

US TARIFFS & POSSIBLE RESPONSE

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About PBC

The PBC is a private sector business policy advocacy forum composed of Pakistan's largest businesses / groups including multinationals that have a significant investment in and a long-term commitment to the growth of Pakistan. Members turnover represents every sixth Rupee of Pakistan's GDP and together the members contribute 33% of tax revenues and 40% of exports. More information about the PBC, its members and its activities can be found on our website **www.pbc.org.pk**

The PBC's Founding Objectives

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

PBC Members



The PBC Affiliates



PBC well represented in the PM's Group on US Tariffs

PBC



Presented by

Dr. Zeelaf Munir,
Chairperson

Ehsan Malik,
CEO

PBC Members



Presented by

Mr. Musadaq Zulqarnain



Presented by

Mr. Shahid Soorty

“

Due to PBC's evidence-based and objective advocacy, it was invited to join the PM's Group on US Tariffs, which was formed to evaluate impact and consider possible alternatives to deal with the challenge of high US tariffs. This presentation captures the key aspects that Pakistan needs to factor in its negotiations.

Conceptual Flaws Of Tariffs

01

Dilute the comparative advantage of nations

02

Deter trade by inviting retaliation

03

Suboptimize resource allocation

04

Undermine consumer value – both, cost and quality

05

The 90-day deferral is as much to negotiate as to minimize impact on US markets

06

Current move echoes the Smoot-Hawley Tariff Act of the 1930s that led to the Great Depression

07

Last US trade surplus in goods was 55 years ago!

08

Lead to unsustainable job creation

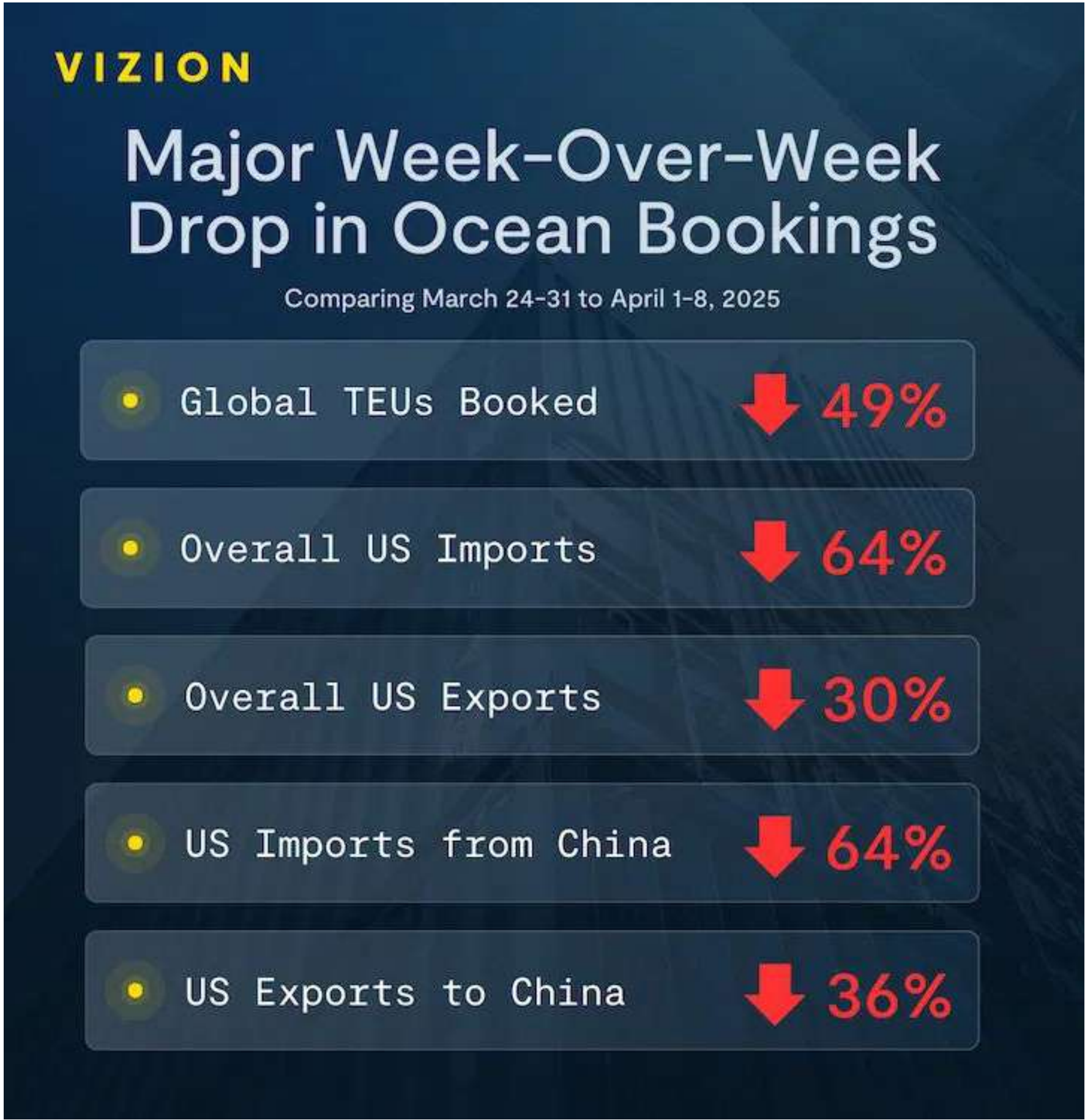
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Tariffs are counter-productive as they attract retaliation. Tariffs also sub-optimize resource allocation and undermine consumer value, by producing goods sub-optimally and therefore, denying local consumers the benefit of cheaper or better items produced by another country. There may be temporary gains in employment in the protected sectors but the impact on jobs in sectors that use the goods produced by the protected sectors is usually negative. A good example is a 1,000 jobs that were created in the steel and aluminum sectors as a result of high tariffs on imports in President Trump's first term, while 10,000 job losses were recorded in sectors like autos that were made to use the more expensive steel.

It is important to remember that the United States experienced its last trade surplus 55 years ago. There are presently echoes of the Smoot Hawley Tariff Act of 1930 which led to the great depression and had to be withdrawn.

The 90-day deferral of tariffs reflects the importance that all US administrations, including the present, give to market sentiment. This time, both the bond and the equity markets slipped in significant ways. It is very rare that both slip at the same time.

Container Movement To/From The U.S.



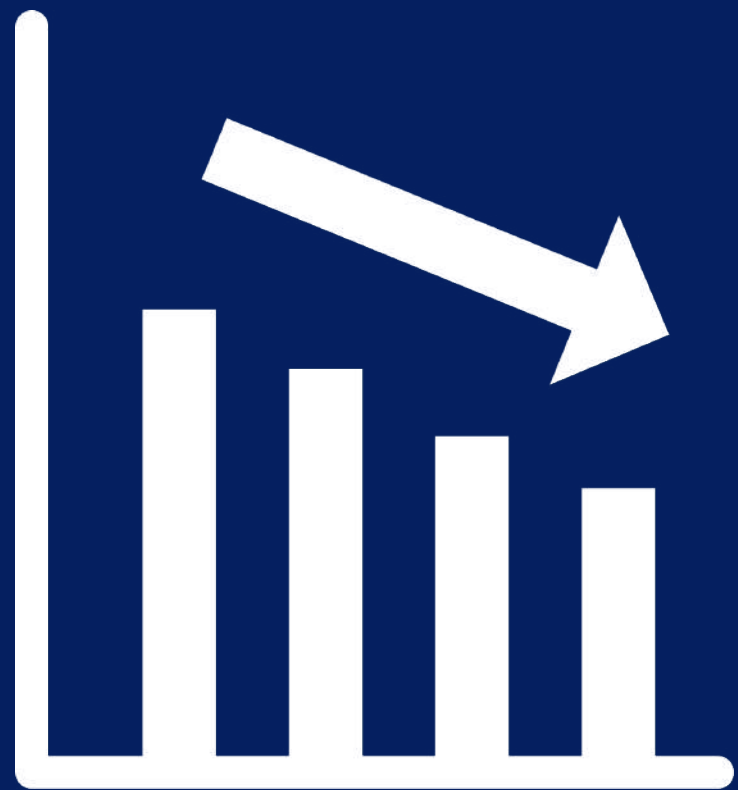
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As expected, the container traffic and the container bookings started slipping from the last week of March, when the likelihood of tariffs became clear. Overall, there was a decline of about 50% in global container bookings.

The containers booked for importing goods into the U.S. were down 64%.

The cutback in booking of containers to and from China was sharper.

Tariffs Are A Tool



**Tariffs are a tool,
the real objective
is to reduce the
US trade deficit**

“

Tariffs are merely a tool; the primary objective of the US Administration is to reduce its trade deficit. Those who think that by just reducing tariffs, some reprieve can be won for market access to the US, need to take non-tariff barriers that the US has been complaining of, into account. Also, by just reducing tariffs, there is no guarantee that US products will become competitive. Even with equal tariffs, US imports to Pakistan may still be uncompetitive compared to China. There is also a cost associated with reducing tariffs.

The U.S. Trade Deficit

US Trade Deficit 2024 \$ 1 Tr
Goods deficit -1.29 Tr - Services surplus +290 Bn

Declining Sectors	Growing Sectors
Manufacturing	Software Development and IT Services
Coal Mining	Healthcare and Telemedicine
Apparel and Leather Manufacturing	Renewable Energy
Printing and Related Support Activities	E-commerce and Online Retail
Motor Vehicle Parts Manufacturing	Artificial Intelligence and Machine Learning Fintech
Magnetic Media Manufacturing and Reproducing	Robotics and Automation
Construction	Online Learning and Education Technology
Real Estate	Professional and Business Services
Farming, Fishing, and Forestry	Leisure and Hospitality



In 2024, USA had a \$1 trillion trade deficit, split into \$1.3 trillion deficit on goods, offset by a \$290 billion surplus on services.

There are many declining sectors of manufacturing, notable ones being coal mining, apparel, leather manufacturing, etc. i.e. all the sectors that are listed on the left-hand side. On the other hand, it has growing sectors, mainly in the services sector, like software, health care, renewable energy, and so on. So, over the years, USA has been transforming from manufacturing to services and any sharp reversal is unrealistic.

History Of US Tariff Protection

1930 Smoot-Hawley Tariff Act

- Had strong support of the agriculture and industrial sectors
- Raised avg. tariff from 13.5% to 20%
- Attracted strong retaliation
- Reduced global trade by 65%
- Led to the Great Depression of the 1930s
- Was replaced 4 years later by the Trade Act which significantly reduced the tariffs

2025 Reciprocal Tariffs

- Without support of US industry or agriculture sectors, nor of economists
- Increases avg. tariff from 10% to 23%
- Attracting strong retaliation by China, EU and Canada
- Most offering reduced tariffs but impact on US trade deficit is not clear
- Inspired by Stephen Miran to counter loss of USA's importance in global trade
- Will temprarily reduce fiscal deficit
- Create friction between China and ROW on trade





“

Over the last couple of centuries, the US has made several attempts to protect its market from imports. The last major episode was in 1930 when it promulgated the Smoot-Hawley Tariff Act, which led to the “great depression”. World trade then declined by over 50%. The Act was repealed after four years.

