



**Competition Commission of Pakistan**

Creating a level playing field

Competition Assessment Study of

# Gold Market in Pakistan 2025

Center of Excellence in Competition Law



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# MESSAGE OF THE CHAIRMAN



It is with great pride that I present the Competition Assessment Study of Pakistan's Gold Market, a landmark initiative by the Center of Excellence in Competition Law at the Competition Commission of Pakistan. This report offers the first ever in-depth analysis of the sector's evolving dynamics.

Gold market plays a vital role in our economy and society. Annual consumption is robust, ranging between 60 to 90 tonnes. The country's official gold reserves stand at nearly 64.76 tonnes, valued at almost \$9 billion by late 2025. At the same time, the promising Reko Diq mine is set to transform our gold value chain, with operations forecasted to generate up to \$74 billion in revenue over its 37-year lifespan. Despite this promise, the sector remains largely informal, with over 90% of gold trading taking place outside formal channels.

This assessment highlights loopholes in the current fragmented regulatory structure having competing authorities and a patchwork of Statutory Regulatory Orders that create overlaps and confusion. The tax regime is complex and inconsistent, discouraging formal participation and incentivizing smuggling and under-invoicing. Market concentration is high,

dominated by a small group of large players and informal associations that set prices in a manner that suppresses competition. The sector suffers from limited domestic refining capacity, inadequate compliance with hallmarking and quality standards, and acute data deficiencies that undermine effective oversight and policy design.

The report recommends a way forward that is both comprehensive and actionable. A centralized regulatory authority 'the Pakistan Gold and Gemstone Authority' to be established to harmonize oversight. A gold banking system is proposed to draw under-the-pillow household gold into the formal financial sector. A blockchain system integrated with FBR's Track & Trace would enhance transparency while meeting FATF requirements. Finally, formal sector capacity can be strengthened through public-private partnerships in refining and by expanding hallmarking infrastructure nationwide.

Together, these reforms offer a pragmatic roadmap to realize the gold sector's potential as a catalyst for economic resilience and national progress.

**Dr. Kabir Ahmed Sidhu**  
Chairman  
Competition Commission of Pakistan

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## List of Abbreviations

| <b>Abbreviation</b> | <b>Full Form</b>  |
|---------------------|---|
| AED                 | Arab Emirates Dirham                                      |
| AML                 | Anti-Money Laundering                                     |
| APGMJA              | All Punjab Gem Merchants & Jewellers Association          |
| ATA Carnet          | Admission Temporaire/Temporary Admission Carnet           |
| BIS                 | Bureau of Indian Standards                                |
| BSM                 | Bureau of Standards and Metrology                         |
| CBRT                | Central Bank of the Republic of Türkiye                   |
| CDD                 | Customer Due Diligence                                    |
| CEIC                | China Economic Information Center                         |
| CMA                 | Capital Market Authority (Saudi Arabia)                   |
| CTR                 | Currency Transaction Report                               |
| DMCC                | Dubai Multi Commodities Centre                            |
| DNFBP               | Designated Non-Financial Businesses and Professions       |
| EDD                 | Enhanced Due Diligence                                    |
| ETF                 | Exchange-Traded Fund                                      |
| FATF                | Financial Action Task Force                               |
| FBR                 | Federal Board of Revenue                                  |
| FE Manual           | Foreign Exchange Manual                                   |
| FMU                 | Financial Monitoring Unit                                 |
| GoAML               | Government Anti-Money Laundering System                   |
| HHI                 | Herfindahl-Hirschman Index                                |
| HS Code             | Harmonized System Code                                    |
| IBA                 | ICE Benchmark Administration                              |
| IIBX                | India International Bullion Exchange                      |
| KYC                 | Know Your Customer  |
| LBMA                | London Bullion Market Association                         |
| MoC                 | Ministry of Commerce                                      |
| MoI&P               | Ministry of Industries and Production                     |
| PBS                 | Pakistan Bureau of Statistics                             |
| PCT Code            | Pakistan Customs Tariff Code                              |
| PEP                 | Politically Exposed Person                                |
| PGJDC               | Pakistan Gems and Jewellery Development Company           |
| PGJTEA              | Pakistan Gems Jewellery Traders and Exporters Association |
| PKR                 | Pakistani Rupee   |
| PMEX                | Pakistan Mercantile Exchange                              |
| PSQCA               | Pakistan Standards and Quality Control Authority          |
| RBI                 | Reserve Bank of India                                     |
| SAMA                | Saudi Arabian Monetary Authority                          |
| SAR                 | Saudi Riyal   |
| SBP                 | State Bank of Pakistan                                    |
| SD                  | Standard Deviation  |
| SDD                 | Simplified Due Diligence                                  |
| SECP                | Securities and Exchange Commission of Pakistan            |
| STR                 | Suspicious Transaction Report                             |
| SRO                 | Statutory Regulatory Order                                |
| TDAP                | Trade Development Authority of Pakistan                   |
| VAT                 | Value Added Tax   |
| WGC                 | World Gold Council  |
| WTO                 | World Trade Organization                                  |

## Executive Summary

**Introduction:** This Competition Assessment Study of Pakistan’s gold market, conducted by the Center of Excellence in Competition Law (CECL), represents the first comprehensive analysis of the sector’s competitive dynamics, regulatory framework, and structural inefficiencies - filling a critical knowledge gap in a market historically dominated by undocumented practices and informality. The study examines gold’s dual role as a cultural asset and financial instrument in Pakistan, where annual demand has been 60 - 90 tonnes in recent years, yet the market suffers from fragmentation, price opacity, and reliance on imports (\$17 million in 2024). A transformative opportunity lies in the Reko Diq mine, with its 1,550-tonne gold reserves, which could reduce import dependency and generate US\$5 - US\$7 billion annually post-2028, contingent on parallel investments in refining and hallmarking infrastructure. Through qualitative methodologies - including stakeholder interviews with regulator (MoC), industry associations (APGMJA, PGJTEA), and market players (PMEX) - the study identifies key barriers: (1) structural; (2) regulatory; and (3) strategic. Drawing on international models, the study proposes actionable reforms. By addressing these challenges, Pakistan can harness potential of Reko Diq mine and transition to a transparent, competitive market aligned with global standards.

**Gold Market in International Jurisdictions:** A comparative analysis of gold markets in the United Arab Emirates (UAE), Kingdom of Saudi Arabia (KSA), Türkiye, and India reveals best practices that Pakistan could adopt. The UAE’s centralized regulatory authority, KSA’s domestic refining capacity, Türkiye’s gold banking system, and India’s mandatory hallmarking and blockchain traceability offer valuable lessons. These models highlight the importance of unified oversight, quality assurance, financial integration, and technological innovation. Pakistan can leverage these insights to address its own market inefficiencies and align with global standards.

**Regulatory Environment:** Pakistan's gold market operates under a complex regulatory framework involving multiple institutions, including the Ministry of Commerce (MoC), Federal Board of Revenue (FBR), State Bank of Pakistan (SBP), Trade Development Authority (TDAP), and Pakistan Gems & Jewellery Development Company (PGJDC). Key regulations governing the sector include SRO 760(I)/2013 for import/export controls, SRO 924(I)/2020 for AML/CFT compliance, and SRO 297(I)/2023 establishing differential tax rates. The Sales Tax Act 1990 imposes a 17% tax on gold imports (with exemptions under entrustment schemes) and a reduced 3% rate for domestic jewellery manufacturing, while the Income Tax Ordinance 2001 applies withholding taxes and presumptive taxation. This fragmented oversight, combined with high compliance costs and weak enforcement of hallmarking standards, creates market distortions that favor informal trade and smuggling. The recent suspension of SRO 760 has further exacerbated regulatory instability, highlighting the urgent need for policy harmonization and stronger institutional coordination to promote transparency and fair competition in Pakistan's gold market.

**Market Structure:** The gold market in Pakistan is segmented into jewellery, bullion, and coins, with demand driven by cultural events and investment needs. Geographically, trade is

concentrated in urban hubs like Karachi and Lahore. The value chain encompasses sourcing, refining, manufacturing, retail, and recycling, but is hampered by reliance on imports, limited refining capacity, and informal labor practices. Price determination is influenced by international benchmarks, exchange rates, local demand, and government taxes, with the Karachi Sarafa Association playing a pivotal role in daily rate announcements.

**Key Market Players:** Major stakeholders include the Pakistan Mercantile Exchange (PMEX), which provides a regulated platform for gold trading, and private sector entities like ARY Gold, Hanif Jewellers, and Patiala Jewellers. Industry associations such as the All Punjab Gem Merchants & Jewellers Association (APGMJA) and Pakistan Gems Jewellery Traders and Exporters Association (PGJTEA) facilitate coordination but lack regulatory authority. These players shape market competition, yet their dominance and informal networks often stifle innovation and entry for smaller traders.

**Barriers to Competition:** The study identifies structural barriers such as informal market dominance, lack of reliable data, and limited refining capacity. Regulatory barriers include the absence of a unified authority, complex regulations, and high taxation. Strategic barriers like market concentration, limited access to financing, and technological lag further constrain competition. These challenges perpetuate inefficiencies, reduce consumer trust, and hinder the sector's growth potential.

**Conclusion and Recommendations:** To transform Pakistan's gold market into a competitive and transparent sector, the study recommends establishing a unified regulatory authority, the Pakistan Gold and Gemstone Authority (PGGA), to streamline oversight. Mandatory assaying and hallmarking should be implemented to ensure quality and build consumer trust. Digital transformation, including blockchain traceability, can enhance transparency and reduce illicit trade. A gold banking system, inspired by Türkiye's model, would mobilize idle household gold into the formal financial sector. Strengthening data governance and reforming taxation and labor policies are also critical to fostering a dynamic and inclusive gold market. These measures, if implemented cohesively, can unlock the sector's potential and align it with international best practices.

1.

# Introduction



# 1. Introduction

## A. BACKGROUND

Gold holds a multifaceted role in Pakistan's economy and society, functioning both as a culturally embedded asset and a financial instrument. Gold plays a significant social and economic role in Pakistan, with 70% of its demand driven by weddings and festivals, and serving as a hedge against inflation through substantial household savings. On the demand side, annual gold consumption ranges between 60 to 90 tonnes in recent years, positioning Pakistan as one of the major gold markets in South Asia.

On the supply side, Pakistan is largely dependent on imports for its gold requirements. Data from the Pakistan Bureau of Statistics (PBS) indicates that gold imports have fluctuated considerably over the past ten years due to global price volatility, exchange rate pressures, and regulatory interventions. In 2024, the country imported gold worth approximately USD 17 million (TDAP Annual Trade Review (July - June FY2024)).

**Table 1: Annual Analytical Report on External Trade Statistics of Pakistan FY 2022-23**

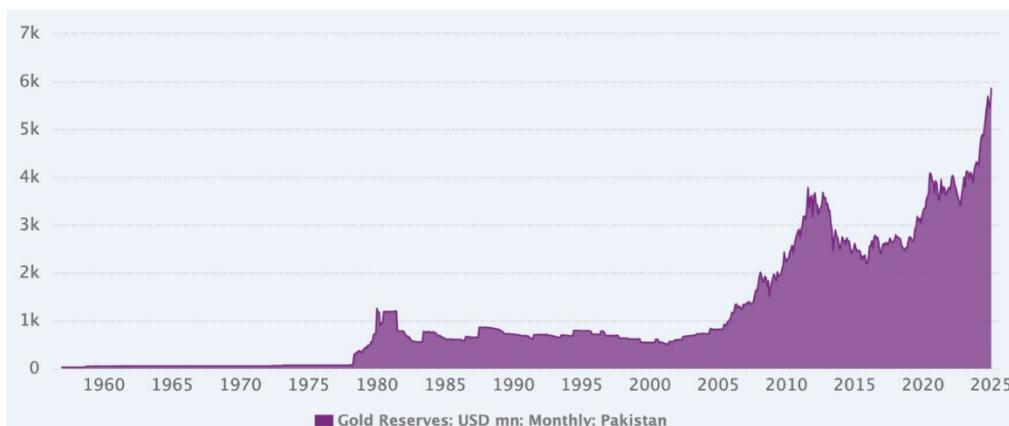
| Commodity          | Unit | FY 2023  |                   | FY 2022  |                   | % Change |            |
|--------------------|------|----------|-------------------|----------|-------------------|----------|------------|
|                    |      | Quantity | Value in USD '000 | Quantity | Value in USD '000 | Quantity | Value '000 |
| <b>Metal Group</b> |      |          |                   |          |                   |          |            |
| Gold               | KG   | 496.293  | 30,650            | 363      | 22,624            | 36.72    | 35.48      |

Source: PBS, External Trade Statistics, 2023

## 1. Gold Reserves in Pakistan

Gold Reserves are country's gold assets held or controlled by the central bank. Pakistan's gold reserves, held by the State Bank of Pakistan (SBP), have shown a steady increase, reaching 5.854 USD billion in January 2025, up from 5.434 USD billion in December 2024 (CEIC, 2025). Monthly data from December 1956 to January 2025 highlights an average reserve of 687.864 USD million, with the current reserves marking an all-time high.

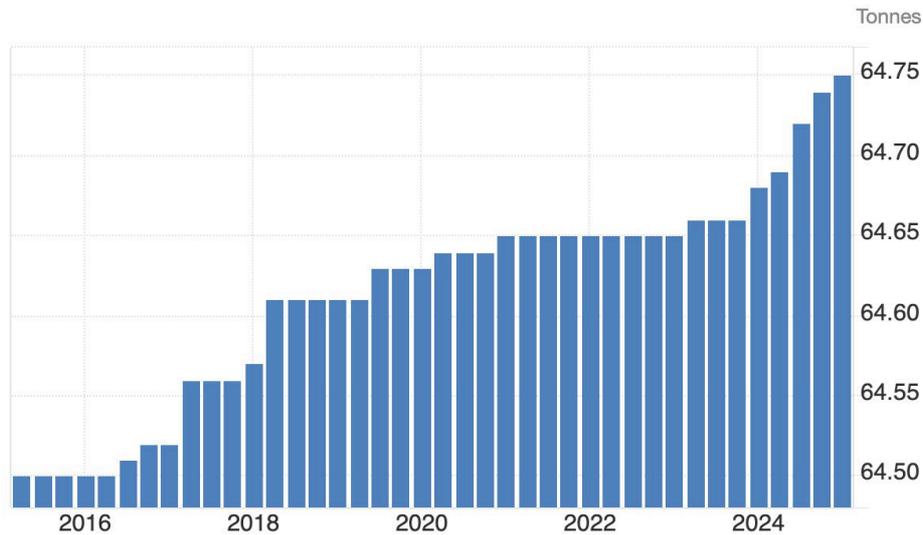
**Figure 1: Gold Reserves of Pakistan (in valuation) from Dec 1956 to Jan 2025**



Source: CEIC

In terms of volume, gold reserves stood at 64.75 tonnes in the first quarter of 2025, slightly up from 64.74 tonnes in the previous quarter. Historically, reserves have averaged 64.82 tonnes since 2000, peaking at 65.43 tonnes in Q4 2007 and hitting a low of 64.39 tonnes in Q1 2010 (Trading Economics, 2025). See Figure 2 below.

**Figure 2: Gold Reserves of Pakistan (in volume) from 2015 to 2025**



Source: Trading Economics

Despite its importance, the gold market in Pakistan remains characterized by limited transparency, fragmented value chains, and under-documented trading practices. A substantial proportion of transactions occur within informal segments, making it challenging to gauge precise market structure and pricing mechanisms. Moreover, the regulatory framework governing gold - spanning federal and provincial agencies, customs protocols, hallmarking standards, and anti-money laundering (AML) measures - has been evolving but still faces gaps in enforcement and consistency. These factors underscore the need for a rigorous, evidence-based competition assessment to inform policy reforms, enhance market efficiency, and protect consumer interests.

## 2. Reko Diq: Pakistan's Untapped Gold Potential

The Reko Diq mine in Balochistan represents one of the world's largest untapped copper-gold deposits, with estimated gold and copper reserves of \$60 billion, with \$54 billion of gold and \$6 billion of copper at the current market prices (Dawn, 2025). Discovered in the 1990s, the project's development stalled due to a decade-long international dispute after Pakistan revoked mining licenses in 2011. Under the 2022 settlement with Barrick Gold Corporation, Barrick is the majority stakeholder in the Reko Diq project, controlling 50% of one of the world's largest untapped copper and gold deposits. The remaining 50% is shared between Pakistan's federal government entities (25%) and the provincial government of Balochistan (25%). Notably, Balochistan's share includes a 15% fully financed stake, with an additional 10% granted without cost (The Friday Times, 2025).

The recently completed updated feasibility study by OGDCL in March 2025 confirms the Reko Diq project will operate for a useful life of 37 years across two development phases. Phase 1 is scheduled to commence operations in 2028 with an annual processing capacity of 45 million tonnes. Phase 2, planned to begin in 2034, will double processing capacity to 90 million tonnes annually. Based on current reserves, the mine is projected to yield total lifetime production of 17.9 million ounces (about 508 thousand KG) of gold besides 13.1 million tonnes of copper when operating at full capacity (OGDCL, 2025). The Reko Diq project is forecasted to generate up to \$74 billion in revenue over 37 years once operational (Pakistan Television, 2025).

The mine's development includes commitments to local employment, infrastructure upgrades in Balochistan, and corporate social responsibility (CSR) initiatives - factors critical to mitigating the informal sector's dominance by integrating artisanal miners into formal supply chains. However, challenges persist, including security risks, provincial revenue-sharing disputes, and environmental concerns, which require robust regulatory oversight to align with global ESG (Environmental, Social, and Governance) standards.

From a competition and market structure perspective, the mine's output may drastically change Pakistan's gold value chain. Domestic refining and downstream industries (e.g., jewellery manufacturing) would gain access to locally sourced raw gold, reducing costs and smuggling incentives. However, this hinges on parallel investments in refining capacity (currently negligible) and hallmarking infrastructure to ensure quality compliance. The project also underscores the need for policy coherence - a unified regulatory framework (as proposed in Chapter 7) would be essential to manage Reko Diq's integration into the formal economy, prevent cartelization of its output, and ensure equitable distribution of benefits across the market.

