PRAC
POLICY RESEARCH
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KARACHI CHAMBER OF
COMMERCE & INDUSTRY

PRAC Review of the Prime Minister's Industrial and Export Incentive Package

1. Key Announced Incentives

Pakistan's industrial and export sectors continue to face persistent cost pressures, undermining competitiveness and contributing to subdued export performance and a widening trade deficit. High energy tariffs, elevated financing costs, and operational inefficiencies have constrained exporters' ability to scale production, improve productivity, and compete effectively in global markets.

On January 30th, 2026, Prime Minister Shehbaz Sharif announced a package of targeted industrial and export incentives. The measures are intended to ease cost pressures, improve liquidity, and facilitate exporters' mobility. Collectively, the package aims to strengthen export competitiveness by lowering energy costs, easing financing constraints, and reducing frictions in international business operations.

The key incentives include:

Industrial electricity tariff reduction: A reduction of PKR 4.04 per unit in the industrial electricity tariff was announced to directly lower input costs for manufacturing and value-added export sectors.

Reduction in wheeling charges: A corresponding reduction in wheeling charges, expected to bring them to approximately Rs 9 per unit or lower, subject to the applicable consumer category.

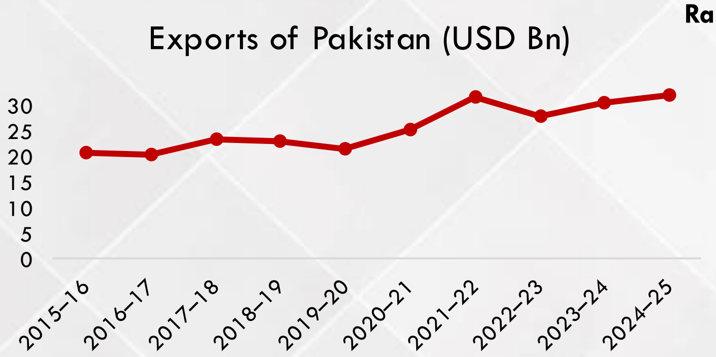
Export Refinance Rate cut: The Export Refinance Rate was reduced to 4.5 percent from 7.5 percent, intended to ease financing costs and improve access to finance for firms.

Blue Passports for top exporters: Provision of Blue Passports to leading exporters was announced to facilitate international business travel, reduce administrative frictions, and support faster market engagement.

2. Pakistan's Industrial and Export Constraints

Pakistan's transition towards an export-led growth economy remains constrained by persistent structural challenges, including macroeconomic volatility, low productivity, limited investment, and insufficient diversification across both products and export markets. With less than five years remaining to achieve the government's US$60 billion export target under the URAAN framework, the need for effective export facilitation and targeted policy support has become increasingly urgent.

Figure 1: Pakistan's Export Performance and Industrial Competitiveness



Source: PBS &UNIDO

Over the past decades, the economy has struggled to generate sustained growth, largely due to stagnant export performance. Pakistan's export base remains narrowly concentrated, with textiles accounting for approximately 55 % of total goods exports. Export market concentration remains significant, with approximately 72 % of exports directed to just 15 destinations, and 50 % accounted for by six primary markets.

Key Emerging Threats to Pakistan's Export Competitiveness:

- **USA Tariff Imposition:** The USA imposed a 19% tariff on Pakistani exports, creating additional challenges for export competitiveness, particularly in the textile sector.
- **EU-India Free Trade Agreement:** The trade agreement is expected to intensify competition and induce trade diversion in key export markets. Under the agreement, the EU will eliminate tariffs on 99.5% of imports from India over the seven-year period.
- **High Market Dependence:** Pakistan's textile exports, valued at US$17.51 billion, are heavily reliant on the United States (US$4.59 billion) and the European Union (US$ 7.04 billion), increasing exposure to adverse trade policy shifts.
- **Industry Contraction:** Approximately 144 large textile units have reportedly ceased operations in recent years due to mounting competitive pressures and cost constraints.

These external pressures, compounded by high energy costs, tax burdens, and policy uncertainty, have contributed to industrial downsizing, firm closures, and exits from export-oriented activities. In this context, the government's recently announced incentive package is a timely intervention to alleviate cost pressures, improve liquidity, facilitate international trade, and support competitiveness across the industrial and export sectors.