Whilst the Smoot-Hawley Act was triggered by demand from its agriculture and industrial sectors, the reciprocal tariffs in 2025 do not carry this support, nor of most of its economists and thought leaders. A less well-known economist, Stephen Miran is reportedly the inspiration of this move, though he too believes the measures taken by the Administration are beyond what he had in mind. The tariffs will undoubtedly lead to domestic inflation and have attracted retaliation from China, Canada and the EU. On the other hand, countries like India are indicating willingness to open their markets to preserve access to the US. A consequential danger is the diversion of Chinese products to other markets, displacing market share of others in those markets. Also, of dumping of goods.

US Companies Outshore Manufacturing

US companies outshore manufacturing because US no longer has the skills they require

	China, India, Brazil
	China
	Indonesia and China
	China, India and several European sites

“

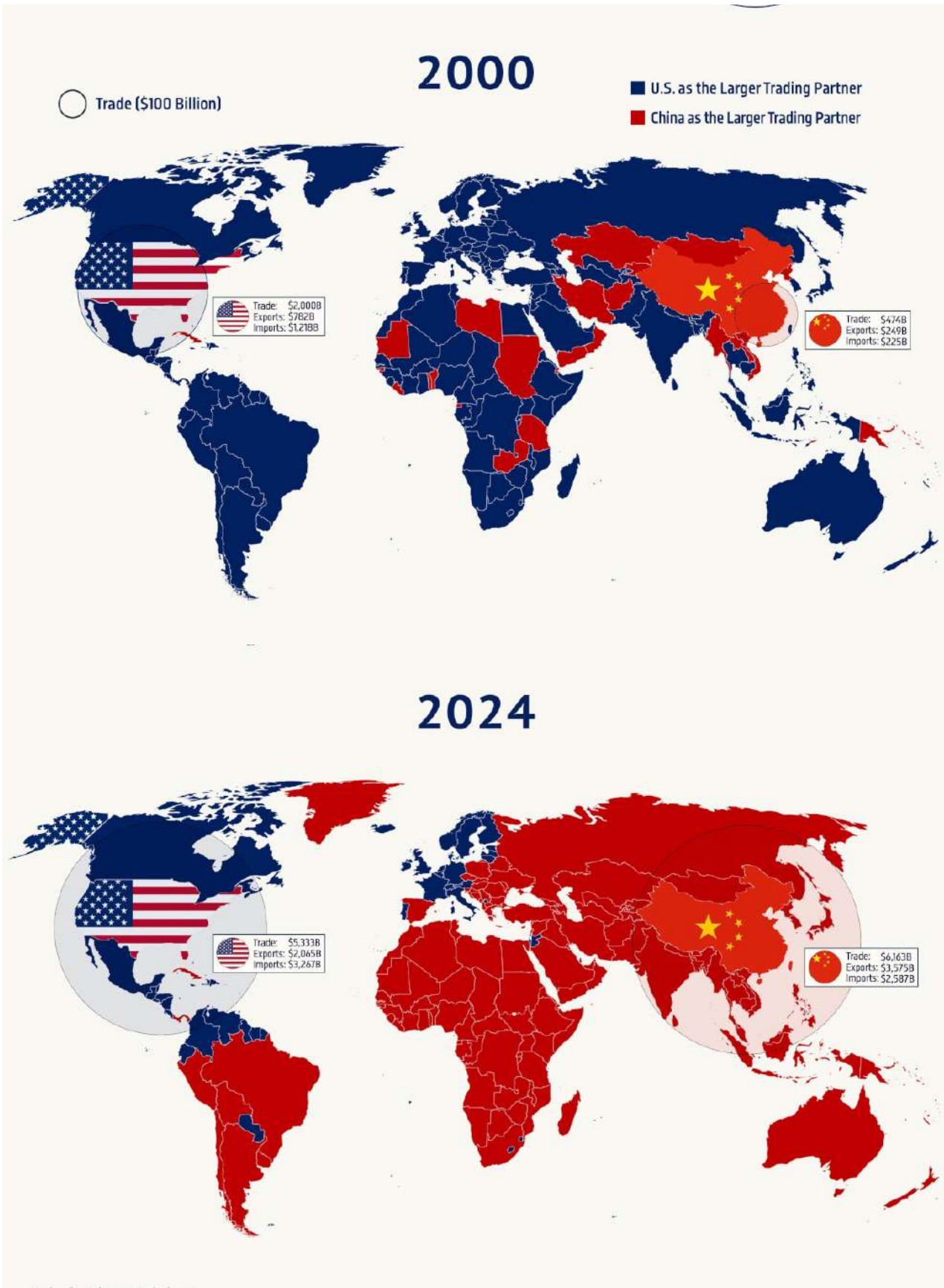
There are several U.S. companies that have now outshored their manufacturing, not just because it is cheaper, but because the US does not have the skills that are required for manufacturing those goods.

The CEO of Apple has attributed the reason for producing Apple products in China to the super-efficient labor, clustered around the Schengen area. Its assembler, Foxcon, also works for Apple in India and Brazil, so it is able to transfer the best practices to those countries. Dell and HP have followed the same rationale for their out-shoring. General Electric produces its turbines etc., in China, India and several other European sites, as well as in the USA. Many other US companies have also offshored their manufacturing. For example, Nike produces 40 percent of its sneakers in Vietnam.

Don't the profits from sale of items produced by US companies outside the US accrue to US companies, and their shareholder? Does it matter where US branded products are made? It does, if the objective is to create jobs in the US. President Trump is trying to induce Apple and others to come onshore and start manufacturing in the US.

Comparison Of The U.S. And China Global Trade

US companies outshore manufacturing because US no longer has the skills they require



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If one goes back to 2000, you see a lot of blue, and that is when the United States was the major trading partner (sum of exports and imports i.e. bilateral trade) of almost the entire world, barring a few countries. For Pakistan too, the U.S. was our largest trading partner.

But fast forward to 2024, you see a lot of red, and this is now China, as the factory of the world, dominating and displacing the blue part (U.S.). This is a phenomenon that is happening worldwide.

Why The U.S. Market Cannot Be Ignored?

US companies outshore manufacturing because US no longer has the skills they require

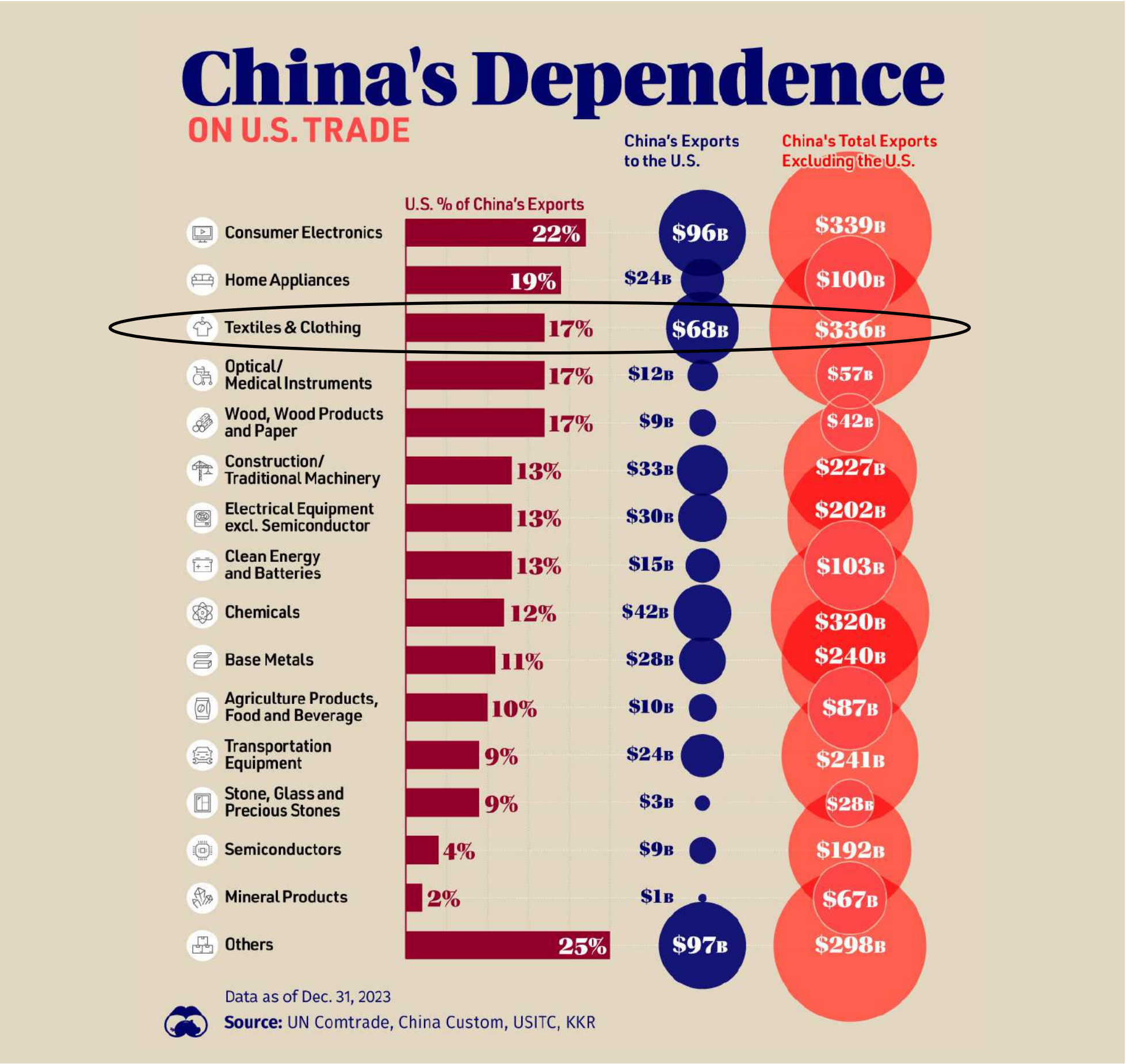
GDP	\$27.7 Trillion	26% of World GDP
Consumption as % of GDP	70% (\$19.4 Trillion)	EU's % is 52%
Population	335 Mn	3rd largest in the world
Size of pop earning >\$100K pa	67 Mn	20% of pop
Size of Middle Class	170 Mn	51% of pop

“

26% of the world's GDP, i.e. \$27.7 trillion, is the size of the U.S GDP. Consumption in the U.S. is 70% of GDP, which amounts to a spend of \$19.4 trillion; the size of EU's GDP is \$20 Trillion and consumption at 51% stands at \$10 Trillion, or about half of US.

