ESG Compliance as the Missing Link in Pakistan's Export Growth Strategy

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One of the modern approaches to become strategic leader in export is to implement growth-led strategy in Pakistan. Pakistan's best growing exports industries are screened under the lens of environmental, social and governance (ESG) aspect. This is basic reason why Pakistani exports are restrained to enter into developed markets. This phenomenon presents significant challenges to business sustainability in Pakistan.

Most of the south Asian countries like Bangladesh, Vietnam and Türkiye have strong footing in implanting ESG framework in comparison with Pakistan in protecting and raising their exports marketplaces. Their way of entering into developed markets only through following the ESG standards like fulfilling the labor rights, environmental conservancy and corporate governance. On the other hand, Pakistan is facing lack of ESG awareness issues, any part of country implemented but in fragments leads to careless reporting measures.

Understanding ESG Global Standards and Expectations

This article examines how Pakistan's export competitiveness is impacted by its substandard ESG performance. There is a need to position Pakistan's exports within a global economy driven by sustainable development. To do so, it must critically evaluate existing ESG issues, global trends, and practical policy recommendations.

Global trade now heavily considers environmental, social, and governance (ESG) requirements. ESG compliance is becoming a trade promotion tool that directly impacts investor interests, export competitiveness, and access to preferential trade arrangements, rather than remaining a voluntary corporate social responsibility program *(OECD, 2020)*.

- Environmental indicators focus on waste management, emissions, and resource consumption.
- Labor rights, workplace safety, and community effects are examples of social elements.
- Governance includes openness, board accountability, and anti-corruption measures *(Kotsantonis & Serafeim, 2019)*.

Guidelines for ESG disclosures are provided globally by frameworks such as the SASB guidelines and the Global Reporting Initiative (GRI). Pakistani exporters would be impacted by stricter rules under the GSP+ program, such as the European Union's Corporate Sustainability Reporting Directive (CSRD), which mandates those businesses exporting to Europe report on their ESG performance.

Table 1: Impact of implementation of ESG Standards and Export Performance (2023)

Country	[1]ESG Compliance Score	[2]Export Growth Rate (%)	Export Sector	GSP+ Sector access Equivalent
Vietnam	65	10.4	Textile, Electronics	Yes (EU-Vietnam FTA)
Bangladesh	62	8.6	Textile	Yes (EU, EBA)
Turkey	70	7.1	Textiles, Machinery	Yes (EU Custom Union)
Pakistan	45	3.5	Textiles, Farming	Conditional (EU GSP+)

Sources: [1]Database related to ESG (World Bank), [2]International Trade Centre, Statistic, 2023

Table 2: Key ESG Frameworks and their Relevance to Export Markets		
ESG Standards	**Research Sources/Authors**	**Trade Relevance**
OECD Guidance for Multinational Enterprises	OECD (2020)	Sets out responsible business conduct in cross-border trade
Global Reporting Initiative Disclosure	GRI (2023)	Widely used for voluntary ESG (GRI)
SASB Standards	IFRS Foundation (2022)	Industry-specific ESG indicators for Investors
EU CSRD	European Commission (2023)	Under GSP+, companies exporting to the EU market must comply
ESG and export Competitiveness; Textile	Qureshi et al. (2023)	Industry JSFI Empirical link between ESG weaknesses and export losses
ESG and company valuation	Kotsantonis & Serafeim (2019)	ESG impacts investment and Trade Positioning

Source: Compiled by Author based on published studies and institutional guidelines

Pakistan's potential for export growth is constrained by its inability to meet these shifting demands, particularly in the textile, leather, and agricultural industries (Qureshi et al., 2023).

1) ESG patterns in the main exporting nations

Most exporters are gradually implementing ESG standards into their corporate practices and business ethics. In order to gain access to developing markets and expand brand goodwill, there is a dire need to implement the highest standards of corporate governance, as demonstrated by nations like Vietnam, Germany, and South Korea.