3. Commentary on Relief Measures

- **Export Financing Relief:** The reduction in the Export Refinance Scheme rate under the incentive package represents a timely measure to lower borrowing costs for eligible exporters. This initiative improves liquidity, reduces interest expenses, and supports working capital management, particularly during periods of stagnant exports. In the short term, the measure would facilitate exports and provide indirect relief to the balance of payments. It also signals the government's commitment to export-led growth, potentially enhancing investor confidence.

Energy Cost Support: The reduction of industrial electricity tariffs by Rs 4.04 per unit, along with the lowering of wheeling charges to below Rs 9 per unit, represents a constructive step toward easing operational costs for industrial firms. The reduction of wheeling charges also facilitates open access, encourages competitive power procurement, and creates opportunities for industries to monetize surplus electricity, reflecting a forward-looking approach to energy sector reform.

- **Competitiveness Constraints:** While the reduction of industrial electricity tariff provides meaningful relief, it is still above regional peers such as Bangladesh, Vietnam, and Indonesia. Nonetheless, the initiative demonstrates the government's intent to address energy cost challenges and support industrial growth.

Need for Structural Reform: The package provides an effective stabilizing effect, particularly through export financing, but it does not constitute a comprehensive competitiveness framework. Without structural reforms to energy pricing, export taxation, productivity, trade policy, and sustainability-linked incentives, the potential export gains are likely to be temporary rather than transformative.

- **Policy Stabilization Effect:** The government's industrial and export incentive package is a timely and strategic intervention that addresses key operational and liquidity constraints. Measures such as reduced refinancing costs, lower industrial electricity tariffs, eased wheeling charges, and facilitation of international travel for leading exporters are expected to support export performance, enhance competitiveness, and signal strong policy commitment.

3. Recommendations

- **Competitive Tax Regime for Exporters:** Pakistani exporters face an effective tax burden of up to 45%, with a 29% corporate tax rate, far higher than regional peers such as Bangladesh (12%) and Vietnam (20%). Restoring the choice between the Final and Normal Tax Regimes would ease compliance and improve cash flows.
- **Incentives for Green Exports:** The package should also include targeted incentives for eco-friendly industries to capture growing sustainability-driven export demand. Bangladesh's example, reducing CIT for LEED-certified industries, demonstrates how such measures enhance global competitiveness.
- **Broader Refinancing Relief:** While the Export Refinance Scheme rate cut is positive, broader financing challenges still persists. Reducing the benchmark policy rate to single-digit levels would ease credit access, support exporters, and benefit all sectors, thereby fostering investment, growth, and economic recovery.
- **Enhancing Export Diversification:** Export diversification should be promoted through the implementation of the National Priority Sectors Export Strategy (2023–2027), alongside pursuing PTAs/FTAs under the Look Africa Framework and targeting markets in Central Asia and South America to strengthen competitiveness and expand market reach.
- **Tariff Reduction:** Reduce industrial electricity tariffs by Rs 10–12/kWh and rationalize fixed charges to lower production costs and support exports.
- **Industry Consultation:** Institutionalize regular dialogue with industry and monitor impacts on output, exports, and employment. Also, curb electricity theft, high losses, and poor DISCO performance through reforms and selective privatization.
- **National Industrial Policy for Growth:** Formally notify and implement the National Industrial Policy with clear long-term objectives, aligned with productivity enhancement and value addition. Policy incentives should be performance-based, encouraging technological upgrading, local content development, and higher value-added production to strengthen competitiveness and support sustainable growth.
- **Align Industry with Trade:** Harmonize industrial capacity, including production, productivity, technology, and diversification, with trade agreements to strengthen competitiveness and support sustainable growth.
- **Productivity & Innovation Hubs:** Establish Productivity and Innovation Hubs under the National Productivity Organization (NPO) in industrial clusters to enhance competitiveness. Collaborating with TUSDEC and similar bodies, these hubs should provide productivity diagnostics, provide advisory support on efficiency, and promote digital and Industry 4.0 adoption to drive sustainable industrial growth.