Supporting Export Competitiveness amid COVID-19 in Pakistan
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Acknowledgement

This research work was carried out with financial and scientific support from the Foreign, Commonwealth & Development Office (FCDO) of the United Kingdom (or UK Aid). The authors of this report are grateful to Richard Ough, Jaffer Askari, and Ali Javed for their valuable comments and suggestions during various phases of this research. The research project was mobilized amid pandemic times with continuous administrative support from Saiqa Kanwal and Adnan Sultan. Sidra Riaz provided support in disseminating the findings from this research. For data collection, support of teams from Institute of Business Management, Karachi, Institute of Management Sciences, Peshawar, and Karachi School of Business and Leadership is acknowledged.

Suggested citation:

Executive Summary

This study aims to explore issues faced by firms in the trade sector amid COVID-19. We have gone beyond while looking at changes in turnover and export volumes across the different waves of pandemic. We have also explained the types of additional costs faced by exporters and importers during the lockdowns; coping strategies adopted by exporting firms; extent to which government support for trade sector firms was effective; and what new policy measures may be desired as the impact of pandemic are fully realized over the medium term. Additionally, attempts have been made to find out if tools available to the private sector for engaging with the government during crises time were sufficient to provide an understanding of losses and response.

To answer the above-mentioned research questions, we have relied on several different approaches. We have looked at the pre and post COVID-19 trade statistics and literature which has emerged during the first and second waves of the pandemic. Our firm-level survey includes responses from export sectors, including textile, leather, agro and food processing, and digital services. This survey of 306 exporting enterprises from Islamabad, Khyber Pakhtunkhwa, Punjab, and Sindh provinces was conducted between October and December 2020. Structured public private dialogues were also conducted with stakeholders from Balochistan, Gilgit-Baltistan and the provinces mentioned above.

Based on the above-mentioned, our key findings are highlighted below with details on each in the following sections.

- Several types of trade costs have increased for both exporters and importers. Compliance with SOPs and new standards in transportation and other aspects of logistics post additional costs.
- COVID-19 has led to productivity losses. Such losses were most reported by the commodity producing sectors in our sample.
- Temporary trade measures have been introduced by several economies importing from Pakistan. One example of such measures is in the form of new standards and stringent SPS measures introduced after the pandemic. These new trade protocols differ by sector and have cost implications, including the sunken costs related to information and learning by firms in trade.
- A more conscious buyer abroad is demanding greater details with regard to inputs, production processes, labour standards, workplace safety and hygiene related SOPs. In leather sector, for example, sales have been affected because of the global Leather Working Group (LWG) certification requirements, which has seen a recent change. It is important to regularly assess how buyer preferences could continue to evolve in the future.
- Networking and communication costs will see an increase as exhibitors shift from physical trade exhibitions to virtual or hybrid form of exhibitions and marketing channels. Travel protocols for both persons and goods-in-travel and transit are also frequently changed by countries. These changes, in particular, have implications for micro and small sized exporters, potential exporters, and startups in trade space. The low presence of Pakistanis on online forums, which provide relatively credible review of products and services, including Amazon, needs attention.
- Stricken by the impact of crisis, firms were forced to understand the fast-changing digital ecosystem; continue to embrace e-commerce and digital trade integration. However, adoption of digital systems is highly dependent on connectivity infrastructure which in some provinces was found in deficit. This could clearly act as a barrier to entry in the international trade arena. Micro entrepreneurs lacked the ability to invest in even the very basic digital communication platforms or create online payment channels on their webpages.
Large dynamic firms were found to capitalize on the new opportunities emerging from COVID-19. These firms were able to expand their portfolio amid COVID-19. In the textile sector, many such firms started production of personal protective equipment. Large firms also exhibited greater clarity on various types of government facilitation available during the crisis period and how to access it in a timely manner with low transaction cost.

Associations of exporters were found dominated by mid-sized and large firms which do necessarily let the information regarding new opportunities trickle down to smaller members of the association. The formation of delegations engaged with federal and provincial government were not found inclusive and also lacked representation of women-led enterprises.

New exporters in digital services trade pivoted well to access international markets, however, find it hard to access trade financing. Also, these firms complained that commercial banks lacked understanding of business models of these firms and hence showed reluctance.

Based on our findings, the following recommendations are being made. A more detailed explanation is provided in later sections.

- A deeper understanding is required into type and magnitude of costs, which have increased amid the pandemic. This could be possible through frequent structured public private dialogues until the time impact of pandemic becomes less intense.
- Equally important is to regularly source information, which reveals the extent to which firms in trade sector are able to benefit from government facilitation provided by federal and provincial governments and regulatory bodies, including the central bank. In case of weak uptake, remedial measures may be put in place.
- Technology could help sourcing timely information on challenges and risks faced by exporters. In this regard, an easy-to-use trade portal could allow exporting firms to quickly upload information on any supply chain disruptions for necessary action by MoC.
- To deal with the stringency in SPS measures, there is a need to hold a tripartite dialogue where senior management of MoC, trade officers abroad, and local private sector could share perspectives and explore solutions through which partner countries could be engaged.
- The same applies for dealing with temporary trade measures seen in some large markets, including China and EU. There is a need for deeper coordination between Pakistani missions abroad and business community for information regarding client- and location-specific transportation and cargo restrictions.
- A drive to support firm-level adoption of online technologies could help expedite the embracing of digital trade integration. Early implementation of e-commerce policy, information security policy, personal data protection law, and cloud computing policy could help.
- Regular review of tariff policy could keep a check on anti-export bias and distortions in competitive business environment. Fast tracking Pakistan Regulatory Modernization Initiative (PRMI) could help reduce regulatory burden on exporting enterprises.
- Any new revisions to FTAs should take into account the emerging opportunities during the pandemic and post-crisis times.
- There is a need to ensure improved healthcare facilities for workers dealing with moving goods or receiving them at ports (sea and land) and land border destinations.
- Any trade policy response to the pandemic needs to be take into account the specific needs of women-in-trade.
- Capacity building arms with in MoC, for example, Pakistan Institute of Trade and Development could host regular orientation for officials on changing trade protocols as a result of the pandemic.
1. Background

This study presents possibilities for an export-led recovery amid and post-pandemic. Our team has been extensively involved during the first and second waves of COVID-19 in supporting efforts by the Government of Pakistan, most notably by the Ministry of Commerce, and the Ministry of Industries and Production for the better designing of facilitation schemes for firms in the trade sector. We present, in this report, some entry points towards a comprehensive trade policy response to the crisis – an area which has been of deep interest in recent literature.\(^1\)

Several measures to curtail the spread of COVID-19 were introduced in Pakistan since mid-February 2020. The first measure was to increase public information through awareness campaigns on the dangers of the spread of the virus. Later, a nation-wide lockdown was imposed in the last week of March 2020. This included temporary shutting down of operations in industrial sector. Since then, the pandemic has had a significant impact on the business activity across the country. Although, the intensity of the initial lockdown was reduced by mid-June, different measures (including ‘smart’ targeted lockdowns, closure of schools and restrictions on public transportation) have been applied to counter the spread of the virus.

Pakistan did report one of the more stringent lockdowns in the early days of the pandemic compared to Bangladesh and India in the region. The stringency has significantly reduced relative to both countries since July 2020. The different levels of government stringency have been shown in figure 1.\(^2\)

We also present the workplace closure index in Figure 2. The provincial governments required all non-essential workplaces to close from March 24\(^{th}\), 2020. This lockdown continued well until the last week of April. The restrictions eased by the end of April, with further easing in different stages as can be seen in the downward trend of the green line representing Pakistan below. However, with the approach of smart lockdowns being adopted across the country, certain areas where the incidence of disease remained high continued to face workplace closures.

As is the case for the data presented here, a country is marked ‘closed’ if some sub-national regions may require closures. Hence, smart lockdowns involving workplace closures may increase the score for that period during which the lockdown is in effect. This explains an increase in the index for a brief period in October 2020. It is observed that after October Pakistan has the least stringent workplace closure enforced across the four countries as the index reports higher values for India, Bangladesh, and China in mid-November.\(^3\)

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\(^1\) Naude and Cameron (2020), Evenett et al. (2020), and Raihan et al. (2020).

\(^2\) The Oxford Coronavirus Government Response Tracker (OxCGRT) project calculates a Government Stringency Index. This is a composite measure of nine of the response metrics. The measures are school closures; workplace closures; cancellation of public events; restrictions on public gatherings; closures of public transport; stay-at-home requirements; public information campaigns; restrictions on internal movements; and international travel controls. A higher score indicates a stricter government response (i.e., 100 = strictest response). If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region. It is important to note that higher strictness does not necessarily mean that the response is better.

\(^3\) The stringency index and the workplace closure index measure the number and strictness of the government policies but does not reflect either the appropriateness or the effectiveness of the measures.
In view of the above-mentioned, it became necessary to look at firm-level competitiveness amid COVID-19 more deeply with a particular focus on exporting enterprises, which faced heightened travel and cargo restrictions. We were more specifically interested to look at three aspects, which could, in turn, inform the design of future relief and recovery efforts for private enterprises.

**First, which are the missing firms?** Most policies to help private enterprise end up favouring certain groups. It is, therefore, important to identify the excluded exporting enterprises prone to risk of being downgraded (in terms of their business size) after the crisis, which sector do they belong to
as well as the estimates and nature of their loss. It will be important to respond to their requirements as saving them eventually implies potentially more competitive exporting firms with learning capabilities, and better resilience in the future.

Second, access to capital speeds up recovery, but ‘capital’ alone is not enough when supply chains get disrupted. As we realized that there were going to be several waves of COVID-19, therefore it was important to understand from current, new, and potential exporters what their specific needs beyond ‘funding and finance’ are. Also, this will highlight, why for some exporters it is difficult to access monetary assistance or trade finance despite low interest rate. We also know from recent research that directed credit via private banks may not reach the smallest and most constrained firms. Therefore, when providing support, policymakers need to consider a range of instruments to ensure that particularly vulnerable export firms are not left out of the support net.

