Pakistan and the Trump Tariff Increase

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- The era of open trade is ending. Countries with large home markets, strong trade fundamentals, and/or significant diplomatic capital may be able to take advantage of the opportunities that the Trump administration's tariff increases present. However, Pakistan has historically struggled in such scenarios. Without urgent and strategically coherent policy actions, this moment could become more risk than opportunity for the Pakistani economy.

- Our estimates suggest that Pakistan's export loss will amount to approximately USD 564 million in FY 2025-26 under the new US tariffs—potentially increasing to over USD 2 billion over time in the worst-case scenario. This would negatively impact the current account deficit, undermining recent progress and compounding the country's fragile economic growth outlook.

- The textile sector—the backbone of Pakistani exports—is most at risk. As the largest export market for Pakistani textiles, the US may continue to offer opportunities as exporters from competing countries (such as Sri Lanka, Bangladesh, Vietnam and Cambodia) face even steeper tariffs. However, US consumers are price-sensitive: a 29% rise in export prices will slash demand by at least 13% by 2025-26.

- Pakistan's imports from the US are small in magnitude and generate limited tariff revenue—only USD 85 million in FY 2023–2024. While Pakistan imposes some sector-specific duties, US exporters generally do not face any exceptional barriers to entry. For American policymakers, tariff tweaks alone won't meaningfully increase exports to Pakistan.

Trump's Liberation Day Tariffs

In a ceremony he anointed as "Liberation Day", President Donald Trump announced a new tariff regime for exports destined for the United States. A wide array of countries that compete with Pakistan for US imports now face significantly high tariffs as a result, including Vietnam (46%), Cambodia (49%), Bangladesh (37%), Sri Lanka (44%), China (34%), Thailand (36%), and Taiwan (32%). The new tariff regime will impose an average tariff rate of 29% on Pakistani exports to the US.

The Trump administration's actions are consistent with the president's campaign promises as he seeks to reshape the US economy—using American strategic, economic and military strength to force the adoption of new trade terms by US trade partners. The inflationary impact of tariffs or other considerations consistent with neoliberal economic theory are of limited consideration for the Trump administration as it seeks specifically to reduce the quantum of US dependence on external supply chains, and reduce the leverage accumulated by countries that enjoy trade surpluses with the American economy (especially China).

This document is restricted to the analysis of the potential economic implications of the new US tariff regime on Pakistan's economy. It is based on analytics provided by Tabadlab's proprietary 'Datacube' analytics and insights tool.

Snapshot of the US-Pak trade

1. America's share of Pakistan's major imports is very low

The United States plays a limited role in Pakistan's primary import categories. Pakistan's top five import segments generate USD 27 billion in trade and nearly one-third of total tariff revenue. Yet, US imports account for only 1.4% of these, well below the 4% share across all imports

Pakistan imports a mix of goods from the US, ranging from low-cost raw cotton and scrap metal to high-value pharmaceutical products. There is no distinct pattern of competitive advantage, and none of these sectors are particularly heavily protected through tariffs.

Imports of Goods in Pakistan, 2024, USD m	Total Imports	USA Imports	Share of USA in Total Imports
Total	47,367	1,878	4.0%
Top 5 HS Codes	27,023	386	1.4%
Mineral Fuels, Oils and Their Distillation Product	16,115	23	0.1%
Animal or Vegetable Fats, Oils & Cleavage Products	3,487	0	0.0%
Nuclear Reactors, Boilers, Machinery and Appliance	2,549	143	5.6%
Iron and Steel	2,458	190	7.7%
Electrical Machinery & Equipment and Parts thereof	2,414	30	1.2%

Source: DataCube estimate using WITS, FBR and PBS data

2. Pakistan's effective tariff rates to the US are lower than overall average

In 2024, Pakistan collected USD 3.9 billion in tariffs on total imports of USD 47 billion—an effective tariff rate of 8%. In contrast, US imports, totaling USD 1.8 billion, generated only USD 85 million in tariffs, indicating a lower rate of 4%.The US claim of a 58% average tariff rate appears inconsistent with these figures, even when accounting for para-tariffs (such as regulatory duties, sales tax, FED, and income tax collected at source), which are not traditional customs duties.

