



The U.S. Reciprocal Tariff Framework and Its Impact on Pakistan's Exports

(A Comparative Analysis and Strategic Roadmap)

Policy Advisory Board

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Foreward



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As **Pakistan's foremost business voice**, the **Federation of Pakistan Chambers of Commerce and Industry (FPCCI)** remains steadfast in its mission to drive **business-friendly reforms** that promote **inclusive and sustainable growth**. By advocating for **clear policies**, forging **strong institutional partnerships**, and mobilizing **broad sectoral support**, FPCCI actively works to **stimulate trade, boost exports, and shape the nation's economic future**.

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Pakistan's economy stands at a **critical turning point**, facing **domestic and external challenges**. It is essential to **address economic risks** through **continuous reforms**, prudent management of **fiscal and monetary policies**, and proactive measures to **strengthen climate resilience**. These actions are not only necessary for **stability**, but also for building a **solid foundation** for **steady and inclusive growth**. The road ahead demands **meaningful reforms** to **boost productivity and reduce costs**. By taking these decisive steps, we can set Pakistan on a **clear path toward sustainable, long-term prosperity**.

The **FPCCI's Policy Advisory Board** has been actively engaged in broad-based consultative dialogues with stakeholders across Pakistan's business spectrum. Backed by a network of chambers and trade associations, it brings together diverse industry perspectives and plays a pivotal role in shaping **business-friendly policies** that foster sustainable economic growth.

This report, **"The U.S. Reciprocal Tariff Framework and Its Impact on Pakistan's Export Competitiveness"**, presents a comprehensive yet initial analysis on **U.S's 19% reciprocal tariff on Pakistan**. In this report we have also identified emerging opportunities for Pakistan due to the (25+25) **50% tariff imposed on India**. Presently, Pakistan has the opportunity of **US\$ 11.67 billion in export orders**; however, Pakistan must urgently address its high cost of doing business (cost of energy and borrowing), particularly since Bangladesh, Cambodia, and Vietnam are strong competitors in textiles, leather goods, furniture, and plastics. In 2024, India's exports to the U.S. included **US\$ 8.13 billion in textiles, US\$ 748 million in leather goods, US\$ 1.15 billion in furniture and bedding items, and US\$ 1.64 billion in plastics and related articles**.



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Executive Summary

The imposition of a new **"reciprocal tariff"** framework by the United States introduced trade measures that have **reshaped the global trading dynamics**. The Trump administration's approach has brought a new wave of challenges, opportunities **and recalibration** to **global commerce**. With the imposition of wide-ranging tariffs and a series of rapid bilateral trade negotiations, President Donald John Trump has used **access to the US consumer market**, which is one of the world's biggest markets, as a **bargaining tool** to push forward its **economic, technological, environmental, and geopolitical objectives**. This has subsequently **disrupted country specific supply chains** and forced trading partners to offer notable concessions to the U.S., in exchange for favorable terms.

Trump's narrative frames America's reliance on foreign producers as a threat to its economic security, leaving supply chains vulnerable to geopolitical shocks. He believes reversing this dependency is essential for restoring U.S. competitiveness. The United States trade policy since 1934 has been anchored in reciprocity, decades of uneven agreements and global competition have left America at a disadvantage. The result has been a steady erosion of U.S. manufacturing capacity, between 1997 and 2024, the US lost nearly **5 million factory jobs**, weakening both its industrial base and supply chain security. In 2024, the merchandise exports of the **United States** stood at **US\$ 2,083.8 billion** against imports of **US\$ 3,295.6 billion**, which translates to a **trade deficit of US\$ 1.21 trillion**; the trade deficit had surged over **40% in just five years**. In 2024, there were **12 countries that accounted for 97.26% of the U.S. trade deficit**. This imbalance laid the groundwork for the reciprocal tariff framework, through which Washington shifted away from **rule-based tariff order** to **discretionary trade policy** and deals aimed at protecting its industrial base and rebuilding economic resilience.

Under the **Executive Order** issued by President Trump on **31st July 2025**, new reciprocal tariff rates have been announced for **Pakistan (19%), India (25+25%), Bangladesh (20%), Vietnam (20%), Thailand (19%) and Cambodia (19%)** and others. This report highlights and explores how Pakistan can **leverage its competitive tariff** despite its **long-standing challenges**, particularly **high costs of doing business, energy syndrome, weak export diversification, lack of technological advancement** and **low value addition**. The focus of this report is to convert this **opportunity** into an **advantage** and **meaningful export gains** for Pakistan's economy.