Finally, COVID-19 also presents opportunities to change the structure of incentives. The changes in the design of support packages could favour: a) potential exporting sectors and new exporting entities, b) increasing level of sophistication in existing exports, and c) deeper integration with the region and beyond through possible changes in tariff structure. We look into the needs of firms in digital space, which may have bright prospects even under crisis times. We are interested to know how these non-traditional exports (from services sector) can be facilitated by change in policy at federal and provincial levels.

Following key research themes will be addressed through our survey-based exercise:

- Issues faced by exporters and importers of goods and services (from select sectors) in doing business during pandemic.
- Any revenue loss or gain observed while comparing pre-pandemic and peak of pandemic periods?
- What type of additional costs were faced by exporters and importers during the lockdowns?
- What were the coping strategies adopted by exporting firms?
- How did government support help to pivot? Which policy and regulatory measures were most important? What new government measures are desired?
- Which engagement tools could help strengthen a shared understanding of loss and response during future crises?

The next section provides details on our methodology and data. This is followed by discussion on how Pakistan’s exports and imports fared during the first wave of COVID-19. Our analysis is based on actual data on flow and direction of trade. Next, we discuss our findings from a firm-level survey which was completed between October and December 2020 and aimed to capture details regarding challenges faced by exporters, their coping strategies and how the government can help them pivot better in crisis times and afterwards. We also present a brief econometric exercise which helps validate our survey results on firm performance, export supply, import demand, and labour demand amid COVID-19. We conclude with policy recommendations.

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4 Raihan et al. 2020.
6 e.g. changes to foreign exchange rules allowing liberal flow of receipts and payments.
2. Methodology & Data

2.1. Trade data analysis and literature review

The first step in our study was to look at the trade data during the initial months of pandemic outbreak. We have analyzed sectors relevant to this study and undertook a detailed literature review, which involved capturing the current knowledge regarding export losses, fiscal and monetary response to mitigate these losses, what more is desired by firms in the trade sector in terms of facilitating exporters, and also an understanding of countries’ response mechanisms.

2.2. Field Survey and Sector Selection

The next step was to design and implement a field survey. Based on the review of trade data and literature, a rapid firm-level survey of exporting firms was conducted. Given the time and resource constraints we had to select limited number of sectors for our analysis. We have thus selected a mix of traditional and non-traditional exporting sectors. In both segments, we have covered small, medium and large exporting firms.

More specifically, the traditional export sectors7 in the survey covered value-added textile8 and leather. The non-traditional export sectors in the survey were agro-processing9 and processed food sector.10 Our survey also incorporated responses from services sector exporters. Within the services sector, our focus was on exporting firms in digital space11. Also, from digital sector, we have captured responses from single-person entities including freelancers in segments such as online marketing, customer-service, software engineering, web-development, content writing, data entry, graphic design, and development of mobile applications.

2.3. Geographical Coverage

Our survey comprised of enterprises from Islamabad (capital territory), Khyber Pakhtunkhwa, Punjab, and Sindh provinces. Reason for selection of cities within these provinces was primarily based on the location of business, e.g., in case of traditional sector (value-added textile and leather) majority of the value chain points of interests are present in the cities or locations selected. In case of textile and leather, the Punjab has the highest value chain points of interest (38) followed by Sindh (26) and Khyber Pakhtunkhwa (14). As far as Balochistan is concerned, it has least number of value chain points (6) whereas Islamabad has no such point12.

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7 Those who traditionally were in the list of zero-rated sectors.
8 For more information see: https://textilevaluechain.in/2014/06/06/value-addition-in-textiles-and-clothing/
9 Output from cultivation of agricultural and horticultural crops, vegetables and post-harvest operation on all fruits and vegetables.
10 Output after converting fresh foods into food products. This includes washed, chopped, pasteurised, frozen, fermented, packaged, and cooked food etc.
11 As per our consultation with MoC, they are interested in freelancers who are in the exporting space. They have suggested if we can capture response from those working in programming and software development, web design services, content writing and marketing, graphic design, copywriting, and video editing. A priori expectation at MoC is that Covid-19 presents various opportunities for those in the freelancing sector. We hope that our survey will capture or inform regarding such expectations.
12 For more information: Please see https://invest.gov.pk/textile#gallery
Similarly, looking at the non-traditional sector (agro-processing and processed food), contribution of Khyber Pakhtunkhwa, the Punjab and Sindh is large compared to all other regions. The Punjab has the highest total crop area of 73% (out of 22.7 million hectares, it has 16.5 million-hectare crop area)\textsuperscript{13} followed by Sindh with 16% of the total crop area (GoS, 2018)\textsuperscript{14}.

2.4. Sample distribution and limitations

Among the limitations, we recognize that exporting enterprises in Balochistan, Gilgit-Baltistan, and Azad Jammu & Kashmir regions could not be covered due to time and resource constraints. The survey team had to be selective as they faced heightened threat of contracting COVID-19 during the days this fieldwork was undertaken. To some extent, we have tried to overcome these limitations through our public-private dialogues, which had representation from regions missed in the firm-level survey. Overall distribution of the final sample, after accounting for refusal cases, is as follows.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Exporting Firms (Number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Sector</td>
<td>183</td>
</tr>
<tr>
<td>Value added textile</td>
<td>136</td>
</tr>
<tr>
<td>Value added leather</td>
<td>47</td>
</tr>
<tr>
<td>Non-Traditional Sector</td>
<td>73</td>
</tr>
<tr>
<td>Agro-processing</td>
<td>23</td>
</tr>
<tr>
<td>Processed food</td>
<td>50</td>
</tr>
<tr>
<td>Services Sector (firms in digital space)</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total Sample Size</strong></td>
<td><strong>306</strong></td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on ratio of sectoral exports to total exports by using SBP FY19 export data

Most of the share in our sample has been allocated to traditional sector (183 firms in total) due to significant export value as percentage of total exports. Within the traditional sector, textile has been given highest weightage, i.e. 75% (136 out of 183 firms). Leather has a weight of 25% (47 out of 183 firms). The non-traditional sector (agro processing and processed food) has been allocated share of 24% (73 out of 306 firms). It is based on the percentage of agro and food exports, which comprises 20% of the total exports on average per annum, with majority share going to food sector (50 out of 73 firms) whereas rest are exporters in agro-processing sector.\textsuperscript{15}

Another limitation in our methodology and a missed opportunity as well was to not consider asking direct questions around psychological impact of COVID-19 on human resource in exporting enterprises. The team felt during the second half of 2020 that some questions on this subject

\textsuperscript{13} http://www.agripunjab.gov.pk/overview
\textsuperscript{14} For more details see: Government of Sindh, agriculture policy 2018-2030.
\textsuperscript{15} For details see: https://www.sbp.org.pk/ecodata/Export_Receipts_by_All_Commodities.pdf
should have been part of the questionnaire – an endeavour, which could be undertaken in future exercises.

The next step in our methodology was Key Informant Interviews (KIIs) and structured public-private dialogues (PPDs) to strengthen our qualitative insights. Both KIIs and PPDs were aimed at bringing out information related to future outlook as envisaged by the trade sector firms. KIIs were completed with representatives of both public and private sector.

### Distribution of KIIs

<table>
<thead>
<tr>
<th>Organizations</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
</tr>
<tr>
<td>State Bank of Pakistan</td>
<td>3</td>
</tr>
<tr>
<td>Fatima Jinnah Women University</td>
<td></td>
</tr>
<tr>
<td>Think tanks and development organizations</td>
<td>12</td>
</tr>
<tr>
<td>Office of Advisor to Prime Minister for Institutional Reforms and Austerity</td>
<td>1</td>
</tr>
<tr>
<td>Members of Pakistan Business Council and FPCCI</td>
<td>6</td>
</tr>
<tr>
<td>Khyber Pakhtunkhwa Chamber of Commerce and Industry</td>
<td>1</td>
</tr>
<tr>
<td>Department of Industry and Commerce, Government of Khyber Pakhtunkhwa</td>
<td>1</td>
</tr>
<tr>
<td>Board of Investment and Trade, Government of Khyber Pakhtunkhwa</td>
<td>1</td>
</tr>
<tr>
<td>Planning &amp; Development Department, Government of Sindh</td>
<td>1</td>
</tr>
<tr>
<td>Planning &amp; Development Department, Government of Punjab</td>
<td>1</td>
</tr>
<tr>
<td>Small and Medium Enterprises Development Authority (SMEDA)</td>
<td>1</td>
</tr>
<tr>
<td>Office of Advisor to Prime Minister on Commerce, Textile, Industries and Production</td>
<td>1</td>
</tr>
<tr>
<td>National Tariff Commission, Government of Pakistan</td>
<td>1</td>
</tr>
<tr>
<td>Federal Board of Revenue, Government of Pakistan</td>
<td>1</td>
</tr>
<tr>
<td>Lahore Chamber of Commerce</td>
<td>9</td>
</tr>
<tr>
<td>Lahore Business Executive &amp; Lions Club International</td>
<td>1</td>
</tr>
<tr>
<td>Standing Committee on Leather &amp; Leather Products, FPCCI</td>
<td>1</td>
</tr>
<tr>
<td>Standing Committee on Food Stuff &amp; Packaging, FPCCI</td>
<td>1</td>
</tr>
<tr>
<td>Standing Committee on Young Entrepreneurs, FPCCI</td>
<td>1</td>
</tr>
</tbody>
</table>
A discussion and crosstalk between private and public sector participants during PPDs allowed a candid exchange of ideas and probing questions by both sides. We also benefited from inputs provided by FCDO during and after our PPDs.

### Distribution of PPDs

<table>
<thead>
<tr>
<th>Sectoral Focus of PPDs</th>
<th>Number of PPDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Readymade garment (firm and association representatives)</td>
<td>2</td>
</tr>
<tr>
<td>Women-led exporting enterprises and associations</td>
<td>2</td>
</tr>
<tr>
<td>Digital trade sector</td>
<td>1</td>
</tr>
<tr>
<td>Horticulture sector</td>
<td>1</td>
</tr>
<tr>
<td>Processed food sector</td>
<td>1</td>
</tr>
</tbody>
</table>

2.5. **Questionnaire Development**

The development of questionnaire considered number of aspects ranging from objectives of our research to realities of administering the questionnaire face-to-face during the pandemic. Therefore, the first step was to develop general and sector-specific questions in line with our research objectives. The team responsible to structure the questionnaire also focused on the considerations mentioned in the introductory section.

