Beyond the Rupee: What Truly Drives Pakistan's Export Competitiveness?

A framework by Zafar Masud

Currency is only part of the story. Swipe to discover the structural reality of trade performance.

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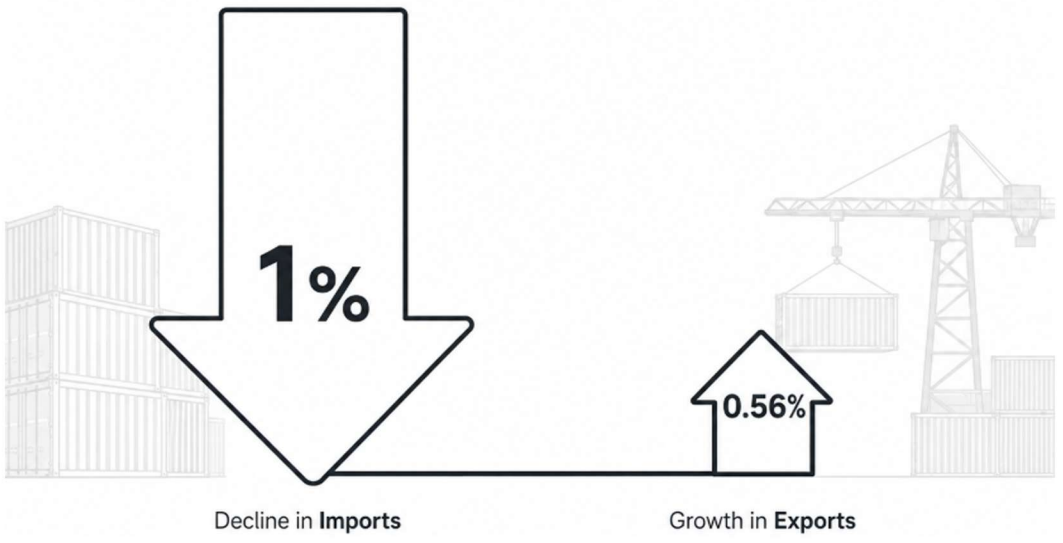
The Currency Myth

Currency devaluation is frequently overstated as a standalone fix for **boosting exports.**

State Bank of Pakistan research reveals that export responsiveness to the exchange rate is modest.

A 1% nominal effective exchange rate depreciation only increases export demand by roughly **0.56%.**



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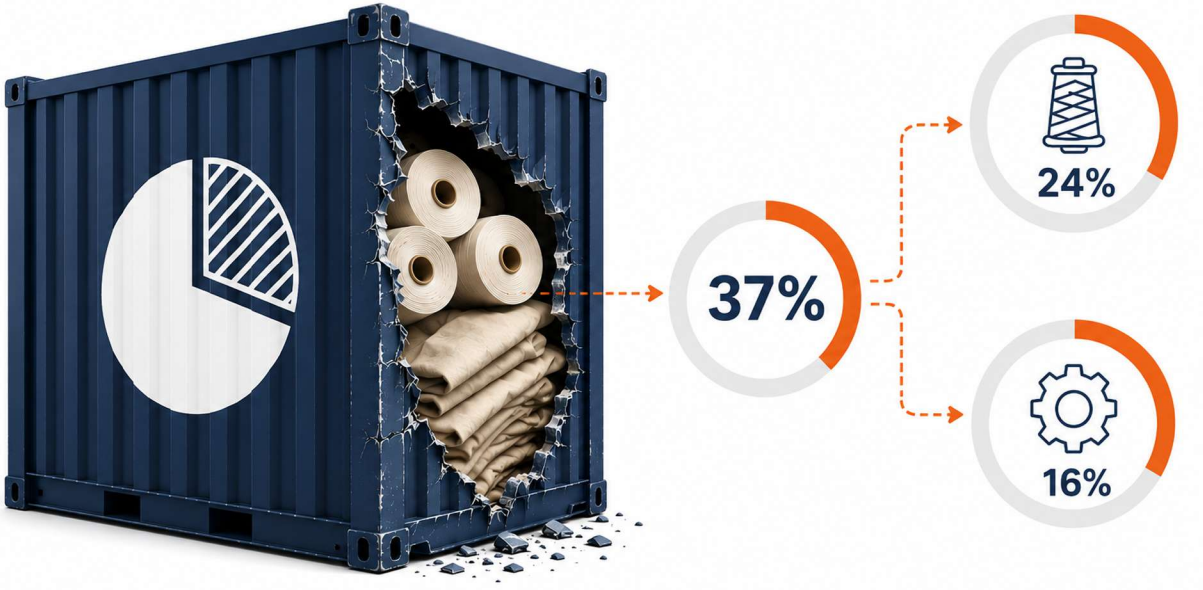
The 37% Import Leak

Why does a weaker currency carry less weight?
Pakistan's exports are **deeply import-dependent.**

Roughly **37%** of total export value is derived mechanically from imported inputs.