The new U.S. tariff framework is a pivotal moment for Pakistan's trade policy. The 19% tariff is both a diplomatic breakthrough and an opportunity, giving Pakistan an edge over its regional competitors. Yet this advantage seems to be fragile. Unless Pakistan confronts its core problems—high energy costs, high borrowing cost, bureaucratic red tape, and a narrow export base, any "gain" will be short-lived.

Pakistan's economy is experiencing a big challenge compared to its regional competitors, as it struggles with both the **highest policy rate (11%)** and the steepest **electricity cost (US\$0.16/kWh)**. This makes Pakistan less competitive compared to regional countries like India (**5.5%** and **US\$0.08/kWh**), Bangladesh (**10%** and **US\$0.10/kWh**), Vietnam (**4.5%** and **US\$0.08/kWh**), and Cambodia (**3%** and **US\$0.13/kWh**). Unless the country brings down energy tariffs and brings interest rates closer to regional norms, its industries will continue to lag behind—and any potential benefit from tariff concessions will be overshadowed by this cost disadvantage.

At present, India exports goods valued at approximately **US\$ 80 billion** to the United States. However, the imposition of a **reciprocal tariff of 50% (25% standard tariff plus 25% punitive tariff)** poses a significant risk to India, as it may lead to a substantial decline in its export volumes to the U.S. market.

Out of the expected contraction in Indian exports to the U.S., a trade space of around US\$ 11.67 billion may be available for Pakistan, Bangladesh, Vietnam and Cambodia specifically in textiles (US\$ 8.13 billion), leather goods (US\$ 748 million), furniture; bedding, mattresses, etc. (US\$ 1.15 billion), and plastics and related articles (US\$ 1.64 billion).

Given the prevailing **structural impediments to competitiveness** — particularly **high energy tariffs** and elevated **borrowing costs** — Pakistan can acquire a share of **US\$ 2–3 billion** out of the **US\$ 11.67 billion** opportunity. However, if the said systemic challenges are effectively addressed, Pakistan may capitalize on the substantial share from **US\$ 11.67 billion** market space.

1. Introduction: The New Global Trade Realities

1.1. The U.S. "America First" Trade Policy and the Reciprocal Tariff Framework

The United States trade policy since 1934 has been anchored in reciprocity, decades of uneven agreements and global competition have left America at a disadvantage. The result has been a steady erosion of U.S. manufacturing capacity, especially in strategic sectors like autos, shipbuilding, pharmaceuticals, technology, and metals. Between 1997 and 2024, the US lost nearly **5 million factory jobs**, weakening both its industrial base and supply chain security. By 2024, the trade deficit had surged over **40% in just five years**, hitting **\$1.2 trillion**.

According to President Trump's narrative, America's growing dependence on foreign producers has weakened its economic security, leaving supply chains exposed to geopolitical shocks and disruptions. This vulnerability was exposed during the **COVID-19 pandemic**, when Americans struggled to access essential goods and relied more on foreign suppliers.

Reversing this trend is seen as vital to restoring U.S. competitiveness. Although manufacturing now makes up just **11% of GDP**, it still drives **35% of productivity growth** and nearly **60% of exports**. This imbalance set the stage for the **reciprocal tariff framework**, under which the US moved away from uniform trade rules and instead pursued **country-specific tariffs and deals** to protect its industrial base and rebuild economic resilience.

Consequently, Trump administration has initiated a significant shift in US trade policy and declared an economic **national emergency**. On **January 20, 2025**, President Trump launched the ***America First Trade Policy***, directing an investigation into the causes and risks of America's large and persistent trade deficits. A follow-up memorandum on **February 13, 2025**, titled ***Reciprocal Trade and Tariffs***, highlighted how non-reciprocal practices by trading partners such as unequal tariff rates and hidden barriers have fueled these imbalances. A key element of the new trade agenda is the **"reciprocal tariff" framework**, aimed at correcting imbalances by imposing duties on imports from countries with large and persistent U.S. trade surpluses. Unlike the WTO's **Most Favored Nation (MFN)** principle, which requires equal treatment for all partners, this approach is **country-specific**, using the threat of steep tariffs to pressure trading partners in bilateral talks.

The administration first set a **baseline tariff of 10%** on countries without agreements, warning that rates could rise sharply if negotiations failed. After months of hard bargaining, the process culminated in the **July 31, 2025 Executive Order**, which finalized the reciprocal tariff rates for individual countries. While the strategy strengthens US leverage, it has also injected **volatility and uncertainty** into the global trading system. Trump positioned reciprocity in trade not just as an **economic necessity** but as a cornerstone of US industrial and national security strategy. This has created a volatile and unpredictable environment for global commerce.

