4

The Potential Impact of US Tariff Policies on Pakistani Exports to the US

Azam Chaudhry[1] and Gul Andaman[2]

Abstract

This paper assesses the potential repercussions of US tariff policies on Pakistan's exports to the US. The imposition of a 19-percent tariff would result in an equivalent increase in costs for Pakistani exporters. Assuming this increase is passed entirely to end consumers and using long-run price elasticity estimates from Pakistan's export demand function, our analysis indicates that aggregate exports could decline by USD 0.40 billion or 7.6 percent in 2025 alone. Cumulative losses over five years could reach USD 2.11 billion. A sectoral analysis reveals that the textile and manufacturing sectors are particularly vulnerable, with textile exports potentially falling by USD 0.33 billion in 2025 and five-year cumulative losses of USD 1.74 billion. These findings underscore the need for a comprehensive mitigation strategy focused on enhancing competitiveness, diversifying exports, investing in renewable energy, and strengthening diplomatic and trade relations to cushion the economy against adverse tariff shocks.

Introduction

The implementation of tariffs by the US, a major economic power, can elicit adverse repercussions on the export trajectories of developing nations. They lead to elevated import prices, consequently diminishing the demand for goods originating from affected nations (Kuusi et al., 2020). This contraction in demand can trigger a decline in export volumes, which, in turn, can precipitate adverse effects on employment rates and economic growth within exporting countries. Notably, tariffs on intermediate goods can escalate exporters' production costs and

[1] Professor and Dean, Faculty of Economics and Co-Director, Innovation and Technology Center, Lahore School of Economics; WTO Chair for Pakistan.

[2] Research Fellow, Innovation and Technology Center, Lahore School of Economics.

undermine their competitive edge (Handley et al., 2020). The extent of these effects is contingent upon various factors, including the magnitude and scope of tariffs, exporting nations' reliance on the US market, and the presence of alternative export destinations (Kuusi et al., 2020).

The US has historically been a significant trading partner of Pakistan, offering economic, social, and military assistance (Asmatullah & Khalil, 2021). As one of Pakistan's largest bilateral trading partners, total two-way trade crossed USD 7 billion in 2023 and shows steady growth. Trade volumes exceeded USD 6.3 billion in the first ten months of 2024. Pakistan consistently records a trade surplus with the US, as exports far exceed imports (Federation of Pakistan Chambers of Commerce and Industry, 2024).

Textiles and apparel dominate Pakistan's exports to the US, accounting for over half of its outbound shipments. Pakistan exported goods worth approximately USD 5.3 billion to the US in FY2024, while importing about USD 1.4 billion (Zeshan et al., 2025). Other growing sectors include IT services (over USD 1 billion), pharmaceuticals, and jewelry. The US also contributes over USD 1.5 billion to Pakistan's foreign direct investment, mainly in fast-moving consumer goods, healthcare, energy, and IT (International Trade Administration, 2024).

Two points are noteworthy. First, Pakistan's exports have faced considerable challenges, with their contribution to the gross domestic product declining from 16 percent to 10 percent over the last two decades (Mustafa & Hussain, 2023). Second, Pakistan's international trade is highly concentrated, with exports depending on just a few lower value-added items (Abbas & Waheed, 2015). Therefore, and given Pakistan's trade dependence on the US, tariff increases could have significant impacts on the former's economic stability and export-led growth trajectory (Jamil et al., 2024). Thus, the imposition of a 19-percent tariff by the US on Pakistani goods presents a challenge for policymakers. It becomes imperative to conduct an analysis of the potential implications of US tariff policies on Pakistan's exports, identifying likely vulnerabilities and formulating appropriate policy responses to mitigate adverse effects.

In this paper, we investigate the likely outcomes of such tariffs on Pakistan's export performance and outline strategic policy recommendations to counteract the adverse effects. The next section highlights the Pakistan-US export profile over the last two decades. We then describe the methodology and present the results of our analysis. The next two sections list mitigation strategies to counteract the

adverse impacts of tariff shocks in the short, medium, and long term and conclude the study.

Pakistan's Export Profile to the United States (2003–2023)

