health Services, Regulation and Coordination, Islamabad, 26th April 2019.
[108] Syeda Masooma, "Govt Committed to Increasing Pharma Exports to $5bn: Dawood," *Pakistan Today*, February 19, 2020, https://profit.pakistantoday.com.pk/2020/02/19/govt-committed-to-increasing-pharma-exports-to-5bn-dawood/.
[109] *PPMA - 4th Pakistan Pharma Summit - Mr. Zahid Saeed*, *PPMA - 4th Pakistan Pharma Summit - Mr. Zahid Saeed* (PPMA , 2019), https://www.youtube.com/watch?v=8mjNMrqaQfU.

as a result of a contaminated medicine. The investigation into the incident showed that this was predominantly due to violations of GMPs.[110]

3.5 Stakeholder Influence Alignment

INFLUENCE / POWER	Low	High
High	FBR DRAP HANDLE WITH CARE MEET NEEDS ENGAGE AND CONSULT IN INTEREST AREA TRY TO INCREASE LEVEL OF INTEREST AIM TO MOVE HERE	MINISTRY OF COMMERCE TOP PRIORITY KEY PLAYER FOCUS EFFORTS ON THIS GROUP INVOLVE IN GOVERNANCE / DECISION MAKING BODIES ENGAGE & CONSULT REGULARLY TOP 20 FIRMS
Low	PHARMA BUREAU LOW PRIORITY LEAST IMPORTANT INFORM VIA GENERAL COMMUNICATION AIM TO MOVE BOTTOM 650 FIRMS PROVINCIAL HEALTH MINISTRIES	NEED HELP TO PARTICIPATE SHOW CONSIDERATION MAKE USE OF INTEREST THROUGH INVOLVEMENT IN LOW RISK AREAS KEEP INFORMED & CONSULT ON INTEREST AREA POTENTIAL SUPPORTER/ GOODWILL AMBASSADOR SELECT FIRMS WITH AN EXPORT FOCUS (NEXT PHARMA, PACIFIC PHARMACEUTICALS ETC.)

Low INTEREST High

[110] Dawani and Sayeed 2020, 24.

3.6 Barriers to Development

The barriers to the pharmaceutical sector's development and growth, beyond a general government indifference towards most low-export sectors in terms of rent distribution, are mainly to do with regulatory issues. Many of these have been noted in the foregoing analysis, but this section highlights some key ones.

- **Government's Pricing Regime**: A previously ad hoc pricing regime, characterised by rigidity, lends itself to significant rent-seeking. This is why there has been a mushrooming of firms as well, which thrive on high margins.
- **Corruption and GMP violations**: Rent-seeking by government officials, reinforced by rent-seeking by industry, leads to low quality manufacturing that does not meet regulatory standards necessary for exporting.
- **Restrictions on Contract Manufacturing:** There is significant excess capacity in Pakistan – evidenced by 650 firms vying for 3% of the market – which remains underutilized due to strict restrictions on contract manufacturing (the sub-contracting of manufacturing by the drug's parent firm to another company for a fee).
- **Weak Associations:** As a result of the fragmentation in the industry and the disincentives of collective action from individual firm rent-seeking, associations have remained ineffective. They have also not been able to shape public discourse in developmentally beneficial ways; instead, media pressures have created hurdles for their growth.[111]

3.7 Opportunities for Transformation

There are opportunities for growth in this sector, provided a cohesive strategy is developed and implemented with due consultation of the industry. Some of these opportunities are opened up because of the following factors:

- **WHO-Approved Laboratories:** There are three WHO approved laboratories in Pakistan, namely (1) Pakistan Drug Testing and Research Centre, Lahore, (2) Drug Testing Laboratory, Faisalabad, Government of Punjab and (3) Prime Health Pvt Ltd.[112] The latter two have only been approved in 2020. PDTRC, despite WHO approval, was not fully functional and was mired in government departmental struggles. Laboratories that meet international standards and operate independently are a condition for exporting, with importing countries usually requiring bioequivalence and bioavailability studies. The alternative to local laboratories is getting these tests done in foreign laboratories, which are much more expensive. The addition of these two laboratories presents an opportunity that can be leveraged for quicker and cheaper testing.
- **Export Orientation within the Government:** More so than previous governments, the PTI-led government has had a much larger explicit (rhetorical) focus on expanding exports to address long-standing macroeconomic structural imbalances. Pharmaceutical products have been mentioned as one sector of focus, with committees being formed to incentivize this.
- **Nutraceuticals (Alternative Medicines):** One consequence of rent-seeking by firms has been an expansion in the production of nutraceuticals. Due to less stringent global regulation compared to pharmaceuticals, and increasing global demand, expanding exports in this product range is a relatively low-hanging fruit.

3.8 Proposed Reforms: Winners and Losers

Based on the analysis in this chapter, the table below outlines some potential reforms – along with possible winners and losers – that may be feasible.

[111] Dawani and Sayeed 2020.
[112] World Health Organization, *WHO List of Prequalified Quality Control Laboratories*, 2020, https://extranet.who.int/prequal/sites/default/files/documents/PQ_QCLabsList_30.pdf.

	Proposed Recommendation	Likelihood of Reform	Winners	Losers
1	Enforcement of Drug Pricing Policy 2018	Medium, given the policy is Court approved – but policy may be altered by government	Industry, due to consistent application of pricing rules; Consumers will also benefit due to availability of essential medicines and	Politicians, due to negative signal of price increase of an essential item
2	Reduction of duties on raw materials for pharmaceutical products – but should be tied to export performance	Medium – but will be difficult to tie to export performance due to low state capacity and rent-seeking, which may not yield desired outcomes of growth	Exporters; Ministry of Commerce	FBR in the short run due to loss of revenue
3	Reduction on duties for import of equipment required for GMP enforcement (e.g. HVAC systems) and quality control	High	Industry, including exporters; Ministry of Commerce; Consumers, who will receive higher quality medicines	FBR due to loss of revenue;
4	Enhanced credit facilities for long-term lending to invest in GMPs – also should be tied to export performance or to accreditation by WHO/MHRA/USFDA	Low, due to insufficient capacity to implement and likelihood of rent-seeking	Exporters	Firms who survive on rents secured through political connections and those who are not export-oriented
5	Market access opportunities facilitated by Ministry of Commerce (Trade Development Authority of Pakistan) to encourage exports – for example for nutraceuticals, which are a relatively low-hanging fruit	High, given priorities of PTI-led government and no significant opposition	Nutraceutical manufacturers and exporters; Ministry of Commerce	
6	Lifting of restrictions on contract manufacturing	Medium, may be possible if DRAP’s concerns of a consequent drop in quality are addressed	Industry; The government due to improved allocation of resources and so improved productivity	DRAP, due to increased costs of monitoring an additional facility/transaction; Possibly consumers through poorer quality medicines if firms with GMP violations are sub-contracted without quality checks
7	An implementation of government announced incentive to export in April 2019 (see section 4) –	High, if bureaucratic resistance is overcome	Exporters; Ministry of Commerce	DRAP, due to opportunity cost of rent-seeking prospects at

	incentive was priority registration of new molecules			registration and pricing stages
8	Imposition of tariffs on molecules already being manufactured in Pakistan (by a minimum number of firms, e.g. 3)	High	Local manufacturers; Ministry of Finance due to lower imports	Firms which are presently importing

4 Household Linen

4.1 Sector Overview

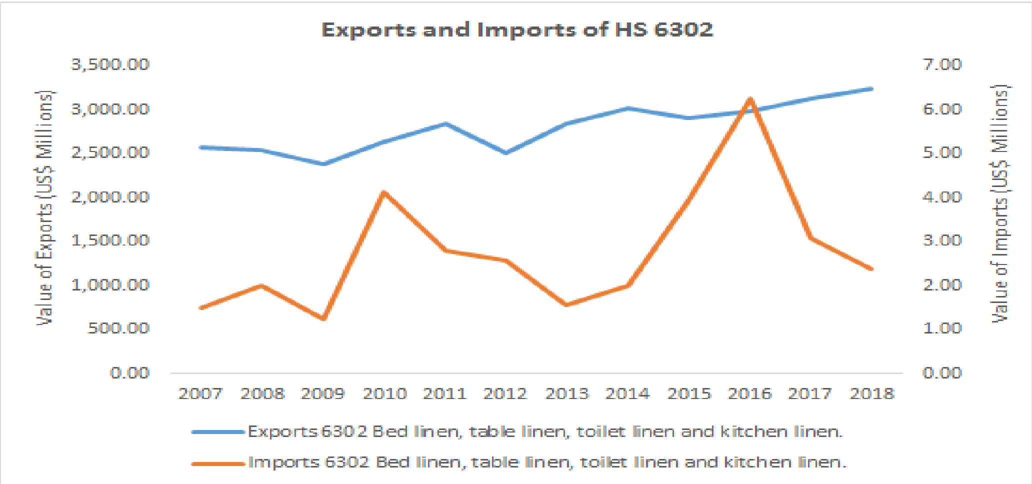
Bed linens is a high value added product of the textile sector, and is the largest in terms of production and exports amongst all textile made-ups in Pakistan. Major export-potential products in this sector include bed sheets (single and double), pillow covers, quilts and bed decorative[113].

Bed linen, table linen, toilet linen and kitchen linen (HS Code 6302) has also been the largest exporting commodity category during the 2016-18 period[114]. This sector caters to both international and domestic demand. In the FY 2017-2018, exports of bedwear in Pakistan amounted to US$ 1,674 million, comprising 27% of the total textile exports of US$ 6,164 million in that financial year[115].

4.1.1 Exports and Imports

Pakistan is a net exporter of bed linen, table linen, toilet linen and kitchen linen (HS Code 6302). The bedwear category accounted for 10.19% in the country's total exports and 17.21% share in exports for the textile group in FY 2018-19[116]. This sector also depicted an increase in both quantity and value by 10.3% and 2.7%, respectively[117]. Moreover, bed linen exports in 2018 amounted to about US$ 3,242 million, whereas imports stood at US$ 2.4 million in the same year[118].

Figure 31: Exports and Imports of HS 6302



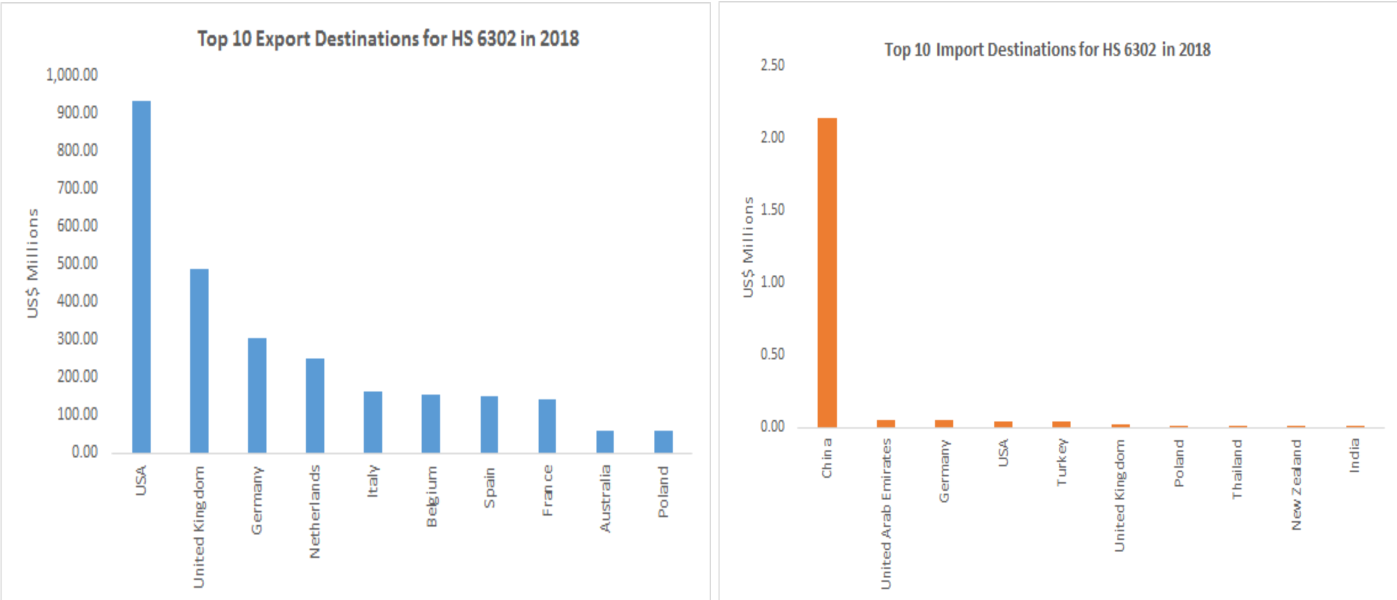
Source: UN Comtrade[119]

The exports of bedwear products from Pakistan also depict a mixed trend over the years with an average growth rate of 1.02% in the last five years[120]. Furthermore, the majority of these bedwear products are directly exported to manufacturers, whereas only a small proportion is exported through commercial agents or intermediary traders[121].