## B. PIONEERING NATURE OF THIS STUDY

This competition assessment constitutes the first seminal work on Pakistan's gold sector, filling a critical void in economic research. Unlike other industries that benefit from regular policy reviews, Pakistan's gold market has never before undergone systematic analysis of its competitive dynamics, regulatory framework, or market structure. The absence of prior institutional studies has allowed informality and inefficiencies to persist unchallenged. As the inaugural evidence-based examination of this strategically important sector, this study:

- Establishes the first comprehensive baseline of market operations
- Reveals previously undocumented structural barriers
- Provides original data where none existed (e.g., value chain mapping)
- Creates analytical frameworks tailored to the unique gold ecosystem of Pakistan

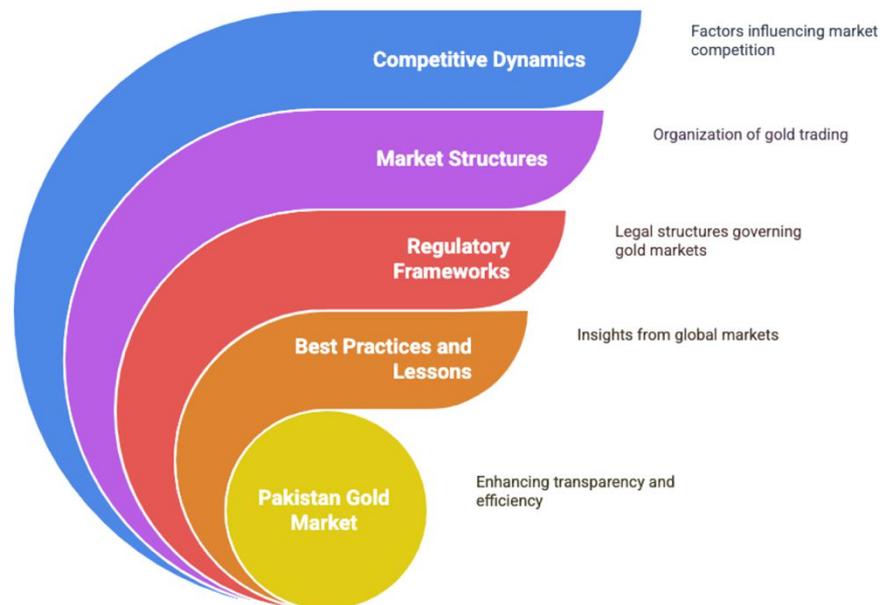
The findings and recommendations herein thus represent a foundational resource for policymakers - one that finally enables data-driven governance of a sector that has historically operated without formal scrutiny.

## C. RESEARCH OBJECTIVES

This research study aims to deliver a comprehensive understanding of the competitive dynamics in the gold market of Pakistan and to discuss the structural, regulatory, and strategic factors shaping market outcomes. Specifically, the study will:

- Identify major stakeholders - ranging from importers, wholesalers, and jewelers to digital trading platforms - and analyze their role in promoting market competition in this sector.
- Examine how gold prices are determined in Pakistan, analyze the interplay of global benchmarks (e.g., London Bullion Market Association [LBMA] spot prices) and local factors (e.g., rupee-dollar exchange rate, import duties), and investigate consumer demand patterns, preferences, and purchase drivers.
- Scrutinize existing laws, standards, and governance structures regulating gold sector in Pakistan. This includes analyzing existing AML measures, and transparency initiatives.
- Identify structural, regulatory, and/or strategic barriers that stifle competition, limit innovation, or reduce consumer welfare. Based on the research findings, propose actionable recommendations to promote a more competitive, transparent, and growth-oriented gold market, aligning Pakistan's gold sector with international best practices.

**Figure 3: Competition Assessment Study of the Gold Market in Pakistan**



## D. METHODOLOGY

This study employs a qualitative research methodology to assess competition in Pakistan's gold market, given the sector's heavy reliance on informal transactions and the lack of reliable quantitative data. To gather nuanced insights into market practices, regulatory challenges, competition issues, cultural factors, consumer behaviour, and trust dynamics, a structured questionnaire with open-ended questions was carefully designed and administered to

stakeholders as part of Key Informant Interviews (KIIs). Interviews were conducted with a diverse range of stakeholders, including:

- Ministry of Commerce (MoC)
- Trade Development Authority of Pakistan (TDAP)
- Pakistan Mercantile Exchange (PMEX)
- Pakistan Gems and Jewellery Development Company (PGJDC) – Ministry of Industries and Production (MoI&P)
- All Punjab Gem Merchants & Jewellers Association (APGMJA)
- Pakistan Gems Jewellery Traders and Exporters Association (PGJTEA)
- Gold Brokers (including Zahid Latif Khan Securities Private Limited)
- Leading gold jewelers
- Informal sector operators in various segments of value chain

This approach ensured consistency in data collection while allowing respondents to provide detailed, in-depth perspectives. The structured questionnaire facilitated systematic data gathering, enabling comparability across responses while maintaining flexibility for stakeholders to express their views freely. Key advantages of this method included:

- Open-ended questions encouraged rich, contextual responses, uncovering underlying motivations and challenges.
- The structured format ensured all key themes were addressed uniformly, enhancing analytical rigor.
- Stakeholders could elaborate on critical issues, providing clarity on complex dynamics.
- Responses were systematically documented, supporting transparent and evidence-based analysis.

Qualitative data from the questionnaire was thematically analyzed, with findings built directly from stakeholder input, ensuring grounded and actionable insights.

## 1. Ethical Considerations

The research methodology for this study was designed with careful attention to ethical principles governing academic and policy-oriented research. Several key considerations were addressed to ensure the integrity, confidentiality, and reliability of the findings. All participants, including representatives from government institutions, industry associations, and private sector entities, were provided with clear information about the study's objectives, scope, and intended use of data. Participation was voluntary, with interviewees retaining the right to withdraw or withhold responses without consequence. Sensitive information, particularly regarding market practices or regulatory challenges, was anonymized to protect respondents' identities and institutional affiliations. The study acknowledges potential biases arising from reliance on stakeholder perspectives, particularly given the reluctance of some institutions (FBR and SBP) to share data.

To counterbalance this, findings were triangulated across multiple sources, including published reports and international benchmarks. Research procedures adhered to ethical guidelines for policy research, avoiding speculative claims and ensuring all recommendations are evidence-based. Finally, the research team affirmed no financial or institutional conflicts of interest that could influence the study's outcomes. These measures were implemented to uphold academic rigor while navigating the sensitivities inherent in studying a sector with significant informal activity and regulatory complexities.

## 2. Limitations

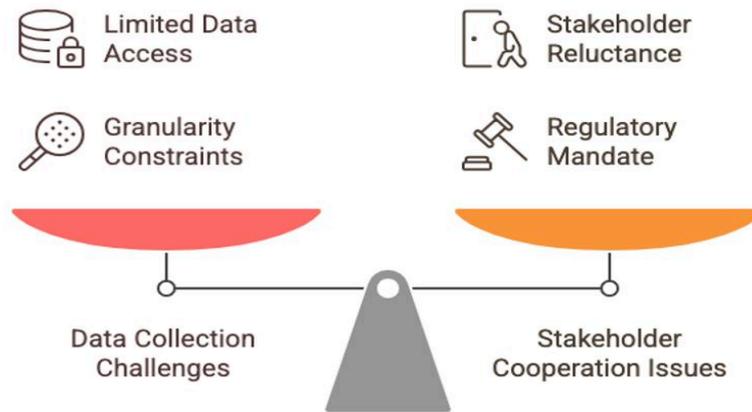
The study acknowledges constraints in data availability and reliability, particularly in quantitative analysis. The quantitative analysis faces significant limitations due to systemic data deficiencies, inconsistent reporting, and the predominance of informal transactions. Key weaknesses in the available data include:

- TDAP's formal import data series commences only in 2014, with no consolidated pre-2014 records available. This restricts longitudinal analysis of market evolution, cyclical patterns, and pre-policy baseline comparisons.
- Export items lack standardized classification (e.g., "Gold Jewellery (22 Kt)", "Gold Jewellery", "Silver Jewellery (20 Kt)" appear interchangeably without unified taxonomy)
- Currency discrepancies are found in the data. FOB values mix USD and AED without conversion benchmarks (e.g., "20000 Dirham", "33333.3", "\$5520000")
- There are unit integrity issues. Weight measurements occasionally show implausible precision (e.g., 933.575 grams) and inconsistent units (grams/kg)
- 24K gold weight column shows frequent null entries despite HS code declarations
- Banking channel ambiguities are found, for example, dealing banks inconsistently reported (e.g., "ABL", "Allied Bank Limited, Civil Line Branch, Jhelum", "Bank Al Falah Limited")
- Date formats inconsistent (DD.MM.YYYY, DD/MM/YYYY, YYYY-MM-DD) complicating time-series analysis

Furthermore, the application of standard quantitative indices for measuring market concentration, such as the Herfindahl-Hirschman Index (HHI), is deemed unfeasible due to the extensive informal nature of the market and these data reliability issues.

Another major limitation is that key industry associations and governmental stakeholders, notably FBR and SBP, exhibited reluctance to share crucial data pertaining to gold imports, sales volumes, and tax collection within the sector. For example, despite multiple contact attempts, FBR did not respond to interview requests. Moreover, SBP formally declined participation, stating that its primary responsibilities are monetary policy formulation, price stability, financial soundness, foreign exchange reserve management, and oversight of banking/payment systems.

**Figure 4: Limitations of the Competition Assessment Study in the Gold Market**



The qualitative research methodology adopted in this study has yielded critical insights into the operational and regulatory dynamics of Pakistan's gold market. While the findings illuminate systemic challenges and informal market practices, the limitations in data availability underscore persistent gaps in sectoral transparency. These methodological outcomes provide a foundation for the subsequent comparative analysis of international gold markets, from which evidence-based policy recommendations may be derived to enhance competitiveness and governance within Pakistan's gold sector.

2.

## Gold Market in International Jurisdictions



## 2. Gold Market in International Jurisdictions

This provides a comparative analysis of gold markets in the United Arab Emirates (UAE), Kingdom of Saudi Arabia (KSA), Türkiye, and India, highlighting their regulatory frameworks, market structures, and competitive dynamics. By examining these diverse models, the study identifies best practices and lessons that Pakistan can adopt to enhance transparency, efficiency, and competitiveness in its own gold sector.

### A. UNITED ARAB EMIRATES (UAE) GOLD MARKET

The United Arab Emirates (UAE) has transformed its gold sector into one of the most competitive and formalized markets globally, driven by strategic government initiatives, regulatory advancements, and technological innovation. Dubai, the epicenter of the UAE's gold trade, has emerged as the world's third-largest gold exporter and importer in 2022. Handling 20-30% of worldwide gold trade annually, Dubai ranks among the top three global gold hubs with Switzerland and London (InGoldWeTrust Report, n.d.). This growth is underpinned by the UAE's geographic advantage, serving as a critical link between gold-producing regions in Africa and high-demand markets in Asia.

The establishment of the Dubai Multi Commodities Centre (DMCC) in 2002 marked a turning point, providing a structured regulatory framework and world-class trading infrastructure that now supports over 1,500 gold-related businesses, fostering transparency and efficiency in the market (DMCC, 2025).

A key strength of the UAE's gold sector is its highly regulated refining industry, dominated by major players such as Emirates Gold DMCC, Kaloti Precious Metals, and PAMP UAE, which collectively process 1,400 tons of gold annually (InGoldWeTrust Report, n.d.). These refiners adhere to the stringent Dubai Good Delivery Standard, ensuring high purity and compliance with international benchmarks. The government's push for formalization and anti-money laundering (AML) measures has been pivotal, particularly after the UAE's inclusion on the FATF gray list in 2022 (Transparency International EU, 2022).

In 2020, in response to identified risks within the gold sector, authorities in the UAE, specifically the DMCC and the Ministry of Economy, implemented mandatory measures including registration for all gold traders, comprehensive due diligence programs, and the mandatory use of the 'goAML' platform for real-time reporting of suspicious transactions. This initiative aimed to combat money laundering and terrorism financing within the precious metals industry (Ministry of Economy - UAE, n.d.). These measures have significantly reduced illicit trade while enhancing the UAE's reputation as a trusted gold hub.

Technological innovation has further strengthened the sector's competitiveness. The DMCC's blockchain-based gold tokenization platform (e.g., DMCC Tradeflow and ComTech Gold Token), launched in 2022, has revolutionized supply chain transparency, enabling end-to-end tracking of gold from mine to market. This initiative has reduced risks of conflict in gold trade and improved financing efficiency through enhanced traceability (HootLegal, 2023).

Additionally, Dubai's retail gold market, anchored by the Gold Souk, operates with competitive margins, ensuring affordability and attracting global buyers.

To maintain its leadership, the UAE continues to invest in refinery capacity and financial infrastructure, countering rising competition from hubs like Singapore and Rwanda. The government's proactive regulatory enhancements, coupled with technological advancements, have not only formalized the gold trade but also positioned the UAE as a model for sustainable and transparent gold markets. These efforts underscore the UAE's commitment to aligning with global standards while driving economic growth through the gold sector.

## B. KINGDOM OF SAUDI ARABIA (KSA) GOLD MARKET

Saudi Arabia gold market is experiencing a major transformation, shifting from a traditional consumption-driven sector to a vertically integrated production and investment hub, as per strategic reforms under Vision 2030 (Kingdom of Saudi Arabia, 2016). The state-owned Saudi Arabian Mining Company (Ma'aden) has become a regional leader, aiming to produce gold more than 500,000 ounces by 2025 and 700,000 by 2028, aligning with Saudi Vision to double production by 2030 and achieve a fourfold increase by 2040 (Ma'aden, n.d.). The company's \$7 billion investment in the Manara Minerals joint venture with the Public Investment Fund (PIF) underscores Saudi Arabia's ambition to capture more value along the gold supply chain, from extraction to refining and retail (PIF, 2023).

The Saudi gold market is witnessing a rapid shift from traditional souks to modern retail chains, driven by evolving consumer preferences. While traditional gold souks still account for majority of jewellery sales, branded retailers like Al Romaizan Gold & Jewellery (LLC), L'azurde and Malabar Gold & Diamonds are gaining dominance, with the top five retailers increasing their market share over time from 2018 to 2023 (Saudi Arabia Jewellery Market Report, n.d.).

Younger Saudi consumers are increasingly favoring design-focused jewellery over plain bullion, pushing retailers to innovate in product offerings (Lazurde to Expand Retail Network Despite Challenges, 2023). However, high retail markups remain a challenge, highlighting opportunities for more competitive pricing structures.

Saudi Arabia has introduced key regulatory reforms to formalize and strengthen its gold sector. The 2020 Mining Law opened the sector to foreign investment (Saudi Mining Sector Investment Report, 2024), while the Precious Metals Law established in 1983<sup>1</sup> formed national quality and purity standards (Saudipedia, n.d.).

Additionally, AML/CFT regulation of 2023 imposed strict compliance requirements on jewelers, improving transparency but increasing costs for smaller traders (Saudi Arabian Monetary Authority [SAMA], 2023). The Saudi Standards, Metrology and Quality Organization (SASO) now enforce mandatory hallmarking, with penalties for violations, ensuring consumer trust in gold products (SASO, n.d.).

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<sup>1</sup> The Law of Precious Metals and Gemstones in the Kingdom aims to reduce commercial fraud in the sale of precious metals such as gold and silver.

A critical challenge has been the lack of domestic refining capacity, forcing Saudi Arabia to export doré bars for processing abroad. To address this, the Saudi government has partnered with the private sector to establish a new gold refinery in Riyadh, which is expected to begin operations in 2025. This facility will process locally mined gold, enhance value addition, and reduce reliance on foreign refiners (Arab News, 2024).

Furthermore, the Capital Market Authority (CMA) 2023 framework for gold ETFs is expected to boost gold-backed financial products, providing investors with new opportunities and deepening the market's liquidity (CMA, 2023).

Saudi Arabia's gold sector is undergoing unprecedented formalization and modernization, driven by Vision 2030's economic diversification goals. With Ma'aden's expansion, regulatory enhancements, and upcoming refining infrastructure, the Kingdom is positioning itself as a key player in the global gold industry.

### C. TÜRKIYE GOLD MARKET

Türkiye's gold market stands out globally due to its deep integration into both the financial system and cultural fabric. Turkey has consistently ranked among the world's top gold consumers, with an average annual demand of 181 tonnes over the last decade - representing approximately 6% of global consumption (World Gold Council, 2023).

Industry analysts estimate that Turkish citizens currently hold a minimum of 3,500 tonnes in privately stored household gold reserves, commonly referred to as "under-the-pillow" savings. A defining feature of the Turkish gold market is the gold banking system, where individuals deposit physical gold in banks to earn interest - a practice institutionalized by the Central Bank of the Republic of Türkiye (CBRT) since 2008 (London Bullion Market Association [LBMA], 2015).

Since 2011, the CBRT has allowed commercial banks to hold up to 30% of their required reserves in gold bullion, reinforcing financial stability and boosting gold-backed liquidity (Jansen, 2014). This system has made Türkiye a pioneer in monetizing gold and using it as a hedge against inflation and currency volatility (Middle East Eye, 2023).

Figure 5: Turkish Gold Banking System



Source: World Gold Council

The formal gold sector is dominated by Koza Gold (owned by the Turkish Wealth Fund) and Istanbul Gold Refinery. However, the informal market remains robust, with the historic Grand Bazaar network handling majority of retail transactions. Due to lower compliance costs, Grand Bazaar dealers often offer better rates than banks, creating pricing disparities that highlight the market's dual structure (Mengu, 2018).

Despite strict import regulations, Turkey continues to face significant challenges with gold smuggling, with industry reports estimating nearly 50 tons of illicit gold entering the country within a single year (Duvar English, 2024). This surge in unauthorized gold flows highlights persistent gaps in enforcement, particularly along border regions, where smuggling networks exploit regulatory loopholes. The influx of untracked gold undermines official policy measures designed to stabilize domestic markets and raises concerns about unrecorded transactions affecting Turkey's broader financial system. To counter this, the government has cracked down on informal traders while promoting gold savings accounts, reflecting a push for formalization without disrupting gold's financial role. Meanwhile, digital gold platforms like BiLira and Turkish Gold Exchange are gaining traction among younger, tech-savvy investors, reshaping demand dynamics.

Türkiye's gold market is at a crossroads, striving to modernize while preserving its unique financial and cultural role. The gold banking system, regulatory reforms, and digital innovations position Türkiye as a global case study in gold financialization.

## D. INDIAN GOLD MARKET

India is the world's largest gold market, with annual demand averaging 700-800 tons as projected by the World Gold Council for the year 2025 (TaxTMI, 2024), reflecting its deep cultural and economic significance. The market is a dynamic blend of traditional practices and modern financialization, supported by progressive policies and digital transformation.

India's gold market operates under a well-structured regulatory system, with 35 authorized banks and nominated agencies handling imports. The RBI has further liberalized the market by permitting gold-backed loans and introducing gold futures trading on major exchanges like the NSE and BSE, enhancing liquidity and price discovery.

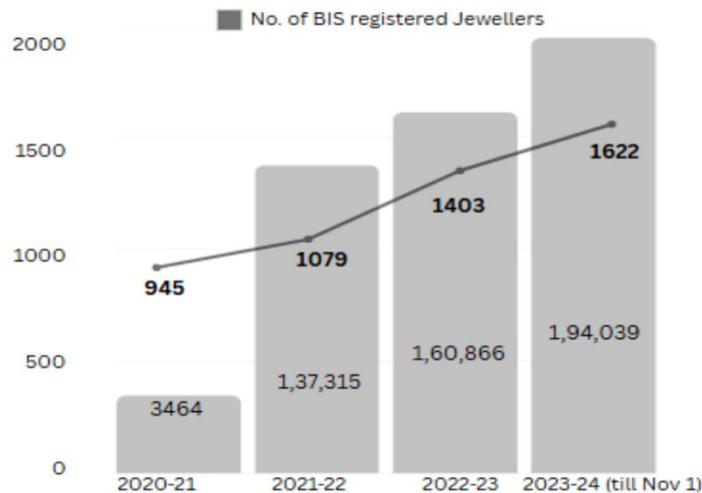
While family-owned jewelers still dominate the market, the organized retail sector is expanding rapidly. Tanishq (Tata Group), with 350+ stores, is growing rapidly, driven by consumer demand for branded, hallmarked jewellery. Digital platforms have revolutionized gold investment, with Paytm Gold and MMTC-PAMP's IndiaGold.