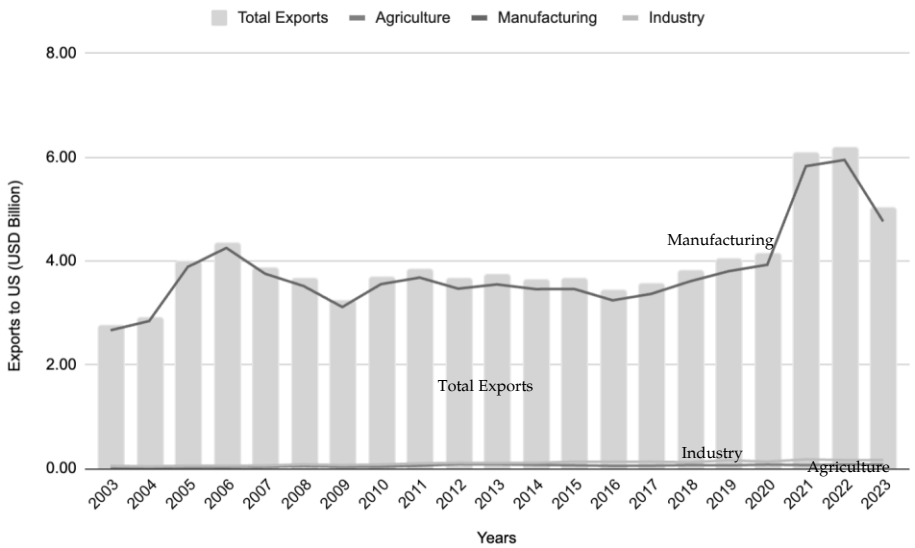
Pakistani exports have long relied on textile products, which also constitute a substantial proportion of the country's overall exports to the US. Prior to the elimination of quotas under the Multifiber Arrangement, Pakistan's exports to the US focused on high value-added sectors such as clothing and interior textiles. However, these sectors' shares have decreased since then (Jamil et al., 2024), reflecting how much Pakistan's export mix has changed and how it now depends more on basic textiles. The high concentration of Pakistan's export basket in a limited range of products, particularly those with lower value-added, exacerbates its susceptibility to external economic shocks, such as tariffs.

Using data on Pakistan's exports to the US for the period 2003–2023 from the United Nations Comtrade database, we analyze and explore Pakistan-US bilateral export volumes overall and within the agricultural, manufacturing, and industrial[3] sectors. We disaggregated the data at the Harmonized System (HS) 6-digit level, aggregated it into the HS 2-digit level, and finally summed it into three broad sectors. At the HS 2-digit level, the agricultural sector contains 15 subcategories, the manufacturing sector contains 77 subcategories, and the industrial sector contains 5 subcategories (Appendix A).

Pakistan's exports to the US during 2003–2023 show a consistent upward trajectory, reaching USD 5.18 billion in 2023. However, the bulk of these exports were manufactured goods, particularly textiles and apparel. These items are highly susceptible to price changes due to their competitive and low-margin nature. Major export items include apparel and clothing accessories, worn clothing and rugs, cotton, raw hides and skins, and furniture. Given that textiles constitute a significant portion of Pakistan's exports to the US, any tariff increases on these products could substantially affect Pakistan's export revenues.

[3] The Climate Watch greenhouse gas emissions dataset, also known as the Climate Analysis Indicators Tool dataset, is accompanied by an explanatory document that defines the agricultural sector and distinguishes between subsectors within the manufacturing and industrial sectors. We explore Pakistan's exports to the US in these three broad economic sectors from 2003–2023 using these definitions. See World Resources Institute (2022).

Figure 1: Pakistan's exports to the US



Source: United Nations Comtrade database.

Potential Impact of US Tariff Policies: Methodology

Our analysis shows that even a modest tariff could potentially impact Pakistan's export revenues adversely, given that the US is a significant trading partner, especially for textiles and apparel. To estimate and quantify the impact of the US tariff hike on Pakistan's exports, we adopt a structured multi-step approach that combines historical export trends with economic modeling. The first step is to establish a baseline projection of Pakistan's exports to the US in the absence of any new tariffs. This projection uses the average annual bilateral export growth rate of 2.63 percent (2003–2023) to estimate future exports from 2025 to 2028, creating a counterfactual scenario that reflects business-as-usual growth trends without policy disruption.

The second step focuses on the price elasticity of demand for Pakistan's exports to the US. Using estimates from Pakistan's long-run export demand function (Appendix B), a price elasticity (ε) of -0.4 is applied. This means that for every 1-percent increase in the price of exports, demand would decline by 0.4 percent, assuming all other factors remain constant. In this context, a 30-percent increase in export prices, reflecting the full burden of tariffs being passed on to US consumers, would be expected to reduce export revenue by approximately 12 percent.

In the third step, we estimate the potential decline in exports under the tariff scenario. The export values from the baseline scenario are adjusted downward according to the expected reduction due to the price increase. This process is carried out at both the aggregate export level and for key sectors like manufacturing and textiles, which are major contributors to Pakistan's US-bound exports.

Finally, a sensitivity analysis is conducted to capture a range of outcomes. If manufacturers absorb some of the increased price, the reduction in export revenues could be lower. Therefore, recognizing that exporters may not pass the entire cost of the tariff on to US buyers, we consider partial pass-through scenarios, leading to effective price increases of 15 percent and 10 percent. Each scenario is then used to recalculate the expected decline in exports, offering a range of possible impacts depending on how exporters and consumers share the burden of increased costs. This approach allows a nuanced understanding of how different tariff intensities and price responses affect Pakistan's trade performance.