[113] "Pre-Feasibility Study Bed Linen Stitching Unit" (Small and Medium Enterprises Development Authority, 2018), pp. 4.
[114] UN Comtrade, 2020, https://comtrade.un.org/.
[115] "Cluster Profile Bedwear, Multan" (Small and Medium Enterprises Development Authority, 2019), pp. 2.
[116] Ministry of Finance, *Economic Survey of Pakistan 2018-19*, 2019.
[117] Ibid.
[118] UN Comtrade.
[119] Ibid.
[120] "Cluster Profile Bedwear, Multan", 7.
[121] Ibid.

In addition to this, the United States was the top export destination for bed linens in 2018, with exports amounting to US$ 304 million[122]. It was followed by the United Kingdom with US$ 488 million exports and Germany with US$ 304 million exports in the same year[123]. On the other hand, China was the top importing partner for Pakistan in HS code 6302, with imports valued at US$ 2.1 million in 2018[124].

Figure 32-33: Top 10 Export and Import Destinations for HS 6302 in 2018



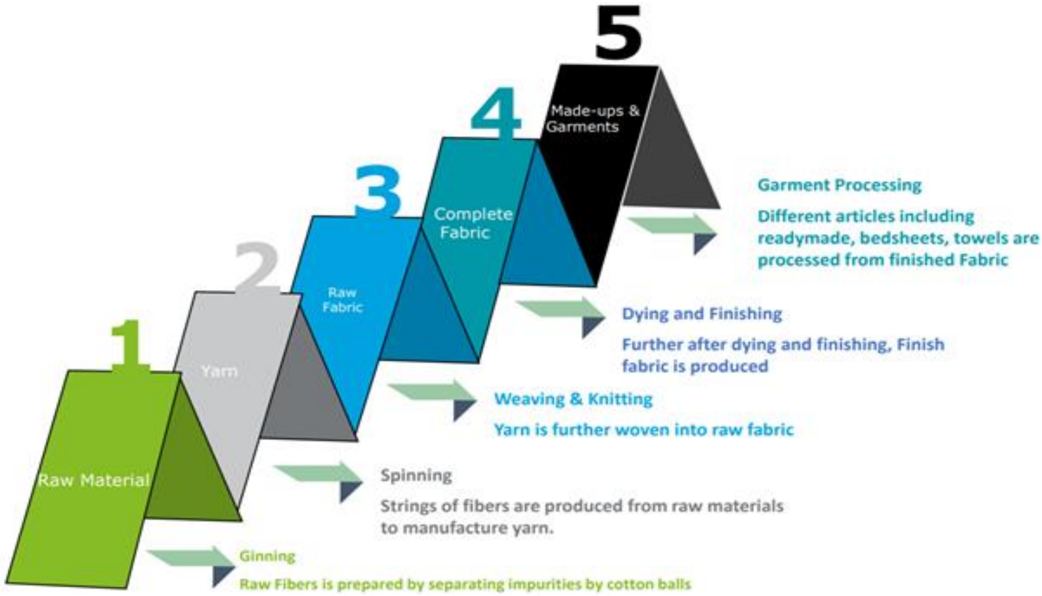
Source: US Comtrade[125]

4.1.2 Value Chain

The figure below depicts the value chain for the textile sector. This involves the process of ginning to prepare raw fibres, which are then converted into yarn through spinning. Then, the weaving and knitting industry further converts yarn into raw fabric. This raw fabric is then dyed and finished into a complete fabric, which can be used to make made-ups and garments. Bed linens are amongst the higher valued added made-up products.

122 UN Comtrade.
123 Ibid.
124 Ibid.
125 Ibid.

Figure 34: Textiles Value Chain



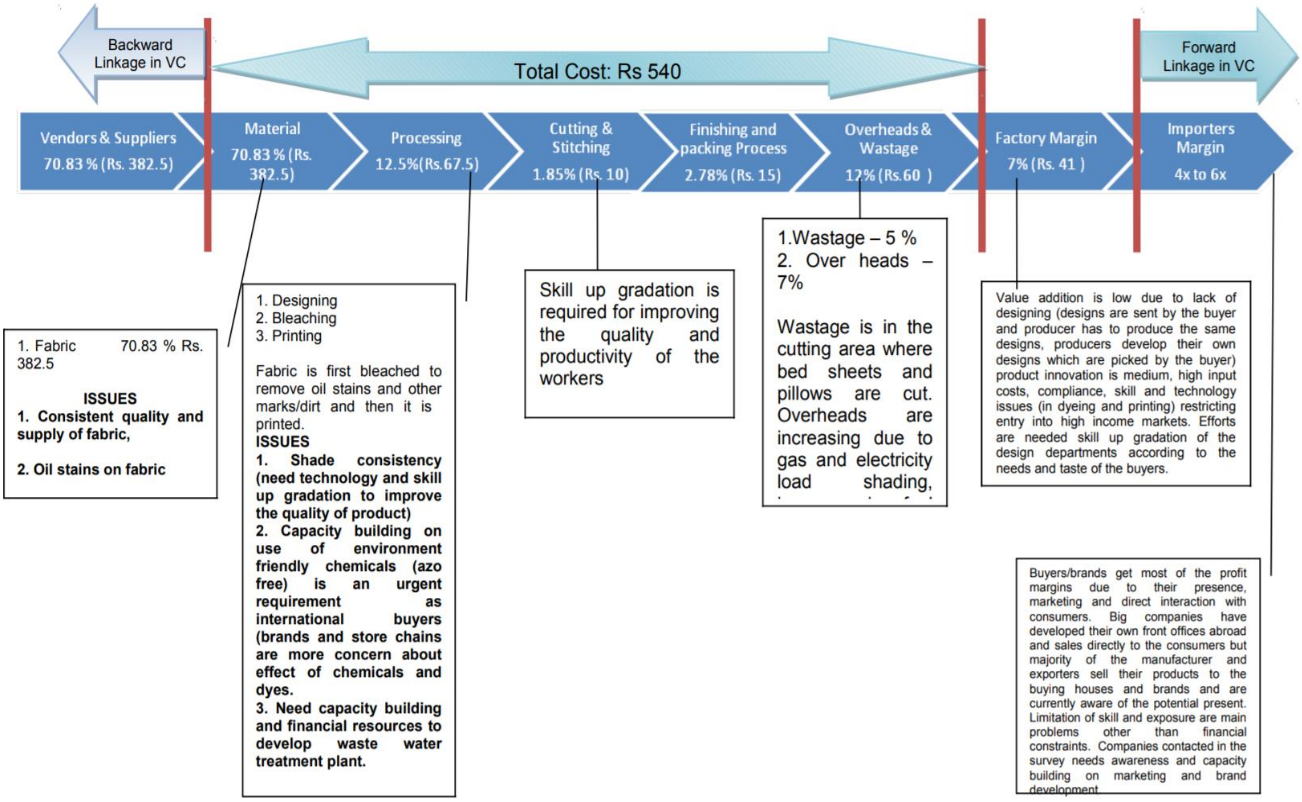
Source: Punjab Board of Investment and Trade[126]

The value chain for a bedwear product is similar to that of the textile sector. The major raw material used in this case is printed woven fabric, which is manufactured using a power, auto or shuttleless loom. Most bed wear manufacturers procure yarn and pay conversion charges to convert it into a woven grey fabric at the looms units. Next, this grey fabric is sent for printing, where the manufacturers pay the printing charges to the processing unit to make the fabrics in their required colors and designs. On the other hand, there are some manufacturers who directly buy this printed fabric from the market and stitch it into bed linen[127].

It is important to note that 71% of the cost is associated with the raw material and the designing, printing, cutting, stitching, finishing and packaging is done at the manufacturer's own premises to ensure quality controls. Also, cost of production is lower and quality is higher at a vertically integrated unit[128]. The figure below shows the value chain of a bed wear product and illustrates the issues that may arise during each process.

[126] Punjab Board of Investment and Trade, *Textile Sector of Pakistan*, 2018, pp. 7.
[127] "Cluster Profile Bedwear, Multan", 5.
[128] Usman Khan, Ali Haroon, and Shafqat Hayat Bhatti, "Draft Report on Industrial Sectors" (United Nation Industrial Development Organisation, 2010), pp. 195.

Figure 35: Value Chain of a Bedwear Product



Source: Khan, Haroon and Bhatti[129]

4.2 Industrial Landscape & Power Structures

Pakistan has favourable conditions for the growth of the bed linen sector. Firstly, the existence of huge infrastructure for weaving in both the formal and informal sectors of Pakistan has significantly contributed to the development of the bed linen industry. The informal sector is also known as the power loom sector and it is a major part of the weaving industry in the country. As most bed linen products are produced from low-density fabrics of wider widths, they can be easily manufactured on these power and auto looms[130].

Secondly, Pakistan's competitive cotton production has also played an important role in the development of this power loom industry for bed linens, where the stable length of cotton manufactured is suitable for medium count yarn, which is used to produce low-density fabrics[131]. It is important to note that the cost of this low-density fabric is low compared to the cost of fabric used for manufacturing garments. Also, processing of bedwear fabric is done through printing, which is cheaper and easier to do than dying[132]. Hence, barriers to entry are low in this sector and it is easy for SMEs to setup.

The bed linen sector is mainly concentrated in Karachi, Lahore, Faisalabad, Multan and Hyderabad. The power loom sector, which produces these bed linen products, is highly

[129] Ibid, 196.
[130] "Cluster Profile Bedwear, Multan", 2.
[131] "Cluster Profile Bedwear, Multan", 2.
[132] Khan, Haroon, and Bhatti, 195.

fragmented and based on unorganised manufacturing units or cottage/small scale industry[133]. The structure of industry varies in each geographical cluster. Multan is famous for producing traditional bedwear, however, Karachi, Lahore and Faisalabad mainly deal with high tech products. Most of these businesses, especially in Multan started within families and on a cottage scale which is why they use power looms. The Multan cluster alone provides employment for around 40,000 people[134].

The following table lists the distribution of the 206 units registered with the All Pakistan Bedsheets & Upholstery Manufacturers Association (APBUMA) across these different geographical locations.

Table 6: Geographical Distribution of Power Loom Units

Geographical Cluster	Number of Units
Karachi	38
Lahore	43
Faisalabad	23
Multan	102

Source: Small and Medium Enterprises Development Authority[135]

Moreover, following is a list of top exporters in the bed linen sector in Pakistan.

Table 7: Top Bed Linen Exporters in Pakistan

Top Bed Linen Exporters
1. Gul Ahmed Textile Mills Ltd.
2. Fateh Textile Mills Ltd.
3. Chenab Fabrics and Processing Mills Ltd.
4. Al-Karam Textile Mills Ltd.
5. Hussain Industries Ltd.
6. Arzoo Textile Mills Ltd.
7. Al-Abid Silk Mills Ltd.
8. Liberty Mills Ltd.
9. Afroze Textile Industries Ltd.
10. Nadia Textile International Ltd.