The U.S. has the third-largest population in the world, with 335 million people, and of that, 20% or 67 million people earn more than a hundred thousand dollars per annum. The U.S. also has a lot of spending power since 170 million people (51% of its population) are in the middle class. A large middle class drives consumption.

China's Dependence On The U.S.

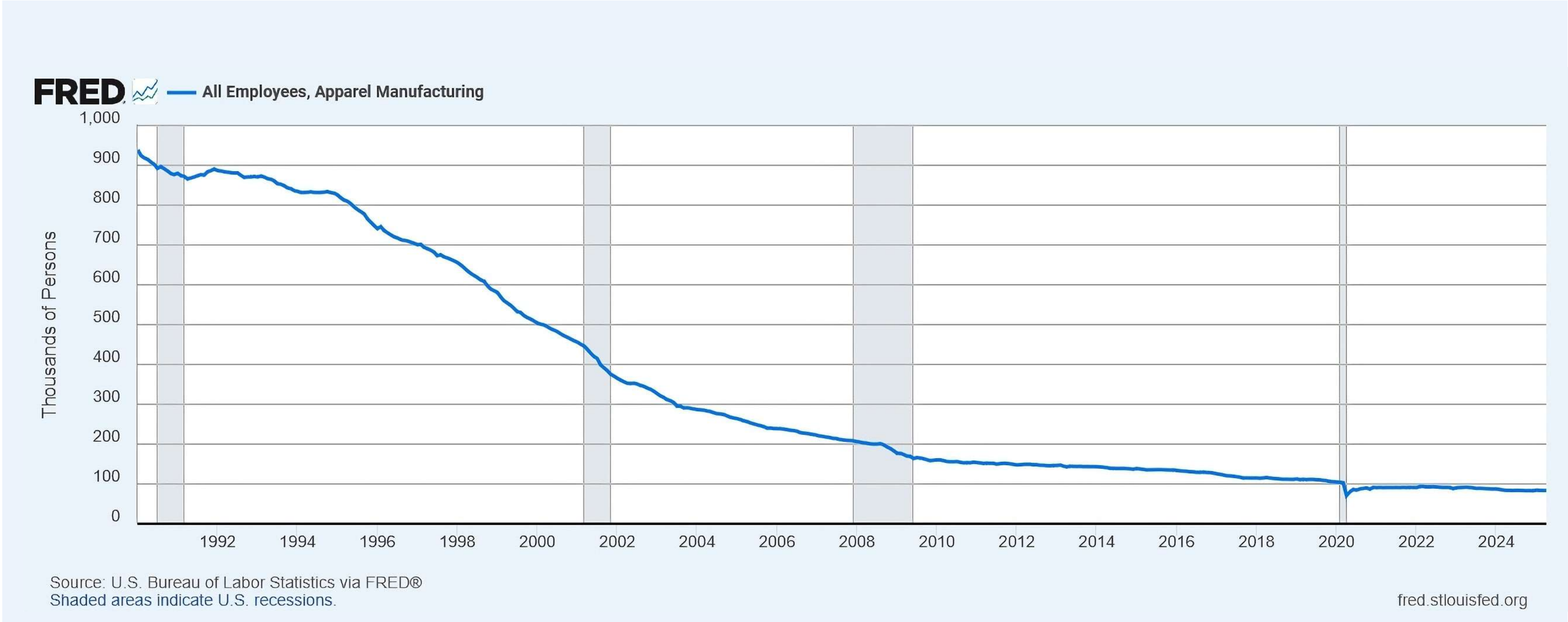


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China is extremely dependent on the U.S for its exports. Out of \$339 billion of consumer electronics that China exports to the world, \$96 billion go to the U.S. That is 28% of its total exports of consumer electronics.

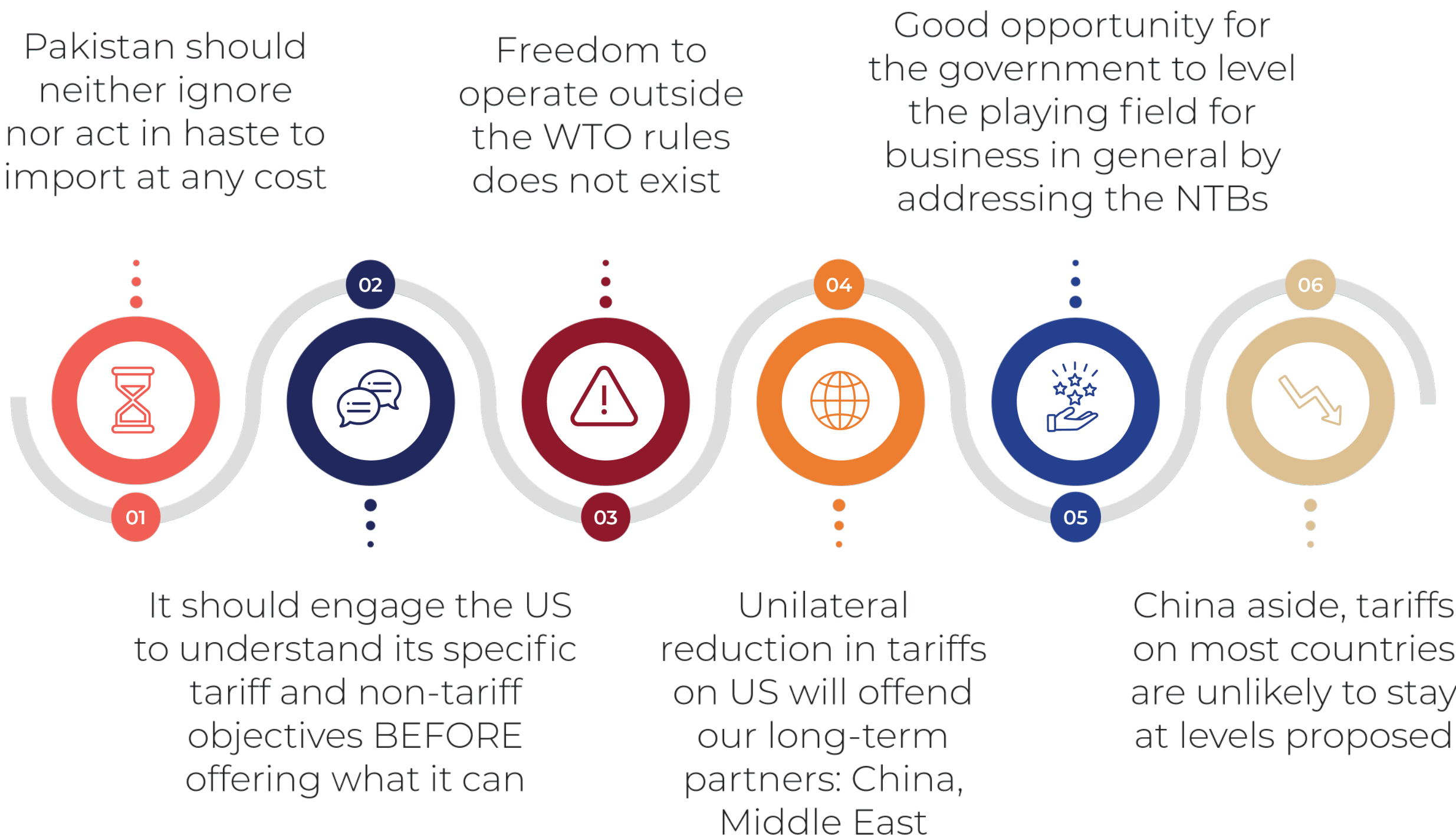
Similarly, China exports \$68 billion of textiles and clothing to the U.S. This is a much broader spectrum of textiles than what Pakistan sells to the US.

Employees In Apparel Manufacturing In The U.S.



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In the early 1990s, almost a million people were engaged in apparel manufacturing in the U.S. Now, there are only 84,000 people left. These are primarily engaged in stitching military clothes because local production is a requirement.

General Considerations For Pakistan



The first observation is that Pakistan can neither ignore nor should act in haste to import at any cost to address its trade deficit. Despite the initial urge of rushing to offer every possible concession, good sense has prevailed.

It is important to understand what is expected of us and this is linked to the size of the US trade deficit with Pakistan. Conceptually, what can we offer either in tariffs or non-tariff barriers, that also makes commercial sense?

Even though the U.S does not pay regard to WTO rules, Pakistan as a recipient of multilateral support, cannot ignore it. Under WTO rules, you cannot unilaterally reduce rates for one Most Favored Nation (MFN) without doing it for all the countries entitled to MFN tariffs. Pakistan can do this bilaterally, meaning through a trade agreement, i.e. agree mutually beneficial tariffs. However, it is not realistic to expect the U.S. to engage in preferential trade negotiations at this stage, when it is negotiating with 60 countries. It takes 2 years to reach a trade agreement.

Additionally, even if we could ignore the WTO rules and reduce tariffs for the US, we would end up offending our long-term partners, who we are also very dependent on for our financing. Countries like China and the Middle East.

Now, having said that, the U.S. is also pointing out significant non-tariff barriers. In doing so, its aim is to create a level playing field for its businesses. These are also barriers to local businesses and the PBC, has been seeking ease of doing business.

How Important Are Pakistan And The Us To Each Other For Trade?