The second step was to administer a firm-level survey across various provinces. To administer a questionnaire using a face-to-face interview technique, respondents from the exporting segment in select sectors were first identified from the overall universe of firms and later interviews were planned keeping in view the on ground situation of lockdowns.

As firms in few areas faced micro-lockdowns, therefore, some face-to-face interviews had to be organized in offices of business associations or other private sector support facilities, including Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA), Federation of Pakistan Chamber of Commerce and Industry (FPCCI), Sindh Industrial Trading Estate (SITE), National Incubation Center (NIC) Karachi, Pakistan Leather Garments Manufacturers and Exporters Association (PLGMEA), Pakistan Tanners Association (PTA), Lahore Chamber of Commerce and Industry (LCCI), Lahore Business Executive Lions Club International, Pakistan Leather Associates (Lahore), Business Incubation Center (BIC) Institute of Management Sciences Peshawar and Khyber Pakhtunkhwa Chamber of Commerce and Industry.
As some respondents were not comfortable with face-to-face interaction during pandemic times, therefore, a follow-up was ensured through telephonic means. Responses were noted down via phone for those respondents who willingly accepted the request for talk.

A minority in our sample preferred to complete the questionnaire after internal discussions with operational staff in the firm. For these respondents, online google form was developed and link was shared with these respondents.

This survey was not without its challenges. As explained above, some of the exporters were hesitant in giving face-to-face interviews due to pandemic threat. The peak of first wave of pandemic coincided with completion of annual tenures of business association office-bearers. Therefore, some exporters were engaged heavily in elections and administrative changes in various trade bodies. Chasing them required additional time and resources. Finally, few enumerators reported symptoms of COVID-19 due to which there were temporary delays in getting the responses from the field.

Our next step was to give an easy-to-follow sequence to our questions. All questions were closed-ended to arrive at an objective response and for ease of coding. Questions were mostly following multiple choice and Likert scale approach. Questions such as those related to policy measures had a scale to measure effectiveness. The queries related to costs and turnover focused on absolute or percentage changes. A key consideration was to pose clear and easy to understand questions. The survey team exercised care to avoid usual biases seen while designing and administering questions. A clear flow to our questions was created using funneling technique.

We then pilot tested and revised the questionnaire’s flow. The pilot testing was planned with 35 respondents (11% of total sample size). This number is based on the criteria provided in Sheatsley (1983). For a pilot exercise, meetings were arranged with representatives of textile industry, SITE Karachi, and representatives from FPCCI and LCCI.

### 2.6. Firm age and size

Majority of the firms surveyed were larger in size (large-sized and medium sized firms). This is partly due to higher share of these firms in the overall exporters’ list. The average age of firms surveyed is approximately 25.5 years. The firms surveyed in Khyber Pakhtunkhwa were the youngest on average and the firms surveyed in Sindh were the oldest. There are no major differences in firm age across industries. However, the larger firms are older than their counterparts on average. This suggests that age and firm size are likely to be correlated and that larger firms are likely to have more established business networks and greater experience in trade than their smaller counterparts. It is likely that larger firms have accumulated a higher number of workers over the years as they gain experience.

Around 70 per cent of the firms surveyed employ more than 50 workers. Women participation, although low in manufacturing industries, is the highest in the textile sector with some firms reporting more than 50 women workers. The same can be said for the large firms, which are more diversified than their counterparts. More than 80 per cent of the smaller firms, which include small

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and micro firms, employ zero women. The following distribution exhibits sample shares. This is only for commodity producing sectors in our sample as digital sector firms could have large export values even with smaller workforce and may not be comparable with goods sector.

<table>
<thead>
<tr>
<th>Sector and firm size</th>
<th>Sample share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Agro-processing</td>
<td></td>
</tr>
<tr>
<td>Large enterprise 250-above employees</td>
<td>1.17</td>
</tr>
<tr>
<td>Medium enterprise 51-250 employees</td>
<td>1.56</td>
</tr>
<tr>
<td>Micro-enterprise up to 10 employees</td>
<td>3.91</td>
</tr>
<tr>
<td>Small enterprise 11-50 employees</td>
<td>2.34</td>
</tr>
<tr>
<td>II. Food processing industries</td>
<td></td>
</tr>
<tr>
<td>Large enterprise 250-above employees</td>
<td>7.81</td>
</tr>
<tr>
<td>Medium enterprise 51-250 employees</td>
<td>3.13</td>
</tr>
<tr>
<td>Micro-enterprise up to 10 employees</td>
<td>4.68</td>
</tr>
<tr>
<td>Small enterprise 11-50 employees</td>
<td>3.91</td>
</tr>
<tr>
<td>III. Value added leather</td>
<td></td>
</tr>
<tr>
<td>Large enterprise 250-above employees</td>
<td>2.73</td>
</tr>
<tr>
<td>Medium enterprise 51-250 employees</td>
<td>8.59</td>
</tr>
<tr>
<td>Micro-enterprise up to 10 employees</td>
<td>1.17</td>
</tr>
<tr>
<td>Small enterprise 11-50 employees</td>
<td>5.86</td>
</tr>
<tr>
<td>IV. Value added textile</td>
<td></td>
</tr>
<tr>
<td>Large enterprise 250-above employees</td>
<td>26.56</td>
</tr>
<tr>
<td>Medium enterprise 51-250 employees</td>
<td>18.38</td>
</tr>
<tr>
<td>Micro-enterprise up to 10 employees</td>
<td>1.56</td>
</tr>
<tr>
<td>Small enterprise 11-50 employees</td>
<td>6.64</td>
</tr>
<tr>
<td>Total (I+II+III+IV)</td>
<td>100.0</td>
</tr>
</tbody>
</table>
3. Pakistan's Trade Amid COVID-19

The total exports and imports between July 2019 and January 2021 are presented in Figure 3. According to State Bank of Pakistan (SBP), the exports and imports in February 2020 stood at $2449 million and $4432 million respectively. However, the pandemic and the resultant lockdown in March 2020 slashed both exports and imports to one of its lowest levels in recent years.

The exports declined to $1807 million in April 2020 and imports declined to $3274 million in May 2020. Exports recovered to $2329 million in July 2020 while imports recovered to $4358 million in September 2020. Both the exports and imports recovered to pre-pandemic levels by October 2020 and saw a decline again in January 2021. However, not all sectors could recover fully and there are also sectors which had low pre-pandemic exports however have now seen rising demand after COVID-19. The dip observed for both exports and imports in August 2020 is also attributed to the challenges seen in the form of above-normal monsoon rains, floods, and electricity shortages. The simultaneous occurrence of several crises pointed towards policy areas where attention may be needed to augment resilience of commodity producing sectors.

Figure 3: Total Exports and Imports between July 2019 and January 2021

The monthly year-on-year growth rate of exports and imports is presented in Figure 4. There is significant volatility as export growth rate has oscillated between 15.6 per cent and negative 40 per cent and import growth rate 25 per cent and negative 41 per cent. The average of the monthly year-on-year growth rate for exports reported between July 2019 and February 2020 was 4 per cent. The exports were increasing in 2019-20 (FY20) in comparison to their values in FY19 until the lockdown and global conditions forced a downward trend in the exports.

The average of the monthly year-on-year growth rate for imports reported between July 2019 and February 2020 was negative 10.8 per cent. February 2020 was the only month between July 2019 and February 2020 in which the imports reported a positive growth. The average year-on-year monthly growth rate in exports between March 2020 and June 2020 was negative 22 per cent and in imports was negative 24 per cent. Post recovery, the average growth rate of exports was 0.65 per cent and of imports was -0.05 per cent.

The pandemic had an adverse impact on exports as not only was it increasing in comparison to its value in previous year (prior to the pandemic), but also this upward trend was crucial as exports
were recovering from a lengthy period of stagnation. Two major factors helping this trend include a flexible exchange rate regime, and second slower opening up of production activities in Pakistan’s competitor countries, in turn, allowing Pakistani exporters to clinch relatively greater market share in textile sector, for instance.

**Figure 4**: Monthly Year-on-Year Growth Rates of Export and Import between July 2019 and January 2021

The total value of exports for agro-based, food, leather and textile industries between July 2019 and January 2021 is presented in Figure 5. Textile products constitute the largest share in total exports from Pakistan, followed by food, leather and agro-based industries.

Textile exports peaked at $1.259 billion in December 2020, declined to $764 million in May 2020, but recovered to $1.001 billion in June 2020. There was a dip in August 2020. However, textile exports reported upward trend between September and December 2020, with highest value in December since July 2019. Exports again witnessed a decline in January 2021 to $1.206. The high global and local demand for personal protective equipment was driving this growth and helped firms to pivot during this period.

The exports from the agro-food industry\(^\text{17}\) show a declining trend due to the pandemic. However, the trend was much more subdued relative to that of the textile industry. The food industry experienced a mild impact from the pandemic. The fall in exports in August 2020 looks more severe than the fall due to the pandemic. The food exports peaked at $487 million in December 2019, declined to $274 million in August 2020 but increased to $479 million in December 2020. This industry could face another decline if stringent post-pandemic sanitary and phytosanitary (SPS) conditions are demanded by importers.

\(^{17}\) Agro and food processing industries are defined according to the State Bank of Pakistan (SBP) use of terms. Broader commodities in this regard taken are: i) live animals and animal products; ii) vegetable products; iii) animal or vegetable fats oil and waxes; iv) prepared foodstuffs; beverages, spirits, vinegar and tobacco.
The exports from the leather industry peaked at $80 million in January 2020, decreased to $45 million in May 2020, and recovered to $66 million in July 2020. In the case of a prolonged low levels of global demand, leather value added industries including footwear is expected to be hard hit.