Source: Pakistan Textile Journal[136]

4.3 Key Players

The following table lists the key players in the bed linen sector of Pakistan

Table 8: Key Players in the Bed Linen Sector

Name	Classification	Functions
Ministry of Commerce	Government Ministry	The Ministry of Commerce is responsible for promoting economic growth and development in Pakistan through facilitating trade activities, improving export competitiveness and enhancing the ease of doing business.
All Pakistan Bedsheets &	Industry Association	APBUMA is a proactive association for the bed linen industry. It offers representation to both

133 "Cluster Profile Bedwear, Multan", 2.
134 Ibid.
135 Ibid.
136 H R Sheikh, "Pakistan Bedlinen Exports: Problems and Prospects," *Pakistan Textile Journal*, 2004, http://www.ptj.com.pk/Web 2004/03-2004/edi-article.htm)

Upholstery Manufacturers Association (APBUMA)		large and small business entities in this sector by promoting their interests. It maintains a strong presence all over Pakistan through its Head Office in Multan and Zonal Offices in Lahore, Karachi and Faisalabad.
Small & Medium Enterprises Development Authority (SMEDA)	Government Agency	SMEDA aims to support the growth of globally competitive small and medium enterprises (SME) in Pakistan by developing a conducive environment and offering support services for their development.
Pakistan Bedwear Exporters Association (PBEA)	Industry Association	PBEA is a leading trade association for bedwear exporters. It aims to offer support in the growth of the bedwear value chain, including processing, printing and dying, to increase the country's export competitiveness.
Pakistan Textile Exporters Association (PTEA)	Industry Association	PTEA is a textile association but has a strong focus on bed linen as it consists of many bed linen exporters.
Large players such as Nishat and Gul Ahmed	Industry	These players have diverse interests in the textile sector which includes bed linen.

In addition to these players, there are government institutions that regularly interact with the private sector and whose role has an impact on the private sector. These players include:

- Federal Board of Revenue (FBR) – it is directly responsible for tax collection and has influence on tax policy. It is the arm of the Ministry of Finance in terms of formulating and implementing fiscal policy measures.
- State Bank of Pakistan (SBP) – it is responsible for implementing the monetary policy of the country. It manages credit and currency and hence plays a key role when it comes to exchange rate stability, interest rates and credit policy.
- Trade Development Authority of Pakistan (TDAP) - is an arm of the Ministry of Commerce, which works on trade development for Pakistan's industry. Its main focus is on trade fairs to connect firms to international clients.

4.3.1 Policy Regulations

The bedwear sector faces challenges and policy regulations similar to those in other segments of the textile industry. Before the 2020 budget, it received the following incentive by the Government of Pakistan.

Table 9: Incentive for Bedwear Industry

S. #	NAME OF INCENTIVE	TYPE OF INCENTIVE
1	14% sales tax on import of Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	GST Incentive

Source: Board of Investment[137]

However, this incentive was given to local retailers and did not benefit exporters.

137 "Incentive," Board of Investment Pakistan (Board of Investment Pakistan, n.d.), https://incentive.invest.gov.pk/.

4.4 Power Relations in the Sector

The bed linen sector despite its value addition and high share in exports has not been able to carve out a significant place in the textile sector in terms of power dynamics. Many of the big players in this sector like Nishat and Gul Ahmed are large, diversified companies that have bed linen as just one of the divisions in their exports. Hence, they continue to dominate the entire textile sector in terms of power dynamics and do not separate bed linen as a unique sub-sector from the rest of the products when lobbying for any reforms. Even within these large players, the competition is changing as Chenab group, a leading name in textiles and bed linen is facing severe financial issues and is no longer a dominant player. Conversely, Sapphire, one of Pakistan’s leading textile group has entered into home linens and is looking to compete with Gul Ahmed and Nishat in this sector.

On the other side of the fragmented sector which consists of small and medium players and mostly focus on export of bed linen, some players dominate and are well respected by the industry. These include MK Sons, Saddaqat group, Aspen Textiles, Bismillah Textiles and Riaz Enterprises. They have strong representation within bed linen associations.

However, these exporters due to their size have a limited lobbying voice with the state. Thus, the bed linen sector in state interaction or within larger textile associations does not get highlighted distinctly. As within the garments sector and overall textile sector, large groups dominate any process of reform and they either speak from the platform of APTMA or have the lobbying power to directly approach the state for any reform. APTMA continues to lead the textile sector and portrays itself as the association for all textile sub-sectors including bed linen. However, the main bed linen association APBUMA rejects this claim and proclaims that APTMA is not concerned with representing the interests of bed linen exporters. With the helm of APTMA under Ijaz Gohar, who has now diversified into real estate from textiles, there is no sincere leadership in APTMA which can look out for the sector and its sub-groups.

APBUMA consists of many medium and small enterprises. Hence, it does not have strong lobbying power. It represents the bed linen sector actively by making efforts to propose budgetary reforms that can help the sector or by talking to Ministry of Commerce or FBR officials to aid in issues affecting the sector. However, its recommendations in this new budget on tax relief were not included. APBUMA has also complained of how constant changes in the leadership of these institutions make it difficult for any reform. Temporary position filings as was the case with the previous Chairman FBR, means officials are not willing to make any major changes. Secretaries in the Ministry of Commerce also keep changing. One Secretary may have more understanding of the sector, while a new one may not be interested in the sector. According to APBUMA, it is difficult to build a relationship with one person and have that person changed before any concrete action can be taken.

PTEA is another association that has been active in representing the bed linen sector. While they are not exclusively representatives of bed linen sector, the current chairman as well as key players like the Saddaqat group and MK Sons produce bed linen which has led to interest in the sector. However, according to the association, the sector is seen as part of the textile sector as a whole and its key issues are those faced by the whole sector. Hence, lobbying efforts made by PTEA are geared towards issues faced by the entire textile sector like tax relief or energy costs. The association has also been vocal about the issues of SMEs as it represents many SMEs especially in the Faisalabad region.

SMEDA is a state player that has been involved in this sector particularly as SMEs form an important chunk of the sector. SMEDA has conducted pre-feasibility studies to help small businesses setup units and understand the costs and procedures associated with the business. It has tried to encourage informal units to formalize. However, the firms feel that

SMEDA has limited power and cannot help in lobbying for actual reform. It is helpful in providing guidelines only.

4.5 Stakeholder Influence-Alignment

INFLUENCE / POWER	Low INTEREST	High INTEREST
High	**HANDLE WITH CARE** **MEET NEEDS** **ENGAGE AND CONSULT IN INTEREST AREA** **TRY TO INCREASE LEVEL OF INTEREST** **AIM TO MOVE HERE →** **APTMA** **Foreign clients** **SBP** **FBR**	**TOP PRIORITY** **KEY PLAYER** **FOCUS EFFORTS ON THIS GROUP** **INVOLVE IN GOVERNANCE / DECISION MAKING BODIES** **ENGAGE & CONSULT REGULARLY** **Ministry of Commerce** **Large firms such as Nishat and Gul Ahmed**
Low	**LOW PRIORITY** **LEAST IMPORTANT** **INFORM VIA GENERAL COMMUNICATION** **AIM TO MOVE →** **TDAP**	**NEED HELP TO PARTICIPATE** **SHOW CONSIDERATION** **MAKE USE OF INTEREST THROUGH INVOLVEMENT IN LOW RISK AREAS** **KEEP INFORMED & CONSULT ON INTEREST AREA** **POTENTIAL SUPPORTER/ GOODWILL AMBASSADOR** **SMEDA** **PTEA** **APBUMA** **SMEs**

4.6 Barriers to Development

4.6.1 Fragmented sector

One of the biggest challenges the sector faces is lack of organization. The main association APBUMA is not effective in bringing all the firms of the sector together. The larger firms are not part of the association. As they are members of other associations like APTMA, it allows APTMA to lay claim to representing all textile sub-sectors including bed linen. Other associations like PTEA also claim to represent the bed linen sector as some firms have gained prominence through this association. Hence, each association works on its own agenda, unable to keep the overall sector's benefit in mind. Lack of overall leadership from APBUMA has resulted in a fragmented sector, with SMEs on one side and larger firms on the other. It also makes the sector unable to organize itself to compete more effectively against its main competitor countries like India and Turkey. Turkey has positioned itself as a source of high quality bed linen and uses its main association Tetsiad to organize international fairs and guide its members on global standards and latest trends to maintain this position[138]. APBUMA has not shown such vision so far which has hampered the growth of the sector.

4.6.2 Variance in standards

The contrast between small and large firms and the products they produce is distinct in this sector. The larger firms like Nishat, Gul Ahmed, Sapphire and Chenab are competing for big clients. Hence, the standard of their products is also higher. The quality of their fabric (higher thread count), the colours used (white base products) and the designs created, all using innovative technology provide them the ability to create more value and more profits. They are able to do so because of the large, integrated setups that allows them to develop everything in house from fabric weaving to dying to printing of the design and the stitching. This reduces cost and allows room for innovation. For smaller units, this is not a feasible option. They have to rely on other vendors for fabrics, which is of low quality (less than 300 thread count). If they do produce their own fabric then, they use power looms instead of auto looms which also affects the quality of the fabric. Hence, smaller units target basic products for mass retailers like Tesco, while larger units provide products to high end brands like Hugo Boss. Consequently, there is a stark difference in the power that large firms hold in comparison to smaller firms. The larger firms do not get involved in the associations for this sector. This leads to medium and smaller firms with no real lobbying power, trying to resolve their issues with the government with little effect.

4.6.3 Challenge of taxation

As was the case with garments, the bed linen sector also cites the sales tax refund as one of the biggest challenges it faces. With the zero rating policy removed for the entire textile sector by the PTI government, the bed linen sector like other sub-sectors in the textile chain have been struggling to bear the burden of this tax. The associations have been lobbying with FBR and Ministry of Commerce to improve the refund system for quicker refunds. Their argument is that since the bed linen sector consists of mostly SMEs, they cannot afford the liquidity crunch caused by the delays in refund. The leadership of PTEA and APBUMA have made personal efforts by using connections and making regular visits to resolve this issue, but have not seen any concrete action in return. They find there is no consistent policy that is being followed by all relevant state institutions. The state in return has been adamant on keeping the sales tax as the current economic situation makes it difficult to allow such concessions. They do not view the bed linen sector as a separate sector that consists of mostly SMEs. It is viewed as part of the textile sector that has historically always been given a lot of protection and concessions.

[138] "Quality Policy," TETSIAD - Quality Policy (TETSIAD, n.d.), http://www.tetsiad.org/en/about-tetsiad-quality-policy.html.

4.6.4 Impact of COVID-19

The COVID-19 pandemic has created new challenges for the bed linen sector. Similar to all businesses across the board, as the ports were closed, orders ready to ship were halted. Clients cancelled or postponed their orders as lockdowns across the world reduced consumer demand. Even as lockdowns have been lifted and business has resumed to some extent, new orders have been slow to come in from some clients, as their existing stocks have not finished. However, this is for those SMEs exporting to low end brands. Large firms like Nishat Chunian who export to high end brands, did see a halt during the lockdown period but find that orders have not been canceled. In fact, more orders have been placed as online sales have increased for the brands they supply to. Globally some of the top sales have been for home items including bedding, which has benefited the large exporters in Pakistan who have resumed their orders. The overall assessment of the association is that as summer is the busiest season for bed linen, the next few months will create some demand. However, there is no predictability in the months following that, as countries all over the world face recession and clients are closing stores, while consumers are spending less. Moreover, the firms have to follow SOPs which has reduced production capacity and increased costs as well. This has affected smaller firms more than larger firms as they find it more difficult and costly to adapt to these changes.

The relief provided in the COVID package was a return of refunds that was due to the firms in any case. There was no extra step taken to help firms with the liquidity crunch they still continue to face. The firms were looking towards the state to provide some concessions in the budget 2020 that would help them survive this difficult period, however, they are not satisfied with the concessions. One concession that has been allowed is exemption on customs duty on raw material for the textiles sector. While this may help larger firms, who use imported material in their products, the smaller firms will continue to struggle as they source their material locally. Moreover, the sales tax reduction from 14 to 12% was only seen for local retailers which does not help the exporters in the sector[139]. Energy costs of both gas and electricity continue to be a major cost for firms. While earlier in the year, tariffs were made more competitive, there is no certainty that these will continue especially as energy subsidies have been reduced. The business community has been pushing for more reduction in tariffs especially as oil prices have fallen globally, but the government is not passing on the benefit to firms.

4.7 Opportunities for Transformation

Some key changes in how the state views the bed linen sector and consequently interacts with its players can transform the sector. Following are some recommendations that may provide this opportunity:

- The state views the bed linen sector as part of the overall textile sector. While many of the challenges they face are similar to rest of the textile sector, there is need to recognize the sector independently that contributes 17% of the total textile exports. This will allow the sector to push for reforms that will affect them particularly. It will also give the association (APBUMA) more power as currently APTMA dominates the reform agenda even for bed linen. This may also encourage large, vertically integrated units such as Nishat to become members of APBUMA in order to bring reform in the sector.
- Since the bed linen sector consists of many SMEs, SMEDA can play a more integral role in supporting this sector. SMEDA has already helped develop a revised national SME policy. It can push for that policy to be approved by the Cabinet so that SMEs can benefit from the new regulation. It can also play an active lobbying role with the Ministry of Commerce for this sector. While it regularly works with the State Bank to ease financing

[139] Aamir Shafaat Khan and Khalid Hasnain, "Comments: Budget Fails to Impress Industry," *Dawn*, June 13, 2020, https://www.dawn.com/news/1563178.

constraints for SMEs and has been successful in bringing revised rules for SMEs, it can also help in their implementation. Firms have complained that commercial banks are more interested in providing loans to the government and large entities, rather than going through procedures with small firms. SMEDA can interface with major commercial banks to ensure that they are providing the support SMEs need.