MOST Important for exports

	US \$ Bn 2024	% of Pakistan's Exports or Imports
Pakistan's Exports to the US	5.5	17% (largest)
Pakistan's Imports from the US	2.1	3.8%
Trade Balance with the US	3.4	Largest trade surplus with any country

Less relevant to the US

	%
Pakistan's Exports to the US as % of US imports	0.16%
Pakistan's Imports from the US as % of US Exports	0.1%
US Trade deficit with Pakistan	33rd in order of deficits



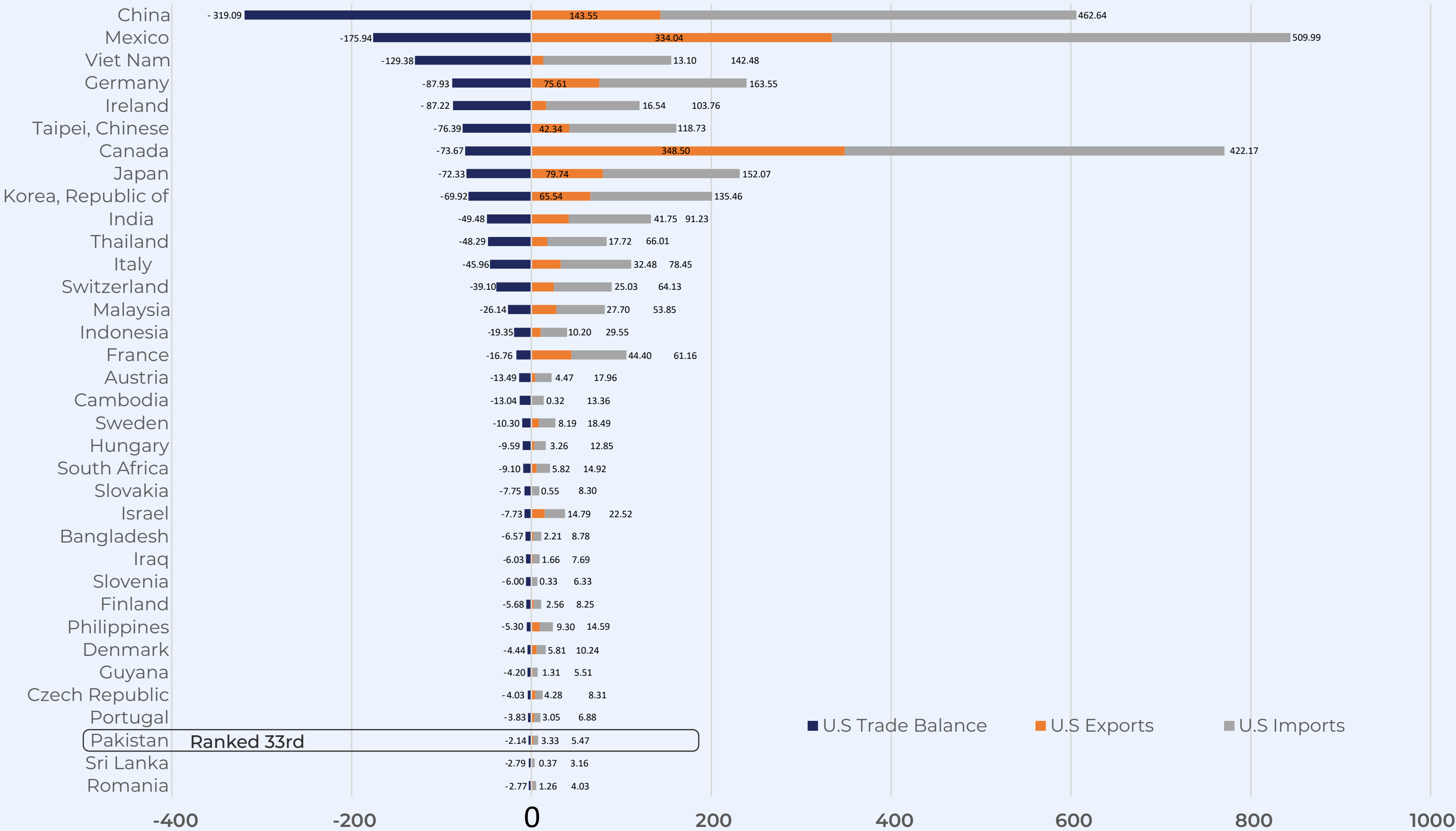
The brief answer is that U.S. is very important to us, but we are less relevant to the U.S.

US is our single largest export destination, and we exported \$5.5 billion in 2024, which means that 17% of our total exports went to the U.S. So, the US is very important market for Pakistan.

Pakistan's exports to the U.S. as a percentage of U.S. imports is only 0.16%. Pakistan's imports from the U.S. as a percentage of US exports is 0.1%.

United States Trade Deficits With Counterparts

Top-10 countries account for 80% of US trade deficit.
Pakistan ranks 33rd in size of US Trade Deficit.

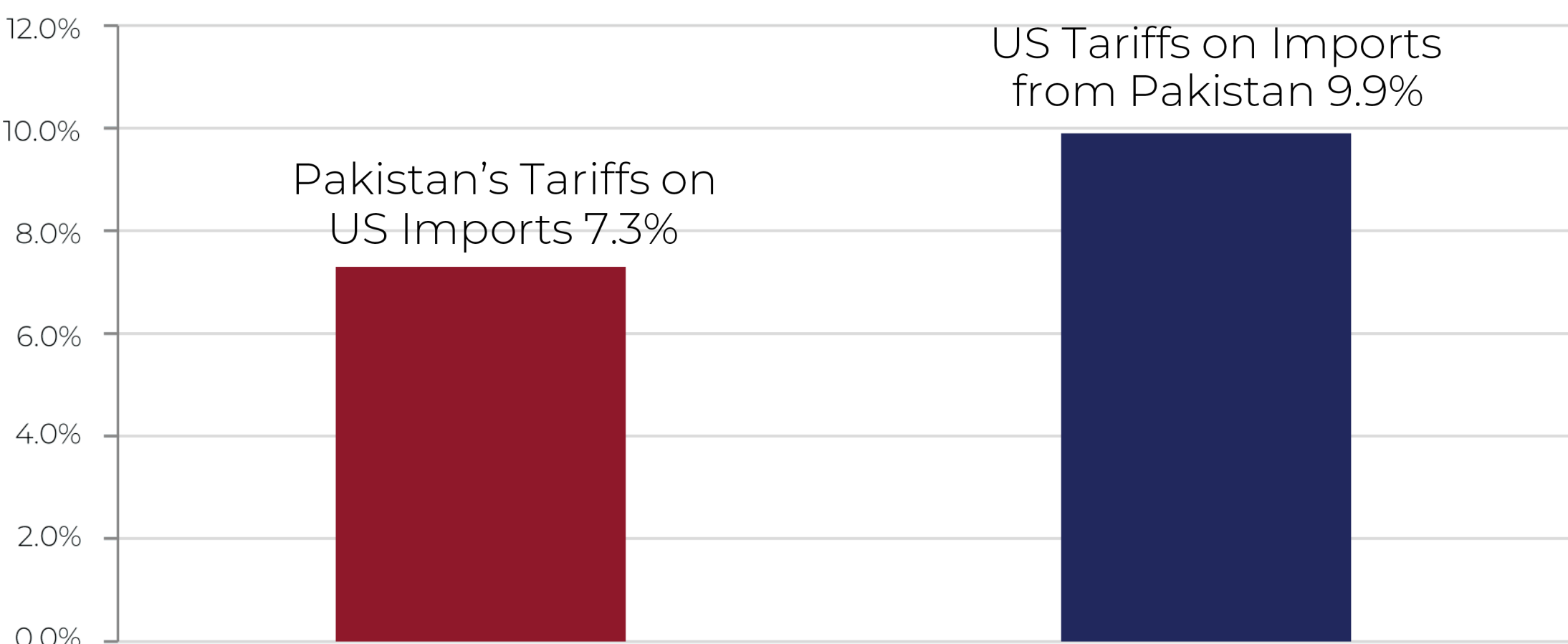


The top 10 countries that have a trade surplus with the U.S. amounts to 80% of the U.S. trade deficit. Since Pakistan is in the 33rd place in the league of U.S. trade deficits, we are unlikely to be under the same spotlight as others. We should also remember that in Textiles, which is our main export, we are up against China, Vietnam and India which are the focus of US efforts on tariff negotiations. So we could be beneficiaries to some extent of any rearrangement on tariffs.

Weighted Average Tariffs

Pakistan already offers lower weighted tariffs to the US than what US offers to Pakistan

Trade Weighted Average Tariffs

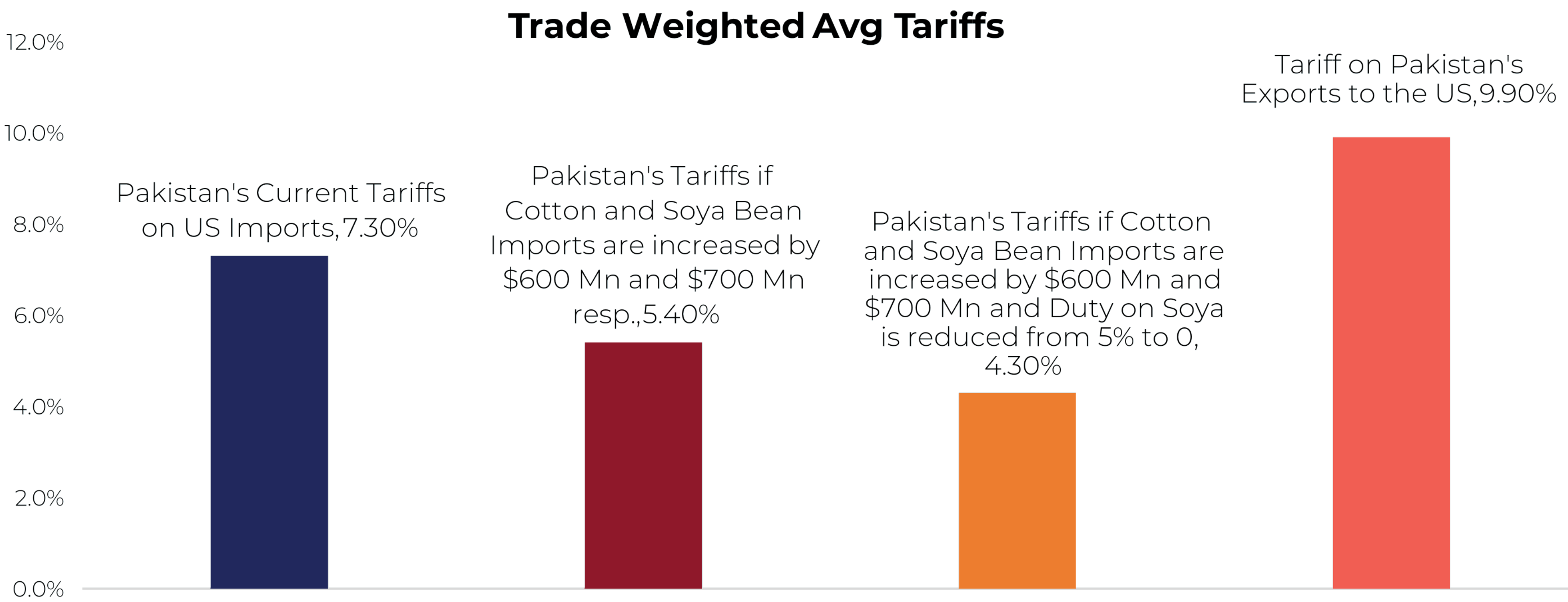


Weighted Average Tariffs (WAT) compare trade terms between countries. WAT is derived by expressing the tariffs applied to items of trade based on their respective values. Thus, based on what we export to the U.S. and what we import from it, and the tariff we get charged and what we charge the US gives us the WAT.

Presently, the WAT that we are subjecting US imports to is 7.3 percent, and the WAT that the U.S. applies to our exports is 9.9 percent. Hence, Pakistan is already offering the U.S. a better deal than it is receiving. One of the reasons for this is that a 1/3rd of Pakistan's total imports from the US in 2024 was cotton, on which the MFN duty rate is 0%.