1.2. Report Objectives and Scope of Analysis

This report aims to assess how Pakistan can turn the “new tariff framework” into a real opportunity, despite its key long-standing challenges. These challenges are: a) high business costs, b) energy syndrome c) lack of export diversification, d) lack of technological upgrading and, e) low value addition. The central focus is on how Pakistan can transform this competitive **tariff (19%) into a genuine competitive edge**, converting the current window into sustained export gains.

1.3. United States Trade in Goods and Services in 2024

The data in **Table 2** highlights the United States’ bilateral trade performance in 2024 compared to 2023, showing a mixed trend across goods and services. **Exports of goods** rose slightly by **1.88%** to **US\$ 2,083.8 billion**, while **imports of goods** increased at a faster pace of **6.01%** to **US\$ 3,295.6 billion**, leading to a **13.9% widening of the goods trade deficit** to **US\$ 1,211.8 billion**. On the services side, both **exports** and **imports** experienced healthy growth of **7.90%** and **8.84%**, respectively, resulting in a **services surplus of US\$ 293.4 billion**, up **5.38%** from 2023. Overall, the **total trade deficit expanded by 17%** to **US\$ 918.4 billion**, primarily driven by the faster rise in goods imports relative to exports, despite improvements in services trade.

Table 2: United States Bilateral Trade (US\$ Billions)

Description	2024	2023	% change
Exports of Goods	US\$ 2,083.8	US\$ 2,045.2	1.88%
Imports of Goods	US\$ 3,295.6	US\$ 3,108.5	6.01%
Deficit in Goods	(US\$ 1,211.8)	(US\$ 1,063.3)	13.9%
Exports of Services	US\$ 1,107.8	US\$ 1,026.6	7.90%
Imports of Services	US\$ 814.4	US\$ 748.2	8.84%
Surplus in Services	US\$ 293.4	US\$278.4	5.38%
Total Deficit	(US\$ 918.4)	(US\$ 784.9)	17.00%

Source: US Bureau

1.4. United States Intended Objectives behind Tariff Policy

To comprehensively understand President Trump's tariff policy plan, one should account for the following fundamentals of the U.S. economy:

- World’s Largest Importer:** The **United States** imports US\$ 4.1 trillion worth of goods and services annually (2024) from nearly all United Nations (UN) member countries (195)
- 2nd Largest Exporter:** The **United States** is the second largest exporter after China. Its exports of goods and services amount to **US\$ 3.2 trillion** annually (2024), reaching nearly all countries.
- Largest Trade Deficit:** The **United States** has the largest trade deficit of **US\$ 918 billion** globally.
- National Debt:** As of **August 2025**, the U.S. national debt **had ballooned to US\$37 trillion**, far surpassing its **GDP of US\$29 trillion**.

There are 195 member states in the United Nations around the globe, all of which engage in the export of goods to the United States, who keep endeavoring to enhance their exports to the U.S., which manifests that every nation has robust economic stakes with the U.S. This situation illustrates the significant purchasing power possessed by the U.S., a potential leverage that was overlooked in the past as a means of exerting influence to achieve geopolitical goals. However, President Trump has wielded this purchasing power more overtly. The Trump administration implemented tariffs as a key tool of statecraft, employing them not just as trade mechanisms but as a flexible instrument to pursue broader national and strategic aims to achieve following goals.

- a) **To Reduce Trade Deficit:** The United States has maneuvered **reciprocal tariffs** on its trading partners to enhance its exports of goods and services to reduce its trade deficit.
- b) **Contraction of Domestic Demand:** As a result of increased tariffs, the prices of imported products will increase in the US reducing consumer demand resulting in reduced imports.
- c) **To Revive Local Industrialization:** The imposition of increased tariffs will raise the cost of imported goods in the U.S, creating room for the revival of the local industry.
- d) **To Increase Revenue Income:** Increasing tariffs will generate additional revenue for the United States. This newfound income will bolster the federal government, enabling targeted assistance for domestic industries, particularly small and medium-sized enterprises (SMEs), through a range of incentives, subsidies, and capacity-building programs.
- e) **U.S - China Trade War:** In 2024, the U.S. exported goods to China worth **US\$ 143 billion** against imports of **US\$ 462 billion**, thus the U.S. suffered with a trade deficit of **US\$ 319 billion with China**. With the new tariff concept the U.S. tries to reduce its trade deficit by imposing a **57.6%** tariff on Chinese products against the previous **18.8%**. Hypothetically if the United States succeeds and effectively eliminates its annual trade deficit of goods worth **US\$ 1,211.8 billion**, it will have a direct and indirect hit on China's exports to the U.S., as well as to other nations. In essence, **twelve nations (see Table 1) represent 97.26%** of the U.S. trade deficit. As a result, the U.S. could implement stringent tariff modifications on these nations to mitigate its trade deficit and advance its geopolitical objectives.