India's gold investment landscape is undergoing a generational shift, with digital adoption rates exceeding 65% among millennials and 75% in the under-35 demographic. Fractional gold platforms such as DigiGold and Google Pay now enable micro-investments starting as low as ₹1 (₹100 = ~\$1.20), significantly lowering entry barriers for new investors (CoinBazaar, 2023). These platforms offer easy, fractional gold ownership, making gold accessible to a broader demographic.

The Gold Monetization Scheme (GMS), launched in 2015, has successfully mobilized tons of idle household gold into the formal financial system, reducing reliance on imports (Government of India, 2015). Additionally, the 2023 establishment of the International Financial Services Centre (IFSC) in Gujarat enables duty-free gold trading, positioning India as a global trading hub (ICSI, 2024). Furthermore, India International Bullion Exchange (IIBX) aims to create a unified national price benchmark, enhancing transparency and efficiency (Sharma & Patel, 2023). These initiatives highlight India's commitment to modernizing its gold market while preserving its cultural legacy.

In June 2021, Bureau of Indian Standards (BIS) made hallmarking mandatory for gold jewellery and artifacts, requiring purity certification (14K, 18K, 22K, or 24K) (World Gold Council, 2021), now across 361 districts as of Nov 2024 (Press Information Bureau [PIB], 2024). Administered through a network of 1,622 BIS-recognized assaying centers, the policy enforces laser-marked HUID (Hallmark Unique Identification) codes for traceability, resulting in reduced adulteration. The system aligns with ISO 9202 standards, boosting consumer confidence and exports. Small jewelers (with annual turnover less than Indian Rupees 4M) were initially exempted but phased into compliance by 2023, ensuring inclusive adoption (PIB, 2024).

**Figure 6: Number of BIS Recognized Assaying and Hallmarking Centres**



Source: Press Information Bureau, India 2024

India's gold market is evolving into a more structured, transparent, and digitally driven ecosystem. With strong institutional frameworks, retail modernization, and innovative policies, India is reinforcing its position as the world's leading gold market, balancing tradition with financial sophistication.

**Table 2: Summary of Comparative Gold Market Frameworks: UAE, KSA, Türkiye, India & Pakistan**

| Characteristic               | UAE  | KSA  | Türkiye  | India  | Pakistan  |
|------------------------------|--|--|--|--|---|
| <b>Regulatory Framework</b>  | Centralized authority with strong AML controls | Progressive mining laws and gold standards                 | Unique gold-backed banking system                  | Comprehensive import/export regulations          | Fragmented oversight with inconsistent enforcement  |
| <b>Market Structure</b>      | Highly formalized wholesale/retail ecosystem   | Growing formal retail sector alongside traditional markets | Strong coexistence of formal and informal channels | Mix of traditional jewelers and modern retailers | Dominated by informal traders and cash transactions |
| <b>Pricing Mechanism</b>     | Transparent global benchmark alignment         | Retail premiums common                                     | Bank rates vs. bazaar pricing disparities          | Government-monitored with rural/urban variations | Association-controlled with limited transparency    |
| <b>Quality Assurance</b>     | Internationally recognized certification       | National purity standards gaining traction                 | Evolving hallmarking system                        | Robust nationwide hallmarking regime             | Limited verification with widespread adulteration   |
| <b>Supply Chain</b>          | Advanced refining and logistics hub            | Developing domestic processing capacity                    | Heavy reliance on recycled gold                    | Strong manufacturing base with import dependence | Primarily reliant on unofficial imports             |
| <b>Financial Integration</b> | Sophisticated trade financing options          | Emerging gold investment products                          | Highly developed gold banking system               | Growing digital gold platforms                   | Minimal institutional participation                 |

| Characteristic             | UAE                                | KSA                                     | Türkiye                         | India                         | Pakistan                       |
|----------------------------|------------------------------------|---|---------------------------------|-------------------------------|--------------------------------|
| <b>Technology Adoption</b> | Leading in blockchain traceability | Modernizing trading infrastructure      | Developing electronic reporting | Expanding digital solutions   | Predominantly manual processes |
| <b>Key Strengths</b>       | Global trade connectivity          | Strategic mining investments            | Innovative gold monetization    | Strong domestic manufacturing | Cultural gold affinity         |
| <b>Challenges</b>          | Maintaining compliance standards   | Balancing regulation with market growth | Curbing cross-border smuggling  | Managing import dependence    | Formalizing informal sector    |

## E. KEY LESSONS FOR PAKISTAN

Drawing from the comparative analysis of gold markets in the UAE, KSA, Türkiye, and India, Pakistan can adopt the following targeted reforms to enhance competition, transparency, and growth in its gold sector. These recommendations are tailored to address Pakistan's unique challenges, such as regulatory fragmentation, informality, and reliance on imports, while leveraging international best practices.

### 1. Centralized Regulatory Authority (UAE Model)

The UAE's Dubai Multi Commodities Centre (DMCC) demonstrates how unified oversight can transform market efficiency. By consolidating licensing, compliance, and AML enforcement under a single entity, the DMCC reduced processing times and attracted gold businesses. For Pakistan, where fragmented oversight (e.g., SBP, FBR) creates confusing policies, a similar centralized authority could eliminate redundancies and streamline trade. This aligns with the proposed Pakistan Gold and Gemstone Authority (Recommendation 1), which would integrate currently siloed functions.

### 2. Domestic Refining Capacity (KSA Model)

Saudi Arabia efforts in establishing Saudi Gold Refinery and Mining Law (2020) highlight the strategic value of local processing. By slashing royalties and fast-tracking permits, KSA reduced its reliance on imported refined gold while creating jobs. Pakistan, which currently depends on smuggled or foreign-refined gold despite holding 64.75 tonnes in reserves, could replicate this through public-private partnerships (PPPs) and tax incentives for refinery investments, as outlined in Recommendation 2.

### 3. Gold Banking System (Türkiye Model)

Türkiye's gold deposit accounts, managed by the Central Bank, mobilized idle household gold into the formal financial system. This not only stabilized liquidity but also provided a hedge against inflation. In Pakistan, where tonnes of 'under-the-pillow' gold sit untapped in private holdings, a similar system - piloted through commercial banks (Recommendation 4) - could reduce import dependence and enhance monetary policy flexibility.

#### 4. Mandatory Hallmarking (India Model)

BIS mandatory hallmarking regime (started in 2021) hallmarked 40 crore Indian Rupee worth of gold jewellery by Nov 2024, reduced purity fraud and increased jewellery exports (PIB, 2024). Pakistan's current system, with only three PSQCA-certified assay centers and rampant adulteration, urgently needs comparable legislation. The proposed nationwide hallmarking enforcement (Recommendation 2), coupled with XRF testing hubs<sup>2</sup> in Karachi and Lahore, would restore consumer trust and unlock premium export markets.

#### 5. Blockchain Traceability (UAE Model)

The DMCC Trade flow blockchain platform in UAE is instrumental in eliminating conflicted gold trade by providing immutable records from mine to market. Pakistan's reliance on paper-based documentation enables smuggling and tax evasion. A pilot blockchain system for Karachi Sarafa Bazaar (Recommendation 3), integrated with FBR's Track & Trace, would enhance transparency while meeting FATF requirements.

The analysis of international gold markets reveals a clear link between robust regulatory frameworks and market competitiveness. These lessons are particularly relevant for Pakistan as the study transitions to examining its domestic regulatory environment, where fragmented policies and weak enforcement currently hinder growth. By aligning with global best practices, Pakistan can overcome these challenges and foster a more transparent and competitive gold market.

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<sup>2</sup> XRF Testing Hubs are specialized facilities equipped with X-ray Fluorescence (XRF) analyzers that are non-destructive, high-precision devices that verify the purity of gold and other precious metals in seconds.

3.

# Regulatory Environment

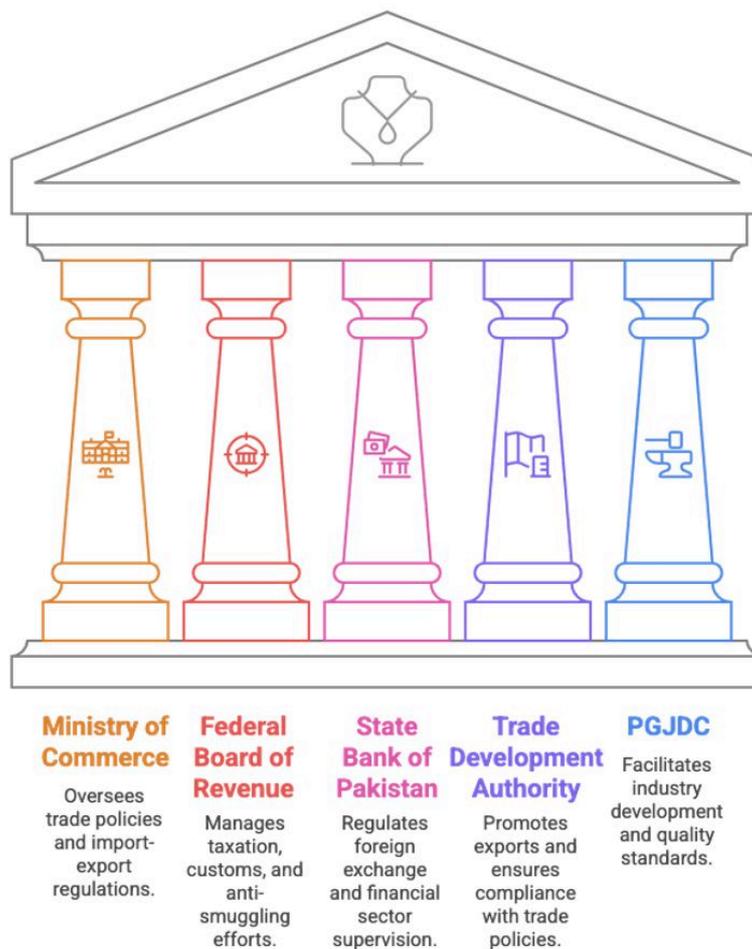


### 3. Regulatory Environment

The gold market in Pakistan operates under a multifaceted regulatory framework, shaped by the policies and oversight of several key institutions. The Ministry of Commerce (MoC) sets trade policies, the Federal Board of Revenue (FBR) enforces taxation, the State Bank of Pakistan (SBP) regulates foreign exchange, the Trade Development Authority (TDAP) facilitates exports, and the Pakistan Gems & Jewellery Development Company (PGJDC) oversees quality standards. Despite their mandates, coordination gaps and overlapping responsibilities among these regulators often lead to inefficiencies, creating barriers to a competitive and transparent gold market.

This section examines the regulatory framework in two parts: first, by analyzing the roles and challenges of these key regulators, and second, by assessing the impact of major regulations on market competition. The analysis highlights how structural inconsistencies, high compliance costs, and weak enforcement undermine fair competition while proposing pathways for reform.

**Figure 7: Key Regulators of Gold Market in Pakistan**



## A. KEY REGULATORS

### 1. Ministry of Commerce (MoC)

The Ministry of Commerce (MoC) plays a central role in shaping Pakistan's gold trade policies, overseeing import-export regulations, trade agreements, and sectoral development (Ministry of Commerce, n.d.). While it provides a structured framework through the Trade Policy Framework and Import-Export Policy Orders, its effectiveness is often constrained by coordination challenges, policy inconsistencies, and implementation gaps. The MoC works alongside institutions like the State Bank of Pakistan (SBP) and the Federal Board of Revenue (FBR), but its regulatory impact remains uneven.

The MoC regulates gold imports through the Import Policy Order and associated Statutory Regulatory Orders (SROs), restricting imports to registered entities. However, frequent policy shifts - such as the 2022-2023 suspension of import of non-essential and luxury items to stabilize the rupee and current suspension of SRO 760 - have led to market instability and supply shortages. Importers face stringent documentation requirements, including Electronic Import Forms and foreign exchange compliance, but smuggling remains widespread due to porous borders and weak enforcement.

The MoC mandates Pakistan Standards and Quality Control Authority (PSQCA) certifications to meet international benchmarks, yet compliance is inconsistent, limiting competitiveness. While the Ministry encourages responsible sourcing practices, the lack of binding regulations means traceability remains weak. Export growth is further hampered by limited access to financing and global market barriers.

The MoC ensures Pakistan's gold trade adheres to WTO regulations, including GATT Article XI (prohibiting quantitative restrictions) and the Trade Facilitation Agreement. Yet, enforcement remains weak, and trade barriers persist. The Ministry collaborates with the SBP (Foreign Exchange Regulation Act), FBR (customs enforcement, anti-money laundering), and SECP, but inter-agency coordination is often inefficient, leading to regulatory overlaps and gaps.

To promote the gem and jewellery industry, the MoC organizes trade fairs (Pakistan Gems and Jewellery Exhibition) and partners with TDAP and PSDCI for artisan training. It also advocates for financial support, such as the SBP's Export Finance Scheme. However, these initiatives have had limited reach, with most benefits accruing to large exporters rather than small traders.

The Ministry of Commerce is a key regulator of Pakistan's gold trade, but its policies often face challenges in execution. While it has introduced measures to formalize imports, boost exports, and ensure compliance, issues like smuggling, inconsistent policies, and weak enforcement persist. The MoC's role is crucial, but its impact is diluted by structural inefficiencies, highlighting the need for stronger coordination and more sustainable trade policies.

## 2. Federal Board of Revenue (FBR)

The Federal Board of Revenue (FBR) acts as Pakistan's primary fiscal regulator for the gold market, overseeing taxation, customs enforcement, and anti-smuggling efforts (FBR, n.d.). Its regulatory framework is based on key laws such as the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, and the Customs Act, 1969, along with periodic Statutory Regulatory Orders (SROs). While the FBR has established mechanisms to monitor gold transactions, its effectiveness is often undermined by structural and operational challenges.

The FBR imposes a multi-layered tax regime on gold transactions to reduce evasion and bring informal businesses into the tax net. Under the Income Tax Ordinance, 2001, Section 148 mandates withholding taxes on gold purchases, while Section 181 requires gold traders and jewelers to register and file returns. However, compliance remains inconsistent, particularly among small-scale traders and in informal markets like sarafa bazaars, where underreporting is widespread. The Sales Tax Act, 1990 imposes a 18% tax on gold jewellery. Section 21 mandates record-keeping, but enforcement gaps allow undocumented trade to persist.

In regulating gold imports - a critical function given Pakistan's reliance on foreign gold - the FBR uses the Customs Act, 1969 to levy duties (adjusted via SROs like SRO 598(I)/2023) and combat under-invoicing (Section 32). While Section 18 allows duty adjustments to stabilize the market, and Section 16 permits confiscation of smuggled gold, porous borders with Afghanistan and Iran continue to facilitate illegal inflows. The FBR coordinates with the State Bank of Pakistan (SBP) on foreign exchange controls, sometimes restricting imports to conserve dollar reserves. Yet, these measures often lead to supply shortages and price volatility, highlighting the limitations of reactive policies.

To counter informal trade, the FBR has introduced measures like mandatory CNIC reporting for high-value purchases, electronic monitoring via the Track and Trace System (SRO 1047(I)/2022), and cash transaction reporting under Section 21A of the Income Tax Ordinance. However, weak enforcement and lack of integration between federal and provincial systems allow many traders, especially in rural areas, to operate outside the formal economy.

The FBR collaborates with the SBP, SECP, and MoC on broader economic policies, such as tax amnesty schemes (2019 Asset Declaration Scheme) and joint oversight under the Foreign Exchange Regulation Act, 1947. However, these initiatives have seen limited long-term success due to corruption, complex tax structures, and weak enforcement. While the FBR has strengthened audits (Section 177, Income Tax Ordinance) and penalties (Section 25, Sales Tax Act), systemic inefficiencies persist.

Overall, the FBR plays a central role in regulating Pakistan's gold market through taxation and customs controls. While its legal framework provides tools for formalization, implementation gaps, smuggling, and informal trade remain significant challenges, limiting

its effectiveness. The FBR's regulatory impact is mixed, with structural weaknesses often diluting its intended outcomes.

### 3. State Bank of Pakistan (SBP)

The State Bank of Pakistan (SBP) acts as Pakistan's central monetary authority, overseeing gold market regulations primarily through foreign exchange controls and financial sector supervision. While it plays a critical role in stabilizing gold-related financial flows, its policies often face challenges in implementation and effectiveness, leading to mixed outcomes in market regulation.

The SBP regulates gold imports under the Foreign Exchange Regulation Act (FERA) 1947, imposing strict controls to manage dollar reserves (SBP(a), n.d.). While export of gold is banned under FE Manual 2002 regulated by SBP (SBP(b), n.d.). During economic crises - such as the July 2023 import suspension - the SBP restricts gold imports to ease pressure on foreign exchange reserves. These measures are enforced through authorized dealer banks, which must comply with SBP circulars and submit detailed documentation, including Form 'E' for import transactions. However, these restrictions have often led to unintended consequences, such as supply shortages, price volatility, and increased smuggling activity, undermining their intended economic benefits.

The SBP's Financial Monitoring Unit (FMU) tracks gold-related financial transactions under the Anti-Money Laundering Act 2010, requiring reports for cash transactions exceeding PKR 2 million (Financial Monitoring Unit, 2023). While this aims to curb illicit flows, enforcement remains inconsistent, particularly in informal markets where large cash transactions are common. Smuggling and underreporting persist due to weak cross-border monitoring and limited coordination with customs authorities.

The SBP's monetary policy indirectly affects gold demand, as investors often turn to gold during periods of high inflation or rupee depreciation. Interest rate adjustments can influence gold's appeal as a hedge, but these effects are often reactive rather than strategically managed. The SBP does not directly control domestic gold prices, leaving the market susceptible to global price fluctuations and speculative trading.

Through its Banking Policy Department, the SBP oversees Shariah-compliant gold financing products and sets capital adequacy requirements for banks engaged in gold lending. While these regulations aim to ensure financial stability, gold-backed financing remains limited due to risk aversion among banks and a lack of standardized valuation mechanisms.

The SBP collaborates with the FBR and MoC to align gold trade policies with broader economic goals. However, inter-agency coordination is often inefficient, leading to regulatory overlaps and gaps. For instance, while the SBP monitors foreign exchange outflows for gold imports, customs enforcement remains weak, allowing under-invoicing and smuggling to persist.

The SBP plays a pivotal role in regulating Pakistan's gold market through foreign exchange controls, financial monitoring, and monetary policy. However, its effectiveness is hampered by reactive policy measures, weak enforcement, and inconsistent coordination with other agencies. While it provides a necessary regulatory framework, structural challenges - such as smuggling, dollar shortages, and informal trade - limit its ability to ensure a stable and transparent gold market.

#### 4. Trade Development Authority of Pakistan (TDAP)

The Trade Development Authority of Pakistan (TDAP) serves as a crucial bridge between Pakistan's gold jewellery industry and global markets while supporting regulatory compliance. Operating under the Ministry of Commerce, TDAP's mandate focuses primarily on export promotion and industry development, with specific responsibilities in implementing trade policies including SRO 760(I)/2013.

TDAP actively promotes Pakistani gold jewellery exports through strategic initiatives, organizing participation in major international trade fairs including the Jewellery Arabia Exhibition and the Istanbul Jewellery Show. Through its Export Development Fund, TDAP provides financial support for marketing activities, quality certifications, and trade fair participation to eligible exporters.