Weighted Average Tariffs Adjusted For Higher Imports Of US Cotton And Soyabeans

Pakistan’s Trade Weighted Avg Tariffs would decline further with higher imports of Cotton and Soya Beans



“ Given Pakistan’s need to import cotton due to crop shortages, if we assume an additional \$600 Mn import of US Cotton and a further \$700 Mn import of US Soyabeans, the weighted average tariff on US goods in Pakistan falls from 7.3% to 5.4%. On the further assumption of afrom the current 5% to zero, this aAt that level, it is less than half what the US was levying before the introduction of reciprocal tariffs. This needs to be a critical factor to point out to the US.



Exports

Textile Exports To The U.S.

Pakistan’s textile exports to the US significantly lag others, (1/7th of China, 1/4th of Vietnam. ½ of India and Bangladesh)

Country	Exports \$ Bn HS60-63	Relative Export Multiple of Pakistan
China	26.6	7.2
Vietnam	14.8	4.0
India	7.7	2.1
Bangladesh	7.5	2.0
Indonesia	4.4	1.2
Pakistan	3.7	1.0
Cambodia	3.5	0.9
Turkiye	1.3	0.4



Here we are focusing only on a segment of textiles (HS-60, 61, 62, and 63). We export \$3.7 billion under these HS lines to the U.S. China on the other hand exports a total of \$26.6 billion (7 times what we do). Vietnam exports \$14.8 billion (which is 4 times our exports). India exports \$7.7 billion (2.1 times what we do), Bangladesh exports \$7.5 billion (2 times what we do) and Indonesia exports \$4.4 billion, which is 20% more than what we do.

Textile Exports To The EU

In the EU too, despite duty-free access, Pakistan’s textile exports significantly lag China (c.1/7th)

	Top 10 exporters of Textiles and Leather/ footwear (HS60-64) to the EU	GSP Status	Avg Tariff Rate if not eligible for EU GSP+	Export Value in Billion US\$	Exports Multiple of Pakistan's Exports
1	China	None	10.5%	39.2	6.5
2	Bangladesh	EBA	0.0%	20.2	3.4
3	Türkiye	None	0.0%	11.9	2.0
4	VietNam	None	1.8%	10.9	1.8
5	India	Standard GSP	8.3%	6.7	1.1
6	Pakistan	GSP+	0.0%	6.0	1.0
7	Cambodia	EBA	2.2%	4.8	0.8
8	Morocco	None	0.0%	3.3	0.5
9	Tunisia	None	0.0%	3.2	0.5
10	Indonesia	Standard GSP	8.0%	2.7	0.5



For relative comparison, it’s useful to see Pakistan exports (HS-60, 61, 62, 63, and 64) to the EU. The EU provides duty-free access to Pakistan for these HS lines under its GSP+ scheme, and Pakistan’s exports to the EU in 2024 were \$5.99 billion i.e. higher than to the US.

China, despite a 10.5% average MFN tariff levied by the EU, managed to export 6.5 times what we did in 2024. India faces 8.3% average tariff under standard GSP and it exported slightly higher than Pakistan, \$6.74. Bangladesh, also subject to 0% duty, exported \$20.17 billion, which is three times what we did.

A takeaway from this is that there is something missing in our portfolio of goods that we are exporting and this applies as much to the EU as it does to the US.

Back To Exports To The U.S.

Pakistan’s exports to the US are priced lowest. ½ of Indonesia’s, 55% of India’s, 76% of Bangaldesh’s and Vietnam’s prices

Country	Exports \$ Bn HS60-63	Relative Export Multiple of Pakistan	Avg pre-duty price	Avg Pre duty Price Multiple Pakistan
China	26.6	7.2	18,411	1.2
Vietnam	14.8	4.0	28,588	1.8
India	7.7	2.1	28,361	1.8
Bangladesh	7.5	2.0	20,289	1.3
Indonesia	4.4	1.2	31,278	2.0
Pakistan	3.7	1.0	15,542	1.0
Cambodia	3.5	0.9	25,442	1.6
Turkiye	1.3	0.4	43,421	2.8



Another observation is that the average price at which Pakistan exports to the U.S. (HS 60-63) is only \$15,542/ton. Let’s compare this with other countries: Indonesia’s average price is twice ours. Bangladesh’s average price is 30% more than Pakistan’s. India and Vietnam’s average prices are about 80% higher than us. China’s average price is about 20% higher than ours.

Pakistan exports only \$3.7 billion, despite having the lowest price among all listed countries. There is something making other countries’ exports significantly more attractiver than our exports – it has to be quality and the spread of their portfolio, which includes winter wear, more man-made items such as technical textiles and active wear.

US Tariffs: Competitive Impact On Pakistan's Textiles

Country	Exports of HS60-63 Textiles (\$ BN)	Landed Cost vs. Pakistan (Current)	Landed Cost vs. Pakistan (Post All Tariffs)	Pakistan's Competitiveness
China	26.6	20% higher	Further 80% higher	Opportunity if we can address value and portfolio
Vietnam	14.8	80% higher	Further 30% higher	Some Opportunity if we can address value and portfolio
India	7.7	80% higher	No further impact	No Change
Bangladesh	7.5	30% higher	Further 10% higher	Minor Change (10%)
Indonesia	4.4	100% higher	Further 10% higher	Minor Change (10%)
Cambodia	3.5	60% higher	Further 30% higher	Some Opportunity
Turkey	1.3	180% higher	40% cheaper	Some Challenge (40% cheaper)
Pakistan	3.7	N/A	N/A	



Another observation is that the average price at which Pakistan exports to the U.S. (HS 60-63) is only \$15,542/ton. Let's compare this with other countries: Indonesia's average price is twice ours. Bangladesh's average price is 30% more than Pakistan's. India and Vietnam's average prices are about 80% higher than us. China's average price is about 20% higher than ours.

Pakistan exports only \$3.7 billion, despite having the lowest price among all listed countries. There is something making other countries' exports significantly more attractiver than our exports – it has to be quality and the spread of their portfolio, which includes winter wear, more man-made items such as technical textiles and active wear.

Impact on Pakistan's Exports



Pakistan's unit price of textiles has been lower than most countries that export to the US (and the EU)



Despite this, most countries outsell Pakistan - China and Vietnam by 7 and 4 times respectively



In the EU, China and Vietnam outsell Pakistan even without duty free access that Pakistan has under GSP+



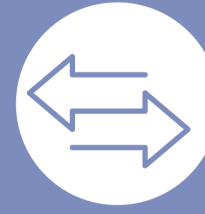
Capacity and capability are issues for Pakistan's textile exporters to address



US Reciprocal tariffs only materially change the relative landed cost differential with China



Higher landed costs from all countries will depress demand in the US. On average the impact on each household is estimated at \$3,800 pa.



Demand compression may partly be offset by consumers switching to cheaper goods from Pakistan



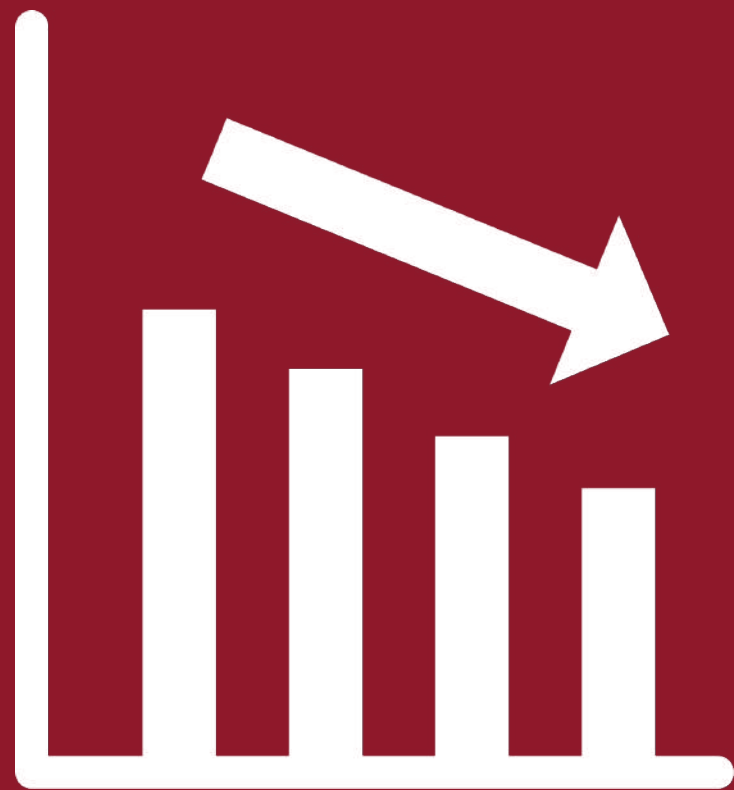
Higher landed costs from all countries will depress demand in the U.S. There have been various estimates on what the average household impact would be of tariffs. On average, the impact on each household is estimated at \$3,800 pa.

There is therefore bound to be consumer switching to cheaper goods and Pakistan could gain if it has capacity to make.



Imports

Pakistan Imports From The U.S.



**Tariffs are a tool,
the real objective is
to reduce the US
trade deficit**

“

Another reminder: tariffs are only one tool;
the greater objective of the U.S is to reduce
the trade deficit and create jobs.

Rules For Change In Import Tariffs



Under WTO rules, no tariff variation is possible unilaterally for a country. A uniform MFN rate applies



If we reduce the tariff for USA, we will need to reduce the MFN tariff for all countries. Thus, no competitive advantage is created to source from the US



USA is unlikely to consider a trade agreement at present. It takes up to 2 years to negotiate a FTA. FTA talks with India and the EU started sometime back.



Non-tariff preference can be provided. However, commercial feasibility should dictate such move



Only under bilateral trade agreements can rates be reduced below MFN



Even if USA is offered rates under the FTA with China, it is unlikely to be able to compete



Remember, as per WTO rules, no variation is possible for a single country. It needs to apply to all countries enjoying MFN status.

If Pakistan reduces tariffs for the U.S. it will have to do it across the board.

Only if there is a bilateral agreement like we have with China, in the form of a FTA, we can bilaterally reduce the tariffs.

The U.S. is unlikely to consider any trade agreement at this point.

We can use non-tariff preference to divert imports from other countries to the US, but this needs to make commercial sense.

Lastly, even if we reduce the rates on U.S. goods down to what we charge China, which under the FTA is 0% for many goods, it does not necessarily mean that the U.S. will become more competitive than alternative sources of supply

Considerations For Reduction In Tariffs

Considerations for reduction in tariffs or otherwise sourcing from the US



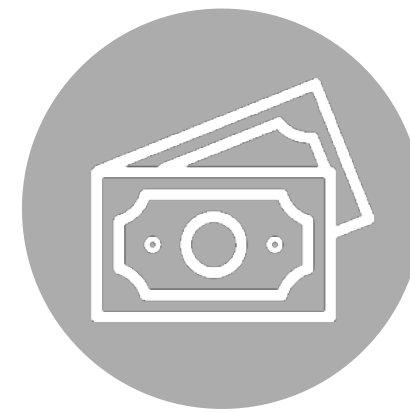
Commercial and technical considerations should apply



Priority should be to replace sourcing instead of adding to the overall import bill.