Table 1: United States Trade Deficit with Multiple Countries (US\$ Billions)

S. No.	Description	2024	Reciprocal Tariff (%)
1	China	US\$ 319	57.6%
2	Mexico	US\$ 175.9	25%
3	Vietnam	US\$ 129.3	20%
4	Japan	US\$ 89.9	15%
5	Colombia	US\$ 87.2	10%
6	Singapore	US\$ 76.4	10%
7	Canada	US\$ 73.66	35%
8	Germany	US\$ 69.9	15%
9	Spain	US\$ 48.29	15%
10	India	US\$ 45.93	(25 + 25) 50%
11	Hong Kong	US\$ 39.09	30%

12	Belgium	US\$ 26.1	15%
Total of above Countries		(US\$ 1,178.67)	
Other Countries		US\$ 33.13	
Total Deficit in Goods		(US\$ 1,211.8)	

It is foreseen that nations which take proactive steps to lower the United States' trade deficit by increasing their imports from the U.S. and aligning with Washington's geopolitical strategies can expect to receive preferential access to the American market. This collaboration serves to protect them from harsh tariff penalties while also enabling them to boost their export levels in a challenging landscape where other countries encounter higher trade restrictions i.e. India (25% +25% tariff).

To sum up, nations that successfully cooperate with the U.S. agenda not only safeguard their exports to America but also attract long-term capital investments from U.S and allies, thereby boosting their industrial capacities and fortifying overall economic stability.

1.5. Pakistan-US Trade and Tariff Landscape

According to the **State Bank of Pakistan (SBP)**, Pakistan's Exports to the United States crossed the **\$6 billion mark in FY2024-25** compared to the **US\$5.44 billion in FY2023-24**, and posted a double digit growth in exports which grew by **11%** on a year-on-year basis. Whereas, during the same period, Pakistan's imports grew by **25%** on-a-year-on-years basis which stood at **US\$2.35 billion in FY2024-25** compared to the **US\$1.87 billion in FY2023-24**. This resulted in a trade surplus in favor of Pakistan which stood at **US\$3.67 billion in FY2024-25** compared to the trade surplus of US\$3.56 billion in FY2023-24. This trade surplus appreciated by 3% on a year-on-year basis. The United States is Pakistan's biggest export market, accounting for about 19% of the country's total exports worth US\$32 billion recorded in FY2024-25. Textiles and apparel make up the bulk of these shipments. In the context of the new U.S. trade policy, existence of this persistent trade deficit with Pakistan is the primary rationale behind the US reciprocal tariff framework.

Table 3: Pakistan - United States Bilateral Trade (US\$ 000)

Description	FY2024-25	% Share in Total Exports	FY2023-24	% Share in Total Exports	% change
Pakistan's Exports to United States	6,028,193	19%	5,444,197	18%	11%
Pakistan's Imports from United States	2,350,855	4%	1,875,783	3.41%	25%
Trade Surplus	3,677,338	-	3,568,414	-	3%

Pakistan's export profile in **FY2024-25** is highly concentrated in textile and apparel products, with bed and table linen leading at **US\$1.059 billion (3.3% share of total exports)**, followed by **men's or boys' suits at US\$922 million (2.9%)**, and other textile-related items such as hosiery, sweaters, and made-up articles collectively contributing a sizable share. This reflects the country's continued reliance on its traditional textile base. In contrast, imports are more diversified, with **cotton (US\$838 million, 1.5%)** and **ferrous**

waste and scrap (US\$269 million, 0.5%) among the largest, while other notable items include **soybeans, coal, worn clothing,** and **various chemicals**, each accounting for less than **0.2% individually**. The data suggests that Pakistan imports essential raw materials to support its textile sector while also bringing in industrial inputs such as hydrocarbons and chemical pulp. Overall, the export basket remains narrow and textile-dependent, whereas imports are spread across multiple sectors but still indicate reliance on raw and intermediate goods to sustain domestic production. This underscores the need for Pakistan to diversify exports beyond textiles while reducing dependency on imported raw materials through local value addition.

