

Strengthening Pakistan's Commerce: A District-Level to Regional Perspective

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Introduction

Pakistan, with its strategic location and demographic advantage of 60% population under 30, holds immense economic potential. However, this potential remains largely unrealized in domestic markets. While international commerce brings vital technology transfer and innovation, the overwhelming emphasis on export promotion and import substitution has undermined domestic market development. This oversight is particularly critical given domestic commerce's crucial role in employment and income generation, yet there remains a significant data gap regarding domestic market dynamics and policy impacts. This whitepaper presents key policy measures to reinvigorate Pakistan's domestic markets while maintaining a balanced approach to economic growth.

District Economic Landscape and Opportunities

Pakistan's domestic commerce employs 32.06% of the total workforce (21.56 million people), making it the second-largest employer after agriculture. This impact varies significantly across regions:

Table 1 Employment in Domestic Commerce by region

Total		Domestic Commerce	
	Employed (Millions)	Employed (Millions)	Percent of Total
Pakistan	67.25	21.56	32.06
Islamabad	0.70	0.35	50.34
KPK	9.41	3.24	34.75
Punjab	38.37	11.79	30.72
Sindh	15.31	4.98	32.51
Balochistan	3.46	1.17	33.94

Source: PIDE¹

Despite its significant economic role, the sector faces two major challenges:

Informality:

A substantial portion of domestic commerce operates in the informal sector, limiting businesses' access to formal financial services and growth opportunities. This informality has led to reduced policy attention and insufficient incentives for innovation and expansion.

¹ The State of Commerce in Pakistan – International and Domestic

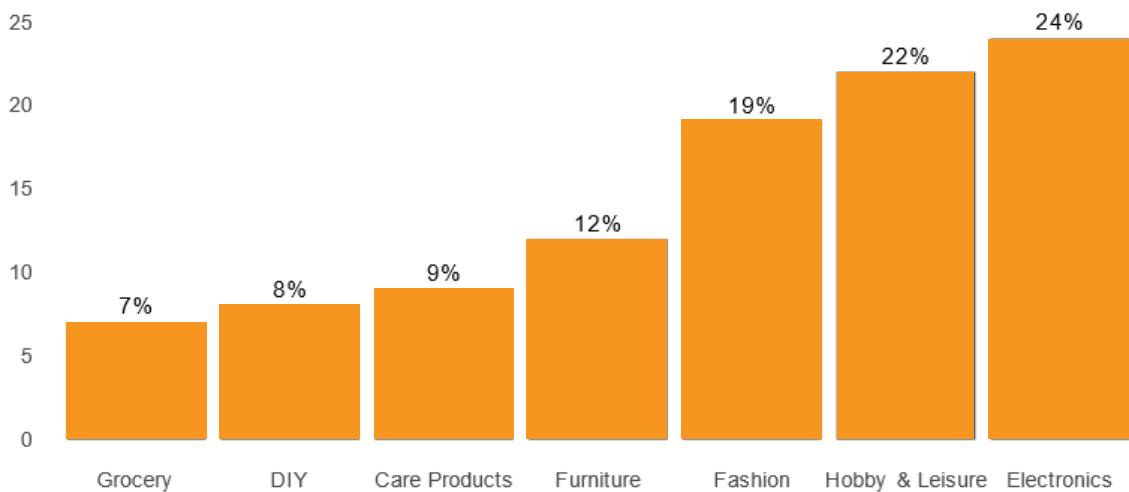
Data Limitations:

Unlike neighboring countries such as India, Pakistan lacks comprehensive provincial and district-level GDP data (PGDPs). This absence of granular economic data hinders effective policy-making and investment decisions at the regional level. Key districts have developed distinct economic specializations: Sialkot (sports goods/surgical instruments), Multan (agriculture processing), Faisalabad (textiles), and Lahore/Karachi (IT/financial services). However, widespread informality and lack of district-level GDP data limit growth potential.

Digital Transformation
and E-Commerce Landscape

Pakistan's digital commerce ecosystem has evolved significantly, demonstrating robust growth with current revenue of \$5.2 billion, positioning the country as the 46th largest e-commerce market globally². The market's diversity spans across major segments, with electronics commanding 24% of total revenue, followed by fashion, home goods, and personal care products³. (Figure 1). Market projections indicate a steady CAGR of 3.22% for 2025-29, with expectations to reach \$6.7 billion by 2029⁴.

Figure 1: Electronics has the largest share in e-commerce revenue at 24%



Source: ECBD

The transformation of Pakistan's e-commerce landscape is characterized by the emergence of comprehensive digital marketplaces and the integration of social commerce platforms. Market leaders have innovated through specialized services, with Daraz (10% market share⁵) pioneering authenticated brand marketplaces and last-mile delivery solutions, while platforms like PriceOye (5% market share⁶) have established niches through real-time price comparison tools and vendor verification systems. This ecosystem development has fostered the growth of specialized platforms serving distinct market segments, from automotive to food delivery. Social commerce has emerged as a parallel digital marketplace, particularly through

² International Trade Administration – Pakistan Country guide
³ E-commerce market in Pakistan
⁴ Statista Market Insights 2024
⁵ Ibid
⁶ Ibid
⁷ International Trade Administration – Pakistan Country guide

platforms like Facebook, which serves 43.7 million active users with over three billion daily interactions. The platform's Marketplace feature, engaging 7.3 million monthly active users, has democratized market access for small businesses and individual entrepreneurs. Instagram's visual-first approach has revolutionized fashion retail and enabled direct-to-consumer brands to build authentic customer relationships⁷. This evolution has fundamentally shifted business practices toward community-driven marketing and social-first brand development.