**Figure 5:** Monthly Exports between July 2019 and January 2021

The monthly year-on-year growth rate in exports from Pakistan for the select sectors for months between July 2019 and January 2021 is presented in Figure 6. Textile, agro and food processing, and leather industries reported a negative monthly year-on-year growth rates. The textile industry recovered faster than the other industries as its growth rates were higher.

As agro and food-based industries are likely to be an important source of raw materials for the other industries. It is likely that the decrease was due to a fall in local demand by downstream producers. As demand of agro and food-based products from downstream producers increased in the recovery stages, the exports of these products revived. Further, in the analysis of large-scale manufacturing (LSM) index, agro and food-based industries report a negative change since last year. This suggests that output in these industries is adversely impacted because of disruptions related to purchase and prices of farm inputs including seed, fertilizers, pesticides, and fuels. Timely availability of credit also impacts here. These among others could be the reasons for the fall in this sector’s export levels as well.

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The percentage share of each product category in monthly exports is presented in Figure 7. Textile exports on average had a share of 46 per cent from July 2019 to January 2021. The share of agro and food exports was 17 per cent and leather remained at 3 per cent. The adverse shock in terms of the absolute value was much more significant in the textile industry than the agro and food, hence there was a sharp shift in shares as well. With textile industry observing a faster recovery, the share in total exports stood at 51 per cent in June 2020. This was higher than the share observed in February 2020 (45 per cent).

Figure 7: Percentage Share of Sectors in Exports between July 2019 and October 2020

The total value of imports by sector, between July 2019 and January 2021, is given in Figure 8. Imports of agro and food stood at a monthly average of $398 million during July 2019 and February 2020. This dipped in March to $416 million from $430 million in February, went past $430 million in April 2020, and dipped again in May 2020. Some volatility was attributed to fast evolving trade restrictions.
The imports of textile sector stood at an average of $282 million between July 2019 and February 2020. As recovery was witnessed, monthly imports of textile increased to $326 million in September 2020. The imports of leather products remained low around $75 million per month for much of FY20. This sector’s imports decreased to $60 million as the pandemic hit, but these recovered to $107 million in September 2020.

**Figure 8: Value of Monthly Imports between July 2019 and January 2021**

The monthly year-on-year growth rate of imports between July 2019 and January 2021 is presented in Figure 9. The average growth rates between July 2019 and February 2020 for all three sectors was negative. The growth rates from their high in January 2020 started a downward trend as the pandemic set in.

In July 2020, the imports recovered, and growth rates exhibited a positive trend. The growth rates averaged in the positive between July 2020 and September 2021. The imports of textile sector reported a year-on-year growth rate of 105 per cent in September 2020; imports of agro and food products reported 90 per cent growth in December 2020, and the leather sector continued in the negative.

**Figure 9: Monthly Year-on-Year Growth in Imports Between July 2019 and January 2021**
The percentage share of textile, agro-food based and leather sectors in total imports is exhibited in Figure 10. The agro and food products constitute 15 per cent of the total imports into Pakistan in November 2020, up from 7 per cent in July 2019. The textile imports increased to 9 per cent in March 2020 from 5 per cent in July 2019. It decreased to 6 per cent in July 2020, rising up again to 10 per cent in January 2021. The share of leather industry remained around an average of 0.1 per cent between July 2019 and January 2021.

With domestic production adversely impacted, as can be seen by the fall in LSM quantum index of agro and food sector later in this chapter, there was an increase in demand for imported agro and food products to boost local availability and stabilize prices. It is likely that the agro and food products imported may not be produced in significant quantities in the medium term, which has kept expectations of further increase in imports high. The downstream producers may be more reliant on the imports of such goods rather than utilize local variants, and also may be forced to increasing imports as their own level of production increases and local inputs are in short supplies.

**Figure 10: Percentage Share of Select Industries in Imports**

One of the most critical indicators in determining the future trends in production is the import of machinery. Although certain machinery may have domestic variants that reduces the demand for imports, an increase in the imports of machinery helps boost productivity particularly if the imported version allows output to move to a higher frontier. The imports of textile machinery and agricultural machinery are presented in Figure 11.

Approximately $50 million of textile machinery was imported in July 2019. There was a decreasing trend till December 2019. Although imports increased in January 2020, the onset of the pandemic limited the amount. The imports of textile machinery decreased to $26 million in May 2020. However, with the recovery in the textile exports, the demand for machinery increased. It recovered to $50 million in August 2020.

The imports of agricultural machinery remained $10 million in July 2019. The volatility is much lower than that observed for textile machinery. Imports of agricultural machinery remained between $6.3 million and $6.7 million from December 2019 to July 2020. It increased to $10
million in August 2020 and since then was reported at $8 million and $8.6 million in September 2020 and October 2020 respectively.

Figure 11: Total Imports of Textile and Agricultural Machinery

The monthly year-on-year growth rates in imports of textile and agricultural machinery between July 2019 and October 2020 are presented in Figure 12. Although, the textile machinery imports increased 100 per cent in July 2019, there was significant volatility as the growth rate oscillated between -36.5 per cent in October 2019 and 22.2 per cent in February 2020. Between March 2020 and July 2020, the average year-on-year growth rate for textile machinery imports was -36.3 per cent. This shot up to an average of 37 per cent between August 2020 and October 2020. The average year-on-year growth rate of agricultural machinery was -20.2 per cent between July 2019 and February 2020.

The imports of textile machinery in the first four months of FY21 have increased. This is a promising trend given the revival of textile exports post lockdown period. This is also attributed to the higher credit-offtake (lending allowed on concessional terms) seen in this sector after COVID-19.
As there is no official release of monthly GDP data in Pakistan, Hussain, Hyder and Rehman (2018) suggest LSM is a useful indicator to predict future growth trends. The Quantum Index of LSM is presented in Figure 13. It falls between 127.72 and 147.32 between July 2019 and November 2020. Although, it shows a slight decline in November 2019 at 129.64, the trend shifts upward till February 2020 as it surpasses 160. However, the index falls to 85.59 in April 2020. This is one of the sharpest declines in recent years. It recovered to 135.65 in July 2020, recorded a slight dip at 125.38 in August 2020 and then recovered again in September 2020 to 138.03 – indicating successful pivoting by most sectors as well as availability of credit and trade finance on concessional terms.

Figure 13: Quantum Index of LSM (Base Period 2005-06)
The percentage change in the QIM for select sectors is presented in Figure 14.\textsuperscript{19} The average monthly change across all industries was positive between July 2019 and February 2020. This turned negative for textile (-31.9), food, beverages, and tobacco (-6.2), leather (-55.9), and for agro-based industries (-20.2) between March 2020 and June 2020.

A recovery in textile is seen during July 2020, and for food, beverages, and tobacco in May 2020. The leather products and agro-based industries could not return to positive growth even until September 2020. Many in textile sector believe that the recovery was on the back of a shift towards market determined exchange rate, release of tax refunds, early opening up of production facilities, and ability of dynamic firms to pivot and diversify towards production of personal protective items.

\textbf{Figure 14:} QIM for Select Industries, July 2019 to August 2020

The information presented in Table 1, Table 2 and Table 3 describes the different policy interventions in 2020 along with their inception and removal dates. Several measures were introduced to support domestic industries by providing them access to critical raw materials and intermediate goods. In some sectors, export restrictions were also seen (with intent to meet local demand).

This was done to ensure essential products were not exported and remained available for domestic consumers. As the lockdown eased, supply increased to meet local demand and the government realized the potential for export growth; the ban on exports that were imposed earlier were removed while tax-based incentives were also provided to increase competitiveness.

\textsuperscript{19} In this chart, agro based industries consist of paper and board, rubber products and wood products.
**Table 1: Trade Measures for Textile Products (2020)**

<table>
<thead>
<tr>
<th>Measures</th>
<th>Intervention Type</th>
<th>Inception Date</th>
<th>Removal Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duties on imports of textile goods withdrawn</td>
<td>Import tariff</td>
<td>13/10/2020</td>
<td></td>
</tr>
<tr>
<td>Duty drawback increased on exports of carpets, rugs, and runners</td>
<td>Tax-based export incentive</td>
<td>15/06/2020</td>
<td></td>
</tr>
<tr>
<td>Exports of certain personal protective equipment banned temporarily due to the COVID-19 pandemic</td>
<td>Export ban</td>
<td>24/03/2020</td>
<td>24/09/2020</td>
</tr>
<tr>
<td>Import duties on certain medical goods withdrawn temporarily</td>
<td>Import tariff</td>
<td>20/03/2020</td>
<td>20/09/2020</td>
</tr>
<tr>
<td>Import duties withdrawn on cotton and liberalization of imports</td>
<td>Import tariff</td>
<td>15/01/2020</td>
<td></td>
</tr>
<tr>
<td>Regulations relaxed to facilitate import of medical products during the COVID-19 pandemic</td>
<td>Controls on credit operations</td>
<td>25/03/2020</td>
<td></td>
</tr>
<tr>
<td>Regulatory duty on cotton withdrawn</td>
<td>Import tariff</td>
<td>15/01/2020</td>
<td></td>
</tr>
<tr>
<td>Sales tax exempted temporarily on certain medical goods withdrawn temporarily in response to the COVID-19 pandemic</td>
<td>Internal taxation of imports</td>
<td>20/03/2020</td>
<td>19/09/2020</td>
</tr>
</tbody>
</table>

Source: Global Trade Alert (https://www.globaltradealert.org/)

**Table 2: Trade Measures for Leather Products (2020).**

<table>
<thead>
<tr>
<th>Measures</th>
<th>Intervention Type</th>
<th>Inception Date</th>
<th>Removal Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty drawback rates increased on export of finished leather products</td>
<td>Tax-based export incentive</td>
<td>20/05/2020</td>
<td></td>
</tr>
<tr>
<td>Duty drawback rates increased on exports of finished leather products</td>
<td>Tax-based export incentive</td>
<td>28/09/2020</td>
<td></td>
</tr>
</tbody>
</table>