Impact on trade relations with the replaced source should be factored



Sourcing at “any cost” is not desirable



For reductions in tariffs, commercial and technical considerations should obviously apply. The priority should be to replace sourcing competitively, instead of ending up with higher imports in aggregate.

The impact on trade relations with current trade partners must be taken into account, and again, sourcing at any cost is not desirable.

U.S.’s Likely Asks Of Pakistan

US’s likely asks of Pakistan on Non-Tariff Barriers - some also PBC & the formal sector’s asks



Higher import of pharmaceuticals and medical



Higher import of agri items – cotton, soya beans, meat, dairy, wheat, nuts, corn. RISK: Some impact on Pakistan’s agri-sector



Lower duties on automobiles, machinery, iron scrap



Access to public procurement

PBC & formal sector asks



Lower taxes & restrictions on remittance of profit, capital, royalties



Effective intellectual property protection



Level playing field with domestic business, especially the informal sector



Removal of onerous inspection processes and unfair import valuation



First, the US wants a heightened focus on agricultural items. We are already buying their cotton and we can buy more, we can also buy soybeans. For the last couple of years, we have not bought their soybeans because of GM concern, which has now been resolved. They want us to buy frozen meat, which we couldn’t because of a foot and mouth disease issue. That too has been cleared. However, it is highly unlikely that frozen meat from the US will be competitive. They want us to buy wheat, almonds, and nuts. They also want us to buy more corn. There could be some consequences for the agriculture sector. We need to bear that in mind.

The U.S. wants us to buy more pharmaceuticals, but the U.S. does not produce many pharmaceuticals onshore. They would like us to buy more medical devices too, however, most of them are produced in Mexico.







They want us to buy the EVs, machinery, and iron scrap, which we can consider but bear in mind that GE turbines we imported in the past came from China, not the US.

The U.S. wants us to remove the onerous inspection process and level the playing field on valuation. They also want a level playing field with the informal sectors, as indeed do all of us. The US wants effective intellectual property rights, but it is not alone in seeking this. They want us to lower taxes, so does every local and foreign business.

They also want to access public procurement and there are certain limitations on certain goods, when the tenders are floated that they need to be bought from Pakistani manufacturers.

Constraints On Businesses

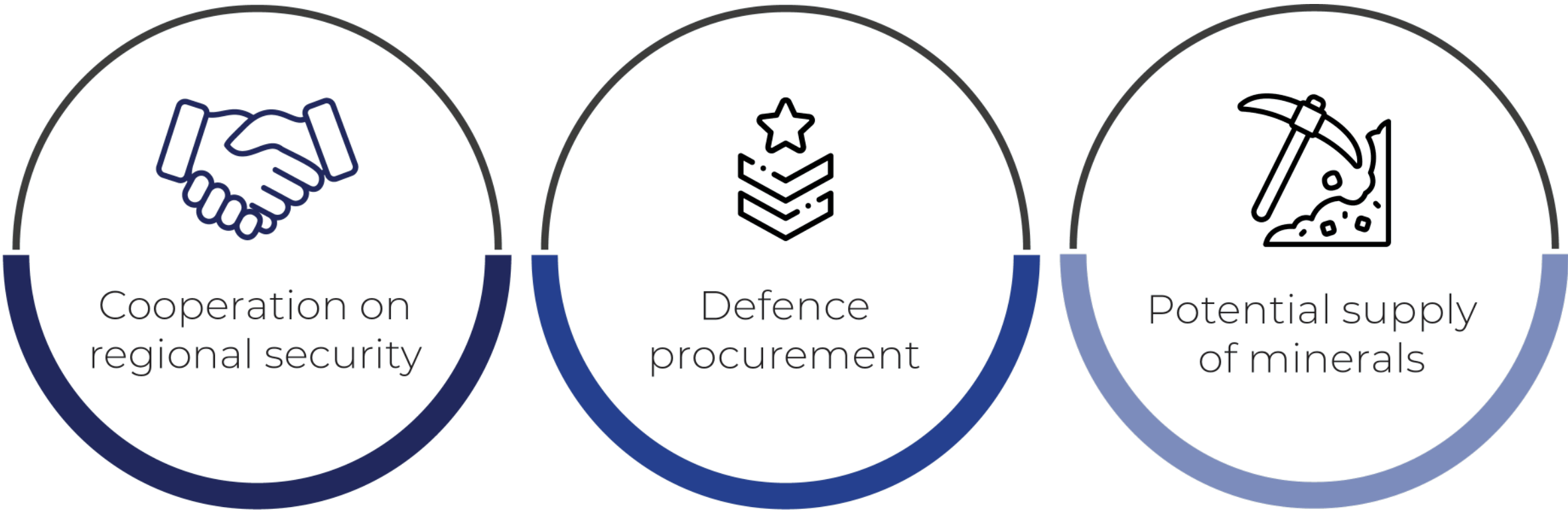
Many of the constraints on business are common

ISSUES	MAJOR US COMPANIES IN PAKISTAN						Pakistani Formal Sector
							
IPR							
Informal Comp.							
Regulatory drag/EODB							
High Taxes							
Remittance	Dividends, Tech Fee, Royalty etc						
Sales ethics							
Price Control							
Underwriting							

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The comparison of leading MNCs with Pakistani companies shows that intellectual property rights affect all of the FMCGs in Pakistan, both MNCs and local. The level playing field with the informal sector also affects all the FMCGS. All the companies, whether they are an MNC or a local Pakistani company would want ease and lower cost of doing business. All companies want lower taxes. The foreign multinationals have remittance issues. While Pakistani companies don't have issues with remittance of dividends, they are affected by controls over remittance of royalty and technical fee. Sales ethics are poor in the medical field, and issue impacts MNC pharmaceutical companies. Price controls on drugs affect the pharmaceutical sector, MNC and local. Foreign insurance companies are denied access to local underwriting opportunities since it is restricted to the national insurance corporation. Pakistani companies also seek government action to liberalize the economy and ensure fair competition.

Possible Levers For Pakistan Other Than Tariffs Or NTBs



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There are certain levers that Pakistan can use other than tariffs or non-tariff barriers. First is geopolitical importance; Pakistan may have some opportunity for regional security cooperation with the U.S. The U.S. has recently expressed a desire to recover armaments that it left in Afghanistan and Pakistan has previously helped the U.S. in capturing people they were looking for. Pakistan might be able to augment imports of defence equipment from the U.S.

There was a significant presence from the U.S in the recent conference on mining. Even though it will take 4-5 years for mineral supplies to materialize, the US lending institutions and IFC are looking to fund this. So, minerals could provide some leverage to our negotiators.

Shaded
represent
about 70%
of imports

Item	Pakistan's Imports from the World (\$BN)	Pakistan's Imports from the US (\$BN)	USA's Exports to the World (\$BN)
Petroleum group	17.8	0.1	320.1
Machinery	6.3	0.0	213.9
Fats/oils	3.2	0.0	2.7
Iron and Steel	3.1	0.4	19.6
Boilers etc	2.9	0.1	252.4
Organic Chemicals	2.5	0.0	51.9
Vehicles	1.7	0.0	143.8
Oil seeds	1.2	0.0	30.0
Vegetables	1.1	0.0	5.9
Cotton	0.9	0.8	6.2
Coffee, Tea	0.9	0.0	1.4
Fertilizers	0.8	0.0	5.2
Pharmaceuticals	0.8	0.0	94.4
Cereals	0.8	0.0	24.4
Man-made filaments	0.7	0.0	1.5
Medical Equipment	0.7	0.1	106.3
Precious metals	0.7	0.0	14.5
Man-made staple fibre	0.6	0.0	2.2
Total listed	46.7	1.6	1,296.2
Total Imports	56.5	2.1	2,064.5
% listed	82.7%	74.9%	62.8%

Scoping the larger avenues for increasing Imports.

We rely on USA for 3.8% of our import needs.



What We Are Currently Importing From The World

The yellow shaded items are Pakistan’s major imports, which represent 70% of our total from the world. In 2024, we imported \$17.8 billion worth of petroleum, out of which \$100 million came from the U.S. The US is increasingly looking for markets to export its gas and oil but freight is one issue that makes it uneconomic for us to buy and the second is that we would upset our ME suppliers, some of whom offer deferred payment terms.

These top import categories are where we should focus. Commercial logic applies to US cotton and Soyabean imports, which could halve the trade deficit.

Friction with China – a fallout from high US tariffs



China will deflect exports to other countries, especially in Africa, other developing markets and the EU, thus creating further friction in global trade



Widening Pakistan's geographic dispersion will be more difficult



Dumping is a strong likelihood



Pakistan's anti-dumping regime is weak



NTC was non-functional until recently



It takes two years of harm before a hearing



NTC is under resourced and unable to speedily or accurately determine the protection level



Enforcement is weak – stay orders are easily available and not part of Customs revenue




China's Displacement From The U.S. Market

So far, we have discussed the impact of the tariffs in the context of Pakistan and the U.S. or the world and the U.S., but once China is displaced in the in the U.S. market, it will deflect exports to other countries like Pakistan as it would have surplus capacity. It could also displace us in the EU. So, there will be a lot of friction created between China and the rest of the world following the fallout from the U.S. tariffs.

Pakistan has an ambition to widen its geographic dispersion which will come under pressure. Another major watchout is the potential for dumping in Pakistan. Pakistan's anti-dumping regime is very weak in several ways, like the NTC is not always functional, it takes 2 years of harm (dumping) before an action can be taken, NTC has limitations on determining the level of harm and often the protection granted falls below what other countries levy. Lastly, importers obtain stay orders from courts to stop recovery and the FBR which is charged with recovering, has no incentive as it does not count towards its revenue targets. Therefore, this regime has to be significantly addressed.