Table 4: Pakistan Top 10 Exports and Imports Items to United States

Description	FY2024-25	% Share in Total Exports	Description	FY2024-25	% Share in Total Imports
Exports (US\$ 000)			Imports (US\$000)		
Bed and Table Linen, Toilet and Kitchen Linen	1,059,058	3.3%	Cotton, Not Carded Or Combed	838,244	1.5%
Men's or Boys' Suits, Ensembles etc, Not Knitted etc.	922,457	2.9%	Ferrous Waste and Scrap	269,808	0.5%
Made-Up Articles of Textile Materials NES	385,273	1.2%	Soya beans, Whether or Not Broken	96,982	0.2%
T-Shirts, Singlets and other Vests Kn/Cr	364,523	1.1%	Coal, Briquettes and Ovoid etc. Manufactures of Coal	76,059	0.1%
Panty hose, Socks and other Hosiery Kn/Cr	281,312	0.9%	Special Transaction NES	66,639	0.1%
Sweaters, Pullovers, Vests etc. Kn/Cr	230,380	0.9%	Oil from Petrol and Bituminous Minerals etc.	62,685	0.1%
Gents, Suits, Ensembles, Jackets etc. Kn/Cr	222,508	0.7%	Maize (Corn)	43,420	0.1%
Gents Shirts, Knitted or Crocheted	179,093	0.7%	Worn Clothing and other Worn Textile Articles	41,400	0.1%
Mattress Supports, Articles of Bedding etc	175,948	0.6%	Chemical Wood pulp, Soda or Sulfate, Not Dissolving Grades	35,169	0.1%
Articles of Apparel and Accessories of Leather	175,948	0.5%	Acyclic Hydrocarbons	29,850	0.1%

Source: SBP

1.6. Pak-US Trade Deal and the New 19% Tariff

After exhasutive tough trade negotiations, Pakistan secured a “breakthrough” with the United States as Washington agreed to cut its proposed reciprocal tariff on Pakistani exports from 29% to the revised 19%. This is viewed as a diplomatic win for Pakistan, especially since the tariff imposed on India was set higher, at 25% (plus an 25% additional penal tariff on account of Indian imports of crude oil from Russia). The deal goes beyond tariffs. In return, Pakistan has agreed to withdraw its 5% digital services tax, making it easier for US digital companies to operate in the country. The breakthrough came shortly after US President Donald Trump announced on social media that Washington and Islamabad had reached an understanding to **jointly develop Pakistan’s oil reserves**. He added that an **American oil company** would soon be **chosen to lead the venture**, a move that could allow **Pakistan to sell crude to new markets**.

Following the landmark trade deal, Reuters reported, “Pakistan’s largest refinery, **Cnergyico**, (formerly Byco Petroleum Pakistan Limited) is set to import **1 million barrels of Crude** from the United States in October 2025. This would be the country’s first-ever purchase of U.S. crude. This is a major development, but it is to be seen whether importing crude oil from the United States is commercially viable? The deal is expected to open the way for Pakistan to increasingly import cotton, soybean, and edible oils from the United States.

2. Comparative Analysis: Pakistan vs. Regional Competitors

2.1. U.S. Reciprocal Tariffs on Key Regional Trading Partners

To understand the full context of Pakistan’s new trade position, it is essential to compare its tariff rate with those of its key regional competitors. The new reciprocal tariff framework has resulted in a wide range of rates across South and Southeast Asia, directly influencing the competitive landscape.

Table 5: Tariff on Pakistan and Regional Competitors

S.No.	Countries	Reciprocal Tariff, adjusted
1	Pakistan	19%
2	India	(25+25) 50%
3	Bangladesh	20%
4	Vietnam	20%
5	Cambodia	19%
6	Thailand	19%

**A 25% tariff on Indian exports to the US came into effect on 7th August, 2025. The US President has raised the tariff to 50% as punishment for buying Russian oil effective from 27th August, 2025.*

The revised **19% tariff gives Pakistan a competitive edge** over its regional rivals. It stands slightly lower than the **20% applied to Bangladesh and Vietnam**, and favorable compared to **India’s steep 50%**. This marks the highest tariff level in South Asia and is expected to hit Indian exports to the United States hard. For Pakistan, however, the U.S. decision to raise Indian tariffs to 50% has opened up a welcome window of opportunity. It gives Pakistan’s strong and competitive sectors—especially textiles and apparel—a chance to expand their market share, strengthen trade ties, and deepen their footprint in the U.S. market.