- Tax incentives have historically been given along export/non-export lines or on the basis of key sectors. In the current pandemic, and with the new budget, while there has been little tax relief, more tax relief could be provided for SMEs. This would help smaller business to weather the liquidity crunch and ensure they do not completely shut down. SMEDA can play an important role in its advocacy by working with associations.

4.8 Proposed Reforms: Winners and Losers

	Proposed Recommendation	Likelihood of Reform	Winners	Losers
1	Recognizing bed linen as a separate sector	Not very likely as lobbying from bed linen associations is not strong and it is easier for the state to consider the textile sector as a whole for any policy changes.	All bed linen firms especially those not part of APTMA.	APTMA, which will lose some of its bargaining power of representing all sub-sectors as bed linen associations will become more powerful.
2	Increasing the role of SMEDA	Likelihood has increased recently as the revised SME policy has been submitted by SMEDA which makes the role of SMEDA more active in helping SMEs.	All bed linen SMEs who can use the help of SMEDA to improve their lobbying efforts.	Ministry of Textiles and Ministry of Commerce may not appreciate another government institution becoming more active and stronger.
3	Separate tax policy for SMEs	Likely if SMEDA becomes more active post the approval of the revised SME policy.	SMEs in the sector who find it more difficult to bear the burden of sales tax.	Larger firms who will also want to benefit from any tax relief provided.

5 E-commerce

5.1 Sector Overview

To explain simply, e-commerce is commerce that exists in the online world. More technically, as per World Trade Organization (WTO), the E-commerce refers to the process of "production, distribution, marketing, sale or delivery of goods and services by electronic means" such as through the internet and other computer-mediated networks. Thus, strictly speaking e-commerce is not an economic sector, per se, but rather a platform that allow transactions between enterprises, households, individuals, governments and other public or private organizations.

E-commerce businesses are able to expand their reach and sales to both national and international markets with lower capital investments[140]. In that sense it has the ability to revolutionize the local market and evolve it into a global marketplace with no geographical boundaries. In fact, of the total global retail sales in 2019, 14.1% alone came from online purchases[141]. E-commerce sales across the world exceeded USD 3.5 tn in 2019[142].

The e-commerce opportunity in Pakistan received global attention in 2018, when it was included among the fastest growing e-commerce markets in the world, mainly due to its rising youth bulge, and is now becoming a major driver of the country's digital side. Pakistan Telecommunications Authority (PTA) projects that the country's e-commerce industry is predicted to reach USD 1 bn in 2020[143]. The usage of digital financial services alone is expected to increase Pakistan's GDP by USD 36 bn, creating up to four million jobs by 2025[144].

With a population exceeding 208 million and a number of financial inclusion solutions, Pakistan offers one of the largest untapped markets of e-commerce in the world.

Figure 36: Digital Landscape of Pakistan[145]

However, the market is still largely uncovered. Our total e-commerce sales clocked in at Rs 40.1 billion ($256 million roughly) in 2018 while Egypt, often regarded to have similar macroeconomic dynamics as Pakistan, posted revenues of $5bn and Iran generated $18.5bn

[140] "E-Commerce – A Plausible Solution to Pakistan's Economic Woes" (Karachi Chamber of Commerce and Industry, 2019), pp. 1-22.
[141] Andrew Lipsman, "Global Ecommerce 2019," eMarketer, June 27, 2019, https://www.emarketer.com/content/global-ecommerce-2019.
[142] "Global Ecommerce Sales from 2017 to 2023," Oberlo (Oberlo, n.d.), https://www.oberlo.com/statistics/global-ecommerce-sales.
[143] "Digital Pakistan," *Digital Pakistan* (blog) (Digital Pakistan, January 2, 2020), https://digitalpakistan.pk/blog/the-potential-challenges-for-e-commerce-in-pakistan/.
[144] Ministry of Commerce, *e-Commerce Policy of Pakistan*, 2019, pp. 23.
[145] *'Magic Moment of ECommerce' with Badar Khushnood*, *'Magic Moment of ECommerce' with Badar Khushnood*, 2020, https://www.youtube.com/watch?v=Px6Spwztl60.

despite being under burden of several sanctions. We will be focusing mainly Business to consumer e-commerce (B2C)

5.1.1 Value Chain

The value chain of an e-commerce business begins with a customer browsing through the products and services online and then placing an order through the business' online store. The e-commerce business then uses marketing and promotion strategies to increase its online sales and ensure return customers. The customer also picks the available payment method (i.e CoD or digital payment) to pay. After this, the e-commerce business is responsible for delivering the product or service to the respective customer.

Figure 37: Value Chain of an E-commerce Business

Source: Ministry of Commerce[146]

5.1.2 Growth in Sales

The e-commerce market in Pakistan doubled from PKR 20.7bn in FY17 to PKR 40.1bn in FY18 for all e-commerce transactions made via digital payments[147]. Including Cash on Delivery (CoD) transactions, the figure was PKR 51.8 bn for FY17 rising to PKR 99.3 bn for FY18. SBP estimates total ecommerce activity would reach PKR 158 bn in FY20 - still relatively low compared to e-commerce sales in India (USD 33bn) and China (USD 1,526bn). For most years the year-on-year growth was close to 100%

Figure 38: E-commerce Sales

Source: Ministry of Commerce [148]

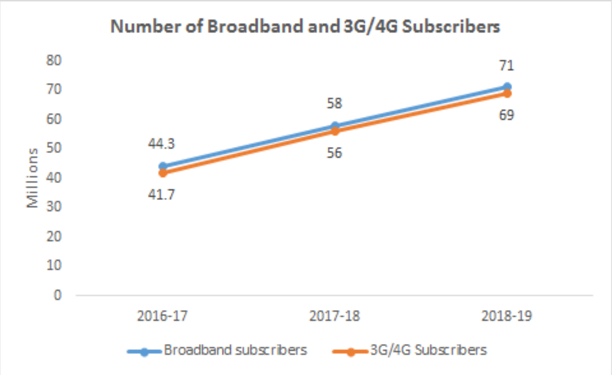
5.1.3 Ancillary Sectors

Link with the Telecommunications Sector

[146] Ministry of Commerce, *e-Commerce Policy of Pakistan*, 2019, pp. 29.
[147] State Bank of Pakistan, *Annual Report 2017-2018 (State of the Economy)*, 2018.
[148] "E-Commerce – A Plausible Solution to Pakistan's Economic Woes"

The outreach and expansion of the telecommunications infrastructure in Pakistan is closely linked to and has facilitated growth in e-commerce by allowing businesses to connect with their customers online. Since the introduction of 3G/4G services in Pakistan in 2014, broadband subscribers increased from 2% to 30% over a 5 year period (figure below)[149]. This upward trend in the number of broadband and 3G/4G subscribers indicates the high growth potential of Pakistan's e-commerce sector. Pakistan today has around 162 million mobile users and 71 million 3G/4G subscribers[150].

Figure 39: Number of Broadband and 3G/4G Subscribers



Source: State Bank of Pakistan[151]

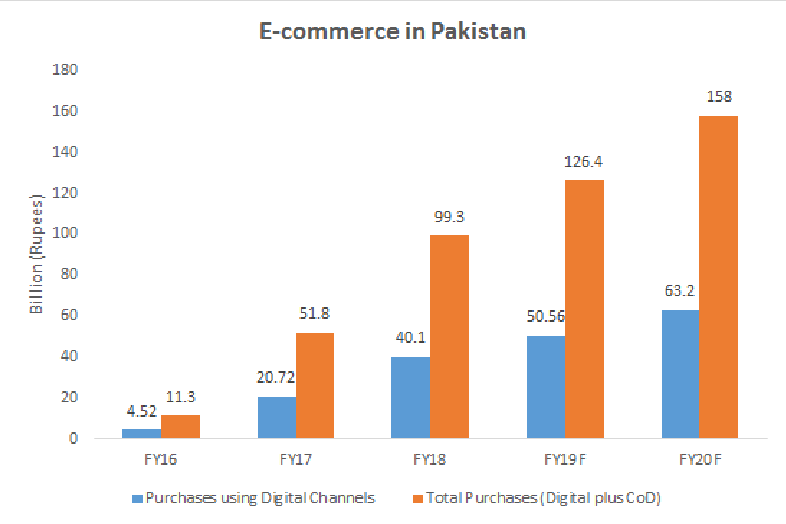
5.1.4 Digital Payment Methods

The e-commerce sector is also increasingly reliant on both Cash on Delivery (CoD) and digital payments, with CoD forming 60% of the total transaction volume[152]. Although CoD is still the prevalent payment mode, digital payments, which include interbank fund transfers, credit, debit and prepaid cards, and mobile wallets, have grown by 93.7% in FY18[153], along with an increase in total e-commerce purchases.The E-commerce Index by Daraz[154] indicates a shift towards digital payments in 2019. Digital payments were 32% of the total consumer spending on Daraz, which witnessed a 8.2 times year-on-year growth in the use of e-wallets[155]. However, with the outbreak of COVID-19 in Pakistan, the percentage of Fast Moving Consumer Goods (FMCG) product sales has doubled on Daraz and predicted to increase to 70% of Daraz's total sales[156].

Overall these trends before and during the pandemic indicate a move towards digital payments and the growing potential of e-commerce as an alternate way of shopping in Pakistan's retail sector. Ecommerce platforms are becoming a viable way to conduct purchases including groceries, a category over which traditional retail held a strong grip.

[149] Ministry of Commerce, *e-Commerce Policy of Pakistan*, 2019, pp. 17.
[150] "Digital Pakistan," *Digital Pakistan* (blog) (Digital Pakistan, January 2, 2020), https://digitalpakistan.pk/blog/the-potential-challenges-for-e-commerce-in-pakistan/.
[151] "Payment Systems Yearly Review - State Bank of Pakistan," 2019.
[152] "E-Commerce – A Plausible Solution to Pakistan's Economic Woes", pp. 5.
[153]Ibid.
[154] Daraz is an online marketplace and logistics company which operates in markets of South Asia and Southeast Asia. It was founded in 2012 by the German venture capital company, Rocket Internet. Daraz Group operates e-commerce platforms and logistics service in Bangladesh, Myanmar, Nepal, Pakistan and Sri Lanka
[155] "Daraz," Daraz (blog), April 16, 2020, https://blog.daraz.pk/2020/04/16/pakistans-first-e-commerce-index-powered-by-daraz-shows-an-increase-in-digital-payments-and-growing-demand-for-online-shopping/.
[156] Ibid.

Figure 40: Digital payments in Pakistan



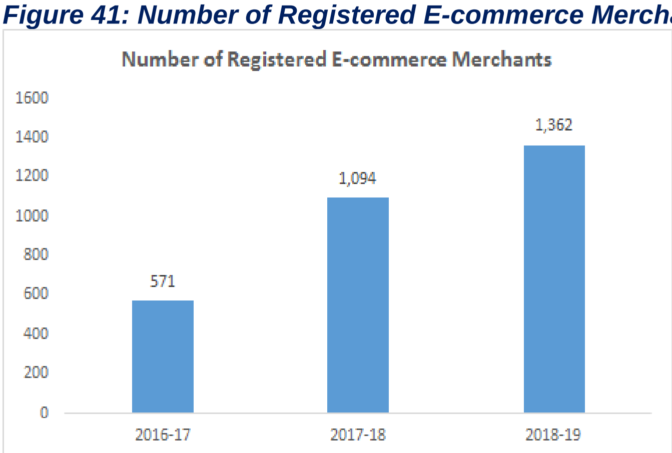
Source: Karachi Chamber of Commerce and Industry[157]

5.2 Industrial Landscape & Power Structures

5.2.1 Size and number of transactions

Today Pakistan has around 2,000 e-retailers and 5 million online shoppers[158]. The number of registered e-commerce merchants has increased over time. By the end of June 2019, 1,362 locally registered e-commerce merchants had merchant accounts in six banks compared to 1,094 last year[159]. In the same year, consumers engaged in almost 5.7mn online transactions, worth Rs.26.1bn, with these locally registered e-commerce merchants, depicting a year-on-year growth of 66.4% and 39.5% in transactions by volume and value, respectively[160]. Moreover, 10 million transactions, worth Rs. 51.3bn were made in the local and international e-commerce industry through domestically issued debit, credit and prepaid cards; with credit cards forming the highest share of 54.4% and 66.6% in terms of the volume and value of transactions, respectively[161].