The integration of digital payment solutions marks a significant transformation in Pakistan's commercial landscape, particularly at the district level. FY24 witnessed a 35% surge in digital payment volume, reaching PKR 6.4 billion, with 309 million e-commerce transactions totaling PKR 406 billion⁸. Digital payment methods now constitute 87% of all e-commerce transactions, signifying a decisive shift from cash-on-delivery systems. This digital transformation has been particularly impactful at the district level, where traditional markets are increasingly adopting digital solutions. The transformation is driven by government initiatives promoting financial inclusion, increased smartphone penetration in semi-urban areas, and growing trust in digital payment security. The rapid adoption of digital payments across districts indicates a fundamental shift in Pakistan's commercial landscape, particularly crucial for integrating rural and semi-urban economies into the broader digital marketplace.

The technology integration in district economies has enabled real-time market information systems, supply chain digitization, and business process automation, enhancing local market competitiveness and efficiency. This digital infrastructure serves as a foundation for connecting district-level businesses to national markets while improving operational efficiency through automated processes and digital record-keeping.

This consolidated digital commerce ecosystem represents more than just a shift in transaction methods; it signifies a fundamental transformation in how businesses operate and consumers engage with markets across Pakistan. The integration of technology at the district level, coupled with the growth of e-commerce and digital payments, creates a robust foundation for future economic growth and market modernization.

⁸ Pakistan's digital payments surge 35% in FY24 – Mettis global

Regional commerce and Trade Networks

Pakistan's regional trade dynamics present a complex picture of both established partnerships and untapped potential. At the center of this network lies the strategic relationship with China, which has evolved significantly through institutional frameworks and major infrastructure initiatives.

The China-Pakistan trade relationship has grown particularly robust, with China establishing itself as Pakistan's second-largest export destination after the USA. Export performance has been strong, reaching \$2.71 billion in FY24, with \$2.28 billion recorded in 11MCY24. This growth has been facilitated by the China-Pakistan Free Trade Agreement Phase II (2020), which opened zero-tariff access for 313 priority Pakistani exports. The relationship has been further strengthened by CPEC investments exceeding \$62 billion¹⁰, which encompasses nine Special Economic Zones (SEZs)¹¹, critical infrastructure developments, and comprehensive technology transfer initiatives.

Table 1 Employment in Domestic Commerce by region

Country	Exports		Imports	
	FY24	11MCY24*	FY24	11MCY24*
China	2.71	2.28	13.51	14
India	0.0034	0.0037	0.21	0.198
Afghanistan	0.56	0.70	0.011	0.016

Source: EPBD calculations using SBP export and import receipts by country data

Untapped Regional Potential

Beyond the China corridor, significant opportunities remain unexploited in regional trade. Afghanistan trade, while showing promise with current exports at \$0.56 billion in FY24, has considerable room for growth given the geographical proximity and historical ties between the two nations. The Iran market represents an even more striking opportunity, with estimated bilateral trade potential of \$10 billion¹². However, current trade remains minimal, with exports of only \$35,000 in FY24 and virtually no recorded imports, indicating substantial unexploited opportunities.

The stark contrast between realized and potential trade volumes with neighboring countries highlights the need for strategic interventions. While the China-Pakistan corridor demonstrates the possibilities of structured economic cooperation, trade relationships with other neighbors remain significantly underutilized. This suggests an urgent need for diplomatic initiatives and trade facilitation measures to unlock the full potential of regional commerce.

⁹ SBP Export and Imports by country
¹⁰ At all Costs
¹¹ MoPDSI – CPEC Secretariat
¹² <https://www.brecorder.com/news/40323691>

Conclusion

Pakistan's commerce sector stands at a critical juncture of traditional trade and digital innovation, presenting both significant challenges and opportunities for transformation. This analysis reveals several crucial insights that demand immediate attention and strategic action.

The domestic commerce sector, despite being Pakistan's second-largest employer at 32.06% of the workforce, operates largely in the informal economy, constraining its growth potential. However, the sector demonstrates remarkable resilience and adaptability, particularly evident in the rapid adoption of digital solutions. The growing integration of digital payments, with a 35% surge in FY24, signals a decisive shift toward formalization and efficiency. This digital transformation, coupled with the e-commerce sector's projected growth to \$6.7 billion by 2029, presents a clear pathway for modernizing traditional markets and integrating them into the formal economy. Regional trade dynamics, particularly through initiatives like CPEC and potential partnerships with neighboring countries, represent a vastly underutilized opportunity. While the China-Pakistan trade corridor demonstrates the possibilities of structured economic cooperation, with exports reaching \$2.71 billion in FY24, relationships with other neighbors remain significantly underdeveloped. The stark contrast between current trade volumes and potential opportunities—such as the estimated \$10 billion bilateral trade potential with Iran—underscores the urgent need for strategic regional engagement.

The path forward requires a three-pronged approach. First, accelerating the formalization of domestic commerce through digital integration and targeted policy interventions. This includes developing comprehensive district-level economic data infrastructure to enable evidence-based policymaking and investment decisions. Second, leveraging technology to bridge the gap between traditional and modern retail formats, particularly in tier-2 and tier-3 cities, while strengthening inter-district trade networks. Third, aggressively pursuing regional trade opportunities through enhanced infrastructure, streamlined cross-border payment systems, and strategic diplomatic initiatives.

Success in these areas will position Pakistan to better leverage its demographic dividend and strategic location. The convergence of traditional market strengths with digital innovation, supported by robust policy frameworks and infrastructure development, will be crucial in driving sustainable economic growth. This transformation requires sustained commitment from both public and private stakeholders, but the potential rewards—in terms of economic growth, job creation, and regional integration—make it an imperative worth pursuing.



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