2.2. Pakistan’s Exports Trends vis - a - vis Regional Countries

The data highlights significant disparities between Pakistan’s exports to the USA and those of its regional competitors. In 2024, Pakistan exported goods worth **US\$ 5.61 billion to the USA**, representing **17.29% of its total global exports of US\$ 32.46 billion**. In contrast, India **exported US\$ 80.78 billion to the USA** (18.28% of its US\$ 441.70 billion global exports), while **Bangladesh shipped US\$ 8.78 billion** (14.83% of US\$ 59.20 billion), **Cambodia US\$ 9.93 billion** (37.24% of US\$ 26.66 billion), and **Vietnam an impressive US\$ 142.47 billion** (27.40% of US\$ 519.82 billion). This indicates that while Pakistan’s share of exports to the USA is comparable to some peers percentage-wise, its overall export base is significantly smaller, reflecting the need to diversify and expand its global trade footprint to remain competitive in the region.

The 50% tariff imposed by President Trump on Indian goods opens a significant opportunity for regional countries—Pakistan, Vietnam, Bangladesh, and Cambodia—to capture export orders that could be redirected from India, potentially worth US\$11.67 billion. This primarily concerns products that India currently exports to the US, offering neighboring countries a chance to strengthen and expand their

presence in the American market.

In 2024, India's exports to the U.S. included US\$ 8.13 billion in textiles, US\$ 748 million in leather goods, US\$ 1.15 billion in furniture and bedding items, and US\$ 1.64 billion in plastics and related articles, reflecting a diverse export portfolio across multiple sectors.

Table 6: Tariff on Pakistan and Regional Competitors (US\$ 000) - 2024 (Trademap)

HS Code	Description	Pakistan	India	Bangladesh	Cambodia	Vietnam
61	Articles of Apparel and Clothing accessories, knitted ...	1,615,595	2,589,925	2,627,014	2,294,842	8,520,743
63	Other made-up textile articles ...	1,578,855	2,949,003	190,221	94,021	486,038
62	Articles of Apparel and Clothing accessories, not knitted	1,143,141	2,591,468	4,777,397	875,897	6,805,173
52	Cotton	177,282	104,264	170	0	6,338
42	Articles of leather; saddlery and harness ...	171,082	748,089	107,961	1,490,585	1,527,588
94	Furniture; bedding, mattresses, mattress supports, cushioning, ...	155,544	1,154,246	22,780	1,089,691	15,000,554
39	Plastics and articles thereof, ...	127,779	1,640,486	24,392	312,083	3,672,644
90	Optical, photographic, cinematographic measuring, ...	110,802	889,537	36,965	11,583	1,614,301
Others		534,543	68,114,997	994,020	3,775,040	104,848,608
Total Exports to USA		5,614,623	80,782,015	8,780,920	9,932,159	142,475,987
% Share in Total Exports		17.29%	18.28%	14.83%	37.24%	27.40%
Total Exports to World		32,460,566	441,700,612	59,200,238	26,664,502	519,819,855

2.3. Turning a Rare Opportunity into Deeper Pak-US Partnership and Export Growth

Pakistan's biggest challenge now is to convert "hard-earned gains" into sustainable economic growth. This will require unwavering commitment from policymakers at both the federal and provincial levels, not just in announcing reforms, but in **implementing** them **consistently and transparently**. Such dedication would send a **clear signal** that Pakistan is serious about creating a stable, predictable policy environment.

The revised 19% tariff offers Pakistan a rare chance to regain ground against regional competitors that have long dominated and challenged its exporters. With rates slightly lower than Bangladesh and Vietnam at 20%, and well below India's steep 25%, Pakistan now holds a meaningful edge. This tariff differential could be a game-changer for Pakistan to capture **greater market share** in the US market at a time when its regional competitors are facing higher trade barriers.

3. Strategic and Non-Tariff Barriers to Pakistan's Export Growth

3.1. U.S. Non-Tariff Barriers and Customs Regulations

The 2025 Trade Policy Agenda and the 2024 Annual Report on the U.S. Trade Agreements Program shed light on In US bilateral engagement with Pakistan centered on **improving market access for both agricultural and non-agricultural goods and services**, addressing **regulatory issues** related to **digital content**, and **removing technical barriers** to trade. U.S. The Trade Representative worked on finalizing **beef access to the Pakistani market**, **reopening the market for U.S. soybeans**, tackling **concerns around intellectual property rights and enforcement**, and **identifying new areas of cooperation**—including **labor rights, sound regulatory practices, and the digital economy**.