Source: Global Trade Alert (https://www.globaltradealert.org/)
### Table 3: Trade Measures for Food and Agro-based Products (2020)

<table>
<thead>
<tr>
<th>Measures</th>
<th>Intervention Type</th>
<th>Inception Date</th>
<th>Removal Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty drawback introduced on exports of supplementary/therapeutic food</td>
<td>Import tariff</td>
<td>27/04/2020</td>
<td></td>
</tr>
<tr>
<td>Duty-free imports and export ban announced for wheat</td>
<td>Export ban</td>
<td>10/06/2020</td>
<td></td>
</tr>
<tr>
<td>Exemption from Regulatory Duty on imports of wheat</td>
<td>Internal taxation of imports</td>
<td>21/07/2020</td>
<td></td>
</tr>
<tr>
<td>Ban on sugar export</td>
<td>Export ban</td>
<td>10/02/2020</td>
<td></td>
</tr>
<tr>
<td>Export of onions temporarily banned</td>
<td>Export ban</td>
<td>24/03/2020</td>
<td>31/05/2020</td>
</tr>
<tr>
<td>Import duties on pulses and oils reduced as part of stimulus package announced in response to the COVID-19 pandemic</td>
<td>Import tariff</td>
<td>07/04/2020</td>
<td>30/09/2020</td>
</tr>
<tr>
<td>Import of wheat by the private sector allowed without any limits</td>
<td>Import quota</td>
<td>22/06/2020</td>
<td></td>
</tr>
<tr>
<td>Import quota of wheat with withdrawal of regulatory duty</td>
<td>Import quota</td>
<td>20/01/2020</td>
<td>31/03/2020</td>
</tr>
<tr>
<td>One-time import quota for wheat in the public sector announced</td>
<td>Import quota</td>
<td>21/08/2020</td>
<td></td>
</tr>
<tr>
<td>Regulations relaxed to facilitate import of medical products during the COVID-19 pandemic</td>
<td>Controls on credit operations</td>
<td>25/03/2020</td>
<td></td>
</tr>
<tr>
<td>Sales tax exempted on imports of sugar</td>
<td>Internal taxation of imports</td>
<td>20/08/2020</td>
<td></td>
</tr>
<tr>
<td>Temporary sugar import quota announced with a reduction of internal taxes</td>
<td>Import quota</td>
<td>27/08/2020</td>
<td>15/11/2020</td>
</tr>
</tbody>
</table>

Source: Global Trade Alert (https://www.globaltradealert.org/)
4. Findings from Firm-level Survey

4.1. Reporting a Lockdown

Overall, the length of duration reported for low turnover has been diverse between 1 and more than 6 months. Approximately 70 per cent of the businesses reported a shutdown during the pandemic. A larger percentage of businesses in Khyber Pakhtunkhwa reported a shutdown. Agro and food processing industries reported a lower rate than firms in textile and leather.

About 80 per cent of the firms reported a shutdown in Khyber Pakhtunkhwa followed by 61 per cent in Sindh. Approximately 43 per cent agro-based businesses and 34 per cent of food processing businesses reported a shutdown. The businesses reporting a shutdown belonging to leather and textile sectors exceeded 80 per cent. The large firms were the least impacted by the shutdown, while medium-sized firms were the most impacted, indicating that the larger firms had more resilience to withstand the shutdown. Larger firm’s ability to manage cash flow related challenges is the key here. As per government policy, those firms which were having export orders were also allowed to reopen earlier as compared to others. (Mostly these were the larger firms.

Additional time was spent in dealing with various government departments and demonstrating compliance with SOPs of COVID-19. Firms on average reported between 1 and 10 days of dealing with various government departments. A larger percentage of firms in Khyber Pakhtunkhwa and rural parts of the Punjab and Sindh reported a higher number of days dealing with the government.

Agro-based and food processing firms reported a large percentage of more than 30 days of dealing with the government during the first and second waves. On the other hand, the leather and textile firms reported relatively lower number of days. Dealing with the labour department and ensuring SOPs for human resource was a major challenge for textile and leather firms. Larger firms reported less number of days dealing with the government relative to the smaller firms.

Almost 100 per cent of the firms in Khyber Pakhtunkhwa and the Punjab reported low turnover. This declined to 91.5 per cent for firms in Sindh. Lesser number of agro-based and food processing firms reported reduced turnover compared to firms in leather and textile industries. Similarly, large and medium sized firms were relatively better positioned to face challenges, which accompany low turnover than the small-sized and micro-sized firms.

4.2. Challenges Amid COVID-19

The frequency of problems faced by the firms during the COVID-19 pandemic is reported in Figure 15. The problems frequently reported include (a) inability to deliver existing orders, (b) decrease in export orders, (c) shift in consumer demand, (d) increase in difficulty of financing, (e) decrease in local orders, (f) disruption in logistics, and (g) upstream and downstream chain disruptions. There are over 15 percent exporting firms who struggled in either their ability to deliver existing orders or report a decrease in export orders. Around 10 per cent firms report either a shift in consumer demand or an increase in the difficulty in financing their production.
Out of 256 firms, 120 reported at least one of the following problems: export loss, transportation delays, cash flow issues and production loss. The firms in the agro-based industry reported the highest prevalence of the problems across four industries with production loss being the most significant outcome of first wave of COVID-19.

The prevalence of problems increases as the size of the firm decreases. Disruption in logistics is a major issue for firms in both agro-based and food processing industries, while decrease in purchase orders as a challenge is limited to firms in agro-based industry. Leather sector reports the highest prevalence in cost per firm across four industries. The gas supplies and associated tariff (during first wave) posed a challenge for firms in both leather and textile sectors relatively more than the other two sectors.

We also present here those costs, which ultimately created cashflow difficulties for firms (Figure 16). Khyber Pakhtunkhwa finds disruption in logistics, including storage and warehousing; Sindh reports electricity costs and the Punjab reports gas supplies and tax issues, including slow (tax) refunds as the most significant costs, which posed cash flow challenges. Despite a reduction in tax rates for some sectors, the compliance costs have remained high for exporting firms (as most are also supplying locally).
4.3. Cash Flow Sustainability and Working Capital

The measures to deal with cash flow shortages due to pandemic are presented in Figure 17. The measures mentioned by our respondents include (a) temporary shutdown of operations (b) reduction of operating costs, (c) staff layoffs (d) borrowing from financial institutions, (e) borrowing from other sources (f) reliance on tax rebate, and (e) cutting down on production.

Overall, approximately, 15 per cent of the exporting firms reported cash flow sustainability of less than 1 month, 65 per cent reported sustainability of 1-3 months and 20 per cent reported sustainability of more than 3 months. The firms in Khyber Pakhtunkhwa reported lower levels of sustainability than the firms in the Punjab and Sindh.

Although, firms reporting cash flow sustainability of more than three months were equally prominent across the four industries, a larger percentage of firms in agro-based and leather industries reported cash flow sustainability of less than 1 month.
Larger firms showed greater cash flow sustainability than smaller firms. More than 35 per cent of large-sized firms showed cash flow sustainability of more than 3 months.

Temporary shutdown of operation and borrowing from financial or other sources were the most prevalent forms of coping mechanisms in Khyber Pakhtunkhwa; firms in the Punjab resorted to temporary shutdowns, rationalized operating costs and used the space created by tax rebates. The most prevalent measure in Sindh was staff layoffs or reduction.

The leather industry revealed the highest prevalence of measures to deal with cash flow shortages, with heavy reliance on temporary shutdowns. The textile sector was helped by the rebates it received to deal with the cash flow shortages, while the agro-based firms reported a higher prevalence of loans from sources other than the financial sector (peer to peer lending) and the food-processing firms relied on reduction of operating costs.

The larger firms in the textile sector are also more likely to receive rebates. On the other hand, the smaller firms reported a higher prevalence for temporary shutdowns and receiving loans from private individuals.

Approximately 60 per cent of the firms surveyed reported an export loss, with an average loss in export value of 46 per cent. Firms in Khyber Pakhtunkhwa reported the highest in terms of export loss due to the pandemic. The firms in the agro-based industry reported an export value loss of 67 per cent, which was the highest among the four industries. The smaller firms reported a higher loss in terms of percentage of export value.

Approximately 14 per cent of all firms surveyed reported a change in export documentation processes after COVID-19. The learning costs associated with such changes in documentation are felt dearly during emergency times. Firms in Khyber Pakhtunkhwa reported the largest change followed by Sindh. Firms in the leather industry reported the highest change, while firms in food processing reported the least.

Training labour on pandemic-related SOPs and workplace hygiene was the most reported strategy to counter the effects of pandemic and continue smooth operations. Firms in Sindh adopted the highest number of measures per firm. In sectoral terms, food processing industries adopted the highest number of measures per firm. Larger firms reported a higher prevalence of the strategies than the smaller firms.

**4.4. Increase in Operations Costs**

The approaches towards pivoting adopted amid pandemic are presented in Figure 18. These include: (a) training labour on SOPs and improved workplace hygiene, (b) quality control measures, (c) use of livestreamed online stores, (d) production or exports of new products, and (e) finding new export markets abroad. There is a significantly higher incidence for training labour on SOPs and workplace hygiene as 213 out of 256 firms reported this strategy. This also seems to be a major demand of buyers abroad once they conduct own due diligence. The adoption of other strategies is limited. Many exporting firms see investing in adoption of new and safe production methods as part of their organizational learning.
Firms reported a higher increase in the variable costs than for the fixed costs. In the case of latter, more than 30 per cent of the firms in Khyber Pakhtunkhwa reported significant increase in fixed costs. This drops to 20 per cent for firms in the Punjab and Sindh. The firms in the agro-based industry reported the highest increase in fixed costs, followed by firms in food-processing, leather, and textile industries respectively. This may be because of a one-time cost to arrive at a better compliance with SOPs amid COVID-19.

Considering the disaggregated variable costs, freight-out and direct material costs have increased the most. More than 80 per cent of the firms reported a significant increase in freight costs, while 60 per cent of the firms did so for direct material costs. Interestingly, more than 10 per cent of the firms reported a decrease in production supply costs. This is true for select industries, including textile, which were quick to receive refinance facilities.