1.1. Contribution of the European Union and Germany - The United Kingdom promulgated a law, the Supply Chain Due Diligence Act (2023), which requires traders to screen ESG risks in their global supply chains (BMAS, 2023). As a result, exporters must incorporate labor, environmental, and governance laws into their business practices, which in turn become part of their reporting requirements. By consistently fulfilling ESG requirements, German exporters have gained exceptional market access in developed nations, particularly in the automobile and equipment industries *(PwC, 2023).*

1.2. Korea - According to a KPMG study on the impact of ESG standards implementation, South Korean exporters have experienced a 76% increase in supply chain involvement and customer loyalty. This improvement is attributed to the enactment of the New South Korean Agreement, promoted by the South Korean Ministry of Trade, Industry, and Energy.

1.3. Vietnam - Vietnam is committed to adopting ESG standards as part of its development strategy under the EU-Vietnam Free Trade Agreement (EVFTA). Following the enactment of this agreement, Vietnamese textile exporters recorded a 12% increase in foreign orders from the EU within a year, according to a study conducted by the World Bank.

These examples demonstrate that ESG compliance is a milestone for enhancing corporate attractiveness, attracting new investment, and managing risk—objectives that cannot be achieved through traditional business practices alone. These global trends provide a roadmap for Pakistan to align its export strategy advantageously.

2) Implementation of ESG in Pakistan's Export Sector

As far as Pakistan is concerned, ESG practices in the country lag significantly behind those of other South Asian nations, despite Pakistan being a major exporter in the leather, textile, and agriculture sectors. Based on the above studies and findings, it is evident that Pakistan is missing out on attractive export opportunities due to a lack of ESG supply chain appeal, contemporary implementation, and a proper reporting framework *(Qureshi et al., 2023; IFC, 2022).*

According to one study, most ESG initiatives in Pakistan are implemented either under the sponsorship of external business projects or due to pressure from large international buyers such as H&M and IKEA.

Table 3: Impact of ESG Non-Compliance on Export Performance in Key Sectors				
Sector	**Indicators**	**Before ESG Scrutiny (2018-2019)**	**After ESG Non-Compliance (2022-2023)**	**Change (%)**
Textile	Export Orders (Million Units)	450	360	-20%
	Retained Global Buyers (%)	82	65	-21%
Leather	Annual Export Value (USD billion)	1.05	0.86	-18%
	Certified Tanneries (%)	28	19	-32%
Agriculture	EU/GCC Market Share (%)	42	33	-21%
	Rejection of Export Consignments	9	21	-133%

Source: UNIDO (2022); ICCI and IFC (2023); FAO (2023); Khan and Awan (2023)

However, small and medium-sized enterprises (SMEs) are generally not in a position to adopt ESG standards like those set by the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI). This gap is largely attributed to a lack of awareness, understanding, technical know-how, and the absence of a national ESG policy *(ICAP, 2023).*

Another study revealed that compliance with environmental standards—especially in water disposal management—is notably low in the textile and leather industries. A similar situation exists in terms of social compliance, where workers' rights related to financial compensation and workplace safety are often not fully upheld. These practices are even more ambiguous in family-owned businesses *(UNDP, 2023).*

3) Link Between ESG Non-Compliance and Export Losses

In today's international business environment, ESG implementation is considered both a strategic business practice and a tool for enhancing goodwill. Conversely, economies that fail to comply with ESG standards face the risk of losing major customers and markets, as well as incurring additional costs due to non-tariff barriers. Pakistan, for instance, is experiencing a decline in new export orders in the agriculture, leather, and textile industries due to shortcomings in ESG compliance *(Khan and Awan, 2023).*

Under the Corporate Sustainability Reporting Directive (CSRD), European importers are now well-informed about disclosure requirements. They are increasingly demanding that suppliers disclose their carbon emission scores and report on social and governance practices in their sustainability reports. A report published by the United Nations Industrial Development Organization (UNIDO) on Pakistan's corporate sustainability reporting highlighted a 27% reduction or cancellation of orders due to non-compliance with environmental and labor reporting requirements.

Another study by the International Finance Corporation and the Indian Chamber of Commerce and Industry revealed that Pakistan's leather product exports declined by 18% between 2018 and 2022, primarily due to non-compliance with proper disposal methods for chemically contaminated water. In contrast, countries like Bangladesh and Vietnam have allocated resources to ensure strong compliance with ESG reporting standards. Saudi Arabia has also emphasized transparency and robust reporting requirements; as a result, it temporarily banned the import of Pakistani mangoes in 2023 *(FAO, 2023).*

It is obvious in above schedule that there is clear relationship between ESG reporting deficiencies and decrease in level of exports. So, Pakistani context, it is dire need to make realistic and practical arrangement into the business policies.