TDAP plays a critical role in operationalizing SRO 760(I)/2013, which governs the import and export of gold jewellery (Trade Development Authority of Pakistan, 2023). The authority verifies export contracts and documentation for gold jewellery shipments, monitors compliance with the SRO's value addition requirements (minimum 3% for gold jewellery exports), facilitates the release of export proceeds through banking channels and maintains records of gold jewellery exports for reconciliation with FBR and SBP.

The authority conducts regular training programs for goldsmiths and designers by conducting technical workshops on modern jewellery-making techniques design innovation programs in collaboration with international experts and quality standards compliance training for export markets. TDAP has established jewellery design centers in Karachi and Lahore, equipped with modern technology to enhance product quality and competitiveness.

TDAP serves as the technical arm supporting MoC in formulating trade policies for the gold jewellery sector, providing market intelligence on global trends and competitors and facilitating stakeholder consultations through its Gem and Jewellery Division. The authority maintains close coordination with PGJTEA (Pakistan Gems and Jewellery Traders & Exporters Association) to address industry concerns and improve policy implementation.

TDAP's regulatory functions include maintaining detailed export records of gold jewellery shipments, verifying value addition requirements under SRO 760, identifying discrepancies in export declarations and reporting non-compliant cases to FBR and SBP for further action

While TDAP has strengthened export monitoring under SRO 760, challenges remain in ensuring complete documentation of gold jewellery exports, preventing under-invoicing in export declarations, and improving coordination with customs authorities at ports. TDAP's multifaceted role continues to evolve, balancing its export promotion mandate with growing regulatory responsibilities in Pakistan's gold market.

## 5. Pakistan Gems and Jewellery Development Company (PGJDC) – Ministry of Industries and Production (MoI&P)

The Pakistan Gems and Jewellery Development Company (PGJDC), operating under the Ministry of Industries and Production, serves as a key facilitator for Pakistan's gold and jewellery sector. While not a direct regulatory body, PGJDC plays a pivotal role in developing and modernizing the industry through various initiatives and interventions.

PGJDC focuses on transforming Pakistan's traditional gold sector into a more organized and competitive industry. The company operates the Pakistan Gems and Jewellery Training and Manufacturing Centre in Karachi, which has trained artisans and technicians since its establishment (PGJDC(a), n.d.). This facility provides hands-on training in modern jewellery manufacturing techniques, quality control, and contemporary design development. PGJDC also works to bridge the gap between traditional craftsmanship and modern industry requirements through its skill development programs.

A critical aspect of PGJDC's work involves promoting quality standards in the gold market. The company actively collaborates with the Pakistan Standards and Quality Control Authority (PSQCA) to implement international purity standards and hallmarking systems. PGJDC conducts awareness campaigns about the importance of quality certification and provides technical assistance to jewelers for upgrading their production standards. These efforts aim to enhance consumer confidence in locally produced gold jewellery and improve export competitiveness.

**Assaying & Hallmarking:** Introduction of Hallmarking is among the major initiatives of PGJDC (PGJDC(b), n.d.). Assaying is the process of inspecting articles of gold/silver/platinum jewellery with respect to alloy composition and Hallmarking is the application of a series of marks onto precious metal jewellery which shows that the jewellery has been tested at an official Assay Office and found to conform to one of the accepted standards of fineness. The main objective of hallmarking is to facilitate trade while maintaining fair trade and consumer protection.

As the technical arm of the Ministry of Industries and Production, PGJDC provides input for sector-specific policy formulation. The company serves as a liaison between government regulators and industry stakeholders, representing the concerns of goldsmiths, jewelers, and traders at policy-making forums. PGJDC also assists in implementing various development projects aimed at modernizing the gold and jewellery sector. However, the mandatory implementation of assaying and hallmarking prior to the sale of gold in the

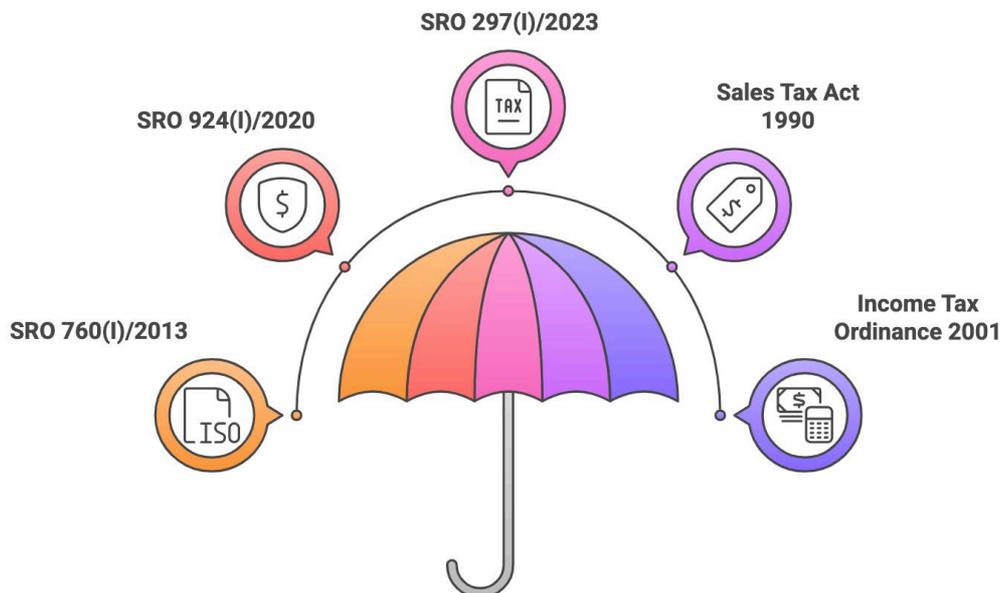
market has yet to be enforced at a broader scale. At present, compliance remains largely confined to select private sector entities.

While PGJDC does not directly enforce regulations, it plays an important role in facilitating compliance. The company conducts awareness programs about FBR tax regulations, SBP foreign exchange requirements, and other legal obligations. PGJDC also assists small and medium-sized jewellery businesses in meeting export documentation requirements and quality standards.

## B. KEY REGULATIONS

The regulatory framework governing Pakistan's gold market is shaped by a series of Statutory Regulatory Orders (SROs) and tax policies, each with distinct implications for market competition, transparency, and efficiency. Key regulations include SRO 760(I)/2013, SRO 924(I)/2020, and SRO 297(I)/2023, alongside the Sales Tax Act 1990 and Income Tax Ordinance 2001, define the operational landscape for gold traders, importers, and exporters. These rules address critical aspects like import-export procedures, anti-money laundering (AML) compliance, taxation, and quality assurance, yet their fragmented enforcement and overlapping jurisdictions often create barriers to fair competition and formalization in the sector. Below, we examine these regulations in detail, highlighting their competitive impacts and challenges.

**Figure 8: Key Regulations of Gold Market in Pakistan**



### 1. SRO 760(I)/2013: Import and Export of Precious Metals Jewellery and Gemstones Order 2013

The **SRO 760(I)/2013**, issued by the Ministry of Commerce, Government of Pakistan, regulates the import and export of precious metals, jewellery, and gemstones (MoC, 2013). This assessment critically examines the provisions of SRO 760(I)/2013 and evaluates its

impact on market competition in Pakistan's gold sector. This regulatory framework governing Pakistan's gemstone and jewellery sector has long been a subject of contention among industry stakeholders. While designed to streamline exports and curb illicit trade, the current policies impose excessive restrictions, high compliance costs, and operational inefficiencies, placing Pakistani exporters at a disadvantage compared to regional competitors like India and Sri Lanka.

Key concerns that are highlighted by the consulted industry stakeholders include cumbersome documentation requirements, ambiguous regulations, lack of infrastructure, and barriers to technological adoption - all of which stifle growth, encourage informal trade, and limit the sector's global competitiveness. These challenges came to the fore after consultations with the relevant industry stakeholders. This report examines the major weaknesses of SRO 760, highlights the resulting market distortions, and proposes actionable reforms to foster a more transparent, efficient, and competitive jewellery industry in Pakistan.

**Restrictive Export and Import Procedures:** The industry faces significant challenges due to cumbersome export and import procedures under SRO 760. For instance, exporters are restricted from making direct sales at international exhibitions, unlike competitors in India and Sri Lanka, who benefit from more flexible policies. Additionally, the mandatory use of E-forms creates bottlenecks, as they are only issued after designating a single business entity, limiting participation. The requirement for notarization and embassy attestation of contracts further complicates the process, especially since Pakistani missions are not present in all countries. Moreover, the refusal to recognize credit/debit card payments forces exporters to misdeclare shipments as "gifts" or "samples," increasing compliance risks and reducing transparency.

**High Compliance and Operational Costs:** The financial burden on exporters is exacerbated by excessive regulatory requirements. The 1% cash margin imposed on imports ties up working capital, particularly affecting small and medium enterprises (SMEs). Additionally, duplicate taxation - such as withholding tax on exports and cash withdrawals - erodes profit margins. The high cost of obtaining ATA Carnets (an internationally recognized customs document) through third parties, rather than government issuance, adds unnecessary expenses. Furthermore, mandatory random testing of jewellery by customs authorities often results in damaged goods and shipment delays, increasing costs and discouraging formal trade.

**Regulatory and Policy Ambiguities:** Conflicting regulations across SRO 760, the Foreign Exchange (FE) Manual 2002, and the Import Policy Order 2020 create confusion and inconsistent enforcement. For example, the lack of clear definitions - such as distinguishing between "plain" and "studded" jewellery - leads to arbitrary classifications and disputes. Additionally, value addition norms (8-13%) are unrealistically high compared to global standards, forcing exporters to remit foreign exchange at inflated rates, which encourages under-invoicing and informal transactions.

**Limited Access to Global Market:** Stringent regulations limit exporters' ability to compete globally. Unlike India and Sri Lanka, Pakistan does not allow commercial imports of gold and gemstones, pushing trade into unofficial channels. The \$25,000 cap on unsold exhibition goods is insufficient for businesses to operate competitively. Moreover, restrictions on e-commerce exports under SRO 760(I)/2013 prevent small businesses from leveraging digital sales channels, putting them at a disadvantage against regional competitors who benefit from more flexible e-commerce policies.

**Technological and E-Commerce Constraints:** The industry is further hampered by outdated policies on technology adoption. Restrictive import procedures for 3D printers - enquiring unnecessary No-Objection Certificates (NOCs) from the Ministry of Interior - stifle innovation in jewellery design and manufacturing.

Additionally, the absence of provisions for e-commerce exports under SRO 760(I)/2013 forces online jewellery sellers to use informal shipping methods, limiting their growth and access to international markets.

**Impact of Suspension of SRO 760(I)/2013 on Market Competition:** The SRO 760(I)/2013 was suspended by the Federal government starting from May 6 till Nov 22. It was initially planned for a period of 60 days (MoC, 2025). This suspension voided the structured schemes, pushing traders toward informal channels. The lack of regulated entitlements (Section 4 & 5) may lead to smuggling or under-invoicing, eroding tax revenues and disadvantaging compliant firms.

The absence of the Entrustment Scheme has particularly hurt small traders reliant on advance gold imports. Moreover, larger players with existing inventories or offshore ties could dominate, while smaller exporters struggled without TDAP's support. The passbook system's suspension (Section 2(j)) removed traceability, increasing information asymmetry. Finally, suspending the SRO without a replacement (Section 13) created ambiguity, deterring investors in the gold sector.

## 2. SRO 924 (I)/2020: Federal Board of Revenue Anti-Money Laundering and Countering Financing of Terrorism Regulations for DNFBPs, 2020

The SRO 924 (I)/2020 issued by the Federal Board of Revenue (FBR) plays a significant role in regulating the gold market in Pakistan, primarily through its focus on Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) measures (FBR, 2020). While its primary objective is to curb illicit financial activities, the regulations also indirectly impact market competitiveness in the gold sector.

### Enhancing Gold Market Competitiveness

One of the key strengths of SRO 924 (I)/2020 lies in its comprehensive Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) requirements, which are outlined in Regulation 8 and Regulation 9, respectively. Under Regulation 8(1)(b), jewelers are

mandated to conduct CDD for cash transactions of Rs. 2 million or more, ensuring that high-value gold transactions are properly documented and verified. This reduces illicit trade and promotes transparency, which is essential for a competitive and trustworthy market.

Additionally, Regulation 9(1)(a) requires jewelers to apply EDD in high-risk scenarios, such as dealings with politically exposed persons (PEPs) or customers from high-risk jurisdictions. These measures discourage money laundering and terrorist financing, fostering a more stable and credible gold market.

Another strength is the standardization of record-keeping and reporting obligations under Regulation 6. Jewelers must maintain detailed transaction records, including the nature, date, and parties involved, for at least five years (Regulation 6(3)). This ensures traceability and accountability, making it harder for fraudulent actors to manipulate the market. Furthermore, Regulation 14 mandates the filing of Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) with the Financial Monitoring Unit (FMU), which helps regulatory authorities monitor and curb illegal activities. By enforcing these measures, the SRO enhances market integrity, encouraging legitimate businesses to operate with confidence.

The risk-based approach adopted in Regulation 4 is another positive feature. It requires jewelers to assess and mitigate risks related to customers, products, and geographic locations. This ensures that businesses adopt proportionate compliance measures - applying stricter controls for high-risk transactions (Regulation 9) and Simplified Due Diligence (SDD) for low-risk scenarios (Regulation 10). Such flexibility prevents unnecessary regulatory burdens on low-risk transactions while maintaining vigilance where needed, promoting efficiency in the gold trade.

Finally, Regulation 12 allows jewelers to rely on third parties for CDD, provided the third party is regulated by an AML/CFT authority. This reduces compliance costs for smaller jewelers who may lack in-house verification capabilities, fostering a more inclusive and competitive market.

### **Anti-Competitive Features**

Despite its strengths, SRO 924 (I)/2020 has several provisions that may inadvertently hinder competition in the gold market. One major drawback is the heavy compliance burden imposed on jewelers, particularly SMEs. Regulation 8(3) requires jewelers to verify customer identities before transactions, which can be time-consuming and costly. Smaller jewelers, who lack the administrative resources of larger firms, may struggle to comply, putting them at a competitive disadvantage.

Additionally, Regulation 6(7) mandates that jewelers maintain a list of customers whose transactions were refused due to documentation failures. While this enhances transparency, it creates an additional bureaucratic layer that may discourage small traders from engaging

in high-value transactions, limiting their market participation. The requirement under Regulation 7(1)(a) to appoint a compliance officer at the management level further escalates operational costs, disproportionately affecting smaller jewelers who cannot afford dedicated compliance staff.

Another anti-competitive aspect is the strict cash transaction threshold (Rs. 2 million) under Regulation 8(1)(b). While intended to curb illicit trade, this threshold may push informal transactions into smaller, unregulated deals, creating a two-tiered market where compliant jewelers lose business to those operating under the radar. Moreover, Regulation 9(2)(e) requires senior management approval for high-risk customers, which could slow down legitimate transactions, reducing market fluidity and responsiveness.

Finally, Regulation 13(1)(a) imposes financial sanctions screening, requiring jewelers to cross-check customers against government-proscribed lists. While necessary for security, this adds another layer of compliance that may deter new entrants and innovative business models, stifling competition.

SRO 924 (I)/2020 significantly strengthens Pakistan's gold market by enforcing transparency, accountability, and risk-based compliance (Regulations 4, 6, 8, and 9). However, its high compliance costs, rigid transaction thresholds, and bureaucratic requirements (Regulations 6(7), 7(1)(a), and 8(1)(b)) may disproportionately burden smaller jewelers, limiting market competition. To enhance competitiveness, policymakers may consider simplifying compliance for SMEs, adjusting cash thresholds, and providing regulatory support to ensure a balanced and dynamic gold market.

### 3. SRO 297(I)/2023

**SRO 297(I)/2023**, issued by the FBR, introduces significant changes to the taxation framework for goods, including gold and jewellery, under the **Sales Tax Act 1990 (FBR, 2023)**.

#### **Key Provisions Affecting the Gold Market**

**Imposition of Sales Tax on Jewellery (Table-I, Entry 33):** SRO 297(I)/2023 imposes a **25% sales tax** on articles of jewellery, including those made of precious metals (e.g., gold) and imitation jewellery, as per **PCT Codes 71.13 and 71.17**. However, this provision must be read in conjunction with **S.No. 78 of the Eighth Schedule**, which provides a reduced sales tax rate of **3%** on the supply of locally manufactured gold jewellery. This creates a dual tax regime; one is **25% sales tax** on imported jewellery and imitation jewellery, and the other is **3% sales tax** on locally manufactured gold jewellery. While the reduced rate for locally manufactured jewellery is a relief, the high tax rate on imported jewellery and imitation jewellery still poses challenges for traders dealing in these categories.

**Impact on Locally Manufactured Gold Jewellery:** The **3% sales tax rate** under the Eighth Schedule benefits locally manufactured gold jewellery, making it more competitive compared to imported jewellery. This provision supports domestic manufacturers and encourages local production. However, the condition that **no input tax adjustment** is allowed increases the cost of production for manufacturers, as they cannot claim credits for taxes paid on inputs. This limits the benefit of the reduced tax rate and may discourage investment in the sector.

**Impact on Imported Jewellery and Imitation Jewellery:** The **25% sales tax** on imported jewellery and imitation jewellery creates a significant price disparity between locally manufactured and imported products. Importers of gold jewellery face higher costs, which are passed on to consumers, making imported jewellery less competitive in the market. This has led to a decline in the market share of imported jewellery, favoring locally manufactured products. However, it has also incentivized smuggling of gold and jewellery to evade the high tax burden, undermining the formal market.

**Barriers to Entry for Small-Scale Traders:** The **3% sales tax rate** for locally manufactured jewellery benefits larger manufacturers who can absorb the cost of non-adjustable input taxes. However, small-scale traders and artisans, who dominate the gold sector, struggle with the increased cost of production due to the inability to claim input tax adjustments. This creates barriers to entry for small players, reducing competition and innovation in the sector.

**Encouragement of Smuggling and Informal Trade:** The high **25% sales tax** on imported jewellery and imitation jewellery has incentivized smuggling and informal trade. Smuggled gold and jewellery, which enter the market without incurring taxes, are sold at lower prices, undercutting formal traders. This has created a dual market structure, where informal operators gain a competitive edge, further distorting market competition.

### **Impact on Market Competition**

The 3% sales tax rate on locally manufactured gold jewellery provides a notable competitive advantage over imported jewellery, which is subject to a significantly higher 25% tax. This disparity has boosted the market share of domestically produced items, supporting local manufacturers. However, the inability to adjust input taxes under this regime limits the full realization of these benefits, especially for small-scale producers who face higher effective costs. The steep 25% sales tax on imported jewellery has reduced its competitiveness, leading to a decline in its market share as consumers shift toward more affordable locally manufactured alternatives. This shift has adversely affected traders dealing in imported jewellery. Additionally, the high tax burden on imported and imitation jewellery has encouraged the expansion of the informal market, where tax-evading traders can offer significantly lower prices. This has created an uneven playing field, placing formal and compliant businesses at a disadvantage and stifling both competition and innovation in the formal sector. Moreover, the restriction on input tax adjustments under

the 3% regime raises production costs for small-scale manufacturers, creating entry barriers and leading to increased market concentration among larger players, thereby weakening overall market competition.