Figure 41: Number of Registered E-commerce Merchant



Source: State Bank of Pakistan[162]

[157] "E-Commerce – A Plausible Solution to Pakistan's Economic Woes", pp. 5.
[158] Pakistan Telecommunication Authority, Annual Report, 2017, pp. 5.
[159] State Bank of Pakistan, *Payment Systems Review,* 2019, pp. 10.
[160] Ibid.
[161] Ibid.
[162] State Bank of Pakistan, *Payment Systems Review,* 2019, pp. 10.

5.2.2 Big Players

Pakistan's e-commerce landscape is fast changing with mushrooming of websites for the sale of cars (such as PakWheels - online auto portal with listings of over 160,000 cars and 24,000 motorcycles, which is accessed by 100,000 unique visitors daily), property (zameen.com - the largest online real estate database) and food (Foodpanda, Pakistan's leading food delivery app, which generated Rs1 billion in sales for the restaurant industry last year). As an all-encompassing term, e-commerce is incorporating multiple verticals or sectors within it.

In 2012 Rocket Internet decided to enter the Pakistani market. Within the first 6 months, they had already launched three ventures namely Azmalo, Daraz and FoodPanda. Azmalo shut down within its first 2 months but was later re-envisioned as a drop-shipment site that too eventually changed its name to Kaymu. Kaymu then went on to be acquired by Daraz in 2016. Daraz started as a fashion-focused portal and in early 2015 transitioned to a managed marketplace focused on all categories and was subsequently acquired by Alibaba in the summer of 2018. They also subsequently launched 5 other ventures which were eventually shut down. The oldest foreign entrant is OLX, which started its operations in 2010 and continues to operate today. Other large global startups included Careem and Uber in 2015 and 2016 respectively. In the ride-hailing category, the largest local player is Bykea, and you have regional players such as Cheetay in Lahore.

Other large Pakistani startups of note include, Rozee.pk which started as side project of Naseeb Networks in 2006, and Zameen.com, Pakistan's largest property classified player, which also started up at around the same time in 2007. The oldest however is PakWheels which started in 2003, initially, as a community forum for automobile enthusiasts in the country.

Furthermore, all leading brands in various sectors especially retail now offer an online shopping platform to its customers.

In terms of traction however Pakistani companies are way behind, with the largest player by far, Daraz, managing to garner around 8 mn monthly visits compared to 13 mn of Egyptian Souq and a whopping 44m of Iran's Digikala, both the market leaders in their respective countries[163].

5.2.3 Geographical spread and types of firms

[163] Mutaher Khan, "What's Preventing a Boom in e-Commerce?," *Dawn*, November 4, 2019, https://www.dawn.com/news/1514770.

In terms of geographical presence, e-commerce activity is the greatest in Lahore (21%), followed by Karachi (20%), and then the twin cities of Islamabad and Rawalpindi (15%)[164].

Figure 42: Composition of the E-commerce Industry in Pakistan

Source: Karandaaz[165]

The e-commerce players in Pakistan can be categorised into five main categories, as shown in the table below; some of these e-commerce businesses fall in more than one category.

Table 10: Category-wise Distribution of E-commerce Players in Pakistan

Category	Description	E-commerce Players
Multi Retailer Platforms	These platforms are involved in selling a wide collection of different products on their online platforms and websites. This category is particularly dominant in Pakistan's e-commerce industry.	Daraz, Foodpanda, Olx.com, Homeshopping.pk, Bookme.pk, Symbios, Goto, Yayvo, Rozee.pk and Well.pk
Niche Retailers	These retailers target a specific niche and use their specialty within that niche to sell their product or services.	Babynestboutique.com, Higher.com.pk, shophive.com and Pakwheels
Click and Mortar Retailers	This category includes retailers who have both online and offline presence, i.e they typically operate through a website and physical stores.	Gul Ahmed and Khaadi
Social Media Retailers	These include mainly Facebook and Instagram retailers, who have well-established presence and customer base on these social media platforms. These might include e-commerce businesses operating in the informal market.	Karachi Buy & Sell
Services-dedicated retailers or apps	This category includes both service-dedicated websites and apps, which aim to increase the convenience of their customers.	Uber, Careem, Airlift, Swvl, Zameen.pk, Foodpanda, Paxi and Bykea

Source: Karachi Chamber of Commerce and Industry[166]

[164] Shah Omar Ahmed, "Cracking E-Commerce 2.0: Whitepaper on Taking 500,000 Merchants Online in Pakistan" (Karandaaz Pakistan, n.d.).
[165] Ibid.
[166] "E-Commerce – A Plausible Solution to Pakistan's Economic Woes" (Karachi Chamber of Commerce and Industry, 2019), pp. 6-7.

5.3 Key Players

The following table lists key players in the e-commerce sector of Pakistan

Table 11: Key Players in the E-commerce Sector

Name	Classification	Functions
Ministry of Commerce	Government Ministry	The Ministry of Commerce aims to facilitate trade, increase competitiveness of exports and reduce the cost of doing business to support the national economy of Pakistan. The following bodies are formulated under the Ministry of Commerce to create policies in the e-commerce sector: i. National E-commerce Advisory Council ii. National E-commerce Policy Board iii. National E-commerce Policy Unit 5 working groups on payment infrastructure, taxation, logistics, regulatory framework, and E-commerce and WTO.
Ministry of IT & Telecom	Government Ministry	The Ministry of IT & Telecom is responsible for providing and enhancing ICT infrastructure to increase productivity, enhance governance, and improve public service delivery across Pakistan.
Trade Development Authority of Pakistan (TDAP)	Government Agency	The Trade Development Authority of Pakistan operates as a department within the Ministry of Commerce. It is responsible for facilitating and promoting international trade in Pakistan through export promotion and public-private partnerships.
Pakistan Telecommunication Authority (PTA)	Government Regulator	The Pakistan Telecommunication Authority ensures the smooth operation and maintenance of the telecommunications sector in Pakistan.
Digital Pakistan	Government Agency	Digital Pakistan aims to create a digitization ecosystem in Pakistan, develop a knowledge-based economy and accelerate socio-economic growth.
Karandaaz Pakistan	Private Organisation	Karandaaz Pakistan aims to improve financial inclusion of small and medium size businesses in Pakistan by creating a secure, technology-enabled financial services environment in the country.
Pakistan Software Houses Association for IT and ITES (P@SHA)	Industry Association	P@SHA is responsible for promoting the interests of the IT and ITES sector. It is involved in improving policy making, legislation and incentives in this industry.
Pakistan post	Delivery	The power of Pakistan Post that continues to be underestimated both as a logistics base and as a fintech

In terms of private sector, there is a huge diversity amongst e-commerce businesss enterprises players/freelance service providers**.** Domestic ecommerce players can be categorized in the following categories.

- **Multi Retailer Platform:** These are the dominant forces in the e-commerce industry having a wide collection of products listed on their websites. Examples of these platforms are Daraz, Symbios, Foodpanda, Bookme.pk, Yayvo, Goto, Well.pk, etc.

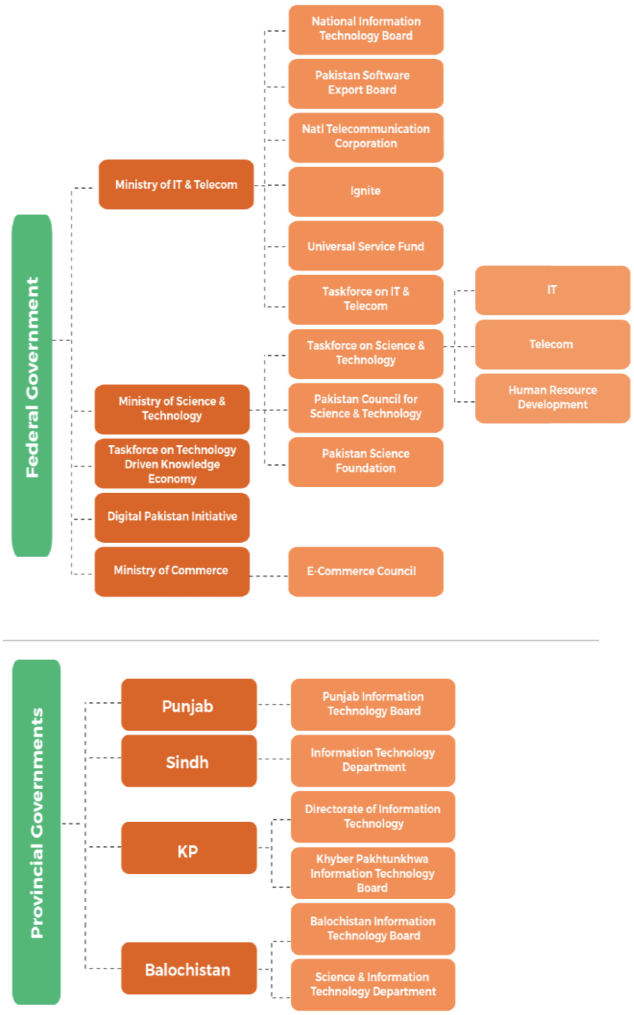
- **Niche Retailers:** They focus on one niche and try to leverage their speciality to drive sales. Examples are online stores like Higher.com.pk and Babynestboutique.com.
- **Retailers:** Companies having their own online stores through which orders can be placed. Retailers like Gul Ahmed, ECS, Sana Safinaz, and Khaadi are good examples of this category.
- **Social Media Retailers:** Social media retailers having well established Facebook or Instagram stores or groups.

Other stakeholders include financial institutions, revenue authorities & regulatory bodies, cross border logistics entities, various SMEs and the consumers.

5.4 Power Relations in the Sector

Misaligned interests of stakeholders: The Ministry of Commerce (MoC) has started focusing on e-commerce to boost exports as well as promote SMEs, entrepreneurship and employment in Pakistan. In fact, in the continued absence of an e-commerce policy, the MOC began playing a more prominent role. However, the multi-dimensional nature of e-commerce requires engagement of several ministries and departments to be engaged, and their interests aligned for ownership of the agenda. This is not easy. For example, while the MoC and the private sector may be in favor of tax breaks to encourage e-commerce growth, the FBR and respective provincial revenue authorities are geared towards increase tax collection. Moderating and managing such debates is essential to the development of a robust public policy response to the digital opportunity at large, and the potential for e-commerce in Pakistan, specifically.

Figure 43: Public Sector Actors Landscape for IT / Digital



Source: Malkani[167]

Fragmented policy interventions: Recently Pakistan has seen a proliferation of policy initiatives[168] which has led to a surge in functional mandates along with an associated expansion of organizational structures. For example, the original Ministry of Science and Technology (MoST) became the Ministry of IT and Telecom (MoITT). Now MoST has been reconstituted. There is a National IT Board (NITB), which appears to be an umbrella organisation for many other organisations. The PTI-led government has also constituted a number of provincial and federal task forces such as on IT and Telecom, on Innovation, on Science and Technology, and on Technology Driven Knowledge Economy, in addition to several other committees, councils and working groups[169]. At the same time, provinces have also set up their own institutions to push digitisation across various economic sectors, having its own IT Board, IT Departments or both, with varied capacities and roles[170]. Provincial IT Boards often operate independently of provincial IT departments. Punjab and KP have also introduced their own digital policies.

[167] Anum Malkani, “Transforming Transactions: Does Pakistan’s e-Commerce Policy Deliver?” (Tabadlab Private Limited, 2019), https://www.tabadlab.com/wp-content/uploads/2020/02/Tabadlab-Working-Paper-04-Transforming-Transactions-ecommerce-policy.pdf.
[168] Ibid.
[169] Ibid.
[170] Ibid

This has led to the creation of organizational silos and disparate policies without an overarching framework and hold back inter-ministerial or departmental engagement that could lead to coherent policies. There continues to be ambiguity on the ongoing and future status of key issues pertaining to data protection, digitization of the economy, especially around digital payments, and foreign direct investment (FDI) into e-commerce.