Imports of Goods in Pakistan, 2024, USD m	USA Imports	Tariff Revenue	Effective tariff rate
Total	1,878	85	4.5%
Top 5 HS Codes	1,159	31	2.6%
Cotton	502	0.0	0.0%
Iron and Steel	190	3.7	2.0%
Oil Seeds and Oleaginous Fruit	161	6.1	3.8%
Other Made-up Textile articles: Sets, Worn Clothing	159	6.2	3.9%
Pharmaceutical Products	147	14.5	9.8%

Source: DataCube estimate using WITS, FBR and PBS data

3. Tariff protection and para-tariffs

Certain sectors benefit from high tariff protection and para-tariffs. For example, vehicles face an effective tariff rate of 76%, one of the highest among import categories.

Pakistan's weak tax collection machinery at a domestic level also forces the government to charge value-added tax (18% in general but as high as 25% in some categories like automobile imports) and income tax at source, especially on consumer items. Similarly, the country extensively uses para-tariffs like regulatory duties to manage consumption of luxury items which are not applied to domestic produce. This may represent an area of weakness in negotiations with the US because other countries may not have similar charges applied to imports at the port. Taken cumulatively, for policy makers, this makes the narrative of fair tariffs a more challenging sell.

4. Pakistan's Non-Tariff Barriers

Non-tariff barriers might emerge as a potential point of friction in US-Pakistan trade relations. Examples include the use of SROs (Statutory Regulatory Orders) to manage specific import items and restrictions on US digital platforms like X (formerly Twitter). These issues have been noted in the Foreign Trade Barrier report published by the US Trade Representative's (USTR) office, and referenced by President Trump.

While the USTR report does not accuse Pakistan of targeted barriers against the US, nor of currency manipulation, it signals areas of concern. To mitigate future tensions, Pakistan must proactively engage with US counterparts and manage these perceptions carefully.

5. Scope for Change in Current and New Sectors

Pakistan already offers American businesses a decent market access in areas such as cotton where there is zero tariff and where the local market offers significant scale such as animal and vegetable fats (USD 3.5 billion in total imports). There is limited scope to offer tariff related benefits in these areas.

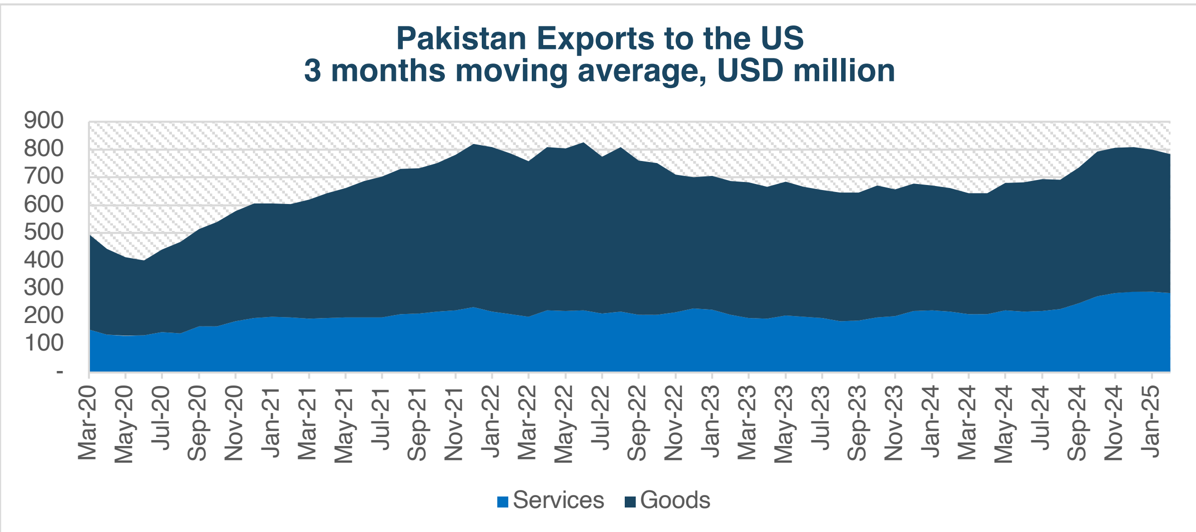
The US is not a significant exporter of goods that Pakistan requires on a regular basis and the US government is looking to change this. Whilst difficult to achieve in the immediate term, Pakistan has strategically offered FTAs to countries like China, Turkey and Sri Lanka and this has significantly improved access of goods of these countries to Pakistani consumers. Some significant sectors in which the US currently exports goods but faces significant tariff protection in Pakistan include: Vehicles (76% tariff on USD 1,234 m imports), Furniture (27% tariff on USD 91m imports) Edible fruits and nuts (22% tariff on 122m imports) and Paper (19% tariff on 408m imports). Any change on this front would require Pakistan government to change its sector policy.