#### 4. Sales Tax Act 1990

The **Sales Tax Act 1990** is a key piece of legislation governing the imposition, collection, and enforcement of sales tax in Pakistan (FBR, 1990). It plays a significant role in shaping the business environment, including the gold sector. This analysis critically evaluates the Act's provisions, particularly its latest schedules, and assesses their impact on market competition in Pakistan's gold industry. Specific sections of the Act are referenced to provide a credible and focused analysis.

##### Key Provisions Affecting the Gold Market

**Imposition of Sales Tax (Section 3):** Section 3 of the Sales Tax Act 1990 imposes a tax on the supply of goods, including gold and gold products. The standard sales tax rate of 18% (as per the latest schedules) applies to most goods, but the gold sector has faced challenges due to the high tax burden. This has led to increased costs for formal gold traders, making it difficult for them to compete with informal operators who evade taxes. The high sales tax rate has also discouraged compliance, pushing many businesses into the informal economy (Federal Board of Revenue, 1990).

**Input Tax Adjustment (Section 8):** Section 8 allows registered persons to claim input tax adjustments for taxes paid on inputs used in the production process. However, the complexity of compliance and documentation requirements has made it difficult for small-scale gold traders to benefit from this provision. Larger players with dedicated accounting resources can navigate these requirements more effectively, creating an uneven playing field. This has further concentrated market power in the hands of a few dominant players (Karachi Chamber of Commerce and Industry, 2023).

**Registration Requirements (Section 14):** Section 14 mandates the registration of businesses with a turnover exceeding a specified threshold. While this provision aims to broaden the tax base, it has inadvertently excluded many small-scale gold traders who operate below the threshold. These unregistered traders often evade sales tax, gaining a competitive advantage over registered businesses. The lack of inclusion of small traders in the formal tax system has perpetuated market distortions (Transparency International Pakistan, 2022).

##### Impact on Market Competition

The high sales tax rate and complex compliance requirements have significantly increased the cost of doing business for formal gold traders in Pakistan, making it difficult for them to compete with informal operators who evade taxes and operate at much lower costs. This price disparity has driven consumers toward the informal market, further marginalizing

legitimate businesses. The absence of exemptions and zero-rating for gold, along with burdensome compliance costs, has further incentivized the growth of the informal sector, where tax-evading traders can offer cheaper prices and undercut formal businesses, creating an uneven playing field.

Additionally, the complexity of input tax adjustments and stringent record-keeping requirements disproportionately affect smaller traders who lack the resources to comply, forcing many either out of the market or into informality. As a result, market concentration has increased, undermining competition and limiting innovation within the gold sector. Furthermore, the inconsistent enforcement of tax penalties and audits has eroded traders' trust in the system, which is widely perceived as unfair and biased. This perception discourages compliance and perpetuates a norm of non-compliance, deepening the challenges faced by the formal gold market.

## 5. Income Tax Ordinance, 2001

The **Income Tax Ordinance, 2001** is the primary legislation governing income tax in Pakistan (FBR, 2001). It outlines the rules for taxation of individuals, businesses, and other entities. While the Ordinance applies broadly across all sectors, its provisions have indirect but crucial implications for the gold sector, particularly in terms of compliance costs, tax evasion, and market competition.

### Key Provisions Affecting the Gold Market

**Taxation of Business Income (Section 18):** Section 18 of the Income Tax Ordinance, 2001, imposes tax on business income, including income from the sale of gold and gold jewellery. The tax rate for businesses varies depending on their turnover and legal structure. Small-scale gold traders, who often operate informally, are disproportionately affected by this provision. Many small traders lack the resources to maintain proper accounting records, making compliance difficult. This has led to a significant portion of the gold sector operating outside the formal tax system, creating an uneven playing field where informal traders gain a competitive advantage (Federal Board of Revenue, 2001).

**Presumptive Tax Regime (Section 148):** Section 148 introduces a presumptive tax regime for certain sectors, including small traders and retailers. Under this regime, tax is levied based on estimated income rather than actual financial records. While this simplifies compliance for small-scale gold traders, the presumptive tax rates are often perceived as high and arbitrary. This has discouraged formalization, as many traders prefer to remain in the informal sector to avoid taxation. The lack of formalization has reduced competition in the formal gold market, as informal traders can offer lower prices by evading taxes (Pakistan Bureau of Statistics, 2023).

**Withholding Tax on Gold Transactions (Section 231A):** Section 231A imposes a withholding tax on the purchase of gold and gold jewellery. The tax is deducted at the

source by the buyer and is intended to document gold transactions and broaden the tax base. However, the implementation of this provision has been inconsistent, with many transactions going unrecorded. This has created a dual market structure, where formal traders face higher costs due to withholding taxes, while informal traders evade taxes and gain a competitive edge (Karachi Chamber of Commerce and Industry, 2023).

**Penalties for Non-Compliance (Section 182):** Section 182 outlines penalties for non-compliance with the Income Tax Ordinance, including fines and imprisonment. While these penalties are intended to deter tax evasion, their enforcement has been selective. Larger gold traders with political or financial influence often evade penalties, while smaller traders face disproportionate scrutiny. This selective enforcement has eroded trust in the tax system and undermined fair competition in the gold sector (Transparency International Pakistan, 2023).

### Impact on Market Competition

The high compliance costs and presumptive tax rates under the Income Tax Ordinance, 2001, have created substantial barriers to entry for small-scale gold traders in Pakistan, compelling many to either exit the market or operate informally. This has led to reduced competition and increased market concentration among larger players. Moreover, the complexity and high cost of tax compliance have incentivized the expansion of the informal gold market, where traders who evade taxes can offer lower prices, thereby undercutting formal businesses and gaining an unfair competitive advantage. The imposition of withholding tax and the presumptive tax regime has further distorted prices, as formal traders are forced to pass on higher tax-related costs to consumers, making their products less competitive compared to untaxed informal alternatives. Additionally, the selective enforcement of tax penalties and the absence of sector-specific concessions have undermined trust in the taxation system, with many traders perceiving it as unfair and biased. This perception discourages compliance and perpetuates informality within the gold market.

## C. VISUALIZING REGULATORY IMPACT

Figure 9 (below) maps key gold market regulations of Pakistan along a spectrum from restrictive to enabling, based on their observed effects on competition. Regulations like SRO 760(I)/2013 (suspended) and SRO 297(I)/2023 (high sales tax on imports) fall toward the restrictive end due to their unintended consequences - informal trade expansion and barriers for SMEs. In contrast, SRO 924(I)/2020 (AML/CFT measures) are categorized as enabling, given its potential to formalize the sector and enhance transparency. This framework underscores the need for balanced reforms that mitigate anti-competitive features while preserving regulatory objectives.

Figure 9: Regulatory Impact Spectrum



The regulatory environment of Pakistan's gold market is marked by weak oversight and inconsistent enforcement, creating barriers to competition and transparency. These challenges directly shape the market structure, influencing pricing, supply chains, and the dominance of informal players, as explored in the following section.

# 4.

# Market Structure



## 4. Market Structure

The gold market in Pakistan operates within a complex and multifaceted structure, shaped by distinct product segments, geographic concentrations, and a fragmented value chain. This section examines the relevant market dimensions, the traditional units of measurement, and the geographic segmentation that centralizes trade in urban hubs like Karachi and Lahore. Additionally, it explores the value chain highlighting key challenges in the value chain. By analyzing these components, this section provides a foundation for understanding the competitive dynamics and inefficiencies inherent in Pakistan's gold market.

### A. RELEVANT MARKET

In competition economics, the **relevant market** is defined by two key dimensions: the **product market** (substitutable goods/services) and the **geographic market** (the area of competition). For Pakistan's gold industry, the **relevant gold market** encompasses all products and regions where gold is traded under similar competitive conditions.

### B. RELEVANT PRODUCT

Gold is defined under the Foreign Exchange (FE) Manual 2002 of the SBP as following<sup>3</sup>.

*“Gold' as defined in Section 2 of the Act includes gold in the form of coin, whether legal tender or not, or in the form of bullion or ingot, whether refined or not.”*

The **relevant product** in the gold market in Pakistan includes **physical gold products** such as jewellery (bangles, necklaces, rings), bullion (bars, biscuits), and coins. These products serve distinct consumer needs - gold jewellery is primarily driven by cultural and ornamental

<sup>3</sup> Under the Gold (Control) Act 1965 of India, gold is defined as “gold” means gold, including its alloy, whether virgin, melted, re-melted, wrought or unwrought in any shape or form, of a purity of not less than nine carats and includes any gold coin (whether legal tender or not), any ornament and any other article of gold”. In UAE, under article 2 of the Federal Law No. (11) of 2015 Concerning Monitoring Trade in Precious Stones, Precious Metals; and its Stamping, legal standards of fineness of precious metals (gold) licensed pursuant to the provisions of this Law shall be determined as follows: (1) 24 karat gold, which is the pure gold and has a millesimal fineness of 999. (2) 22 karat gold, which has a millesimal fineness of 916. (3) 21 karat gold, which has a millesimal fineness of 875. (4) 18 karat gold, which has a millesimal fineness of 750. (5) 16 karat gold, which has a millesimal fineness of 666. (6) 14 karat gold, which has a millesimal fineness of 583. (7) 12 karat gold, which has a millesimal fineness of 500. Furthermore, according to the World Gold Council, purity of gold is measured in ‘carats’. Caratage refers to the purity of gold when mixed with other metals. Pure gold, which has no other metals added, is 24 carats. Lower carat values indicate less gold content. For instance, 18-carat gold consists of 75% gold and 25% other metals. Different countries have varying legal standards for what can be labeled as gold. In the U.S., the minimum requirement is 10 carats, with 14 carats being the most common. Meanwhile, nations like France, the U.K., Austria, Portugal, and Ireland allow 9 carats as the lowest purity for gold labeling. In Denmark and Greece, the threshold is even lower, with 8 carats being the legal minimum.

demand, particularly for weddings and festivals, while gold bars and coins are largely investment vehicles.

From a competition standpoint, the two segments may operate differently: jewellery buyers often prioritize craftsmanship and brand reputation, whereas bullion investors focus on purity, price, and liquidity. Substitutes for gold jewellery (such as artificial jewellery or gemstones) are limited due to cultural preferences, while investment-grade gold faces competition from financial instruments like gold ETFs or foreign currency holdings.

### C. UNIT OF MEASUREMENT IN GOLD MARKET

In Pakistan, gold is traded and sold in grams, tolahs, and kilograms, with consumer transactions typically conducted in grams or tolas. The tola (also spelled *tolah*) is a traditional unit of mass with historical origins in Vedic India, where it was initially used to measure grains and spices ((KH International Trade Association [KHITA], n.d.). Today, it remains prevalent in South Asia and the Middle East, primarily for trading precious metals such as gold and silver.

In Pakistan, one tola is conventionally equivalent to approximately 11.6638038 grams (~11.66 grams). However, this conversion lacks an official standard, as no government body has formally defined the tola's exact metric value. Notably, regional variations exist - particularly in Khyber Pakhtunkhwa (KP), where the tola is commonly considered equal to 12.5 grams, while the rest of the country adheres to the ~11.66-gram measurement. This inconsistency highlights the need for standardized regulations to ensure uniformity in gold trade and consumer transactions nationwide.

### D. GEOGRAPHIC SEGMENTATION OF GOLD MARKET

Geographically, Pakistan's gold market is concentrated in major urban centers such as Karachi, Lahore, and Peshawar, where **Sarafa Bazaars** (traditional gold markets) dominate trade. However, competition is also influenced by **import dynamics**, as Pakistan relies heavily on gold sourced from the UAE and Switzerland, alongside informal channels like smuggling. Regulatory factors, including SROs issued by the MoC and FBR policies, policies of SBP in addition to import taxes, further shape the market's structure by affecting supply costs and entry barriers for formal dealers.

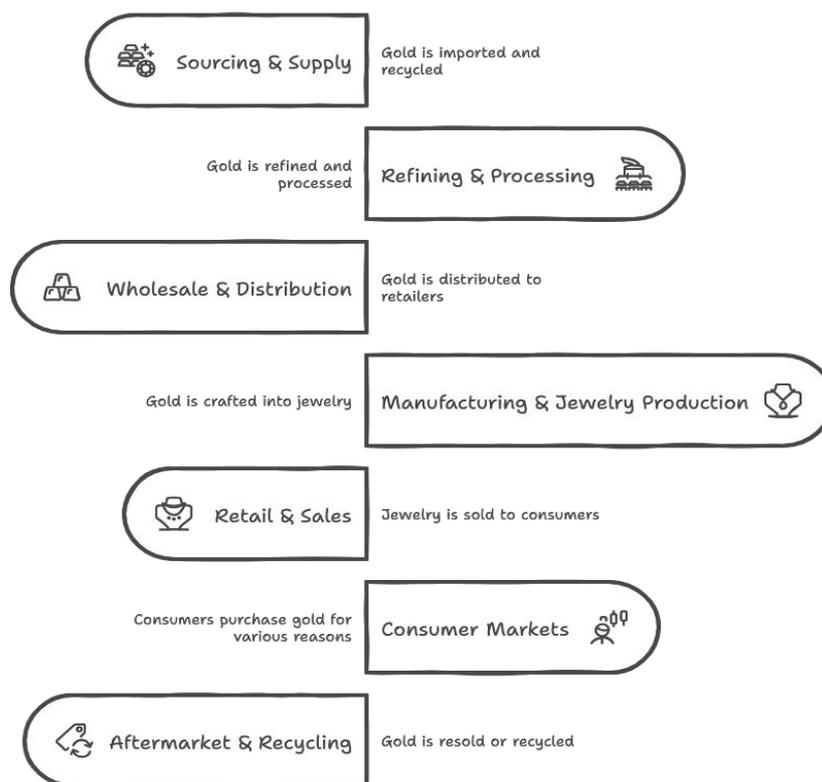
The **relevant gold products** can be categorized by form and function. **Jewellery** accounts for the largest share of demand, sold by local artisans, branded chains (e.g., ARY Gold, Hanif Jewelers). **Standardized bullion** (24K bars, coins) is traded among dealers and institutional buyers, with purity and certification being critical competitive factors. Meanwhile, **non-standardized or artisanal gold** (e.g., handmade jewellery in local markets) operates in a less regulated space, often with weaker consumer protections. The interplay between these segments - alongside competition from formal and informal supply chains - defines the gold market's competitive dynamics in Pakistan.

**Table 3: Relevant Gold Products and its key Characteristics**

| Category     | Examples                  | Key Characteristics   |
|--------------|---------------------------|---|
| Jewellery    | Bangles, necklaces, rings | High cultural demand, sold by local jewelers & branded chains (e.g., Tariq Jamil Gold). |
| Bullion/Bars | 24K gold bars (1g to 1kg) | Traded among dealers, investors, and institutions; purity (e.g., 99.9%) is critical.    |
| Coins        | Branded gold coins        | Often sold by big market players (e.g., gold coins by ARY); used for gift purposes      |

## E. VALUE CHAIN OF GOLD MARKET

The gold market in Pakistan operates through a multi-layered value chain, involving upstream suppliers, intermediaries, processors, retailers, and end consumers. Each stage plays a critical role in shaping the market's structure, pricing, and competitiveness.

**Figure 10: Value Chain of Gold Market in Pakistan**

**Sourcing & Supply (Upstream):** Pakistan imports approximately majority of its gold (refined bullion) from the UAE, Switzerland, and South Africa. The SBP regulates official imports, but smuggling (via Iran and Afghanistan) remains a significant challenge. Additionally, the domestic market relies on scrap recycling, where old jewellery and industrial gold are melted

down and reused. The informal sector, including Sarafa bazaar traders, plays a major role in buying back used gold from consumers.

**Refining & Processing:** Pakistan has limited formal refining capacity, with the Pakistan Mint and a few private refiners serving as key players. Pakistan Mint deals with the gold and silver confiscated by different agencies. These precious metals are melted, refined and converted into standard Bars of 5 kg which are handed over to the State Bank of Pakistan (Pakistan Mint, n.d.).

There is a state-of-the-Art Assay Laboratory in Pakistan Mint where all the processes of Assaying and refining are performed according to the international accepted standards. This laboratory deals with precious metals testing (Gold/Silver) and refining of Gold and Silver, in addition to other tasks. Initiatives by the Pakistan Gems and Jewellery Development Company (PGJDC) to establish hallmarking centers aim to address purity concerns, but strategic investments in refining infrastructure are critical to unlocking downstream value addition and export competitiveness.

Other than Pakistan, there are a few private sector players that assay and purify gold to 24K or 22K standards, casting it into bars for further use. However, small-scale informal workshops (particularly in Karachi, Lahore, and Gujranwala) dominate the refining segment, often melting and recasting gold without certification, leading to quality and transparency issues.

**Wholesale & Distribution:** Licensed bullion dealers and banks act as primary wholesalers, supplying gold to banks and large jewelers. Sarafa Bazaar in Karachi and Lahore serves as the country's largest wholesale hubs. Parallel to this, smuggled gold networks operate outside formal channels, offering cheaper but untraceable gold, which undermines tax revenues and regulated market dynamics.

**Manufacturing & Jewellery Production:** Gold is crafted into jewellery primarily in Karachi and Lahore, where small artisans (dhandhis) and branded manufacturers (e.g., ARY Gold) operate. The sector employs a highly specialized labor force, including designers, molders, polishers, and stone-setters, often clustered in traditional markets like Lahore's Anarkali Bazaar. Despite its cultural significance, most artisans work in informal conditions, with low wages and minimal job security.

**Retail & Sales:** The retail segment includes local jewelers, branded chains (e.g., ARY Gold, Hanif Jewelers, Patiala Jewelers). Jewellery pricing typically includes making charges (5 - 20% over gold weight), which vary based on craftsmanship, brand value, and registration of the trader. For investors, traders offer bullion bars, catering to those seeking gold as a hedge against inflation or currency fluctuations.

**Consumer Markets:** Gold demand in Pakistan is driven largely by festive and cultural purchases, which account for majority of total consumption. Weddings, in particular, fuel

demand for dowry jewellery and bridal designs. Meanwhile, investors and hedgers purchase bars as a safe-haven asset, especially during economic instability.

**Aftermarket & Recycling:** The aftermarket includes resale and pawning, where consumers sell gold back to jewelers or banks during financial need. Additionally, scrap collection ensures that old jewellery is recycled into new pieces or melted for raw gold, forming a closed-loop supply chain that sustains local production.

## 1. Key Challenges in the Value Chain

Pakistan's gold industry faces several key challenges in its value chain that hinder its growth and sustainability. One major issue is the heavy reliance on smuggling, with a large portion of gold entering the country illegally, which distorts market prices and undermines formal businesses. Additionally, Pakistan suffers from limited refining capacity, lacking large-scale refineries and forcing dependence on imported refined gold. The sector also grapples with the exploitation of informal labor, as most artisans work without proper contracts or fair wages, perpetuating economic vulnerability. Furthermore, regulatory gaps and weak enforcement against under-invoicing and tax evasion allow the grey market to thrive, further destabilizing the industry. Addressing these challenges is crucial to creating a more transparent and equitable gold value chain in Pakistan.