When the tech start-ups started getting big such as Daraz and Careem (ride hailing), all the various provincial and federal government stakeholders became prominently active, wanting a share in the success and began interjecting as they saw risk and opportunity. Ministry of Finance and FBR also play a role and this is the interjection that requires most intervention in terms of policy.

Lack of a dedicated platform/association: Unlike in most other organized sectors, e-commerce does not have a dedicated association/platform to engage with government to share a collective review. Informal groups of big retailers in the formal sector exist but there is no official channel of communication. It is also difficult to identify the relevant ministries as the sector is diverse and spans across various government portfolios. Incentive to come together usually happens on issues around taxation and finance or a broader framework for operation/mandate for marketplaces around paying taxes. Otherwise the space is very competitive unless for a mutually beneficial policy concern issue or to ensure providing a level playing field.

Limited role of international players: The market must be prepared for entry of international players into Pakistani ecommerce. On the one hand, Alibaba's entry has allowed Daraz to benefit from the former's expertise and access to international markets, but it may also flood the Pakistani market with Chinese products which could have a detrimental impact on local SMEs and manufacturing, as well as on the trade deficit. Chinese products account for almost 70% of e-commerce produced globally. Furthermore, the absence of global B2B and B2C portals and giants like Amazon and eBay in Pakistan holds the growth of this sector. Such portals would have a far-reaching benefit across all the sectors due to externalities and spillovers across businesses and industries. Just recently MOC has reportedly shared an initial list of 38 exporters for registration with Amazon in a bid to boost the country's trade and exports[171].

Role of big players: There is also a tendency for the large players to dominate the market, yet at the same time e-commerce provides a platform to the small players. E-commerce can enable SMEs to extend their reach in ways previously only possible for large players. With a massive potential in digital commerce, and the digital trade economy which can provide a level playing ground to small businesses in Pakistan, the true potential of this economy and its ability to grow has been halted in the market due to bad business practices by the bigger players that have injected money but never succeeded in developing a real technology driven eco system which would be beneficial to all.

Pakistan's placement on FATF list: Overall the role of ecommerce and online transactions is restricted by Pakistan's inclusion in global watchdog Financial Action Task Force (FATF)'s grey list. PayPal, amongst many others, are reluctant to come to Pakistan due to the risks of fraud and money laundering.

In addition, COVID-19 has forced businesses to support remittances, e-commerce, and online systems in a way that business models were not prepared for. Businesses all across the world are relying less on in-person engagement and have had to develop an online presence, relying on digital services. However, digital presence require mechanisms that support fraud

[171] "Pakistan Set to Register 38 Exporters with Amazon," *Pakistan Today*, June 19, 2020, https://profit.pakistantoday.com.pk/2020/06/19/pakistan-set-to-register-38-exporters-with-amazon/.

protection, anti-money laundering, and counterterrorism efforts. Therefore, industries which rely on online payment systems and online money transfers may be hesitant to invest in Pakistan due to its FATF grey list status.

If Pakistan cannot make the necessary reforms for FATF compliance, it will find it difficult to convince the international community that it can and will make necessary reforms for investors. This remains a serious impediment for Pakistan's business climate as well as the growth of its e-commerce and digital finance sector.

While the Pakistani Senate is racing to approve multiple bills to prevent money laundering and terrorist financing—and fulfill a twenty-seven-point plan from FATF. With thirteen remaining conditions and an eye on the mid-October deadline, Pakistan plans to avoid a demotion from the FATF's grey list to the blacklist, joining countries such as Iran and North Korea.

5.4.1 State-Sector interaction

An E-commerce Framework

The National IT Policy and Action Plan was launched in 2000 by the Ministry of Science and Technology (later renamed the Ministry of Information Technology & Telecommunications (MOITT)). The emphasis was on establishing the role of the government in formulating a policy and regulatory environment (including skills development, software exports and e-governance) to help drive economic growth through IT. Other policy initiatives included the Mobile Cellular, Policy 2004, Broadband Policy 2004, and the Telecom Policy of 2015.

The MoITT specifically began working on an ecommerce policy back in 2014, after acquiring the 3G/4G license award which in itself became a long, tedious and unnecessarily complicated process[172]. However, once 3G/4G became available, overall digital access improved across an array of sectors including retail.

Since 2016, as mentioned earlier in the absence of an e-commerce policy, the MOC played a central role in tandem with State Bank of Pakistan following which a number of engagements were initiated to agree on a formal e-commerce policy for Pakistan. The MoC formed an e-commerce Policy Board and notified five working groups (taxation, payment infrastructure, regulatory framework, logistics, and ecommerce, WTO & development) to work on various aspects of a policy for the sector.

An E-commerce Policy of Pakistan was at last created in 2019 to support the emerging e-commerce industry. It was the result of an extensive consultative process between the stakeholders and recognises the distinct concerns of this sector as different from the traditional commerce sector and proposes a simplified online registration process for e-commerce businesses with the SECP[173]. The focus of the policy is on regulating nine policy areas. These include ecommerce regulation and facilitation, financial inclusion and digitization through payment infrastructure, youth and SMEs empowerment, consumer protection, taxation structure, ICT infrastructure and telecom services in Pakistan; logistics, data protection and investment, and lastly, global connectivity and participation in multilateral negotiations.

While the policy contains a number of useful general recommendations, it is rather limited in actionable, and more importantly, measurable metrics. The policy, in general, lacks a framework for tracking and evaluating completion of recommended actions, and their

[172] Annabel Symington, "Pakistan Might Remain the Only Country in South Asia without 3G for a While Longer," Quartz (Quartz, November 7, 2013), https://qz.com/142923/pakistan-might-remain-the-only-country-in-south-asia-without-3g-for-a-while-longer/.
[173] Ministry of Commerce, *e-Commerce Policy of Pakistan*, 2019.

contribution to the wider purpose-level impact that the government seeks through e-commerce.

For example: The ecommerce policy bans all COD transactions in Pakistan over the next three years. While focusing on digitisation is a worthy goal, the potential for this to be a death nail to the ecommerce business is high unless it is accompanied by a policy that encourages banks and fintech's to find alternate solutions to push digital money. Otherwise, if a COD limit is enacted and digital payment gateways are also limited, overall ecommerce sector will only get hurt.

5.4.2 Payment Gateways

At the same time the government has also been working towards enhancing the payment gateway, often considered the most important element in the e-commerce ecosystem and instrumental in attracting leading international e-commerce companies to the Pakistani market. For instance, Alibaba, an international e-commerce mega-corporation, has signed an MoU with the Trade Development Authority of Pakistan (TDAP) to enter Pakistan's e-commerce market and improve competitiveness and the reach of SMEs in the international market. This can prove to be revolutionary as engagements with Alibaba can transform the reach of Pakistani products in international markets and help promote e-commerce and financial services in Pakistan.

The Digital Pakistan Policy was launched by MoITT in May 2018 highlighting ecommerce as an area of focus and recognized the role of digital payments in enabling its growth. The policy had a wide scope but did not define specific and actionable steps towards reaching its stated policy goals.

In November 2019, SBP launched its National Payment Systems Strategy towards digitization of payments and financial inclusion. The document outlines steps that the SBP will take towards developing a more effective payments infrastructure and identifies key use cases that will fuel digitization of payments in Pakistan. The SBP also introduced Regulations for Digital On-boarding of Merchants to improve acceptance of digital payments by simplifying documentation and reducing merchant discount rates.

More recently SBP has given approval to an e-commerce payment gateway "PayFast[174]" to start its operations. It will accept payments through multiple instruments, such as UnionPay, Visa, and Mastercard cards, mobile wallets, and bank account numbers. It also allows for digital invoicing. Using the gateway, payments can be accepted with just a unique link which can be sent via WhatsApp, Facebook, email or mobile[175].

However, two decades since the first IT policy, digital inclusion, infrastructure access, device ownership, skills development, export growth and regulation, all remain below expectations.

[174] The product is being offered by Avanza Premier Payment Services (APPS), a joint venture formed in 2015 between Avanza Solutions and Premier Systems.
[175] "SBP Allows Pilot Operation of e-Commerce Payment Gateway," *Pakistan Today*, July 18, 2020, https://profit.pakistantoday.com.pk/2020/07/18/sbp-allow-pilot-operation-of-e-commerce-payment-gateway/.

5.5 Stakeholder Influence-Alignment

Potential for reform – Assessing Winners, Losers, and likelihood of Reform efforts

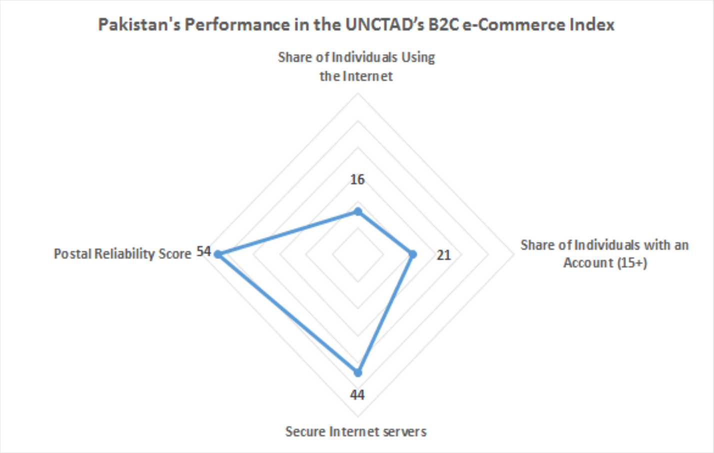
INFLUENCE / POWER	Low INTEREST	High INTEREST
High	Ministry of IT & Telecom HANDLE WITH CARE MEET NEEDS ENGAGE AND CONSULT IN INTEREST AREA TRY TO INCREASE LEVEL OF INTEREST AIM TO MOVE HERE PTA TDAP	Ministry of Commerce Digital Pakistan TOP PRIORITY KEY PLAYER FOCUS EFFORTS ON THIS GROUP INVOLVE IN GOVERNANCE / DECISION MAKING BODIES ENGAGE & CONSULT REGULARLY Pakistan Post Big Firms
Low	LOW PRIORITY LEAST IMPORTANT INFORM VIA GENERAL COMMUNICATION AIM TO MOVE	P@SHA Provincial IT Board Small firms NEED HELP TO PARTICIPATE SHOW CONSIDERATION MAKE USE OF INTEREST THROUGH INVOLVEMENT IN LOW RISK AREAS KEEP INFORMED & CONSULT ON INTEREST AREA POTENTIAL SUPPORTER/ GOODWILL AMBASSADOR Payment gateways Financial institutes/ Banks

5.6 Barriers to Development

Lack of a viable eco system: On UNCTAD’s B2C e-Commerce Index for 2019, Pakistan is ranked 114 out of 152 countries, with an e-commerce readiness index value of 33.7[176]. This index measures Pakistan's preparedness to support online shopping and is calculated as an average of four indicators shown in the figure below. Pakistan’s low performance in e-commerce is attributed mainly to low digital and financial inclusion, and poor ICT and logistics infrastructure.

176 “The UNCTAD B2C E-Commerce Index 2019” (UNCTAD, 2019).

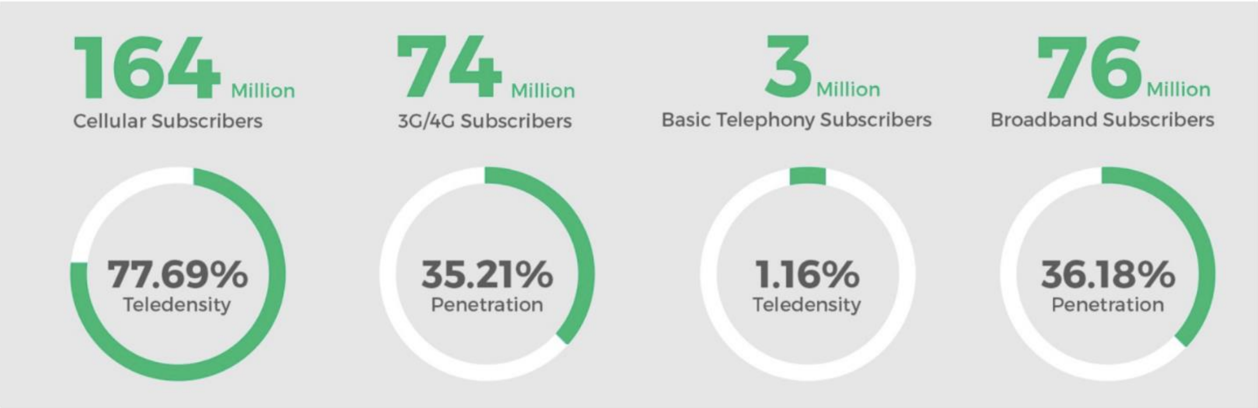
Figure 44: Pakistan's Performance in the UNCTAD's B2C E-Commerce Index



Source: UNCTAD[177]

The entire digital economy is dependent on the growth of the total active internet users in Pakistan. Pakistan Telecommunications Authority (PTA) data shows that, as of October 2019, while tele-density in Pakistan is 77%, the 3G/4G penetration is only 35%. This means that the pipeline to get onto the digital highway faces material constraints.