4. Policy Suggestions and Strategic Plan

In order to bring in line with challenging requirements of international business and inactivity of exports, there is need to make arrangement for proper implementation of ESG framework in letter in spirit. Following recommendations must be incorporated into strategic plan of Pakistan.

4.1 Establishment of ESG Reporting and Regulatory Body - There is a strong need to establish a centralized ESG regulatory body under the umbrella of the Securities and Exchange Commission of Pakistan (SECP) to implement ESG disclosure requirements across key sectors of the economy. This body should regulate mandatory ESG-based annual sustainability reports in line with SASB and GRI reporting frameworks, with a particular focus on enforcing compliance among export-oriented firms (Khan et al., 2023).

4.2 ESG Investments and Certifications - To promote green tax relief and facilitate ESG adoption, subsidized ESG certifications—such as international standards for Environmental Management (ISO 14001) and Social Accountability (SA8000)—should be introduced. Preferential financing must be initiated under Export-Import Bank (EXIM Bank) or State Bank of Pakistan (SBP) schemes. Special rebates should be offered to exporters who fully comply with ESG reporting requirements, especially under export trade agreements.

4.3 Magnitudes & Structure for SMEs and Exporters - To improve ESG awareness and understanding, particularly among small and medium enterprises (SMEs), sector-specific training programs should be launched in collaboration with the Trade Development Authority of Pakistan (TDAP) and the Small and Medium Enterprises Development Authority (SMEDA), sponsored by chambers of commerce and industry. A proper digital platform should also be developed to facilitate self-assessment and performance tracking.

4.4 Role of ICMA Pakistan in Sponsoring ESG Mastery - In collaboration with SECP, ICMA Pakistan can play a key role in integrating the ESG framework into professional accounting and finance education. This will help exporters build a cadre of ESG-literate professionals who can guide industry compliance.

4.5 Aligning ESG with Vision 2025 and SDGs - To ensure long-term sustainability, the ESG framework must be aligned with Pakistan's Vision 2025, which prioritizes export growth, green resources, green governance, and structural reforms.

5. Conclusion and Future Outlook

Pakistan's export sector is at a turning point. Due to fragmented policies, a lack of understanding, and poor implementation, the country continues to lag behind multinational competitors that have adopted ESG principles as a benchmark for reliability and competitiveness. The evidence presented in this

article—from declining export orders to outright buyer refusals—demonstrates that non-compliance with ESG standards is no longer a minor issue, but a significant strategic economic risk.

Research on countries such as South Korea and Vietnam shows that active ESG implementation is strongly associated with improved export performance, increased investment flows, and greater market penetration. Conversely, failure to comply with global ESG standards can lead to trade sanctions and reputational damage, particularly in high-growth sectors such as leather, textiles, and agriculture.

A multi-stakeholder, policy-driven strategy is essential to regain lost momentum. Key actions include strengthening the legal and regulatory environment, enhancing professional literacy on ESG through institutions like ICMA Pakistan, promoting green investment, and building the capacity of SMEs. Likewise, international recognition and strategic positioning can be achieved through the full implementation of ESG standards, backed by committed assurance in line with national strategies such as Vision 2025 and global frameworks like the Sustainable Development Goals (SDGs).

Pakistan must begin to view ESG not as a compliance burden, but as a strategic tool for sustainable trade and industrial transformation. By fully embracing ESG initiatives, the country can improve its brand image, enter diversified global markets, and position itself as a responsible and competitive export-driven economy.

About the Author: *The Author is a Fellow Member of ICMA and serves as a Senior Instructor at Government College of Commerce, Multan. With over 20 years of experience in management accounting, corporate finance, and business taxation, he has taught at various public and private sector universities and professional institutes in Pakistan. He previously worked as Assistant Manager Accounts at Orient Group of Companies. Currently, he is a faculty member at ICMA Pakistan's Multan campus and is pursuing a PhD.*