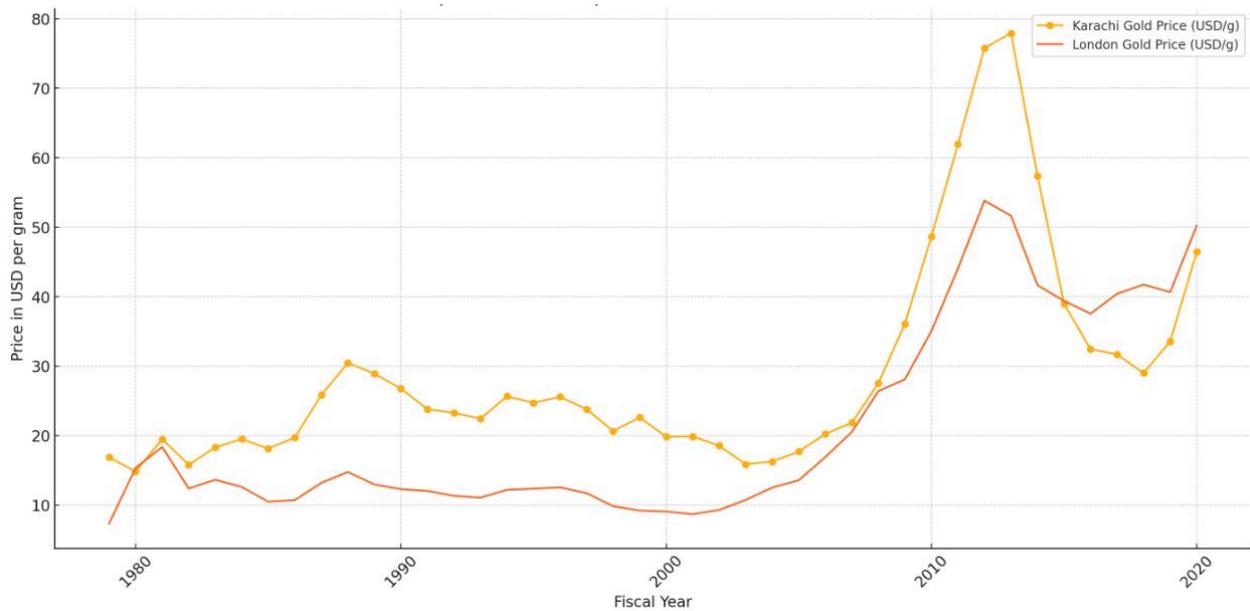
## F. PRICE DETERMINANTS OF GOLD IN PAKISTAN

The price of gold in Pakistan is shaped by a complex interplay of international and domestic factors, with each element contributing to daily fluctuations in the market. Unlike commodities with purely local pricing mechanisms, gold rates in Pakistan are closely tied to global benchmarks, currency movements, and local trade dynamics.

The relationship between gold prices and various macroeconomic factors in Pakistan has been analyzed through various empirical research and theoretical frameworks. This analysis identifies key variables that significantly influence gold prices, including inflation, interest rates, exchange rates, stock market performance, silver prices, per capita income, and domestic savings. Among these factors, inflation plays a particularly crucial role, as gold is widely considered a hedge against rising prices (Kamran et al., 2014). In Pakistan, where stock market participation remains limited compared to developed economies, gold is perceived as a safer and more reliable investment. This preference stems from gold's historical price appreciation and its ability to retain value during economic uncertainty. Additionally, investor sentiment significantly impacts gold demand, as individuals often turn to gold as a store of wealth rather than engaging in more volatile financial markets.

The following graph shows historical trend in gold prices in Karachi (USD/gram) and in London (USD/gram) from FY1979 to FY2020 based on the data maintained by SBP (SBP(c), n.d.).

**Figure 11: Gold Prices in Domestic (Karachi) and International (London) Markets from 2005 – 2020**



Source: State Bank of Pakistan Data

The above graph illustrates the trend of gold prices in Karachi and London (in USD per gram) from FY1979 to FY2020. Gold prices in Karachi have been converted using historical exchange rates and London prices are derived from USD per ounce and converted to grams (1 oz = 31.1035g). Moreover, the London prices reflect international trends, while Karachi prices incorporate local factors including currency fluctuations and taxes.

Visually, there is a strong positive correlation between the two-price series, particularly from 2005 onward, where both markets show sharp and synchronized increases and declines. Although, the absolute price levels often differ, with Karachi prices being significantly higher during certain periods, such as 2010-2013, the general movement of prices over time follows a similar trajectory. This suggests that, while local market dynamics like taxes, import restrictions, or demand-supply imbalances may influence price differentials, the underlying global trends affecting gold prices are reflected in both markets.

Prior to 2005, the correlation appears weaker, with more variation and inconsistency between the two series. Overall, the data indicates a strong correlation in price movement trends between the Karachi and London gold markets, particularly in the more recent decade.

Below is a detailed breakdown of the key components that influence gold pricing in Pakistan.

### 1. Dependence on International Gold Benchmarks

The primary reference for gold prices in Pakistan is the London Bullion Market Association (LBMA), which sets the global standard for gold trading. The LBMA Gold price is set twice daily at 10:30 and 15:00 in an auction independently operated and administered by ICE Benchmark Administration Limited (IBA). The price is set in US dollars per fine troy ounce (31.1 grams). A licence is required from IBA in order to obtain and use real-time or

historical LBMA Gold Price data, including for pricing and valuation activities and in transactions and financial products (London Bullion Market Association [LBMA], n.d.).

Prices determined by LBMA fluctuates based on macroeconomic factors such as inflation, interest rates, geopolitical tensions, and global demand for safe-haven assets. Since Pakistan does not produce significant quantities of gold domestically, it relies heavily on imports, making local prices highly responsive to shifts in the international market. When LBMA prices rise due to increased global demand or economic uncertainty, Pakistani gold prices follow suit, and vice versa.

## 2. Impact of Exchange Rate Fluctuations (PKR/USD)

Since international gold prices are denominated in US dollars, the exchange rate between the Pakistani rupee (PKR) and the US dollar (USD) plays a critical role in determining local gold rates. A depreciating rupee makes gold imports more expensive, leading to higher domestic prices even if global gold rates remain stable.

For instance, if the LBMA price stays constant but the PKR weakens against the USD, Pakistani consumers will see an increase in gold prices when converted into rupees. This currency sensitivity makes gold particularly volatile in Pakistan during periods of economic instability or balance-of-payments crises.

## 3. Local Demand and Supply Dynamics

Domestic demand for gold in Pakistan is highly seasonal, with peaks during wedding seasons, Eid festivals, and periods of economic uncertainty when investors turn to gold as a hedge against inflation. Jewelers and traders often adjust prices based on real-time demand, leading to temporary price surges.

Additionally, smuggled gold, which bypasses official import channels and taxes, affects market supply. When customs authorities tighten controls, legal gold supplies shrink, pushing prices up. Conversely, an influx of smuggled gold can suppress official market rates, creating disparities between documented and undocumented transactions.

## 4. Government Taxes, Import Duties, and Dealer Margins

Government of Pakistan imposes customs duties, sales taxes, and withholding taxes on gold imports, all of which contribute to the final consumer price. Summary of these taxes is given in Box 1 based on the information provided by the FBR.

### Box 1: Sales Tax Regime Regulating the Gold Market

#### Sales Tax Regime on Gold and Articles of Gold Jewellery

##### Sales tax structure:

- **Import of gold is chargeable to sales tax at a standard rate of 18%. However, import of gold, in unworked condition is exempted from 3% Value Added Tax (VAT).**
- Imported jewellery is chargeable to enhanced rate of 25% based on SRO 297(I)/2023, dated 8.3.2023.

##### Exemption:

- Based on the SRO 760(I)/2013, import of gold under the entrustment scheme is exempt from sales tax under S. No. 178 of Table-1 of the Sixth Schedule to the Sales Tax Act, 1990.

##### Reduced Rate:

- Supply of locally manufactured articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal is chargeable at reduced rate of 3% sales tax under S. No. 78 of Eighth Schedule to the Sales Tax Act, 1990 subject to the condition that no input tax shall be adjusted.

Any increase in import duties (such as those imposed to curb dollar outflows) directly raises gold prices. Additionally, dealers and jewelers add their own premiums to cover business costs and profits, further inflating retail prices. These premiums can vary depending on market competition, brand reputation, and regional differences.

## 5. Role of the Karachi Sarafa Association in Price Setting

The Karachi Sarafa (Jewellers) Association serves as the primary (unofficial) body that announces daily gold rates in Pakistan. It adjusts prices twice a day - once in the morning and once in the evening - based on the LBMA's closing rates, the prevailing USD/PKR exchange rate, and local market trends. Major gold markets across the country, including those in Lahore, Peshawar, and Islamabad, generally follow these benchmark rates, though slight regional variations may occur due to transportation costs and local demand differences.

## 6. Additional Costs in Jewellery Pricing

While bullion prices closely track international rates, jewellery prices include extra charges such as making charges (labor costs for craftsmanship), wastage allowances (gold lost during crafting), and retailer margins (profit for jewelers). These additional costs mean that jewellery is significantly more expensive than raw gold, with premiums varying based on design complexity and brand value.

Pakistan's gold market remains highly susceptible to external shocks due to its reliance on imports, currency risks, and inconsistent regulatory oversight. The absence of large-scale domestic refining and the prevalence of smuggling further exacerbate price instability. Strengthening price transparency, standardizing taxes, and promoting local refining could help stabilize gold prices, ensuring a more predictable market for consumers and investors alike.

## G. Import and Export of Gold

Import of gold is regulated under the SRO(I)/760 of the MoC while export of gold banned under the Foreign Exchange (FE) Manual 2002 regulated by the State Bank of Pakistan (SBP(b), n.d.). It says;

*'Sub-section (2) of Section 8 of the Act prohibits the export of gold except with the general or special permission of the State Bank. The State Bank, however, does not allow the export of gold'.*

This regulatory dichotomy - permitting imports under strict controls while prohibiting exports - creates a one-way flow of gold into Pakistan, reinforcing reliance on foreign supply and limiting the sector's potential for global trade integration.

Collectively, these structural dynamics - spanning product segmentation, geographic concentration, value chain inefficiencies, price determinants, and trade restrictions - paint a picture of a market that remains fragmented, import-dependent, and constrained by regulatory and operational bottlenecks. Addressing these challenges is critical to fostering a more competitive, transparent, and sustainable gold sector in Pakistan.

5.

# Key Market Players



## 5. Key Market Players

The gold market in Pakistan is shaped by a diverse range of stakeholders, including private sector entities, and industry associations. These players operate within a complex ecosystem, influencing pricing, supply chains, and market competition. Understanding their roles and interactions is essential to assessing the dynamics and challenges of Pakistan's gold sector.

### A. PAKISTAN MERCANTILE EXCHANGE (PMEX)

The Pakistan Mercantile Exchange (PMEX) serves as the country's only regulated platform for gold derivatives trading, playing a critical role in bringing transparency and efficiency to Pakistan's gold market (Pakistan Mercantile Exchange, n.d.). Established in 2005 and operational since May 2007, PMEX provides a digitally enabled platform for trading commodity futures, including gold, silver, crude oil, and agricultural products. It facilitates trading, clearing, settlement, and custody of these contracts and regulates broker activities in compliance with SECP standards.

PMEX establishes Pakistan's most credible gold price benchmarks through its actively traded gold futures contracts. The exchange lists standardized 10-tola gold futures contracts (symbol: GLD) that serve as the primary reference point for gold prices across Pakistan's physical markets. These real-time prices, derived from actual trades between licensed participants, provide jewelers, investors, and financial institutions with reliable benchmarks that help reduce price disparities in the physical market. The exchange disseminates live prices, trading volumes, and market depth data through its website and authorized data vendors.

PMEX maintains strict regulatory controls over gold trading activities to ensure market integrity. All trading participants including brokers, banks, and institutional investors must be registered with both PMEX and SECP, undergoing thorough due diligence. The exchange implements comprehensive surveillance mechanisms to detect and prevent market manipulation, employing real-time monitoring systems and trade pattern analysis. PMEX enforces position limits for participants, margin requirements (typically ranging between 10-15% of contract value), and daily mark-to-market settlements.

The exchange operates a risk management system for gold trading. Key components include initial and variation margin requirements, circuit breakers that trigger trading halts during excessive volatility (usually at  $\pm 5\%$  price movements) and forced liquidation procedures for participants failing to meet margin calls. The National Clearing Company of Pakistan Limited (NCCPL), PMEX's clearing house, acts as the central counterparty for all trades, guaranteeing settlement and significantly reducing counterparty risk.

PMEX maintains extensive datasets on gold market activity that serve multiple stakeholders. The exchange records and publishes detailed information including daily trading volumes (averaging 15,000-20,000 contracts), open interest positions, historical price trends since 2007, and participant-wise trading statistics. This data is shared with regulatory authorities including

SECP and State Bank of Pakistan, assisting in macroeconomic monitoring and policy formulation.

PMEX has expanded its gold product offerings to cater to diverse market needs. In addition to standard 10-tola contracts, the exchange introduced mini-gold contracts to facilitate retail participation and launched Shariah-compliant gold products in collaboration with its Shariah Advisory Board. The 2021 introduction of gold options contracts provided market participants with additional risk management tools.

PMEX conducts educational initiatives focused on gold markets. These include trader certification programs, workshops for jewelers on hedging techniques, seminars on gold market fundamentals, and research publications analyzing gold price trends. The exchange particularly focuses on educating physical market participants about using futures contracts for price risk management, helping bridge Pakistan's formal and informal gold sectors.

PMEX faces several challenges in fully realizing its potential in gold market regulation. The exchange continues to work on enhancing physical delivery mechanisms to better integrate with Pakistan's bullion markets. Limited retail participation remains an area for improvement, as does strengthening connectivity with international gold markets for better price alignment. PMEX's strategic roadmap includes introducing new products like gold ETFs, improving trading technology infrastructure, and expanding its educational outreach to cultivate a more sophisticated market ecosystem.

## B. ARY GOLD

Among the most influential is ARY Jewellers, a subsidiary of the ARY Group (Ary Jewellers, n.d.). Originally founded in the 1960s as a bullion trading operation in the UAE, ARY expanded into the Pakistani retail jewellery market in the mid-1990s. Headquartered at Amir Trade Centre on Karachi's Tariq Road, ARY operates multiple retail outlets across key cities, including Karachi, Lahore, Rawalpindi, and Hyderabad. The group is recognized for pioneering branded gold bars and coins in Pakistan and remains a dominant player in both bullion and retail segments. With estimated revenues ranging between USD 10 to 25 million and a workforce of approximately 37 to 200 employees, ARY exerts considerable influence over price setting, particularly through its informal association with Sarafa Bazaars, where it contributes to the daily gold rate announcements. Its extensive market reach and brand recognition have strengthened consumer confidence in certified gold products, yet its market dominance may also contribute to price rigidity and strategic concentration in the sector.

## C. HANIF JEWELLERS

Another leading private player is Hanif Jewellers, which has built a strong reputation in the high-end segment of Pakistan's jewellery market (Hanif Jewellers, n.d.). Headquartered in Lahore, Hanif Jewellers operates showrooms in major cities including Karachi and Islamabad. While specific figures on employment and revenue are not publicly disclosed, the brand is widely recognized for its luxury bridal collections and fine gold craftsmanship. Hanif Jewellers

has set itself apart by investing in formal retail environments, high-quality product presentation, and brand equity. This positioning has enhanced consumer trust in hallmarking and product authenticity, indirectly pressuring smaller or informal players to improve transparency and service quality.

## D. PATIALA JEWELLERS

Patiala Jewellers, also known as Patiala Diamonds, traces its origins to 1925 in the princely state of Patiala and re-established itself in Rawalpindi post-Partition (Patiala Jeweller, n.d.). It is one of the oldest family-owned jewellery businesses in the country, now managed by the fifth generation. The brand operates multiple outlets in Rawalpindi and Islamabad, including prominent locations in Blue Area and Beverly Centre. Known for its emphasis on handcrafted bridal and diamond jewellery, Patiala Jewellers occupies a prominent place in the upper-middle segment of the market. Its long-standing heritage and commitment to quality hallmarking have allowed it to compete effectively with other large retailers, particularly in the twin cities region, contributing to formalization and competitive diversity in that geography.

## E. ALMAS JEWELLERS

Almas Jewellers, founded in 1983 in Karachi, represents a smaller but influential presence in the formal jewellery sector (Almas Jewelers, n.d.). With its head office located in Saddar, Karachi, Almas maintains retail outlets in Clifton, LuckyOne Mall, Malir Cantt, and Jhelum. The company focuses on providing customized, certified gold and diamond jewellery and targets middle- and upper-income consumers. Despite a lean organizational structure, Almas has positioned itself as a trusted formal jeweler offering quality assurance and after-sales services. Its scale, however, limits its influence on national price setting or broader market policy, underscoring the challenges faced by small and mid-sized formal players in competing with more established brands.

## F. ASSOCIATIONS

### 1. All Punjab Gem Merchants & Jewellers Association (APGMJA)

The All Pakistan Gem Merchants & Jewellers Association (APGMJA) operates as a key trade body representing gold market participants across Punjab (All Punjab Gem Merchants & Jewellers Association [APGMJA], n.d.). As a private sector entity, its regulatory influence is indirect but notable through self-regulation and liaison functions.

APGMJA serves as a coordination platform for gold traders and jewelers, establishing voluntary price benchmarks for physical gold transactions. The association disseminates daily price guidance to members based on international rates and local market conditions. This practice creates some price uniformity across Punjab's major gold markets, though adherence remains voluntary.

The association maintains an internal arbitration system to resolve commercial disputes between members. Cases typically involve payment defaults, quality disputes, or contract disagreements. While decisions aren't legally binding, the threat of membership suspension provides some enforcement power. Moreover, APMGJA actively engages with regulators including provincial excise/taxation departments on sales tax issues, FBR for input tax adjustment matters, and law enforcement agencies regarding anti-smuggling operations. The association claims credit for several tax concessions in recent years, though these cannot be independently verified through public records.

APGMJA maintains limited proprietary data including membership directory, basic transaction complaint records, and unofficial price movement archives. The association does not systematically track market volumes or maintain verifiable trade statistics, relying instead on member-reported information. Furthermore, the association faces several operational limitations including no statutory authority over non-members, inability to enforce decisions beyond membership sanctions, limited capacity to verify member-reported data, and frequent disagreements with Karachi-based trade bodies on pricing norms.

APGMJA's role remains confined to voluntary self-regulation within its membership network, with no formal regulatory mandate over Pakistan's gold market. Its influence varies significantly across different cities in Punjab, being strongest in Lahore's jewellery markets. The association's effectiveness is constrained by the fragmented nature of Pakistan's gold trade and the large informal sector operating outside its purview.

## 2. Pakistan Gems Jewellery Traders and Exporters Association (PGJTEA)

The Pakistan Gems & Jewellery Traders & Exporters Association (PGJTEA) operates as the primary trade body representing Pakistan's formal gold jewellery export sector (Pakistan Gems & Jewellery Traders and Exporters Association [PGJTEA], n.d.). Headquartered in Karachi, the association serves as an intermediary between jewellery exporters and government regulatory bodies, playing a significant yet non-regulatory role in the gold market ecosystem.

PGJTEA's core function involves assisting members with export-related processes and regulatory compliance. The association provides guidance on documentation requirements under SRO 760, which governs gold jewellery exports, and helps members navigate customs clearance procedures. It maintains regular communication with key regulatory bodies including the Ministry of Commerce, Federal Board of Revenue (FBR), and State Bank of Pakistan (SBP) to address sector-specific challenges. According to available data, PGJTEA members account for approximately 65-70% of Pakistan's official gold jewellery exports, though independent verification of these figures remains challenging due to the fragmented nature of the industry.