### 4.5. Cost Structure and Role of Expectations

The expectations of the future fixed and variable costs are presented in Figure 19. These expectations will play a significant role in future pricing strategies adopted by exporting firms. A little over 50 per cent of the firms believe that fixed costs could increase further during the pandemic period. However, the share of firms expecting the variable costs of production to increase as the pandemic prevails is much higher at 80 per cent.

In terms of the fixed costs, rental, salaries, and access to utilities continue to top the list. There is fear of a large number of suppliers approaching a shrunken market or faced with lower global demand for a long period. Owing to this, the expense on marketing and related promotional activities is also expected to increase. Agro and food processing sectors show a much higher expectation of increase in fixed costs than textile or leather.

In terms of the variable costs, direct material expense, freight-out, and compliance with SOPs and other hygiene related measures are expected to increase more than other categories. Agro-processing and leather sector expect a much higher increase in variable costs compared to other sectors.
**Figure 19:** Expectations Regarding Firm’s Fixed and Variable Costs

**Figure 20:** Expectations Regarding Firm’s Disaggregated Fixed Costs
Figure 21: Expectations Regarding Firm’s Disaggregated Variable Costs

Figure 22: Sector-wise Expectations Regarding Firm’s Fixed and Variable Costs

4.6. Government Support and Uptake

Only a half of the exporting firms reported availing at least one facility offered under the government’s package for exporters (including facilitation offered by the central bank). 13 per cent firms in Khyber Pakhtunkhwa, 98 per cent in the Punjab and 27 per cent in Sindh have availed at least one facility. It is likely that the information or outreach regarding these support measures was not uniform across the country due to which we observe a large variation in uptake.

Firms in the agro-based industries reported the lowest percentage at 13 per cent, while on average 55 per cent of the firms belonging to other industries availed at least one facility. There are 17 per cent micro-sized firms who availed government facilitation compared to 50 per cent small-sized firms, 64 per cent medium-sized and 49 per cent large-sized firms.
More specifically, our survey inquired about access to: (a) central bank refinance scheme to support employment and prevent lay-offs, (b) borrowing at reduced interest rate, (c) relief package for businesses by federal or provincial governments, (d) ensuring availability and continuity of financial services, (e) facilitation with online presence and payments, (f) relief in utility bills, including electricity, (g) tax facilitation and rebates, (h) access to new information on business opportunities provided by various government departments, and (i) farmer field schools.

The most effective schemes as per our respondents were: (i) information provided on new business opportunities, (ii) relief in utility bills, (iii) facilitation with digital payments, and (iv) ensuring availability and continuity of financial services. The least effective measures were those adopted by tax authorities, according to our respondents (Figure 23). Contrary to the popular perception regarding liberal availability of loans, we were informed during our public private dialogue in Sindh regarding slow processing of loans for fixed investment and modernization that also adversely impacted firms who have potential to get more export orders.

Figure 23: Effectiveness of Government Support

Figure 24: Effectiveness of Government Support by Province
We also asked the respondents regarding policy areas where firms believe that the government needs to improve design of existing facilitation. The key responses are presented in Figure 27. These include facilitation with: (a) direct taxes, (b) GST on goods, (c) energy bills, (d) customs duties, and (e) reduction in tax compliance costs. It was demanded that tax bodies at federal and provincial level need to reflect and move forward with an understanding of how they can contribute to post-pandemic economic recovery. Lack of tax harmonization across federation came up as an issue. To respond to tax notices or audit queries, it wasn’t possible to visit various tax offices in-person during the COVID-19 outbreak.
Firms in the Punjab are more likely to demand improvements to government facilitation. Earlier, the above-mentioned findings also suggested that the firms in the Punjab are less likely to find existing facilitation effective. Firms in food processing industries are more likely to request improved facilitation, followed by firms in textile, leather, and agro-based industry. During our public-private dialogue in Sindh, we were informed that to ensure food security, agriculture sector services, such as movement of farm machinery and labour for harvesting, was exempted from the lockdown. However, regular breeding services to livestock farmers suffered as several important tasks such as bovine semen collection, distribution of bovine semen, and artificial insemination were disturbed during the lockdown.

Lastly, the larger the size of the firms, the more they are likely to request improved design and delivery of government facilitation. This is contrary to the findings for the effectiveness of the relief measures. This implies that the larger firms are likely to prefer that the government improves facilitation rather than continue merely with relief measures. Although micro-sized firms prefer reporting a lower value for accessing the government facilitation per firm, they were more likely to request facilitation in energy bills than their larger counterparts. All firms highlighted the need for more efficient and improved online payment mechanisms.

4.7. Precautionary Measures

All firms surveyed adopted at least one of suggested measures on their premises to curtail the spread of the pandemic. The main precautionary measures (Figure 28) include: (a) usage of masks, sanitizers, handwash facilities and face shields, (b) multilingual communication on SOPs notified by the government, (c) use of germ killing spray, and (d) monitoring of employees’ health status, including regular COVID-19 tests of employees. 192 out of 306 firms (67%) made it mandatory to use protective equipment. 120 firms ensured multilingual communications on SOPs, and 107 firms regularly sanitized their premises.

Figure 28: Precautionary Measures taken by Firms during the pandemic
Overall, 30 per cent of the firms spent less than Rs 20,000 per month on SOPs, 40 per cent spent between Rs 20,000 and Rs 100,000 per month. Less than 5 per cent had to spend more than Rs 1 million.

Firms in the Punjab and Khyber Pakhtunkhwa reported greater precautionary measures than other parts of the country. The firms in the Punjab were more likely to adopt the use of masks and sanitizers, while firms in Khyber Pakhtunkhwa adopted communication in local language on SOPs. More than 50 per cent of the firms surveyed in the Punjab spent less than Rs 20,000 per month, while this percentage for Khyber Pakhtunkhwa and Sindh was much lower.

Precautionary measures were more prevalent in the food processing industries relative to other industries. More than 70 per cent of the firms in this sector spent Rs 100,000 to 1 million per month on the precautionary measures, while more than 40 per cent of the firms in the leather industry spent less than Rs 20,000 per month.

Larger firms were more likely to monitor the health of their workers and use of sanitizers. The smaller firms were more likely to enforce the use of face masks and multilingual communications.

4.8. Human Resource Challenges

Most firms had to consider changing the number of daily wage workers present on the premises, and the salary or incentives provided to workers during the ongoing and recovery phase. Around 19 per cent of the exporting firms laid off their staff. The highest percentage was reported in Khyber Pakhtunkhwa at 31 per cent followed by Sindh at 17 and the Punjab at 15 per cent.

The agro-based and leather industries reported the lowest percentages at 13 per cent. The textile industries reported the highest percentage of staff laid off at 23 per cent and food sector firms followed at 18 per cent. Small-sized firms reported the highest (25%) of staff laid off. Firms located in Khyber Pakhtunkhwa and firms in the textile industry are likely to be relatively vulnerable. Approximately 60 per cent of the firms in Khyber Pakhtunkhwa and the Punjab on average laid off 10 per cent of their workers. The percentage of firms doing the same in Sindh was lower at about 40 per cent.
The measures to manage the surge in labour costs (and cost to make labour practices compliant) over the months following the COVID-19 outbreak are presented in Figure 29. The main measures include adopting (a) flexible working hours, (b) new modes of worker education or training, (c) scaling up of employees’ skills for efficient working, (d) critical compensation, (e) monitoring performance and organizational restructuring, and (f) ad hoc hiring to accommodate increased demand. Out of 306 firms, 154 firms adopted flexible working hours and 81 firms invested in improving employee skills to pivot during the crisis.

Firms in Khyber Pakhtunkhwa were found more likely to experiment different measures to manage labour costs than firms in the Punjab and Sindh. The flexible working hours method is more preferred to save labour costs in the Punjab than in the other provinces. Firms in the Punjab are unlikely to hire more in the near future.

The firms in the food processing industry experimented different measures relatively more than firms in other industries. The new hiring to accommodate an increase in demand for products (once economy recovers) is also more likely for firms in food processing than in the other industries. Furthermore, firms in food processing industries are more likely to invest in improving the skills of the employees. Lastly, the micro-sized firms were more flexible, and keen towards worker training.

**Figure 29: Measures to Manage Labour Costs over the Next Six Months**

4.9. Challenges in Acquiring Inputs and Intermediate Goods

Firms reported challenges in acquiring raw materials to produce their output amid COVID-19 pandemic. Some firms highlighted how difficult it was to source raw material from abroad due to disruptions in transport, logistics, and customs immediately after the outbreak. Around 77 per cent of the firms reported constraints in acquiring domestic inputs and 29 per cent reported challenges in acquiring foreign inputs.

Firms in the Punjab were the most constrained in acquiring their domestic inputs as 100 per cent of the firms reported difficulty followed by 52 per cent of the firms in Sindh. Firms in the Punjab and Sindh were equally constrained when acquiring foreign inputs, at 33 per cent. The firms in Khyber Pakhtunkhwa were the least constrained by the pandemic in acquiring foreign inputs as 15 per cent of the firms were impacted.
The firms across the four industries were equally constrained in acquiring domestic inputs, with 80 per cent of the firms reporting constraints. On the other hand, less than 10 per cent of the firms in the agro-based industry reported difficulty acquiring foreign inputs, 18 per cent of the firms in the food processing industry, 34 per cent in leather industry and 35 per cent in the textile industry.

The large-sized firms (65%) reported difficulties in getting domestic inputs, however a substantial 97 per cent of small-sized firms reported difficulties. The larger firms were more constrained than the smaller firms in acquiring foreign inputs. Micro-sized firms did not report any constraints in acquiring foreign inputs. This is possible if micro-sized firms are not purchasing foreign inputs for their production.

The export sector took several measures to counter the constraints due to shortages of raw material or increase in prices of inputs (Figure 30). The most important measures were (a) negotiating a delayed delivery of goods, (b) decreased production levels, (c) seeking new procurement channels, and (d) additional working hours for existing workers. Other measures, though less prominent, include seeking new procurement channels.