Risks And Possible Mitigating Actions

ISSUE TYPE	ISSUE	IMPACT	MAIN GOP ACTIONS	KEY SBP ACTIONS	BUSINESS ACTIONS
Cash Flow from exports to the US	Delayed settlement by US buyers of 4 weeks beyond current SBP deadline	\$425 Mn (4/52*\$5.5 Bn) PKR 120 Bn	<ul style="list-style-type: none">• Preserve EFS to avoid GST refund delays• Remove advance tax on exporters	<ul style="list-style-type: none">• Relax recovery deadline• Covid-like temporary credit facility	
Loss of exports to the US	Buyer's reluctance to commit orders till clarity on tariffs	\$225 Mn (10% of exports for half year)	<ul style="list-style-type: none">• Engage US• Address tariffs & NTBs	Review PKR exchange rate to offset	<ul style="list-style-type: none">• Enhance value in existing portfolio• Broaden the export basket• Diversify geographic reach• Add more value
	US buyers demanding discounts	\$140 Mn (5%*\$5.5 Bn for half year)	Reduce energy and cost of doing business		
Loss of exports to the EU/UK	China's aggressive policy to offset loss from exports to USA	\$550 Mn (5% of \$11 Bn exp to EU & UK)	<ul style="list-style-type: none">• Reduce energy cost• Comply with conventions		
Est Total loss of exports excl. US consumer switch to cheaper goods from Pakistan		\$ 1 Bn			



Let's discuss the consequences in terms of cash flow and potential loss of exports. Firstly, for cash flow, there is the likely issue of delayed settlement by US buyers of up to 4 weeks beyond the current SBP deadline. Because of the uncertain situation, the buyers in the U.S. are requesting to delay shipments, the impact of which comes out to be around \$425 million or PKR 120 billion. SBP would have to find a way of providing relaxation, somewhat like the temporary credit facility provided to exporters during Covid. In the meantime, the government is reviewing the export facilitation scheme. Before the last budget, importers could import input items duty and sales tax free, for use for export. They could also buy the same items from the local market, free of sales tax. However, in the last budget GST was levied on local supplies, which though recoverable by exporters, take a long time. Hence, exporters lost interest in buying from the local market. Now, various proposals are being considered - the export sector needs a scheme that would not impact their cash flow.

Another issue is the loss of exports. The buyers are reluctant to commit to orders at this point. 10% export loss for half a year will amount to \$225 million. US buyers are also demanding a discount, which if conservatively taken at 5% of Pakistan's exports to the U.S., amounts to \$140 million. Another issue is that when China becomes aggressive, particularly in the EU and the UK, there is likely to be some impact on Pakistan's exports in those geographies. Again at 5% of our exports to the EU and the UK, this exposure amounts to \$550 million. Adding all these figures of export losses, comes up approximately to \$1 billion. Are there potential opportunities to gain shares from other countries? Time will tell.

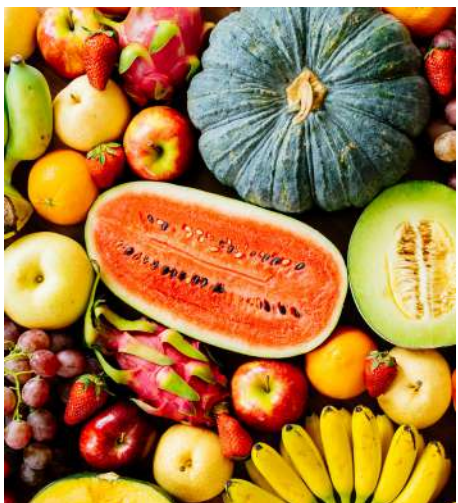
To expedite and get rid of the uncertainty, we must engage with the U.S. government and the trade commission. We must address the non-tariff barriers and the tariffs. We must look at the energy cost because it is very high for exporters in all industries. To preserve the EU's GSP+, the government must redouble and comply with all the conventions because when the next review comes up, EU will be more demanding. Our exporters must also avoid the carbon border tax.

For quite a long time now, Pakistan has had a near static exchange rate. In an ideal world, the exchange rate must keep adjusting with demand and supply. This is for SBP to look at. In the past governments, Pakistan had periods of static exchange rate followed by a steep correction, which we should avoid because it causes steep devaluation and removes predictability, hence, a gradual adjustment is preferred. We also need to diversify our portfolio like China, Bangladesh, and India and broaden the export basket and look at geographic dispersion.

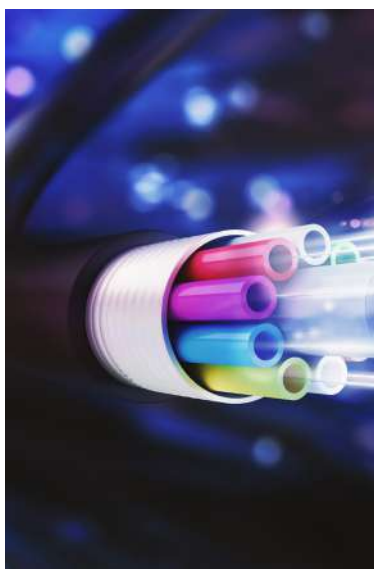
Make In Pakistan

To export, we need to make/ produce exportable goods and services

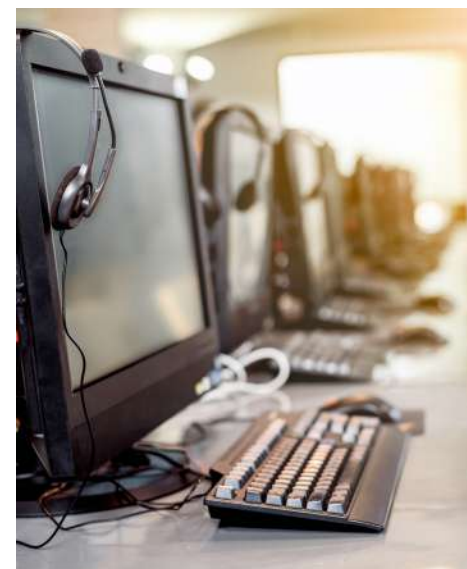
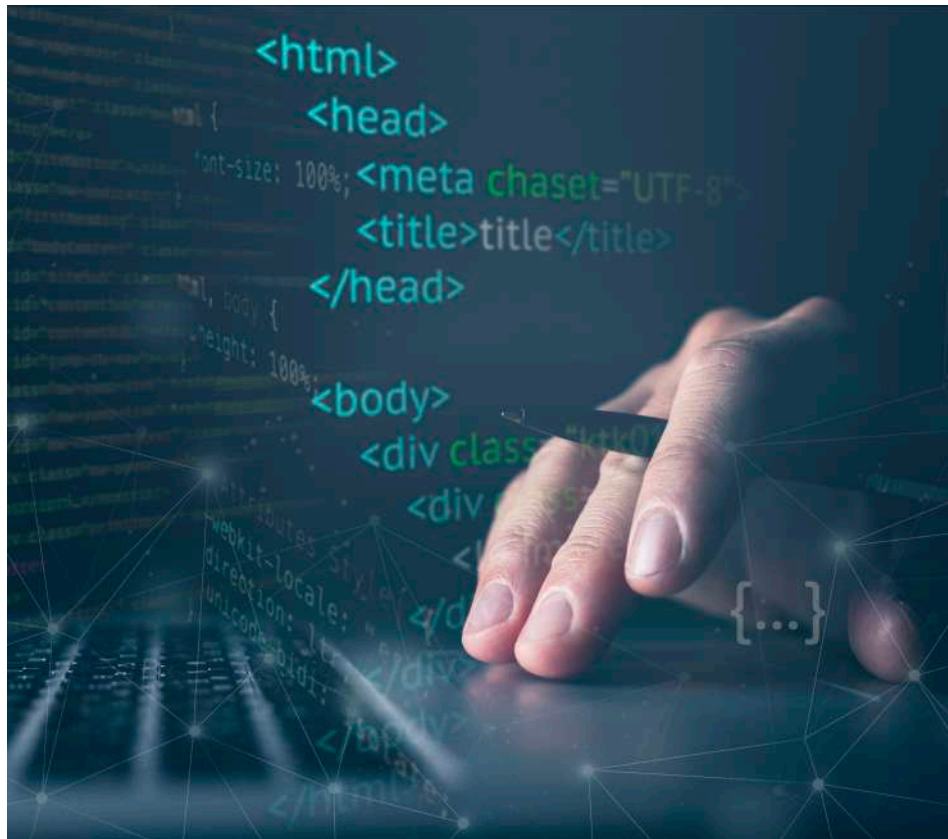
GROW MORE/BETTER



MAKE MORE/BETTER



SERVE MORE/BETTER



Grow more/ grow better, make more/make better, and serve more/serve better are platforms under which PBC operates. It is important to note that we need to produce what is exportable and competitive.

In the agriculture field, we could potentially export things like meat and horticulture, and import less food items.

We can look for such opportunities and in light engineering and other industries. 20% of Africa's pharmaceutical needs are met by India. We stand nowhere close to that. In collaboration with a Chinese investor, we have the first Pakistan-China joint venture for manufacturing tires, which are being exported to the U.S. Within the service sector, call centers, putting our dramas on Netflix etc., would help.

Key Requirements For A Competitive Business Environment

- | | |
|--|---|
|  Reliable energy at a competitive cost |  Long term credit (DFIs) |
|  Equitable taxation and predictable, well aligned fiscal policy |  Forex for cape |
|  Level playing field vs. the informal sector (smuggling, under-invoicing etc) |  Gradual adjustment of exchange rate |
|  Ease of doing business |  Human capital development for greater productivity |
|  Export incentives comparable with regional players |  Branding |
|  Effective anti-dumping regulations |  Supportive infrastructure (esp. Karachi)/ efficient logistics |
|  Affordable land and availability of utilities | |



There are several measures that need to be taken to make Pakistan's exports more competitive. We need reliable energy at a competitive cost.

The tax policy needs to be equitable and broad-based. It should also be predictable and aligned with other economic policies, such as industrial , trade, investment etc.

There must be a level playing field with the informal sector, where under-invoicing and smuggling are common. Ease of doing business must be addresses by reducing the regulatory drag.

Export incentives should be comparable to regional players. We must study what other counties offer to their exporters.

Land is not available or affordable in big cities. In Karachi, the land in the industrial area is so expensive that no industry can be established, and even if it did, the utilities wouldn't be available.

In Pakistan, there are no DFIs so there is no long-term credit available. The exchange rate needs to be gradually adjusted.

Focus should be on human capital development to boost productivity. Infrastructure, especially in Karachi, is exceedingly poor.

We also need efficient logistics since the cost of moving goods is high. We are competing with a country like Bangladesh which is compact and most of its export industry is in and around the Chittagong posrt so they don't have to move goods long distance.