Figure 45: Pakistan Telecom Indicators 2019



Pakistan also has one of the world's largest unbanked populations at an estimated 100 million adults, mostly women[178] despite an array of policy interventions designed to expand access. Mobile money providers are attempting to fill this gap and have shown strong growth to increase mobile banking accounts from 15mn in 2015 to 38.5mn in 2018[179]. The key challenge associated with this growth is that more than half these accounts are inactive due to a weak digital payment ecosystem and it is essential to simultaneously ensure high activity and utilization of these accounts.

A noticeable difference between Pakistani e-commerce platforms and those such as Egypt and Iran is that the former don't have websites in local languages, thus making the English-speaking population the primary beneficiary of digitisation while the mass majority is potentially left behind.

[177] "The UNCTAD B2C E-Commerce Index 2019" (UNCTAD, 2019).
[178] "The Unbanked: A Hundred-Million Question," Karandaaz Pakistan (Karandaaz Pakistan, March 15, 2019), https://karandaaz.com.pk/blog/unbanked-hundred-million-question/.
[179] Pakistan Telecommunication Authority, Annual Report, 2018.

Government attitude towards digital economy: Despite many policy initiatives, the field still lacks robust effort by the government. A major challenge remains the mindset surrounding the digital economy and the low priority given to it by the Pakistani leadership which is why the digital ecosystem continues to be a sideshow. Pakistan needs to develop an overall ecosystem to motivate a company like PayPal to enter the market. For anyone running an e-commerce company and wanting to make a payment to a vendor in, say, China, State Bank allows 35% repatriation of funds for exporters, but the process requires cumbersome documentation that makes it difficult to send money abroad.

Figure 46: The E-Commerce Ecosystem

Source: Malkani[180]

Trust deficit between merchants and buyers: Fear of low-quality products, transaction frauds, complex and costly return and accountability processes makes customers wary of paying in advance for e-commerce goods and services. Hence, trust deficit remains a key reason for underutilization of payment mechanisms other than CoD and thus customers prefer post-delivery payments. While COD allows e-commerce merchants to acquire customers and gain their trust, it has several downsides. It has prevented the entry of major international players in the Pakistani market. Merchants remain vulnerable to order cancellations and unpaid purchases and may have to pay higher courier fees as couriers need to collect cash and sometimes have to make several delivery attempts to reach the customer.

Excessive reliance on cash on delivery: A key barrier to the growth of e-commerce is the cash-driven nature of the Pakistani economy though opinions may vary[181]. Reliance on cash transactions, create a working capital gap in the supply chain but it also makes it accessible to a large segment of the population. As businesses scale-up they need a payments system that allows them to trade nationally and internationally. There are several reasons why COD remains the preferred mode of payment. These include low financial inclusion and know-how

[180] Anum Malkani, "Transforming Transactions: Does Pakistan's e-Commerce Policy Deliver?" (Tabadlab Private Limited, 2019), https://www.tabadlab.com/wp-content/uploads/2020/02/Tabadlab-Working-Paper-04-Transforming-Transactions-ecommerce-policy.pdf.

[181] Detailed discussion on what COD costs merchants: Adam Dawood, "The True Cost of Cash on Delivery (COD)," *Pakistan Today*, July 11, 2020, https://profit.pakistantoday.com.pk/2020/07/11/the-true-cost-of-cash-on-delivery-cod/.

of using digital financial services along with lack of low-cost payments infrastructure, low financial literacy, low penetration of credit cards and restricted use of debit cards. There are only 1.6 million credit cards across Pakistan with 24.8 million with access to debit cards. Long term payment solutions may still be COD coupled with other forms of payments like a mobile payment wallet, perhaps not a credit card.

Lat mile and Fulfilment issues: Even though e-commerce provides the convenience of not having to leave your house to place an order there are other deterrents which stem from traditional and cultural factors. Fulfilment time is a major impediment in the growth of online retail. The fulfilment time in the retail e-commerce sector is far higher than what is expected from the other sectors, averaging 3 to 5 days as compared to less than an hour for all other verticals (e-ticketing, ride hailing etc.)[182]. Even the fulfilment success ratio is lower, with less than 80% customers on average ending up receiving the order they place. The only workaround towards this is to eventually phase out CoD and make a concentrated effort towards digital payments. The problem is becoming more pronounced as the e-commerce sector grows. It is an issue afflicting small companies to the big e-commerce giants, and is unhealthy for the eco-system at large. E-commerce is all about making the last mile easier; that's what differentiates it from ordinary retail, and with cash on delivery this remains a constant problem for sellers and logistics companies both.

Delivery models reduce cash flow: Moreover, reliance on third party logistic companies means that cash flow to small businesses is severely restricted. Most logistics companies have built a business model where they collect cash once done with a delivery, and then keep the cash collected on behalf of multiple small companies doing business in their own accounts to earn interest on the float. This in turn ruins the cash flows of small businesses, who are helpless since they have to depend on such logistics serviced, and have no other way of doing their business. With the technology available that is used by electronic money transfer services, it is one that can be phased and adopted and eventually should become a legal requirement in the logistics sector where live reconciliations can be done once orders are delivered. Logistics companies must develop a mind-set to support growth of small ecommerce companies that will in turn lead to much bigger growth for them in the long run.

Daraz Express (DEX)

Daraz Express (DEX) has been launched by Daraz to ensure fast access to customers as a logistics company designed specifically for e-commerce. It has a fully digitised network. The market had already expected Daraz to open its own logistics system as existing companies were blamed for making late deliveries and delaying payments to sellers, which increased trust deficit for online marketplaces, according to an industry official.

Expensive Logistics: One of the biggest incentives that online retailers across the world are offering customers is free shipping and returns. companies like Amazon, Asos and the likes are developing smarter and hyper local warehousing and delivery options to make logistics cheaper, Fulfillment is still a massively expensive process in Pakistan both to local markets and to international markets. To put things into perspective; a small parcel from Ali Express makes its way to Pakistan at a shipping cost of under 99 cents. That same parcel sent from Karachi to Lahore via our local logistics companies will cost double the amount. Often; the product cost will be less than the shipping cost and this becomes a huge deterrent to be able to reach the international market. The immediate suggestion here would be to develop a subsidy system for small B2C parcels based on the Chinese model via a national logistics

[182] Adam Dawood, "All You Wanted to Know about Pakistan's e-Commerce Scene (but Didn't Know Who to Ask)," *Pakistan Today*, January 14, 2019, https://profit.pakistantoday.com.pk/2019/01/14/all-you-wanted-to-know-about-pakistans-e-commerce-scene-but-didnt-know-who-to-ask-part-1/.

carrier like Pakistan post that makes smaller parcels and their shipping more feasible for the international customer. This will go a long way in making Pakistani products competitive in the global market.

Chinese logistics[183]

The best case study is the Chinese logistics model and how they repositioned their system for the global ecommerce economy. To give industry wide incentives, the Chinese government is providing the large subsidies on international logistics via their e-packet service for small parcels up to 2 kg allowing China to dominate world trade. Chinese government has enabled small seller regardless of which industry he/she operates in to penetrate the global market.

E-commerce cannot replace the experience of physically going out to shop. One also knows exactly where to go to return or exchange a product, an issue which in traditional shopping can be dealt with on an immediate basis. Unless online shopping can offer a more reliable and quick service, they will forever play second fiddle to brick and mortar retail. As e commerce grows, logistic services are needed to satisfy customer needs.

Inventory Management: One of the biggest hurdles in creating the trust is that the inventory systems are not integrated. Suppliers do not provide the information to the online marketplaces. The merchants/retailers/distributors do not have accurate inventory management systems if they have a system at all. The inventory is not connected to the marketplace or the retailer's own stores. Some top brands have the most expensive Enterprise Resource Planning (ERP) systems for their physical stores but their own e-commerce stores do not speak to their distribution channels. The reluctance to go fully digitial is linked to three elements.

- Understanding the requirement and benefit of it
- Having the capability and trusting thee team to do it. The owners of most large retailers do not have the expertise to do it on their but are often reluctant to delegate someone full control
- The inventory systems are not expensive if you go for cheaper local solutions. However, most brands tend to go for the more established programs like SAP, Oracle or Microsoft. There is a risk for choosing the less known programs which the teams are not willing to take.

International payment gateways: The topic of an international payment gateway is crucial for the promotion of exports through e-commerce. Unfortunately, the e commerce policy does not make much progress in this regard and simply states that efforts will be made to invite international payment gateways to Pakistan. Given the failure of PayPal to operate in Pakistan, the policy could do more to understand and address the reasons behind the reluctance of international payments providers to enter the market. PayPal, is not available in Pakistan due to a number of reasons, including payment clearance complications, money laundering issues, and high costs of entry (see section on IT). Having access to PayPal will allow exporters to receive money easily, as it charges only 2.5% as transaction fee and offers an easy dispute mechanism. Availability of PayPal leads to more business due to the trust factor. However, it is not easy for small firms to obtain business credentials as they credible trading history.

Integration of payment systems: EasyPay[184] was launched in 2015 and seen as a great incremental addition because in one integration an e-commerce merchant could offer a mobile

[183] Zari Faisal, "E-Commerce in Pakistan and the Eco System!," Zari Faisal, July 31, 2019, https://www.zarifaisal.com/blogs/news/e-commerce-in-pakistan-and-the-eco-system.

[184] EasyPay is an end-to-end payment solution that provides a comprehensive platform for digital payments. It uses EasyPaisa account through Telenor sim for direct payments, completely free, and can also be used through 65,000

wallet, and a credit/debit card gateway all at once. However, now with rise of new wallets such as JazzCash, SimSim and services such as Keenu, FonePay etc, the number of integrations required are much greater. If these gateways are not integrated, then customers who are starting to slowly shift towards online payment methods will not be able to pay with their preferred payment partner.

Absence of global portals: Presence of global business portals like Amazon and eBay are lacking in Pakistan, even though now we have OLX and Ali Express (that has acquired Daraz).

Acquisition of Daraz by AliBaba - A Milestone in Pakistan's E-commerce History

Daraz was founded in Pakistan in 2012 by German venture capital company Rocket Internet. In a very short span of time, it became the top of e-commerce platform/market place in Pakistan, attracting attention of AliBaba (the Chinese e-commerce giant). AliBaba acquired the company in 2018 for a sum ranging between USD 400 to 500 mn. Ali Pay, the financial arm of AliBaba, also acquired 45% stake in Telenor bank in order to further develop the Mobile Wallet e-commerce ecosystem in Pakistan[185].

This requires entrepreneurial spirit with large investments in marketing, currently lacking in Pakistan (see chapter on ICT). If a portal like Amazon comes to Pakistan, it would have far-reaching benefits across businesses just like in the case of Vietnam. (Vietnam has around 700,000 businesses of which 98% are SMEs similar to in Pakistan. Smaller businesses are currently deprived of a large market opportunity as only few of them are able to afford the old school method of attending international trade fairs for business recognition. But covid might change that.

Lack of domestic standard setting: In case of e commerce, there are numerous cases where sellers do not deliver on their stated promises, resulting in disappointed customers disillusioned with e-commerce. Some misleading practice that consumers in Pakistan face are inaccurate product listings, fake reviews by the companies themselves, overpricing, misleading discounts, faulty and inaccurate products reaching (and sometimes never reaching) the consumer after payment has been made. Additionally, late delivery times, inconvenience of reverse logistics (the movement of goods back from customer to vendor) and refunds and weak customer support are sajor reasons why many people still prefer to buy from shops rather than online. This is also one reason why foreign online businesses do not invest in Pakistan, as there is a lack of robust system of checks and balances in place.