The association issues daily price guidelines derived from international gold spot prices, local market premiums, and currency exchange rates. Although, these benchmarks serve as

reference points for export pricing, they carry no binding authority and often diverge from actual transaction prices in physical markets. Therefore, its effectiveness is limited by the prevalence of informal transactions and varying quality standards across the industry.

PGJTEA maintains several databases including export volume estimates, market trend analyses, and member directories. However, the reliability of this information is constrained by its dependence on voluntary member submissions without independent verification mechanisms. The association also records and mediates trade disputes among members related to payment defaults, quality issues, and contract disagreements among others. These resolutions rely entirely on peer pressure and membership sanctions rather than legal enforcement. As a representative body, PGJTEA engages in policy advocacy with government institutions. The association has successfully lobbied for certain export incentives and procedural simplifications, though concrete evidence of its impact remains anecdotal. Its influence is strongest in matters directly affecting jewellery exports, while its voice carries less weight in broader gold market regulations or domestic trade policies.

PGJTEA faces several structural challenges that limit its effectiveness. The association exercises no regulatory authority over non-members, who constitute a significant portion of the market. Its membership base and operations remain concentrated in Karachi, reducing its relevance for jewelers and traders in other regions. Critics highlight the association's lack of transparency in decision-making processes and its perceived bias toward larger exporters at the expense of small and medium enterprises. Perhaps most significantly, PGJTEA has demonstrated limited capacity to address systemic issues like under-invoicing or to bridge the gap between formal exporters and the extensive informal gold trade.

While PGJTEA provides valuable coordination services for its members, its overall impact on Pakistan's gold market regulation remains modest. The association functions more as a trade facilitator than a regulatory body, with its influence constrained by the substantial portion of gold trade occurring outside its membership and beyond the formal export channel.

The interplay between private enterprises, and trade associations defines the competitive landscape of Pakistan's gold market. While regulatory bodies enforce regulations, private players strive to drive innovation and consumer engagement. Strengthening collaboration and transparency among these stakeholders is critical for fostering a more efficient and competitive market.

6.

# Barriers to Competition



## 6. Barriers to Competition

Pakistan's gold market faces significant barriers to competition, which hinder market efficiency, limit consumer choice, and stifle innovation. These barriers can be categorized into structural, regulatory, and strategic challenges, each contributing to market distortions and reinforcing the dominance of informal and entrenched players.

### A. STRUCTURAL BARRIERS

Structural barriers arise from inherent market conditions, including supply chain inefficiencies, informal labor practices, and limited domestic refining capacity.

#### 1. Informal Market Dominance

Pakistan's gold market is heavily influenced by informality, with a substantial share of transactions occurring outside formal regulatory frameworks. This informality stems from structural inefficiencies, regulatory complexities, and cultural practices that discourage transparency. Unlike formal markets, where transactions are documented and taxed, the informal sector operates through cash-based dealings, unregistered traders, and undocumented supply chains. This undermines competition, deprives the government of tax revenue, and exposes consumers to risks such as adulterated gold and lack of legal recourse.

High compliance costs - including taxes, testing, and documentation - disproportionately burden SMEs, pushing them toward informality or making them uncompetitive against smuggled gold. For instance, jewellery exporters face a 17% sales tax under the entrustment scheme, an 11% income tax, and a 2% customs duty on precious metal imports, rendering Pakistani exports less competitive compared to regional peers like India and Sri Lanka, where such taxes are lower or waived.

Additionally, Pakistan lacks globally recognized gemstone labs and gold refineries, forcing exporters to rely on third-party labs abroad. This process increases costs, delays shipments, and is particularly burdensome for small e-commerce exporters. Further bureaucratic hurdles - such as notarized contracts, embassy attestations, and manual jewellery passbooks - compound these challenges. For example, foreign buyers must often travel to Pakistani missions for contract attestations, as these are unavailable in many countries.

Smuggling is another major driver of informality. Due to high taxes on official imports (e.g., 17% sales tax), unofficial imports - costing only around 3% - become more attractive, undercutting compliant traders. Weak enforcement and fragmented oversight exacerbate the issue. Although regulations like SRO 924(I)/2020 mandate anti-money laundering (AML) and counter-terrorism financing (CFT) measures, implementation remains inconsistent, especially outside major cities.

The absence of a robust legal framework and strict import regulations further fuels smuggling, particularly from Afghanistan. Informal traders evade taxes by routing goods

through unofficial channels, distorting market pricing. These smuggled goods are often falsely declared as "Pakistani origin" during re-export, inflating official reserves while undermining traceability demands from international buyers. Consequently, manufacturers relying on smuggled Afghan gemstones face legal risks due to insufficient documentation. The lack of a formal import mechanism for precious metals forces businesses to depend on informal supply chains, eroding trust in formal systems and weakening regulatory oversight.

## 2. Lack of Reliable Market Data

A fundamental structural barrier to competition in Pakistan's gold market is the persistent lack of reliable, comprehensive, and standardized data. This deficiency is deeply rooted in the predominantly informal nature of the sector, where the majority of transactions occur outside formal reporting systems. As a result, critical market indicators - such as trade volumes, pricing behavior, firm-level market shares, and taxation contributions - remain either unavailable or unverifiable. This opacity disproportionately benefits established players with informal networks and localized knowledge, while deterring new entrants, discouraging formalization, and limiting the development of transparent and competitive market practices.

Despite the presence of formal institutions such as the Trade Development Authority of Pakistan (TDAP), the available data is significantly limited in both scope and quality. For instance, TDAP's import data series for gold only begins from 2014, precluding any long-term trend analysis. The data exhibits several technical inconsistencies: unit measurements fluctuate between grams and kilograms with no standardization; product categories such as "gold jewellery" are reported with varied descriptors and caratage (e.g., "22 Kt" vs "Gold Jewellery"), and currency values are inconsistently recorded across AED, USD, and PKR without conversion benchmarks. Furthermore, a little less than half of the entries lack valid National Tax Numbers (NTNs), and the naming conventions of exporters are inconsistently recorded, making it difficult to track entities over time or verify their tax compliance status. In addition, variations in date formats and the irregular reporting of dealing banks further reduce the utility of this dataset for economic analysis or market surveillance.

Efforts to obtain supplementary data from other key institutions also faced constraints. The Federal Board of Revenue (FBR), despite multiple formal and informal outreach efforts, declined to share information on sales tax collection or registration data specific to gold traders. While the decision may be linked to internal policy limitations or confidentiality concerns, this non-disclosure further compounds the information gap in a sector already characterized by weak documentation and high informality.

The absence of accurate and accessible data undermines not only evidence-based policymaking but also the ability of potential market entrants, investors, and consumers to make informed decisions. It impedes competition assessments, restricts accountability, and distorts the perceived size and structure of the market. Addressing this barrier would require institutional coordination, investment in digital reporting systems, and greater incentives

for informal actors to formalize their operations. Without these structural reforms, the gold market is likely to remain opaque and resistant to competitive pressures.

### 3. Limited Refining and Production Capacity

The absence of large-scale refining infrastructure in Pakistan's gold sector creates a structural constraint that obstructs the development of competitive, value-added downstream markets. This gap impedes vertical integration across the gold value chain - spanning from refining and hallmarking to certified bullion production and branded exports - by making firms reliant on imported refined gold. Without domestic processing of dore or recycled gold, manufacturers face limited access to standardized, certified inputs essential for scaling production or tapping into high-value export markets. Consequently, businesses are locked into low-margin operations, with little scope for product innovation, branding, or price competitiveness at the international level.

This structural weakness is compounded by the limited role of institutions in bridging the refining gap. While the Pakistan Mint performs basic refining functions, its operations are narrowly focused on confiscated gold and government-related transactions, not commercial-scale refining or private sector demand. Meanwhile, the Pakistan Gems and Jewellery Development Company (PGJDC), mandated to support sectoral development, has prioritized training and design over industrial upgrading, with minimal attention to expanding or facilitating investment in refining infrastructure. As a result, the private sector - particularly small and mid-sized manufacturers - lacks access to local certified refining services, which hinders compliance with quality standards and stifles formalization.

The lack of accessible, accredited refining and assaying facilities also reinforces informal practices, as most small-scale producers continue to operate without standardized inputs or documented traceability. This undermines regulatory enforcement and consumer trust, especially in a market where quality certification is critical. In such a setting, new entrants face disproportionately high barriers - ranging from dependence on imported inputs to increased compliance costs - while established informal actors continue to dominate based on cost advantages rather than efficiency or quality. The absence of targeted policy action or institutional coordination to address this industrial gap ensures that the refining deficit remains a persistent, self-reinforcing barrier to competition in Pakistan's gold market.

### 4. Fragmented and Exploitative Labor Market

Pakistan's gold sector suffers from a fragmented and exploitative labor structure, worsened by weak institutional support and informality. The Pakistan Gems and Jewellery Development Company (PGJDC), under the Ministry of Industries and Production, is one of the few government bodies responsible for human capital development in the sector. It runs training centers in major cities and offers diploma programs in gemology and jewellery design. However, its impact remains limited, with little evidence that its initiatives have significantly improved labor conditions at scale. Most artisans still acquire

skills through informal apprenticeships, often under exploitative conditions, with no connection to PGJDC's formal training or certification programs.

The absence of a national framework for skills recognition or artisan registration further marginalizes workers, denying them access to labor protections or career advancement. Unlike other sectors that benefit from collaboration between industry bodies and vocational institutions - such as NAVTTC (National Vocational and Technical Training Commission) - the gold sector lacks strong partnerships to standardize skills, certify competencies, or regulate working conditions. This institutional gap reinforces informality by excluding artisanal labor from broader labor market and industrial policies.

Private associations like the All Pakistan Gem Merchants and Jewellers Association (APGMJA) could help formalize labor practices by advocating for minimum wages, fair employment standards, or certification programs. However, these groups have traditionally prioritized trade facilitation and market access over labor reforms. Without regulatory pressure or incentives, they have little reason to disrupt the status quo, especially when informal labor provides cost benefits to their members.

As a result, the weak and uncoordinated efforts of institutions like PGJDC, combined with the reluctance of private associations to push for labor reforms, sustain an informal and exploitative labor system. This stagnation not only entrenches poor working conditions but also stifles the development of a skilled, competitive, and innovation-driven gold sector in Pakistan.

## 5. Geographical and Infrastructure Constraints

Geographical and infrastructure constraints pose a serious structural limitation to competition in Pakistan's gold sector by centralizing commercial activity in a few urban hubs while systematically excluding regional and rural players. Major trading and wholesale activities are heavily concentrated in cities such as Karachi, Lahore, and to a lesser extent, Peshawar - particularly within traditional *Sarafa Bazaars* - which serve as gatekeepers to wholesale supply chains. This concentration restricts access for traders in secondary cities like Faisalabad, Multan, Quetta, or Sukkur, who face higher transportation costs, longer supply chains, and reduced bargaining power. Restrictive export policies (e.g., bans on direct sales at exhibitions) further isolate Pakistani traders from global markets, unlike competitors in India/Sri Lanka.

Pakistani exporters face significant barriers that hinder their ability to compete in international markets. They are unable to sell directly to buyers at international exhibitions or through e-commerce platforms, as E-forms are only issued for bank-channel payments, excluding credit/debit card transactions. This forces exporters to mislabel commercial shipments as "gifts" or "samples." In contrast, regional competitors like India and Sri Lanka permit spot sales at exhibitions and allow up to \$5,000 worth of goods to be carried without restrictions. Additionally, bureaucratic hurdles such as mandatory embassy attestations and visa constraints discourage foreign buyers from engaging with Pakistani exporters. The

entrustment scheme further strains exporters by requiring a 1% cash margin deposit, tying up working capital and delaying production due to a 2–3-day release process. Moreover, random customs testing of jewellery often results in damage to items and further shipment delays, compounding the challenges faced by exporters.

The lack of supporting infrastructure - including banking access, secure logistics, and trade facilitation services - exacerbates these geographical disparities. For instance, many rural and peri-urban areas lack branches of banks authorized to handle precious metals transactions or facilitate Letters of Credit (LCs), particularly those governed by SBP's foreign exchange regulations. Traders outside the main urban corridors often operate in cash, which not only exposes them to security risks but also makes it difficult to comply with anti-money laundering (AML) and tax regulations. Initiatives like the Pakistan Single Window (PSW) and digital trade platforms such as Pakistan Mercantile Exchange (PMEX) have yet to offer meaningful inclusion for traders outside the formal financial mainstream in the gold market, limiting their ability to participate in regulated and transparent gold trading systems.

## B. REGULATORY BARRIERS

Regulatory inefficiencies, overlapping jurisdictions, and inconsistent enforcement create significant hurdles for market participants.

### 1. Absence of a Unified Regulatory Authority and Framework

A critical regulatory barrier to competition in Pakistan's gold market is the absence of a single, centralized regulatory authority and an overarching legal framework governing the sector. Currently, the market is regulated through a fragmented set of rules and agencies - ranging from the Ministry of Commerce (e.g., SRO 760), the FBR (e.g., taxation and AML regulations), and the SBP (e.g., import controls), to various provincial authorities and trade associations. This disjointed structure creates regulatory overlaps, policy contradictions, and jurisdictional ambiguities that complicate compliance for market participants. Without a clear chain of command or cohesive regulatory roadmap, traders face conflicting requirements on documentation, taxation, and trade authorization, all of which raise the cost and complexity of doing business.

The lack of a unified law or institutional framework also limits strategic oversight, making it difficult to coordinate reforms, standardize practices (e.g., hallmarking, licensing), or track market data across the value chain. This regulatory vacuum weakens enforcement, encourages discretionary decision-making, and leaves room for rent-seeking behavior, particularly where multiple agencies claim authority over a single transaction or policy domain. More importantly, it stifles innovation and deters investment, as firms - particularly new entrants - must navigate an unpredictable and inconsistent regulatory environment. The absence of a "one-window" model for licensing, compliance, and policy guidance further disadvantages smaller or regional players who lack the institutional

knowledge or political connections to operate effectively under such fragmented conditions.

## 2. Complex and Overlapping Regulations

Pakistan's gold sector faces significant regulatory hurdles due to complex, overlapping, and often contradictory rules imposed by multiple authorities - including the FBR, SBP, MoC, and provincial governments. These fragmented regulations operate in isolation, leading to confusion, inconsistent enforcement, and an unpredictable business environment for gemstone and jewellery exporters.

Key contradictions exacerbate these challenges. For instance, the FE Manual classifies precious metal imports as "prohibited," while the Import Policy Order 2020 allows them using "own forex." This discrepancy enables arbitrary enforcement, where well-connected players exploit loopholes while SMEs face disproportionate penalties. Similarly, the SBP mandates "special permission" for jewellery exports without distinguishing between small (\$100) and large (\$10,000) shipments, creating unnecessary bureaucratic hurdles.

Customs officials further complicate matters by misapplying tariffs - even on items exempted under SRO 760 - due to ambiguous clauses, inflating costs for traders. Exporters also face harassment through recovery notices for minor discrepancies, such as failing to meet 85-90% value addition thresholds, discouraging formal trade participation.

Additionally, FBR's SRO 924(I)/2020 imposes stringent AML/CFT requirements on jewelers, including CDD, record-keeping, and compliance officer mandates. While aimed at enhancing transparency, these measures impose excessive costs on SMEs, pushing them toward informality and undermining regulatory effectiveness.

The lack of harmonization between competing regulations fosters discretionary enforcement and rent-seeking, as businesses struggle to comply with conflicting rules enforced by uncoordinated agencies. This regulatory chaos stifles competition, discourages formal market participation, and perpetuates inefficiencies in Pakistan's gold sector.

## 3. High Taxation and Import Duties

Another major regulatory hurdle is the high and uneven tax structure that governs the import and sale of gold and gold jewellery. Under SRO 297(I)/2023, the sales tax on imported jewellery is levied at an elevated rate of 25%, while the import of raw gold attracts an 18% standard sales tax rate. Although locally manufactured gold jewellery benefits from a reduced 3% sales tax under the Eighth Schedule to the Sales Tax Act, this comes with the caveat that no input tax adjustments are allowed. This limitation significantly raises the cost of production for formal sector manufacturers, especially those sourcing gold and components from taxed supply chains, ultimately neutralizing the benefit of the lower rate.

Such an asymmetrical tax regime discourages formal trade and manufacturing, incentivizing smuggling and under-invoicing instead. Informal traders operating outside the tax net are able to offer products at significantly lower prices, thereby undermining fair competition and eroding the market share of compliant businesses. Moreover, the high cost of legal imports and the absence of tax credit mechanisms for input purchases deter investment in large-scale, tax-compliant operations. The lack of coordination between FBR's taxation policies and SBP's import oversight further complicates the issue, resulting in ad hoc restrictions that create price distortions and restrict supply to formal markets.

#### 4. Weak Enforcement and Corruption

Regulatory enforcement across the gold value chain is marked by inconsistency, weak institutional capacity, and in some cases, corruption - all of which undermine compliance and distort competition. One clear example is the poor enforcement of hallmarking standards. While Pakistan's Bureau of Standards and Metrology mandates hallmarking for some jewellery items, enforcement is patchy and often limited to major cities. This leaves large portions of the market - particularly rural and informal segments - operating without quality verification, exposing consumers to fraud and reducing trust in the formal gold ecosystem. Lack of standardized hallmarking also prevents local jewelers from competing in export markets, where certification and quality assurance are prerequisites for entry.

Smuggling, facilitated by porous borders with Iran and Afghanistan, continues to play a significant role in distorting the competitive landscape. Weak monitoring at border crossings and within customs operations, coupled with rent-seeking behavior by certain enforcement officials, allows illicit trade to flourish. This creates an uneven playing field where well-connected traders benefit from regulatory leniency, while compliant businesses bear the full burden of duties, documentation, and inspections. Such selective enforcement disincentivizes formalization and reinforces market concentration in the hands of a few powerful actors who are able to navigate - or bypass - the regulatory environment.

#### 5. Suspension of Key Regulations (SRO 760(I)/2013)

The temporary suspension of SRO 760(I)/2013 by the federal government in May 2025 further illustrates how abrupt and uncoordinated regulatory changes can destabilize market structures and deter formal competition. With the suspension of this key policy instrument, the structured import-export schemes - particularly the Entrustment and Self-Consignment Schemes - were rendered inoperative. This void removed duty exemptions, traceability mechanisms, and value-addition incentives that had previously enabled compliant exporters to participate in global markets with some degree of competitiveness.

The sudden policy reversal forced many exporters to either halt operations or shift to informal channels, reintroducing smuggling risks and undermining hard-won gains in market transparency. Smaller exporters, especially those reliant on the Entrustment Scheme for sourcing raw materials without upfront capital, were disproportionately affected. Larger firms with offshore procurement capabilities or existing inventories weathered the

disruption more effectively, further concentrating market power. Such regulatory unpredictability not only increases operational risk for businesses but also erodes investor confidence and impedes long-term sector planning. In the absence of a stable and coordinated policy framework, competition in the gold sector remains vulnerable to regulatory shocks that favor the status quo over innovation or market entry.

## C. STRATEGIC BARRIERS

Strategic barriers stem from anti-competitive practices by dominant players and market inefficiencies.