In the near term, Pakistan has more flexibility to expand access for US firms in the services sector—particularly in digital payments. With a growing market estimated at USD 35 billion, this space remains largely untapped by US players. Google has recently entered the Pakistan market through the launch of Google Pay in Pakistan, marking a potential shift in the landscape—other similar entries, facilitated by enabling public policy, may be seen favorably by US negotiators.

6. Favorable Terms of Trade with the US

Pakistan enjoys favorable trade terms with the US, generating nearly USD 400 million per month in current account surplus, alongside an average of USD 300 million a month in remittances.

In recent months, Pakistan has exported nearly USD 500 million per month in goods and over USD 250 million in services to the US. Whilst significant for Pakistan, they amount to just 0.16% of the overall annual USD 4 trillion US imports.



Source: Easydata, SBP

What Trump's Tariffs mean for Pakistan

1. Lifeline of Pakistani textile exports sector

While tariffs will impact all sectors, textiles account for over half of Pakistan's exports to the US, making this sector particularly vulnerable. Initial discussions with exporters indicate that the sector's low profit margins make it difficult to absorb increased costs and US importers are likely to pass these costs onto US consumers. This could lead to a reduction in the volume of textile imports into the US. However, there is no immediate solution to manufacturing these goods domestically in the US. Whether Pakistan will lose or gain market share in the US will largely depend on how the Pakistani government engages with the Trump administration and how other textile-producing countries respond. Rapid and proactive engagement with US authorities, such as what Vietnam's government is doing, are likely to yield the best results.

2. Market Share

Although the proposed tariff increases are unlikely to reduce Pakistan's market share significantly in the short term, the dynamics could shift as other countries renegotiate their trade terms with the US. Competitors such as India, Bangladesh, and Vietnam face similar or higher tariff hikes, potentially keeping Pakistan's share stable—or even allowing it to grow. Nonetheless, given that these competitors operate with larger trade volumes, their negotiations could have a greater impact on US policymaking and market outcomes.

3. Reduced Demand for Imports in the US

In the long run, higher tariffs are likely to reduce demand for all imports into the US, including Pakistani goods. Studies indicate that the price elasticity of US imports is around -0.2 to -0.5 up to a year, and -1.67 in the long term. This means that a 10% tariff increase would lead to a 5% reduction in demand by 2026 and 17% in the medium to long run.

This will affect Pakistan's exports in two key ways.

a) Impact on Exports of Goods: Our internal forecast currently suggest a target of USD 42.5 billion for exports for Pakistan including USD 6.3 billion in US exports of goods. With a 29% increase in tariff for US consumers, we estimate a loss of approximately USD 564 million in the base case and USD 2,166 million in the, unlikely, worst case where we lose market share and domestic demand in the US is increasingly met by local producers. This will erase the recent gains in exports in all the sectors but will particularly impact the textile sector.

b) Impact on Exports of Services: A significant portion of Pakistan's export growth is in services which have increased from an average of USD 200m in 2023 to USD 250m in 2024 and beyond. This sector will not be affected by tariffs per se but may become an avenue of conversation in negotiations.

What Pakistan needs to do next

1. Initiate New Trade Negotiations

- Initiate (or accelerate) negotiations for new bilateral trade agreements—not just with the US, but also with economic blocs like the GCC, ASEAN, and RCEP
- Revisit existing trade agreements, especially those with high risk of producing adverse outcomes such as dumping into the Pakistani market

2. Build Data-Driven Trade Capacity

- Expand and deepen government capacity to collate and analyze key economic data
- Invest in human capital and tools to monitor and respond to shifting trade dynamics globally
- Ensure that decision making for domestic and foreign trade policy is informed by data

3. **Reform the Tariff Regime**
   - Reassess the basis for the existing Pakistani tariff regime, including the risks of using tariffs as a source of foreign currency denominated revenue
   - Eschew the use of para-tariffs, import taxation, and protectionist policies—especially in inefficient sectors
   - Deploy tariffs more strategically, in service of national objectives, rather than allowing tariffs to be used in service of narrow interest groups—such as inefficient and low quality domestic vehicle manufacturers
4. **Enhance Economic Diplomacy**
   - Build a stronger international trade negotiation team with sectoral expertise. Consider the merger of the Commerce and Foreign Service occupational groups of the civil service as a necessary element of developing such expertise
   - Revisit existing silos and dual functions across the federal government, such as the divide between Commerce and Foreign Affairs divisions, or the duality of the Trade Development Authority of Pakistan, and Pakistan Software Export Board
5. **Diversify and Upgrade Export Offerings**
   - Invest in non-substitutable, complex products to gain a competitive edge

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