This includes **24%** from raw materials (like yarn and fiber) and **16%** from essential capital goods.



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The Inflation Spiral

A sharp devaluation quickly inflates the domestic cost of food, energy, machinery, and raw materials.

Rapid pass-through to domestic prices erodes the temporary price advantage within quarters.

Exporters are left running in place—facing higher local prices and a heavier economic debt burden.

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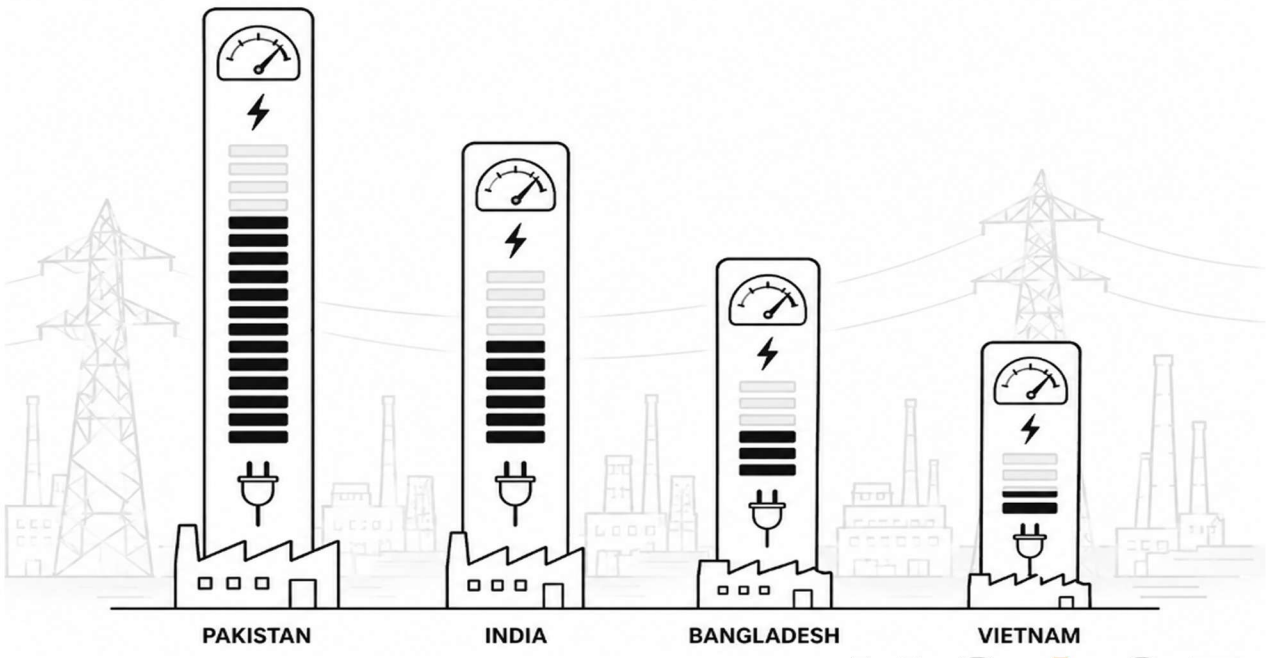
The Primary Levers: Energy Cost & Reliability (22%)

- Energy pricing stands as the **single heaviest binding** constraint on export competitiveness.
- Pakistan's industrial tariffs **(~13.5–15 cents/kWh)** run significantly higher than its regional trading peers.
- For comparison: **India** sits at 12.1, **Bangladesh** at 8.7, and **Vietnam** at 7.5 cents/kWh.



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Moving Up the Ladder: Productivity & Technology (17%)

Long-term export success relies heavily on workforce skills, automation, and industrial technology.

Enhancing capability allows exporters to shift away from low-margin, basic commodities.