Figure 30: Measures taken due to Raw Material Shortages or Rising Input Price

4.10. Adoption of Digital Channels

The effectiveness of digital trade processes can be essential in the pivot process. This is exhibited in Figure 31. More than 60 per cent of the firms reported that the use of online banking facilities for payments were either effective or highly effective. This did not exceed 35 per cent for any of the other measure. The customer support to bring banking sector customers online was expedited
after the pandemic. The central bank also scaled up its digital space initiatives under the National Financial Inclusion Strategy.

**Figure 31:** Effectiveness of digital trade measures

5. State of Digital Sector Firms Amid COVID-19

To determine the impact of COVID-19 on the digital sector, 50 firms (in this sector) were interviewed in Islamabad, Peshawar, Karachi, Lahore and select second-tier cities. These firms are providing information technology or web development services, advertising and marketing services, internet marketing, content writing, online education and training, graphic design services, mobile applications development, data entry, visual arts, and related activities. All firms in the sample are active in international trade-in-service.

The number of firms reporting change in turnover during the COVID-19 period from February to September 2020 is presented in Figure 32. There are 32 firms (64%) reporting a decrease in the turnover and 18 firms (36%) reporting an increase. There are 4 firms reporting an increase of more than 50% in their turnover.
Figure 32: Firms reporting change in turnover (February to September 2020)

The major source of revenues of these firms is presented in Figure 33. Approximately 32 per cent of the firms had domestic clients before COVID-19, 13 per cent had international clients and 55 per cent had both domestic and international clients. However, after COVID-19 pandemic hit, this distribution changed. 20 per cent of the firms had domestic clients, 31 per cent had international clients, and 49 per cent had both. The number of firms with only international clients increased while the number of firms with either only domestic clients or both domestic and international clients decreased. This also implies that local buyers of digital sector output faced a temporary shutdown in their activities or could not afford some of these services.

Figure 33: Origins of Firm Revenue

5.1. Impact of Lockdown

The impact of lockdown based on whether firms received or started a new contract or project during the lockdown period is analyzed. There are 32 firms (65.3 per cent) which won or received a new contract during the lockdown period while 17 did not. The number of firms undertaking different measures to pivot during the pandemic is presented in Figure 34. 29 firms used the time to learn
new and marketable skills, 28 firms built their social media presence, 24 firms provided special deals to customers, 16 firms diversified the client base, and 10 firms renegotiated contracts.

**Figure 34:** Measures Taken to Pivot during Pandemic

![Bar chart showing measures taken by firms](image)

The direction of average rate per assignment charged (Figure 35) shows that most firms preferred to keep the rates the same (as seen during pre-pandemic period). There are 26 firms (53 per cent) which kept the rates the same. More firms lowered the rates than raised them. About 16 firms (32.6 per cent) lowered the rates, while 5 increased the rates. Therefore, the market has not become pricier for the digital goods and services even though, according to most anecdotal evidence, the number of contracts increased for some and the demand for the services has increased overall during COVID-19.

**Figure 35:** Change in Average Rate per Assignment Charged

![Bar chart showing change in average rate](image)

The most significant challenges to this sector during COVID-19 outbreak is presented in Figure 36. The firms were asked to rank top-three challenges. There are 23 firms which reported difficulty in finding new contracts as the most important of the challenges, 20 firms reported fewer orders, 19 firms reported change in working patterns, 18 firms reported inability of clients to pay, 16 firms
reported cancellation of events or meetings and 14 firms reported insufficient cash flow. Further, 13 firms reported increased anxiety and stress, 13 firms reported revenue loss, 12 firms reported less sale, 12 firms reported increased competition for available work and 10 firms reported pressure to decrease rates. Other challenges include but not limited to cancellation of contracts, changing global landscape, and adapting to new technologies.

**Figure 36: Most significant challenges during COVID-19 period**

These firms were also asked about the major challenges faced otherwise in their sector, apart from the ones which have been exacerbated during the pandemic. These challenges are presented in
Figure 37. There are 22 firms (44%) which reported that receiving payments from abroad remain a major challenge (including time delays in receiving these payments), 15 firms reported difficulty in sending payments abroad, 15 firms found it difficult to expand globally, 15 firms reported the lack of ICT infrastructure, 12 firms reported the presence of GST on services and 11 firms reported the lack of secured payment options. Fewer firms reported challenges with employee skills, energy supply, access to credit, rent, import of software and duties on import of software.
The pandemic has clearly put firms’ survival in danger at least for the startups. The firms were asked whether they will continue to be in business an year after the reporting month (i.e. October 2020). The results are presented in Figure 38. Out of the 48 respondents, 26 firms (54 percent) said they would very likely continue, while 9 firms (19 per cent) said they would likely to continue. Only 2 firms (4 per cent) said they would unlikely to continue and only 1 firm said very unlikely to continue. 10 firms did not know their stance at the time of survey.

5.2. Government Support

These firms were found eligible to apply for pandemic-related government support to ensure the continuity of their business. At the time of our survey, only 8% had applied for some form of support. Half of these firms had applied for concessional loans to cover salaries, utilities expense, or other variable costs, while others had sought support for business to customer and customer to business payment facilities.

When asked about the reasons for not obtaining government support (by 92% firms), 19 firms reported cumbersome documentation, 16 firms reported delays in processing of loan application,
14 firms reported that the support is not sufficient, 9 firms reported that support was offered to limited activities within the digital sector and only 4 firms reported lack of collateral. A key issue that deterred firms to approach for support was burden of documentation and transactions costs involved in acquiring finance.

The suggestions to improve overall business environment for this sector are presented in Figure 39. There are 26 (out of 50) firms which recommended improvement in connectivity infrastructure, 25 firms suggested easy e-invoicing and improvements to online banking channels, 18 firms recommended better online security, and 18 firms recommended facilitation to reach online customers. Furthermore, 16 firms recommended reduction in tax compliance costs, 15 firms recommended easy participation in public procurement competitions, 15 firms asked for improved and faster credit facilities, 14 firms recommended ease in trade documentation for big data, machines, and software. Other recommendations such as matchmaking, reduction in non-tax compliance cost and reduction in GST on services was also reported.

**Figure 39: Suggestions to Improve Digital Business**

### 5.3. Impact on Digital Trade

The firms were asked whether (a) digital technology played a substantial positive role in reviving the adverse conditions otherwise faced during COVID-19, (b) digital technology brought new opportunities from COVID-19, (c) digital technology led to growth in employment in related sectors, and (d) if improvement in Intellectual Property Right (IPR) regime was taking place.

Approximately 40 per cent agree that COVID-19 has helped revive from adverse conditions facing this sector, as digitalization in the economy has improved. There are 20 per cent of firms, which strongly agree and 50 per cent agree that new opportunities are likely to arise from COVID-19 for this sector. However, 10 percent firms either strongly disagree or disagree on new opportunities from COVID-19.
More than 60 per cent of the firms agree that COVID-19 is likely to lead to growth in employment in related sectors, while about 30 per cent disagree\textsuperscript{20}. The responses to improvement in IPR are the most varied. About 10 per cent of the firms strongly agree and 30 per cent of the firms agree. On the other hand, about 20 per cent of the firms disagree and 10 per cent of the firms strongly disagree. This also indicates lack of updated knowledge regarding what the government may be doing to improve the overall IPR regime. A deeper public private engagement is desired on this subject.

\textbf{Figure 40:} Distribution of Responses for Impact of COVID-19 on Digital Trade

In summary, the share of digital sector in overall exports of services from Pakistan had increased due to COVID-19. More firms reported a positive impact of COVID-19 on their turnover than a negative impact. The number of firms with international clients also increased. Several firms used this time to learn new and marketable skills and build their presence over social media.

Public sector and regulators can help businesses to capitalize on these opportunities. An expedient implementation of e-commerce policy could help boost the businesses apart from internet connectivity, easy e-invoicing, improved online security, expanded online demand channels and reduction in tax compliance costs.

\section{6. Sensemaking of Survey Findings}

\textbf{Trade costs have increased for exporters and importers.} Trade costs are largely linked to different policy instruments such as tariffs, the tariff equivalents of trade restrictions, including those associated with the exchange rate along with transport and logistics, border agencies and law-enforcement, intellectual property rights, and any informal or unwritten regulations in trade space\textsuperscript{21}.

\textsuperscript{20} The firms reported either ‘positive’ or ‘negative’ for this aspect. There was no further disaggregation into the extremes for the two responses.

\textsuperscript{21} For further information on trade cost see: https://fmwww.bc.edu/ec-p/wp593.pdf
Our data and discussions with exporting firms reveal that COVID-19 did lead to increase in trade costs for both exporters and importers. The increase in trade costs was more pronounced in textiles, metals and ore, machinery, energy, electrical machinery, communication equipment, chemicals, automotive, apparel, agri-food, precision instruments, and office machinery.\(^{22}\)

Transport accounts for an estimated 15 to 31 per cent of trade costs depending upon the sector. 12 per cent small sized firms in agriculture sector said that transport and logistics related costs had become unsustainable during the first wave.

For sectors in our sample, the overall trade costs increased by 25 per cent on average during the first wave of the pandemic. These rising trade costs also represent a productivity loss since additional inputs are needed to bring goods to their consumers.

**COVID-19 has led to productivity losses.** Trade costs also impact productivity. It has been reported in the survey that 41% of the enterprises from textile, leather, agriculture, and food processing observed productivity losses. This productivity loss was measured by considering output per unit of labour. There are 59 per cent textile sector enterprises which show decreased productivity. This is followed by 27 per cent leather sector enterprises.

**Temporary trade measures or post-pandemic product standards and stringent SPS measures have become a new normal.** These have cost implications. Our respondents from agro-based industries and food processing sector said that some of the counties are now accepting the scanned or electronic copies of SPS certificates (WTO, 2020). European Union in particular has allowed alternative methods, including usage of electronic copies and layouts of certificates. Countries are now paying more attention to port handling, hygienic and safe transportation, and warehousing of cargo. Safety of people involved in the supply chain and logistics is also emerging immensely in the recent literature. Adoption of new measures at a firm level will entail some sunk costs.