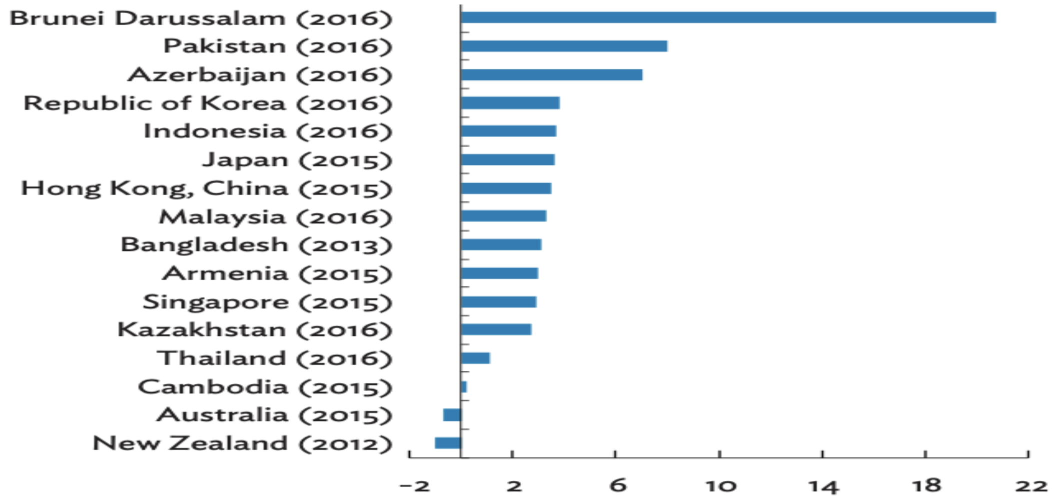
Pakistan has basic framework of regulations defining broad principles on data privacy requirements for entities that collect, process, and store personal data. However, data data protection laws do not apply to certain public agencies; it regulates the processing of personal or corporate data carried out by the federal, provincial, or local government. The federal government may exempt any public or private sector entity or business from operation of the act with respect to local electronic data[186].

EasyPaisa agents across Pakistan. It is also integrated with MasterCard and VISA, allowing you to use your credit card to buy products and make payments.

[185] "E-Commerce – A Plausible Solution to Pakistan's Economic Woes"

[186] Sanjay Kathuria et al., "Unleashing E-Commerce for South Asian Integration" (World Bank, 2020), https://openknowledge.worldbank.org/bitstream/handle/10986/32718/9781464815195.pdf?sequence=4&isAllowed=y.

Figure 47: Gender Gap in Internet Access: Selected Asian Economies (males (%) minus females (%))



Source: International Telecommunication Union. Gender ICT statistics. http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx (accessed 15 October 2017).

While cultural factors cannot be changed overnight, including perception and attitude toward a digital economy, still measures can be put in place to narrow the gender gap in internet access, and improve and promote gender inclusiveness in e-commerce.

5.6.1 Structural constraints and their interaction with COVID-19 induced downturn

E-commerce availability in cases of crisis like the ongoing pandemic have a risk mitigation effect to maintain some semblance of business. As businesses across the country and globally have come to a halt, the retail industry has come forward as a lifeline, changing the entire course of such businesses. While the vast majority of retailers, with the exception of grocers and pharmacies, have had to temporarily close their brick-and-mortar locations, they have been able to sell goods to consumers on their websites or the websites of their retail partners or online marketplaces.

The Daraz Index[187] has found that since the outbreak of the coronavirus in Pakistan, demand for (Fast-moving consumer goods) FMCG products has jumped. On Daraz, the contribution of FMCG products to the overall sales doubled in March 2020 and is expected to increase by almost 70%[188]. The report also highlights that the demand for hand washes and hand sanitisers increased by 18 fold while DFresh – the fruits and vegetables channel on Daraz – witnessed an order uplift of 9 fold. Consumer spending patterns are also changing[189]. According to the survey poll, 13.3% that their spending had increased while almost 20% confirmed they were engaging more in online shopping.

Hence, early signs of shifts in consumer behaviour are becoming noticeable. However, these initial behavior shifts may be out of necessity, not due to user experience.
Naturally, brands that had already prioritized becoming digital are in a better position to weather what comes next. The success of the retail industry appears to be substantially resting

187 "Daraz," Daraz (blog), April 16, 2020, https://blog.daraz.pk/2020/04/16/pakistans-first-e-commerce-index-powered-by-daraz-shows-an-increase-in-digital-payments-and-growing-demand-for-online-shopping/.
188 "What Do We Know about Pakistan's Ecommerce Industry?," *Dawn*, April 17, 2020, https://www.dawn.com/news/1549691/what-do-we-know-about-pakistans-ecommerce-industry.
189 "Consumer Behaviour in COVID-19," *Dawn*, July 29, 2020, https://aurora.dawn.com/news/1143780/consumer-behaviour-in-covid-19.

on e-commerce. While the future of retail has been hyped as digital, the pandemic has accelerated that process. Within days of the lockdown, Daraz launched its Humqadam program, inviting Small and Medium Enterprises (SMEs) from across Pakistan to set up digital ventures on the marketplace platform.

Distributors after the lockdown may have realized they cannot rely on order-bookers alone, and with the number of startups with funding entering this space they themselves are likely to deploy similar technology to automate the order-booking process

Overall, exports will take time to go back to the pre-covid level. Thus, the MoC is focusing on domestic commerce where the local retail sector can play a prominent role. COVID-19 may have pushed back development of the payment gateway, but it is something that is still on the cards.

In the long run, with commercial property prices in Pakistan as high as many US and European cities and consumer spending power as low as that of Bangladesh, Nigeria, and Indonesia, there is a major imbalance problem. Scaling offline is a capital intensive, high-risk, and a slow responding move, but in a market like Pakistan, it might be the only way for some retailers for at least the next decade.

5.7 Opportunities for Transformation

Pakistan remains among the very few economies where digitization is capable of triggering a fast-paced growth to the economy. As a policy intervention, this calls for stronger lifelong nexus between the industry and training institutions. The focus of public policy in skills development has to move towards ICT skills, science and mathematics, problem-solving and lifelong learning (covered in the ICT chapter in detail).

While it is recognised that the private sector is the primary engine of the information economy, the role of governments is important as a catalyst for change, as a regulator, and as a guarantor of a level playing field. Digital inclusion and digital transformation of the economy are complex and multi-dimensional policy issues, requiring coherent and holistic policy action.

More clarity is needed on the roles and responsibilities of organizations in the ecosystem, which would ideally encourage consolidation and do away with redundant task forces, committees and working groups.

The government should reduce confusion and complexities around its approach to technology policy and push to improving inter-agency coordination, consolidation of various organisations and fragmented policy interventions, and set priorities with realistic targets. At the same time, the government must focus on routine market bottlenecks to reduce the cost of doing business, ease opening of bank accounts and improve access to digital payments.

Inter-agency alignment though extensive stakeholder engagement is critical for ICT policies surrounding e-commerce that rely on cross-functional inputs and support (see section on ICT). Effective policies also require engagement with the private sector and participation of citizens, especially where government officials lack expertise or understanding of new technologies and are reluctant to pursue digitization projects. The current government seems to have some sense of the dispersed and disorganized nature of past efforts and structures and has thus created an overarching initiative called Digital Pakistan that focuses on bringing policy coherence[190].

[190] Ibid.

There needs to be more technology-based nurturing and grooming of new logistics companies by the government. This can happen under a combined umbrella of Pakistan Post and the Kamyaab Jawaan program which must have some percentage of funds allocation towards the development of a better local eco system.

Market places are expensive and can be monopolistic if number of players are lower. The leaders tend to form a monopoly. Thus, creation of alternative marketplaces and facilitation of this process by government can be helpful. Provision of the right tools can be useful for the end merchants.

Cross-border E-commerce refers to international trade of products via online shops across national borders and is the most promising area that developing countries like Pakistan needs to focus on. The State Bank of Pakistan (SBP) and Ministry of Information Technology will have to open up to the global market and trends such as integrating such platforms in Pakistan's e-commerce community will aid in building numerous payment gateways to support PayPal, which accounts for 16% of all global internet-based transactions or AliPay, which accounts for approximately 50% of all transactions based in China, amounting to nearly USD 300 billion. The country also does not need to be fixated on PayPal but first understand these pain points and can introduce local solutions where possible. There are countries such as Costa Rica that have set up risk funds as collateral for companies like PayPal. Having such funds can decrease the risk for these companies.

Local solutions for payment[191]

There is a huge need for enabling our own companies to build platforms like PayPal. The NITB, for instance, is working to establish the country's first e-commerce export platform similar to Alibaba. According to NITB's chief executive officer Shabahat Ali Shah, a sub-component of the platform is to establish Pakistan's own international payment gateway. The payment gateway will be pre-integrated with PayPal, Visa card, MasterCard and Alipay that can be connected to local banks and microfinance companies. This would imply no need to chase international companies to come to Pakistan. With the payment gateway, any person with a bank account in Pakistan and a smartphone will be able to sell his/her products and receive payments from anywhere in the world.

E-commerce presents an opportunity to improve the lives of people living in far flung areas by using the internet to provide access to products and services that were previously inaccessible. Without proactive policies to take advantage of this, e-commerce may result in the opposite: widening the gap between the rich and the poor, the rural and the urban, the digitally included and the digitally excluded.

Online consumer protection laws need to be drawn up so that Pakistan may benefit from evolution of E-commerce. At the national level, legislation must be supportive for E-commerce to grow. E-signature and e-contract laws are needed to facilitate the establishment of online business. International e-payments require regulations on the free cross-border flow of foreign exchange and, ideally, on the prevention of online fraud and cybercrime. Increased technological awareness would also help counter customer exploitation.

5.8 Proposed Reforms: Winners and Losers

These are in addition to the proposed interventions in thee ICT chapter around the eco-system and skills.

[191] Ramsha Jahangir, "Situationer: The 'Digital Pakistan' Challenge," *Dawn*, January 3, 2020, https://www.dawn.com/news/1525977/situationer-the-digital-pakistan-challenge.

	Proposed Recommendation	Likelihood of Reform	Winners	Losers
1	Strengthening eco-System (including access to internet, improved logistics and payment solutions)	High especially post-covid – the need for smart tech-based solutions, service delivery and online deliveries/e-commerce will go up. High especially given high demand and reliance on technology	Start-ups, SMEs, retailers Financial Institutions	Big firms with no digital presence.
2	Strengthen digital payments ecosystem to enable online payments and minimize CoD transactions	Medium. Lack of government will and direction.	Financial Institutions Businesses/ E-commerce merchants	Banks that charge on non-cash transfers
5	Consolidation/streamlining of policy frameworks and interventions.	Medium – this is dependent on the political will. This may see a reduce role for the government.	Business and Merchants	MoC, MOIIT may see a reduction in their power.
6	Technology based nurturing and grooming of new logistics companies by the government.	This can happen under a combined umbrella of Pakistan Post and the Kamyaab Jawaan program which must have some percentage of funds allocation towards the development of a better local eco system.	Startups, SMEs, delivery/logistic companies	Pakistan Post may not develop if private players become big
1	Strengthening eco-System (including access to internet, improved logistics and payment solutions)	High especially post-covid – the need for smart tech-based solutions, service delivery and online deliveries/e-commerce will go up. High especially given high demand and reliance on technology	Start-ups, SMEs, retailers Financial Institutions	Big firms with no digital presence.
2	Strengthen digital payments ecosystem to enable online payments and minimize CoD transactions	Medium. Lack of government will and direction.	Financial Institutions Businesses/ E-commerce merchants	Banks that charge on non-cash transfers

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Appendix A: Indicative Questions for Stakeholder Interviews

1. Who are the key players (state and non-state actors)?
2. What are the power dynamics among these players?
3. Which groups have the capacity to act and make their voices heard?
4. What are the key reforms required for sector growth?
5. Who is championing these reforms, who stands against them?
6. How do decisions-making processes work within the sector?
7. How do decision-making processes work within government-sector interactions?
8. What is the past history of the sector, including previous reform initiatives? How does this influence current stakeholder perceptions?
9. What are possible entry points and the key political risks?
10. What has changed in the political context that is of relevance to the proposed reforms?