Value addition helps capture higher-margin segments in **competitive global markets.**

Logistics & Anti-Export Tariff Bias (28% combined)

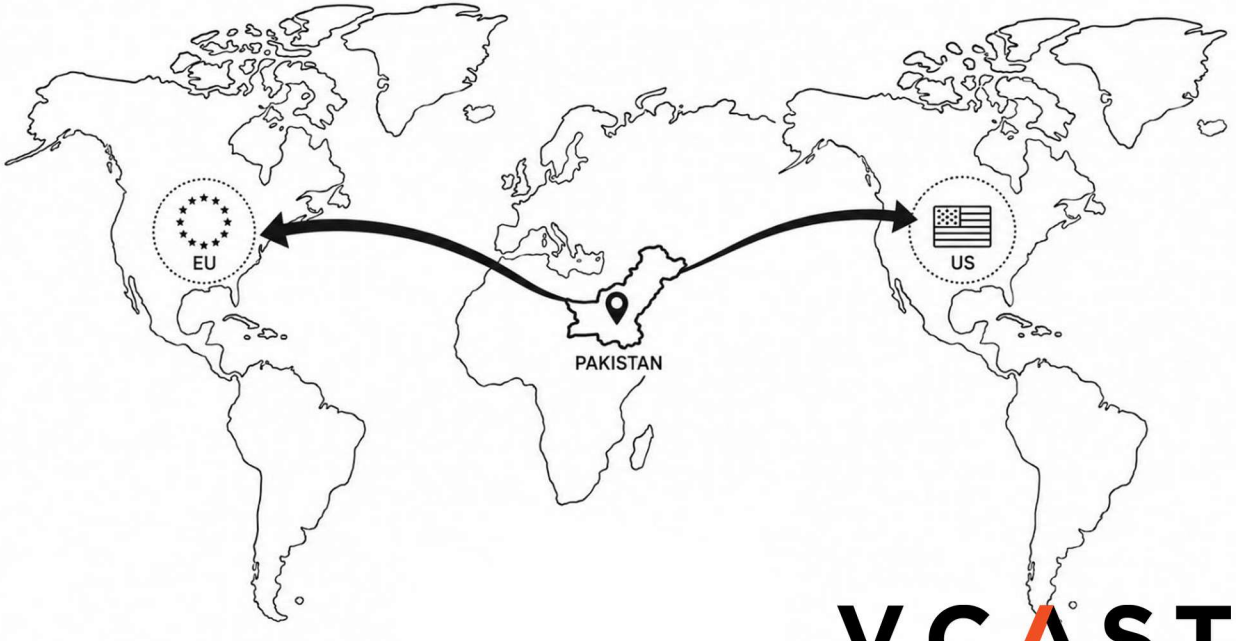
Trade Facilitation (14%): Port efficiencies, streamlined customs clearance, and prompt sales-tax rebate processing are vital.

Tariff Structure (14%): Cascading import duties on raw materials create an unintended anti-export bias.

High duties raise the effective baseline cost before products ever reach local ports.

The Risk of Over-Concentration (12%)

- Pakistan suffers from a severe structural vulnerability due to a **lack of economic diversification.**
- Textiles anchor roughly **55% to 60%** of all national merchandise export earnings.
- Shipments remain heavily concentrated into just a few premium global markets: **the US and EU.**



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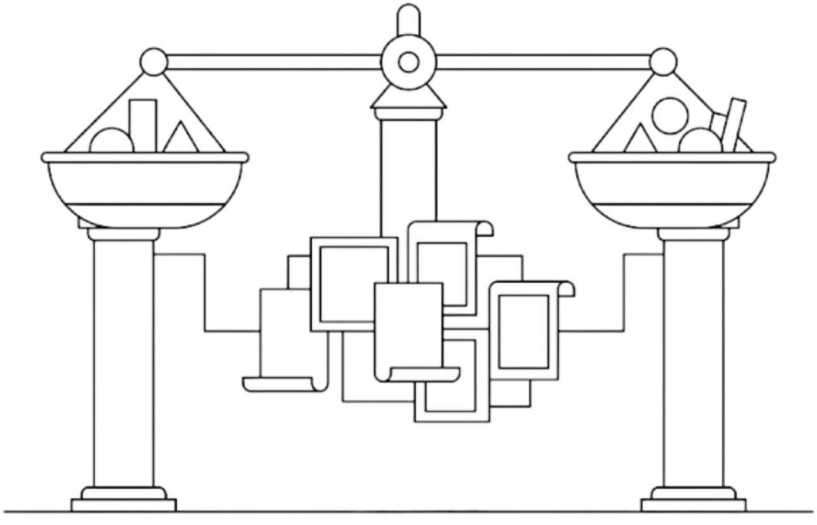
Policy Consistency Matters (8%)

Exporters and international buyers **value long-term stability** over minor price fluctuations.