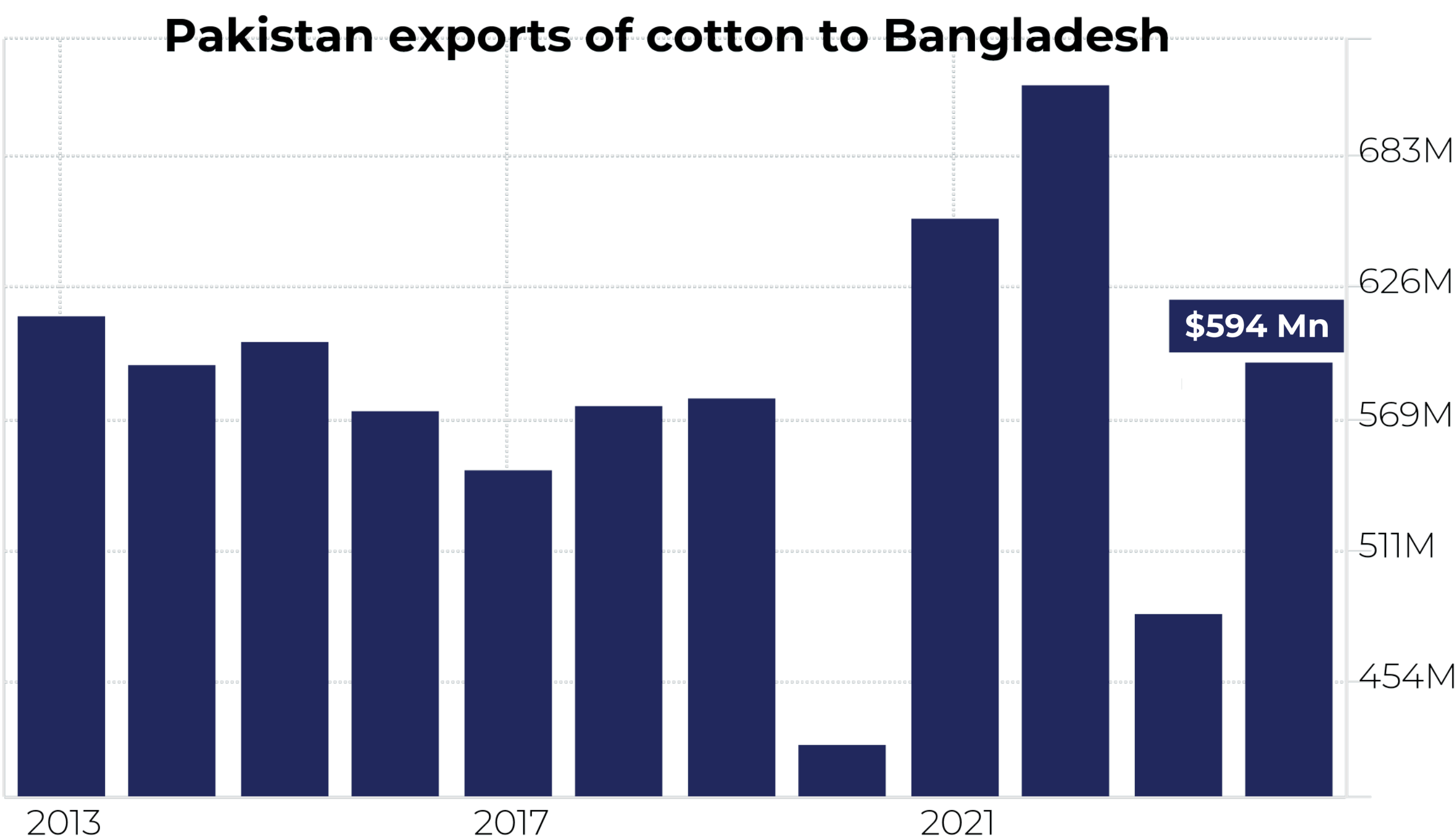
Some Gaps In Pakistan's Textile Exports



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Pakistan does well in knitted but not in printed bed linen. We do well in cotton ensembles, but not in wool and synthetic fiber suits or technical textiles and active wear. Companies like Interloop are doing a good job, but that's an island of excellence. Among sweaters, we do a good job on knitted articles, but we are very modest in cotton and synthetic fiber sweaters.

Export Of Cotton, Yarn And Fabric To Bangladesh



Source: tradingeconomics.com | Comtrade



We export cotton, yarn and fabric to Bangladesh. In 2024, we exported around \$600 million of low-value-added items to Bangladesh, on which we could have added value and on a 2 to 3 multiple, that would have generated between \$600 million to \$1.2 billion worth of additional exports. This was a missed opportunity.

Need To Address Market Access And Geographical Dispersion

Main Markets	Market Access		New Export Markets	Trade Advisories	Business and Tourist Visas
	Maintain Current	Negotiate New			
USA	Manage US trade deficit	Explore PTA		Differentiated and more positive view on travel to the main commercial cities of Pakistan	Implement the online visa policy in its full spirit. Challenge: visas for Indian nationals who now occupy key buying positions
China		Renegotiate FTA			
EU	Maintain GSP+, Avoid Carbon Tax				
UK	Maintain DCTS				
Japan		Seek parity with Bangladesh			
Canada					
Australia					
Africa			New Markets		
Latin America			New Markets		
Central Asia			New Markets		

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To diversify our geographic reliance, we need to do several things. With the U.S, we need to manage the current crisis and in the long run, we need to assess if there is an opportunity for any PTA.

We need to renegotiate the FTA with China. The headlines suggest that we have duty free access for 45% of HS lines and that by 2030, this will grow to 75%. However, if you take out the goods that we either don't manufacture or which China does not import today, we can only avail duty free access on 14% of the tariff lines to China now or 24% by 2030. So, these headline figures are misleading. Bangladesh, leveraging its geopolitical significance, without a FTA, won duty-free access for 96% of HS lines into China.

With the EU, to maintain our GSP+ status, we need to comply with its prescribed conventions. We also need to avoid the carbon tax. The same applies to the UK under its Developing Country Tariffs scheme.

With Japan, Canada and Australia, we need to seek parity with Bangladesh as Bangladesh still gets duty-free access, despite not having the LDC status anymore.

Africa, Latin America, and Central Asia are the new markets we need to look at.

We need to work on trade advisories, and we also need to implement online visa policy in the spirit that it is intended.

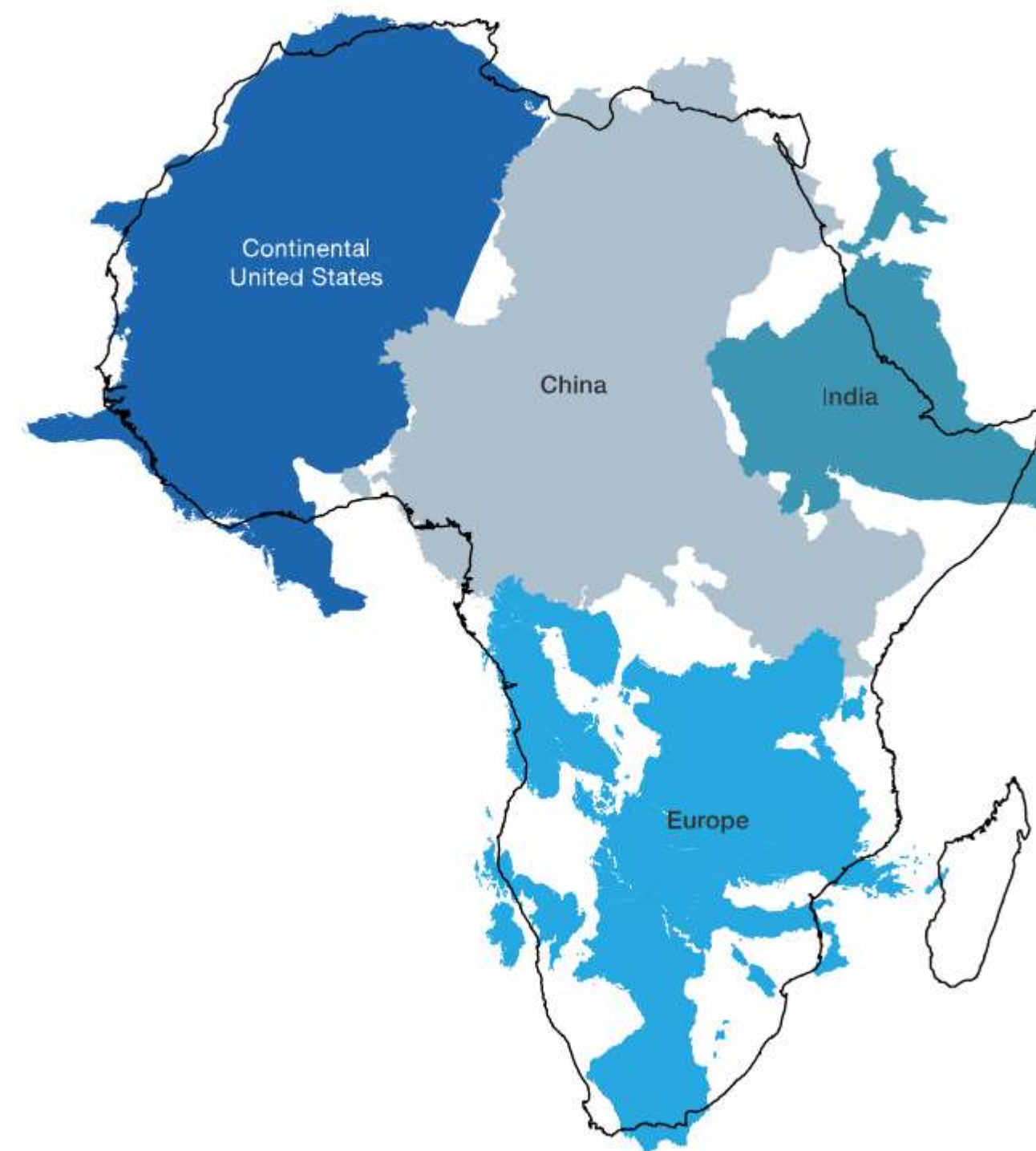
AFRICA

Export of cotton, yarn and fabric to Bangladesh - opportunity cost is loss of \$600-1,200 Mn of value-added exports

- 54 countries
- 1.5 Bn people, growing at 2.3% pa – projected to reach 2.5 Bn by 2050
- Young Population – half under 20
- Combined GDP \$ 2.2 Tr (\$ 6.4 Tr PPP)
- Annual Imports \$ 714 Bn
- Imports from Pakistan \$1.5 Bn (0.2% of Africa's imports)
- Imports from India \$42 Bn
- India's trade agreements and in-country commercial representation is far superior
- India also offers concessional credit for machinery imports

Africa is bigger than you think—it dwarfs China, Europe, the United States, and India.

Africa's size is difficult to comprehend without comparisons



McKinsey&Company

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Africa, in terms of geographical land mass, is the combination of India, China, continental U.S., and Europe, all put together. There are 54 countries with a population of 1.5 billion, growing at the same level as Pakistan's population growth rate. They will reach around 2.5 billion by 2050. It has a young population with half under 20 years age.


The combined GDP of the entire continent is \$2.2 trillion, which is \$6.4 trillion in purchasing power parity terms. Its imports in 2024 amounted to \$714 billion, while Pakistan exported just \$1.5 billion, representing a 0.2% share. On the other hand, India exported \$42 billion. India's trade agreements and in-country commercial representation are far superior to ours as they have twice as many commercial counselors on the ground than we do. Pakistan has one trade agreement with an African country, Mauritius. India has established agreements with 17 African countries and is a signatory to the African Continental Free Trade Area (AfCFTA), whereas we are not.

India also offers concessional credit for machinery imports. Our Export Credit Bank's credit insurance offering has still to gain acceptance due to the premium, which can be funded by the Export Development Fund.



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