### 1. Market Concentration and Cartelization

One of the most entrenched strategic barriers in Pakistan's gold sector is the high degree of market concentration, particularly within the formal trading and wholesale segments. A limited number of dominant players - including well-known jewelers and wholesalers concentrated in major urban markets like Karachi and Lahore - exercise disproportionate control over pricing, supply, and retail trends. The Karachi Sarafa Association, though unofficial, effectively serves as a centralized price-setting entity, releasing daily gold rates that are followed across the country. These benchmark prices, while intended to create consistency, also reduce competitive pricing behavior among retailers and leave little room for small or independent traders to offer differentiated prices based on cost structures or business strategies.

This quasi-cartelized pricing mechanism distorts market signals and reinforces the dominance of established players, many of whom have historical control over supply chains and preferential access to imported gold. The informal authority of such associations - absent transparent governance, regulatory oversight, or competitive checks - enables coordinated behavior that may amount to tacit collusion, suppressing price competition and innovation. Furthermore, new entrants often lack bargaining power in sourcing raw gold or bullion due to the concentration of upstream distribution in a few hands, which affects their ability to compete on price or product variety.

The result is a market structure characterized by high entry barriers and low elasticity in retail pricing. Without intervention to decentralize pricing mechanisms or to promote transparent trading platforms - such as an independent price benchmark derived from PMEX - the sector is unlikely to evolve into a more contestable or consumer-responsive market. This strategic concentration, paired with weak antitrust enforcement, enables rent extraction and limits efficiency gains across the gold value chain.

### 2. Limited Access to Financing

Access to finance represents another critical strategic barrier, particularly for small and medium-sized traders and manufacturers. Financial institutions in Pakistan remain cautious in extending credit to the gold sector, primarily due to the sector's high informality,

perceived AML risks, and lack of collateral transparency. Most banks require substantial tangible collateral or formal documentation of business operations - conditions that informal or semi-formal traders cannot meet. As a result, working capital constraints are acute for small jewelers and artisans, who operate on thin margins and are unable to expand inventory, invest in technology, or participate in export-oriented production.

This credit access disparity creates a structural advantage for larger, established firms with documented financial histories, real estate assets, and recognized brand equity. These firms are better positioned to negotiate credit lines, access trade finance instruments, or benefit from government support schemes - creating a persistent financing asymmetry that reinforces existing market hierarchies. Moreover, the absence of sector-specific financial products (e.g., gold-backed loans, factoring of jewellery receivables, or warehouse receipt systems) indicates a lack of financial innovation tailored to the unique characteristics of the gold trade.

Internationally, countries like Türkiye have pioneered gold deposit accounts and collateralized lending against bullion, creating liquidity for retail participants and unlocking idle gold assets. In contrast, Pakistan lacks financial inclusion mechanisms in the gold sector - limiting both horizontal expansion (e.g., new entrants) and vertical investment (e.g., integration into refining or hallmarking). Until institutional lenders recalibrate their risk assessments and develop customized lending frameworks, smaller players will remain capital-constrained, undermining competitive parity and innovation.

### 3. Technological Lag and Opaque Pricing

The technological infrastructure supporting Pakistan's gold market remains outdated and poorly integrated, exacerbating opacity and enabling anti-competitive behavior. Most record-keeping - ranging from inventory logs to trade invoices - is still conducted on paper, with little digital traceability or integration with formal financial or tax reporting systems. This lack of digitization weakens market surveillance, hinders price verification, and reduces accountability along the supply chain. For example, in the absence of standardized electronic invoicing, under-invoicing and fraudulent documentation remain pervasive, giving informal traders a cost advantage over compliant firms.

The lack of modern technology and outdated standards severely hampers the growth of Pakistan's gemstone and jewellery sector. Industry stakeholders have highlighted that importing essential tools like 3D printers - crucial for design innovation - requires approval from the Ministry of Interior, which frequently rejects applications, placing Pakistan at a disadvantage compared to regional peers like India and Bangladesh, where such technology is readily accessible.

Furthermore, there are no formal vocational institutes for gemstone cutting or jewellery design in Pakistan. While some NGOs provide limited training, the absence of standardized skill development contrasts sharply with countries like Sri Lanka, where private institutes play a key role in fostering innovation. Compounding these challenges are outdated value

addition norms, which mandate arbitrary percentages (8–13% of product value) instead of realistic per-gram calculations. These rigid requirements undermine competitiveness and discourage exporters from scaling up production.

In contrast, global markets have adopted technologies such as blockchain to enhance traceability, authentication, and pricing transparency. The DMCC, for instance, uses the "Dubai Gold Chain" blockchain platform to trace gold from mine to market, facilitating trust, reducing compliance costs, and minimizing fraud. Pakistan's gold market currently lacks any comparable infrastructure. PMEX, despite offering digital bullion trading, has minimal uptake due to low awareness and trust among traditional traders. Additionally, there is no unified price discovery platform beyond the Karachi Sarafa Association's informal announcements, which are not subject to audit or market validation. The absence of technological solutions perpetuates asymmetrical information, making it difficult for consumers and small traders to assess real-time pricing, product authenticity, or transaction legitimacy.

#### 4. Consumer Trust Deficits

The lack of standardized quality assurance mechanisms - particularly the absence of universal hallmarking - has led to a severe trust deficit among consumers, posing a strategic barrier to competition. While the Pakistan Standards and Quality Control Authority (PSQCA) and the Bureau of Standards and Metrology (BSM) have introduced hallmarking protocols, enforcement remains limited and geographically uneven. Many smaller towns and rural areas lack accredited hallmarking centers altogether, and in urban markets, adherence is often voluntary or selectively applied. This opens the door to widespread adulteration, misrepresentation of caratage, and price manipulation.

As a result, consumers gravitate toward larger, well-established jewelers who are perceived to offer purer gold and more reliable service, even if their products command a premium. This brand-driven consumer behavior limits the ability of smaller or newer entrants to compete, regardless of their product quality. Without systemic hallmarking and independent product verification, trust remains a private commodity - purchased through brand equity rather than guaranteed by institutional oversight. This undermines market openness and reduces consumer choice.

The lack of trust also suppresses demand for innovative or differentiated products, such as customized jewellery or digital gold investments, which require assurance in quality and traceability. In contrast, countries like India have made hallmarking mandatory across all jewellery categories, significantly reducing fraud and increasing consumer confidence. For Pakistan, without widespread and enforced hallmarking protocols - supported by awareness campaigns and legal mandates - the gold sector will continue to be driven by reputation-based monopolies, marginalizing smaller competitors and impeding market dynamism.

7.

# Conclusion & Recommendation



## 7. Conclusion & Recommendations

### A. CONCLUSION

The Competition Assessment Study of the Gold Market in Pakistan underscores the critical structural, regulatory, and strategic challenges impeding the sector's efficiency, transparency, and competitiveness. The analysis reveals a market characterized by fragmentation, informality, and inconsistent enforcement, which collectively stifle innovation, distort pricing, and limit consumer welfare. Key findings highlight the dominance of informal trade, exacerbated by high compliance costs, regulatory ambiguities, and weak oversight, alongside the absence of a unified regulatory framework to streamline operations and ensure accountability.

Pakistan stands at a pivotal juncture with the imminent operationalization of the Reko Diq mine, projected to produce 17.9 million ounces of gold over its lifespan. This domestic supply - worth an estimated \$54 billion at current prices - presents a historic opportunity to reshape the gold market's fundamentals. However, without urgent reforms, Reko Diq's output risks being absorbed into the same inefficient system, perpetuating informality, price distortions, and missed export potential. The mine's success hinges on parallel investments in refining, hallmarking, and regulatory infrastructure to ensure its gold integrates seamlessly into formal supply chains.

The study identifies Pakistan's heavy reliance on imported gold, coupled with inadequate domestic refining capacity, as a significant vulnerability, exposing the market to global price volatility and exchange rate fluctuations. Furthermore, the lack of standardized hallmarking and reliable market data perpetuates consumer mistrust and undermines export potential. Strategic barriers, such as cartelization, limited access to financing, and technological lag, further entrench inefficiencies and restrict market entry for smaller players.

Reko Diq's scale demands proactive measures: a centralized regulator (PGGA) to oversee fair allocation of its output, mandatory hallmarking to certify its gold's purity, and blockchain traceability to deter smuggling. By aligning reforms with the mine's 2028 operational timeline, Pakistan can convert Reko Diq from a revenue source into a catalyst for systemic change - reducing import dependency, formalizing 50+ tonnes of annual gold supply, and positioning the country as a regional refining hub.

To address these challenges, the report presents actionable recommendations aimed at fostering a competitive and transparent gold market. These include the establishment of a centralized regulatory authority, the Pakistan Gold and Gemstone Authority (PGGA), to harmonize policies and eliminate jurisdictional overlaps. Mandatory assaying and hallmarking, supported by robust infrastructure, are essential to ensure quality assurance and align with international standards. As illustrated in Figure 9, rebalancing restrictive regulations (e.g., import taxes) while strengthening enabling measures (e.g., hallmarking) could unlock competition. The digital transformation of trade processes, including blockchain-based traceability, will enhance transparency and reduce illicit activities. Additionally, the introduction of a gold banking

system, modeled after Türkiye's success, can mobilize idle household gold into the formal financial sector, improving liquidity and reducing informality.

Strengthening data governance through a centralized digital repository will enable evidence-based policymaking, while targeted reforms in taxation, import-export procedures, and labor standards will promote formalization and fair competition. These measures, if implemented cohesively and expedited to match Reko Diq's timeline, can position Pakistan's gold market as a dynamic, transparent, and globally competitive sector - one where domestic production fuels industrial growth rather than informal trade.

In conclusion, the transformation of Pakistan's gold market requires a concerted effort from policymakers, regulators, and industry stakeholders to address systemic inefficiencies and adopt international best practices. The proposed reforms are not merely corrective but foundational, offering a roadmap to unlock the sector's potential, enhance consumer confidence, and integrate Pakistan into the global gold trade ecosystem. With Reko Diq's first phase commencing in 2028, the window for action is narrow but transformative. Immediate and decisive action is imperative to ensure the gold market's sustainable contribution to the national economy.

## B. RECOMMENDATIONS

### 1. Unified Oversight for a Streamlined Gold Sector: One Regulator, One Rulebook

This recommendation directly targets three critical barriers identified in Pakistan's gold market: (1) the absence of a unified regulatory authority and framework, (2) complex and overlapping regulations, and (3) weak enforcement and corruption. Currently, Pakistan's gold sector is fragmented across the MoC, SBP, FBR, TDAP, and provincial authorities, creating inefficiencies and compliance redundancies. The imminent production from Reko Diq further underscores the urgency of centralized oversight to ensure transparent allocation, pricing, and integration of domestic gold into the formal market.

With Reko Diq's Phase 1 production set to begin in 2028, the PGGA may be operational by 2027 to establish governance frameworks for domestic gold sourcing, pricing, and distribution. This includes creating a dedicated Reko Diq oversight wing to monitor production quotas, ensure fair allocation to refiners, and prevent cartelization. The PGGA should also integrate Reko Diq's output into the national supply chain, replacing smuggled gold with locally sourced bullion to reduce import dependency.

The proposed Pakistan Gold and Gemstone Authority (PGGA) would consolidate regulatory functions under a single entity, eliminating jurisdictional overlaps that delay processes like export approvals (e.g., weeks-long waits for TDAP, SBP, and FBR clearances). For Reko Diq, the PGGA would coordinate with Balochistan's provincial government and federal stakeholders to standardize royalties, monitor production flows,

and prevent cartelization of its output - mirroring Türkiye's success in linking domestic mining to its gold banking system.

Under the PGGA, these functions would be integrated into a single-window system, directly countering the barrier of complex and overlapping regulations by simplifying processes. This mirrors the success of BIS in simplifying gold hallmarking and Türkiye's Istanbul Gold Exchange (IGE) in digitizing trade documentation - both examples of overcoming similar regulatory barriers.

Key reforms would include: (1) Integrating Reko Diq's supply chain into the PGGA's digital platform to track gold from mine to market, reducing smuggling risks; (2) replacement of manual processes (e.g., physical embassy attestations) with blockchain-based authentication, addressing weak enforcement; (3) adoption of internationally recognized purity benchmarks (e.g., ISO 9202 for gold) to align with markets like India and Thailand, helping overcome regulatory fragmentation; and (3) elimination of redundant requirements such as the 1% cash margin on exports, which disproportionately burdens SMEs due to complex regulations.

By anchoring Reko Diq's output within a formal regulatory framework, the PGGA would unlock its potential to displace illicit imports, stabilize prices, and incentivize domestic refining investments - addressing structural gaps highlighted in Chapters 4 and 6.

## 2. Mandatory Assaying and Hallmarking: Strengthening Pakistan's Gold Market Through Quality Assurance

This recommendation directly addresses multiple structural and strategic barriers plaguing Pakistan's gold market, particularly consumer trust deficits, informal market dominance, and limited refining and production capacity. Currently, only three PSQCA-certified assay centers exist nationwide, creating severe bottlenecks in quality verification while allowing adulterated and substandard gold to flood the market. This lack of standardized purity certification has eroded consumer confidence and perpetuated informal trade, where unverified gold transactions dominate.

The proposed nationwide mandatory hallmarking regime would systematically counter these barriers through several mechanisms. First, it would establish a network of accredited testing facilities across major gold trading hubs like Karachi, Lahore, and Peshawar, equipped with modern technologies including XRF testing and laser marking. Reko Diq's gold production will require stringent quality certification to meet international benchmarks (e.g., LBMA standards).

Hallmarking centers may be established near the mine in Balochistan. This will ensure Reko Diq's output is assayed and hallmarked at source, enhancing its credibility for export and domestic use. The PGJDC would play a pivotal role in this expansion, building on its existing assaying initiatives but with enhanced regulatory backing.

Second, by making hallmarking compulsory for all gold jewellery sales, the reform would address the consumer trust deficit that currently favors established jewelers over smaller competitors. The implementation of unique hallmark identification codes, similar to India's HUID system, would enable buyers to verify purity claims independently.

Third, the integration of hallmarking data with the FBR's Track & Trace system would help dismantle informal market dominance by creating an auditable supply chain. This would particularly curb the circulation of smuggled gold, which currently undercuts formal traders by avoiding taxes and quality checks. The success of similar measures in Türkiye, where mandatory certification reduced purity disputes, demonstrates this approach's efficacy.

### 3. Digital Transformation of Pakistan's Gold Market: A Strategic Imperative for Modernization

This recommendation addresses several critical barriers identified in the report, including technological lag and opaque pricing, informal market dominance, and weak enforcement and corruption. The current gold market in Pakistan is heavily reliant on manual, paper-based processes, which contribute to inefficiencies, lack of transparency, and opportunities for illicit activities. By implementing digital solutions such as blockchain-based traceability and centralized digital platforms, this recommendation aims to modernize the sector, enhance transparency, and reduce the prevalence of informal and corrupt practices.

The technological lag in Pakistan's gold market is a significant barrier, as outdated systems hinder price discovery, inventory management, and compliance monitoring. The recommendation proposes integrating digital trade platforms and blockchain technology to create immutable records of gold transactions, ensuring authenticity and traceability from mine to market. This aligns with successful models like the DMCC. By digitizing processes such as e-KYC verification and automated customs clearance, Pakistan can eliminate redundant bureaucratic steps, thereby streamlining operations and reducing opportunities for corruption.

Additionally, the informal market dominance is exacerbated by the lack of reliable digital infrastructure, which allows unregulated traders to operate outside formal channels. The recommendation suggests establishing a centralized digital dashboard for gold transactions, integrated with regulatory bodies like the SBP and FBR. This would provide real-time market intelligence, helping authorities combat smuggling and under-invoicing while bringing informal traders into the formal economy.

Lastly, the weak enforcement and corruption in the gold market stem from fragmented oversight and manual record-keeping, which enable illicit activities. The digital transformation would introduce automated compliance checks, reducing human intervention and discretionary enforcement. By adopting Türkiye's model of electronic reporting, Pakistan can enhance regulatory oversight, ensuring that all transactions are

documented and auditable. This would not only curb corruption but also build trust among consumers and investors, fostering a more competitive and transparent gold market.

#### 4. Establishing a Gold Bank: Following the Footsteps of Türkiye

The creation of a national gold bank, modeled after Türkiye's highly successful system, would address Pakistan's critical market challenges of liquidity constraints and informal market dominance. Under the Turkish gold banking system model, the CBRT began allowing commercial banks to hold a portion of their required reserves. This model would effectively mobilize idle household gold in Pakistan ("under-the-pillow" gold) into the formal financial system, while addressing liquidity constraints and reducing informality in the gold market.

Under this framework, the State Bank of Pakistan (SBP) would: (1) permit licensed commercial banks to accept gold deposits, (2) introduce gold-backed financial instruments, and (3) establish a regulatory mechanism for gold valuation and risk management - mirroring Türkiye's achievements where 50 tons of gold were brought into the banking system within first five years of implementation (2011-2015) (LBMA, 2015). This system would complement proposed duty reforms by creating verifiable transaction records, making reduced import duties more effective in curbing smuggling than standalone fiscal measures.

The proposed gold banking system directly addresses limited access to financing, a critical strategic barrier that currently prevents small and medium-sized jewelers and traders from securing formal credit due to stringent collateral requirements and the sector's informality. By permitting licensed commercial banks to accept gold deposits and offer gold-backed loans - eliminating the restrictive 1% cash margin requirement on exports - this model would provide much-needed liquidity to SMEs, enabling them to compete with larger, well-capitalized players. The introduction of metal accounts (similar to Türkiye's "gram gold" accounts) would further democratize access by allowing customers to trade, save, and transact in gold-denominated units, reducing dependence on informal financing networks.

Furthermore, the gold bank counters market concentration and cartelization, a barrier perpetuated by dominant players in Karachi's Sarafa Bazaar who control wholesale pricing. The establishment of a domestic gold price benchmark based on bank transactions would decentralize price-setting and enhance transparency. Gold leasing arrangements and consignment services for international exhibitions would additionally empower smaller manufacturers to compete globally, breaking the oligopolistic grip on export channels.

Lastly, the system mitigates technological lag by digitizing gold flows and integrating blockchain-like traceability, addressing the sector's reliance on paper-based documentation and opaque pricing. By implementing the model in phases - starting with regulatory preparation, followed by product rollout and international integration - Pakistan can systematically dismantle these barriers while aligning with global best practices, as

demonstrated by Türkiye's success in formalizing its gold trade and boosting export competitiveness.

## 5. Strengthening Data Governance for Gold Market in Pakistan

This recommendation directly addresses lack of reliable market data, a critical structural barrier that currently perpetuates opacity and hinders evidence-based policymaking in Pakistan's gold sector. It is proposed to establish a centralized digital repository integrating customs data, gold bank transactions, and hallmarking certifications. This system would create the first comprehensive dataset on gold flows.

The recommendation also counters geographical and infrastructure constraints by using data analytics to guide targeted investments. For instance, mapping regional transaction patterns would reveal whether assay centers should prioritize Karachi (for import hubs) or Lahore (for manufacturing clusters), optimizing resource allocation currently hampered by fragmented provincial oversight. This data-driven approach mirrors Dubai's DMCC model, where trade analytics reduced export processing times.

By automating reporting, this framework resolves a key regulatory barrier where overlapping documentation requirements (like manual jewellery passbooks) currently force 30% of e-commerce exporters into informal "gift" declarations. The integration with FATF compliance mechanisms makes it uniquely positioned to address barriers untouched by previous recommendations - particularly technological lag in cross-border monitoring and complex regulations stemming from poor inter-agency data sharing.

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