Beyond the headline reciprocal tariff rates, Pakistani exporters face a range of non-tariff barriers and complex U.S. customs regulations. A key barrier is the U.S. de minimis exemption, which allows for duty-free entry of goods valued at \$800 or less. The **de minimis rule** is a trade regulation that allows goods below a certain value to enter a country duty-free with minimal paperwork. In the United States, this threshold was set at **\$800**, a policy that fueled the growth of e-commerce, supported small businesses, and lowered the cost of international shipping. For Pakistani exporters, this created a major advantage, shipments to the US moved faster, at lower cost, and with fewer customs hurdles, making it easier to reach American buyers.

The de-minimis thresholds have undergone a remarkable shift over time, rising gradually from just **US\$1 in 1938–1977** to **US\$800 by 2015–2024**, significantly easing low-value imports and reducing customs administrative burden. However, the sudden reduction to **US\$0 in 2025** marks a sharp policy reversal, effectively eliminating the concession and subjecting all imports, regardless of value, to customs duties and procedures. This move could increase revenue collection but risks discouraging small-value trade, raising compliance costs, and creating inefficiencies for businesses dependent on low-value international shipments. Under **Section 321 of the US Tariff Act of 1930**, the secretary of the Treasury has the discretion to waive certain duties, fees, and other taxes on certain low-value imports.

Table 7: Concession Thresholds under De-Minimis (Section 321)

Timeperiod	1938-1977	1978-1992	1993-2014	2015-2024	2025
De-Minimis Threshold	US\$ 1	US\$ 5	US\$ 200	US\$ 800	US\$ 0

The most notable change was the elimination of the \$800 duty-free threshold for imports from **China and Hong Kong**, targeting their dominance in low-value shipments. Effective from 29th August 2025, imported goods from all countries that are valued at or below \$800 will no longer be eligible for de minimis treatment and will be subject to all applicable duties, taxes and fees. However, the reform also comes with **broader system-wide changes** that affect all exporting countries, including Pakistan. As US customs modernizes its processes, **every shipment regardless of value—must now be formally declared and can**

be subject to duties and tariffs. For Pakistani exporters, this marks a significant shift. Even small parcels sent through air freight, FedEx, or DHL are no longer automatically exempt from U.S. import duties. This creates three major challenges:

- a) **Higher Costs** – Shipping to the U.S. is now more expensive, as duties apply to all consignments.
- b) **Tighter Compliance** – Exporters must provide flawless documentation for every parcel, increasing administrative pressure.
- c) **SME Disadvantage** – Small and medium-sized businesses, which previously relied on low-cost access to the U.S. market, may struggle the most since they lack the resources to manage higher compliance and cost burdens.

Goods covered under 50 U.S.C 1702(b) – donations and informational materials will be eligible for duty free treatment as per U.S Customs and Borders Protection (updated 18th August 2025).

3.2. Pakistan's Domestic Structural Impediments

The most critical finding of this report is that Pakistan's ability to leverage its new tariff advantage is severely limited by a range of deep-seated domestic structural issues. The benefits of a few percentage points of tariff reduction are effectively nullified by internal costs and inefficiencies that are far more significant. Pakistan stands at a critical juncture where urgent action is needed to make its textile and industrial sectors more competitive. The **biggest hurdle for exporters is the rising cost of doing business**. The **excessive taxation, skyrocketing energy prices, and high interest rates** are the main barriers eroding their global competitiveness.

Pakistan's economy faces a dual disadvantage compared to its regional peers, as it bears the **highest policy rate (11%)** and **most expensive electricity cost (\$0.16/kWh)**, making both borrowing and production far costlier than in India, Bangladesh, Vietnam, and Cambodia. While competitors like Vietnam and India enjoy **cheaper credit (4.5% and 5.5%)** and **lower energy rates (\$0.08/kWh)**, Pakistan's industries are squeezed on both fronts, undermining competitiveness and discouraging investment. Unless Pakistan reduces energy tariffs and aligns interest rates closer to regional averages, its industries will remain at a severe disadvantage in the global marketplace. This single cost disadvantage deteriorates any benefit Pakistan might gain from tariff concessions.

Table 8: Comparison of Pakistan's Policy Rate and Electricity Costs with Regional Countries

S.No.	Countries	Policy Rate	Power Tariff (US\$ kWh)
1	Pakistan	11%	0.16
2	India	5.5%	0.08
3	Bangladesh	10%	0.10
4	Vietnam	4.50%	0.08
5	Cambodia	3%	0.13

4. Pakistan's Policy Response and Strategic Recommendations

The new U.S. tariff framework is a pivotal moment for Pakistan's trade policy. The 19% rate is both a diplomatic breakthrough and a commercial opportunity, giving Pakistan an edge over its regional competitors. Yet this advantage is fragile. Unless the country confronts its core problems—high energy costs, bureaucratic red tape, and a narrow export base—the gains will be short-lived. Pakistan must seize this window to push through the changes needed to create a resilient, diversified, and globally competitive export sector.