Several countries also imposed trade barriers in agriculture (including export controls) considering various factors such as the local food shortages, food safety and hygiene. Recently, China implemented such measures during first wave as authorities claimed that they detected COVID-19 on parcels of shrimp from abroad and on other food items, including fish and beef from India, Brazil and Argentina.

Brazil imposed ban on poultry imports from Philippines, Honduras restricted dairy product imports from Mexico; Ecuador imposed import barriers on grapes and onions from Peru; Canada showed concerns on India’s import requirements for pulses; and Russia faced issues with Malaysia’s new approval procedures for meat and dairy imports\(^{23}\).

WTO also pointed out that SPS risks can have devastating effects as limited capacity to fulfil food demand as well as plant and animal health requirements is often one of the major hurdles for producers in developing countries. Our respondents informed of future challenges associated with frequent changes in standards and risks of consignment refusal from buyer countries.

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\(^{22}\) Some of the sectors mentioned here were mentioned during PPDs.

A more conscious buyer abroad is demanding greater details about inputs, production processes, labour standards, and workplace safety. The process of trade-related due-diligence has become stringent internationally. In leather sector, global sales have been badly affected because of the Leather Working Group (LWG) certification requirements, which could see further changes in future. Previously, buyers were attracted if availability of online showrooms and product samples were ensured or revised as per buyer requirement. But, after COVID-19, bulk consumers have become more conscious and demand animal and process certification in leather sector. The back-end suppliers in this sector, who are often operating in informal or unorganized segment of the market, lack capacity to provide such documentation. This is bound to put further pressure on this sector’s exports in future.

High information and communication costs could dampen the ambition of product and market diversification. Information and communication costs will continue to see an increase as exhibitors shift from physical trade exhibitions to virtual or hybrid form of exhibitions and marketing channels. Travel protocols for both persons and goods-in-travel and transit are also frequently changed by countries. While some business associations in Pakistan tried to keep their members regularly updated however, as informed during our survey, most exporters have to make their own efforts to keep on top of the changing information on client-specific, location-specific requirements and restrictions. Often there was temporary suspension of transport and warehouse facilities which if not accounted for well in time led to loss of goods.

Firms were forced to understand the fast-changing digital ecosystem; continue to embrace e-commerce and digital trade. Due to pandemic, physical trade exhibitions were cancelled, and traders had to look for alternate measures. After the second wave, some restrictions were eased, however, participation in trade exhibitions now posed higher costs due to requirement of compliance with SOPs. This continues to be a barrier in participation by small-sized firms. The Trade Development Authority of Pakistan (TDAP) launched first virtual textile exhibition24 and later organized a physical one after approvals in Gulf.25 To minimize the costs of participating through various marketing channels, some of our respondents informed that they have started paying attention to use of e-commerce platforms. For example, firms like Quick Food Industries, GNS Pakistan Date Suppliers and Exporters, Khawaja Rice International, Humera Industries and Dua Garments started using e-commerce platforms such as Daraz after the pandemic.

Learning by exporting: Dynamic firms were able to expand their portfolio amid COVID-19. Based on demand for protective kits and gears, three firms in our sample (Kuntext, Stylers International and Badar Garments) started the production of these items and are also exporting globally. Scada Industry Pvt Ltd and SRC Pvt Ltd started the production of sanitizers as per global standards – an item which was not in their portfolio prior to the pandemic. These firms are also part of the overall group of firms which received export orders of USD 100 million for domestically manufactured

Personal Protective Equipment (PPE)\textsuperscript{26}. These exporters were optimistic that Pakistan could earn USD 2 billion annually by exporting PPE\textsuperscript{27}, sanitizers and other pandemic related health care goods.

**COVID-19 may have increased incidence of informal trade. This is expected to be a temporary increase.** As supply lines in the agro-based and food sector may have been closed temporarily and customer bases for several firms diminished due to border quarantine measures or travel restrictions, cross-border food and non-food traders were especially vulnerable during the initial period of outbreak. Such traders were also prone to the health effects of COVID-19, as they may work at the borders of countries with less than sufficient testing of COVID-19. This was a significant issue for traders operating on Pakistan’s border with Afghanistan, China, and Iran.

The closing of several border-related trade activities due to health fears led to cost and price spikes as well. This increased short-term incentives for informal trade, which allows cost cutting in favour of those operating in unorganized sector. However, in the medium term this poses unfair competition to firms operating formally. As trade resumed after the initial outbreak there were fears that newfound channels of informal trade could become permanent. There are proactive measures now being taken by customs’ authorities to check the incidence of informal trade.

**Large exporting firms had better bargaining and lobbying power, but smaller firms were not in picture.** Industry associations were found dominated by large firms which do support cross-border economic integration, however, may not let information regarding new opportunities abroad trickle down to smaller members of the association. For example, large firms demanded relaxation in IPR regime and lobbied that the government may negotiate this with trading partner countries. Similarly, it was the larger firms in our sample which kept pushing for early negotiation of acceptance of e-documentation during pandemic times. No demands were submitted by the smaller firms. This also implies that in business associations, the process of internal consultations may not be inclusive.

**Startup exporters in digital space pivoted well, however find it hard to access trade finance.** In general, start-ups in digital space pivoted well to access international markets, however, find it hard to access funding and finance for scaleup. This is particularly true for trade finance. Most lending institutions have difficulties to understand their business models due to which due diligence either took longer than expected or the loan application was declined. This also reflects the capacities in lending institutions which are usually comfortable to provide trade finance to traditional goods sector in exports. BERA - a startup exporter from Peshawar had orders, however prompt finance could not be ensured through banking sector. These trade finance needs had to be procured through non-banking sources, including locally available financiers who may demand exorbitantly higher interest and service charges.


\textsuperscript{27} “Pakistani manufacturers hope to earn $2 billion by exporting PPE, hand sanitizers” Arab News, 03 July 2020, https://www.arabnews.pk/node/1699416/pakistan
7. Conclusion

This study looks at the competitiveness of exporting firms amid pandemic. Using a mix of qualitative and quantitative methods, we have tried to identify the challenges and opportunities for these firms. Our sample includes firms from agriculture, food, textile, leather, and digital sector. Based on the analysis in earlier sections, we draw important conclusions and summarize our policy recommendations below.

- **Trade costs:** The government continues to focus on ‘production costs’ amid COVID-19, however there is a need to understand how sector-specific ‘trade costs’ may have increased.
- **Role of standards:** COVID-19 has led to changes in standards demanded by buyers, including stringency in SPS measures. These aspects require a comprehensive dialogue with agriculture and food sector exporters and what support they may need in the case of a prolonged incidence of pandemic.
- **Temporary trade measures:** Temporary Trade measures could become new normal as sudden trade restrictions come into play once new strains of COVID-19 are discovered. In this case too, sector-specific public-private dialogue is required to better understand how to minimize this risk.
- **Changes in consumer tastes:** A more conscious consumer is now demanding greater details with regard to inputs, production processes, and labour standards. Most of the sectors studied here would want more information on this aspect which could be possible with help from trade officers of Ministry of Commerce posted abroad.
- **Information costs:** Getting to know the fast-changing country-specific trade procedures amid COVID-19; client-specific and location-specific information regarding transport and cargo restrictions; dealing with temporary suspension of transport and warehousing facility are all areas which are new normal. Regular communication channels between Pakistani missions abroad and business community is desired. Women-led firms have particularly informed about these costs.
- **Embracing digital trade integration:** Firms are forced to understand the digital ecosystem around them; cost cutting measures to cross-subsidize learning within firms could be one way forward. However smaller firms have found this difficulty. A policy drive to support transition of firms towards online modes could help Pakistani exporters become more competitive amid pandemic.
- **Learning by exporting:** Firms integrate better globally once they start sourcing inputs from or supplying components abroad. Business associations could be the most agile institutions for knowledge sharing. However, it is yet to be seen if this knowledge on how to pivot amid pandemic was shared by these associations in an inclusive manner. TDAP and SMEDA in collaboration with local think tanks could support those associations which face capacity challenges to reach micro, small, startup, and even potential exporting firms.
- **Role of competition and informal trade:** informal trade continued to pose a challenge for genuine firms. There was anecdotal evidence that informal trade could increase as trade restrictions including border controls remained high. This can be rectified through tariff reform and administrative measures. Competition Commission of Pakistan may like to study this aspect further.
- **Trade diplomacy:** Trade diplomacy design of future trade agreement, G2G supplies from Pakistan, including public procurement opportunities abroad\textsuperscript{28} could help potential and startup exporters who may be preferred in such arrangements.

\textsuperscript{28} Hoekman (2020).
- **Trade Financing:** The role of trade financing[^29] is always important for exporters, who find themselves cash-starved and unable to commit to larger orders. Trade finance is confined to traditional sectors and the know-how regarding business models of non-traditional exporting sectors, including those in the digital sector, needs to be enhanced at the lending institutions.

- **Healthcare needs of workers in trade, transport, and logistics:** improved healthcare facilities need to be ensured for workers dealing with moving goods or receiving them at port and other border destinations. An improved package which includes comprehensive medical and health insurance cover may be considered – an aspect which could be considered by Ministry of Communications and Ministry of Maritime Affairs.

- **Helping deal with future uncertainties:** Post-pandemic period is already witnessing sharp changes in input prices. An inclusive, structured, and sector-specific public-private dialogue at the Ministry of Commerce should remain a regular feature. This, in turn, will help in sourcing rapid evidence on how various forms of future uncertainties could be mitigated. Risks are also emanating from frequent changes in tariffs – an aspect which could be studied by National Tariff Commission.

- **Trade and gender:** Trade and gender impact of COVID-19 on firms has not been equal. Women-led firms are particularly vulnerable. Any trade policy response to the pandemic should take into account the specific needs of women in trade.[^30]

[^29]: Defever (2020). Also see Christine Apedo-Amah (2020).
8. References


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