Supply contracts and factory investment cycles routinely span across multiple years.

Predictable policy frameworks, ease of business, and guaranteed FTA/GSP+ **access secure reliable growth**



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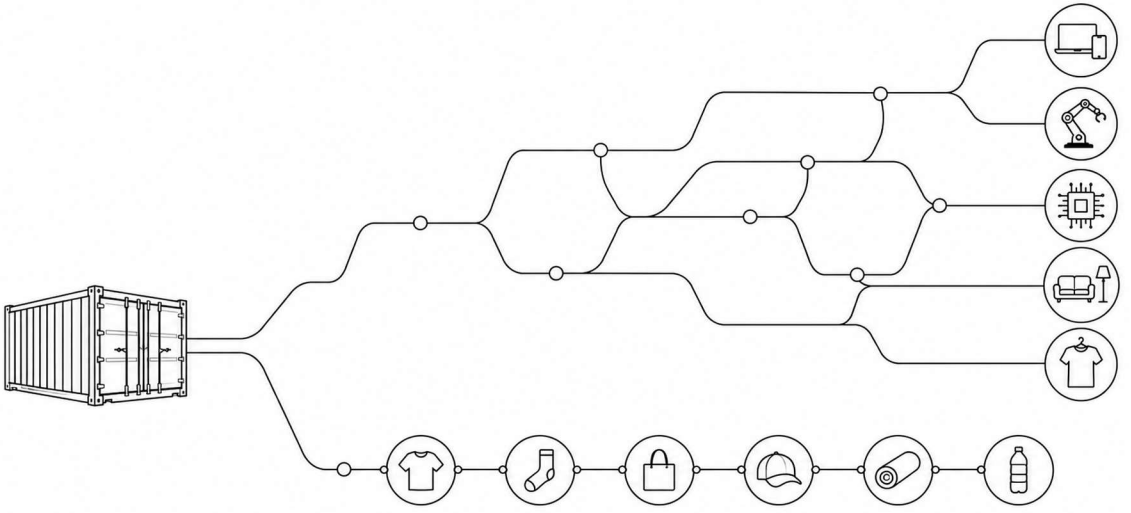
Global Evidence: Vietnam vs. Bangladesh

- Vietnam overtook Bangladesh as the world's second-largest apparel exporter **($44Bn vs. ~$28Bn).**
- This was achieved through a diversified product basket, rapid input access, and high productivity—not a cheaper currency.
- Relying purely on currency adjustment leaves a country exposed to basic, low-end goods.



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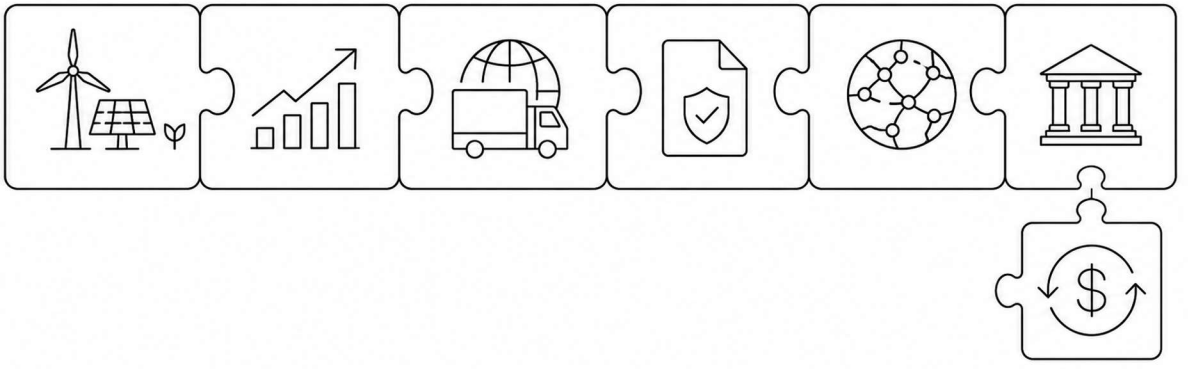
The Sequenced Solution

Devaluation in total isolation fails because structural cost issues **remain unaddressed.**

Currency adjustments are necessary when fundamentally overvalued, but they **must serve** as a **supporting instrument.**

Real transformation requires a sequenced package combining exchange reforms with **energy, tariff**, and **structural overhauls.**



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This export competitiveness model is based on Zafar Masud's framework, utilizing data from the State Bank of Pakistan (SBP).

Which structural barrier do you think Pakistan needs to solve first? Share your thoughts in the comments below.