4.1. Correct Internal Cost of Doing Business to Exploit US\$ 11.63 Billion Opportunity

The 50% tariff on Indian goods presents a significant opportunity, potentially redirecting export orders worth US\$ 80 billion to countries like Pakistan, Bangladesh, Vietnam, and Cambodia. However, Pakistan has the potential to attract orders worth **US\$11.67 billion** as a result of a 50% tariff on India. To seize this chance, Pakistan must urgently tackle its high cost of doing business—especially energy and financing costs—to attract the largest possible share of these orders in sectors such as textiles, leather, furniture, and plastics. With focused and concrete efforts, Pakistan could **realistically capture US\$2–3 billion** of this opportunity.

4.2. Turning a Rare Opportunity into Deeper Pak-US Partnership and Export Growth

Pakistan's foremost challenge today is turning its **“hard-earned gains”** into **lasting economic growth**. Achieving this demands steadfast commitment from policymakers at both the federal and provincial levels—not merely in announcing reforms, but in executing them consistently, transparently, and with accountability. Such determined action would signal to investors and businesses alike that Pakistan is serious about fostering a stable, predictable, and growth-friendly policy environment.

4.3. A 10-Year Industrial Vision: Diversification, Innovation, and U.S. Market Integration

Pakistan must develop a long-term, **10-year industrial policy** aimed at **diversifying its industries, adopting new technologies, and promoting private sector-led growth**. This vision cannot be pursued in isolation; it should be aligned with the broader framework of Pak-US trade relations, with the United States continuing as Pakistan's largest export market. Any forward-looking strategy should emphasize mutual benefits while thoughtfully addressing the concerns of both sides, laying the foundation for a stronger, more balanced economic partnership.

4.4. Implement Critical Reforms

Reforms in taxation, energy tariffs, infrastructure, and ease of doing business are essential to sustain momentum, while close engagement with stakeholders—including the FPCCI, as the apex body—is crucial to building consensus. Restoring the **Regionally Competitive Energy Tariff (RCET)** and implementing the **Export Facilitation Scheme (EFS) in its true spirit** can provide the enabling environment that exporters and industries urgently need.

4.5. Strategic Trade Policy Framework must focus on actionable strategies.

In the **Strategic Trade Policy Framework (STPF)** 2025–30, diversification must move beyond rhetoric and translate into actionable strategies. Market expansion—long a missed goal in earlier policies -- requires concrete steps to enter new regions of Middle East & North Africa (MENA), Central Asian States, ASEAN and South America. Achieving this will demand stronger trade facilitation, better policy alignment, and enhanced capacity within trade missions abroad.

4.6. Strategic Export Diversification

Pakistan's over-reliance on the textile sector makes its economy vulnerable to market shocks and trade policy shifts. A significant portion of resources must be reallocated to promote exports in high-value, non-traditional sectors.

- a) **IT and Services:** Given the global shift towards a service-based economy and the US trade deal's focus on digital services, targeted investments in digital infrastructure, specialized training, and incentives are crucial to growing this sector.
- b) **Engineering Goods:** Efforts should be made to improve quality standards and expand the skilled labor pool in this sector, as identified in the National Priority Sectors Export Strategy.
- c) **Agricultural Goods:** While the focus on oil and minerals has captured headlines, real opportunities exist in high-value agriculture.

4.7. Leveraging the Tariff Advantage

The Finance Ministry has urged exporters to act quickly, using the tariff edge to push into non-traditional sectors alongside textiles. By targeting U.S. buyers and key product lines where Pakistan has an advantage, this diplomatic win can be turned into lasting trade gains and further concessions.

4.8. Pakistan continues to trail in Logistics Performance Index, modernization ports infrastructure critical

The World Bank's Logistics Performance Index (LPI) measures how efficiently countries manage logistics and supply chains. Pakistan continues to trail its regional competitors, as it stands at 122 out of 160 countries in 2018, particularly in customs efficiency, tracking and tracing, and timeliness. To close this gap, it is essential to modernize ports, dry ports, and border crossings to cut delays and costs, while also developing specialized export zones with integrated logistics, warehousing, and customs clearance. Strengthening cold chain infrastructure for perishable exports such as fruits, vegetables, and seafood is equally critical to meet global standards.