Potential Impact on Pakistan's Exports: Results and Projections

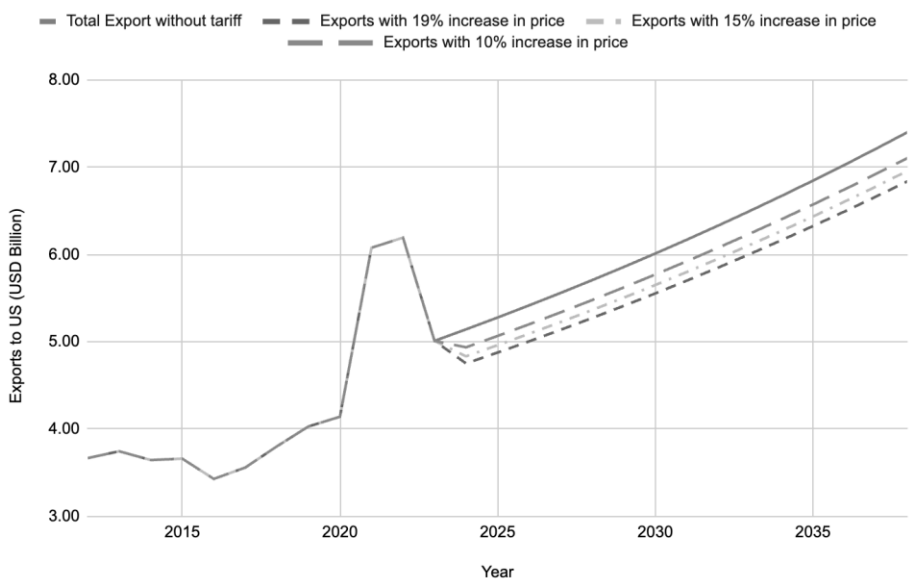
Our analysis of the impact of US tariffs on Pakistan's exports reveals a concerning outlook under the scenario of the imposed 19-percent tariff. Passing the entire burden of the tariff on to US consumers would raise the effective price of Pakistani exports substantially, leading to a significant decline in demand. With a price elasticity of export demand estimated at -0.4, a 19-percent increase in export prices would correspond to a 7.6-percent reduction in export revenue. This translates to an estimated loss of USD 0.40 billion in 2025 alone from the projected baseline level. Extending this estimate over a five-year period (2025–2029) could result in a cumulative loss of USD 2.11 billion in export revenues.

In a scenario where manufacturers partially absorb the increased price, and the effective price increase is limited to 15 percent, the reduction in export revenue would be 6 percent, which amounts to USD 0.32 billion in 2025 and a five-year aggregate loss of USD 1.67 billion. If the price increase is limited to ten percent, 2025 export revenues could potentially drop by USD 0.21 billion (four percent), while the cumulative loss over five years could decrease to USD 1.12 billion (Figure 2 and Table 1).

Table 1: Projected changes in exports to the US under alternative tariff rates

Tariff rate	Export loss in 2025	Five-year aggregate loss (2025–2029)
19%	USD 0.40 billion (7.6%)	USD 2.11 billion
15%	USD 0.32 billion (11.6%)	USD 1.67 billion
10%	USD 0.21 billion (7.6%)	USD 1.12 billion

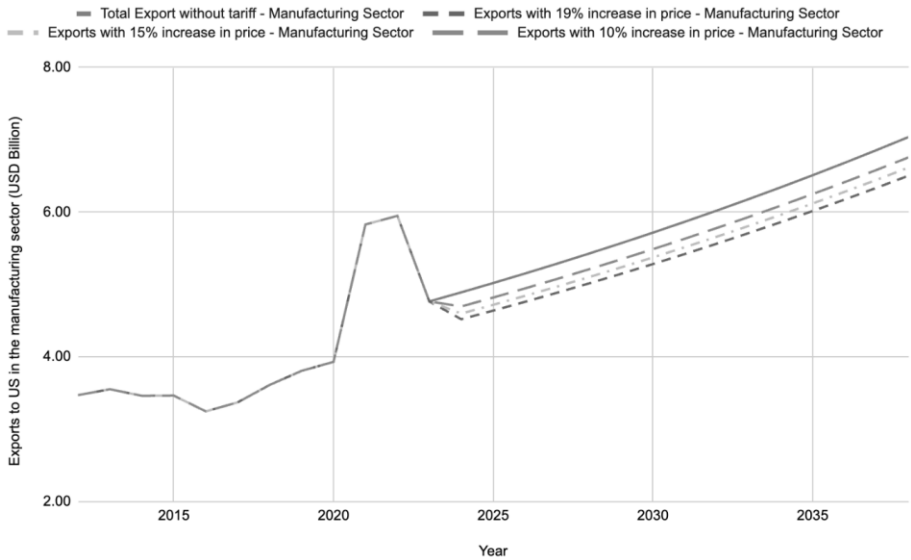
Figure 2: Potential decrease in Pakistan's exports to the US under various tariff rates



Source: authors' calculations.

At the sectoral level, the manufacturing and textile industries are especially vulnerable due to their dominant share in Pakistan's export profile to the US. For the manufacturing sector, a 19-percent tariff is projected to cause a USD 0.38 billion reduction in exports in 2025 and a USD 2.01 billion cumulative loss over 2025–2029 (Figure 3). Under lower effective tariff burdens of 15 percent and 10 percent, the manufacturing sector could still experience export revenue declines of USD 0.30 billion and USD 0.20 billion in 2025, respectively, translating to corresponding five-year losses of USD 1.59 billion and USD 1.06 billion.

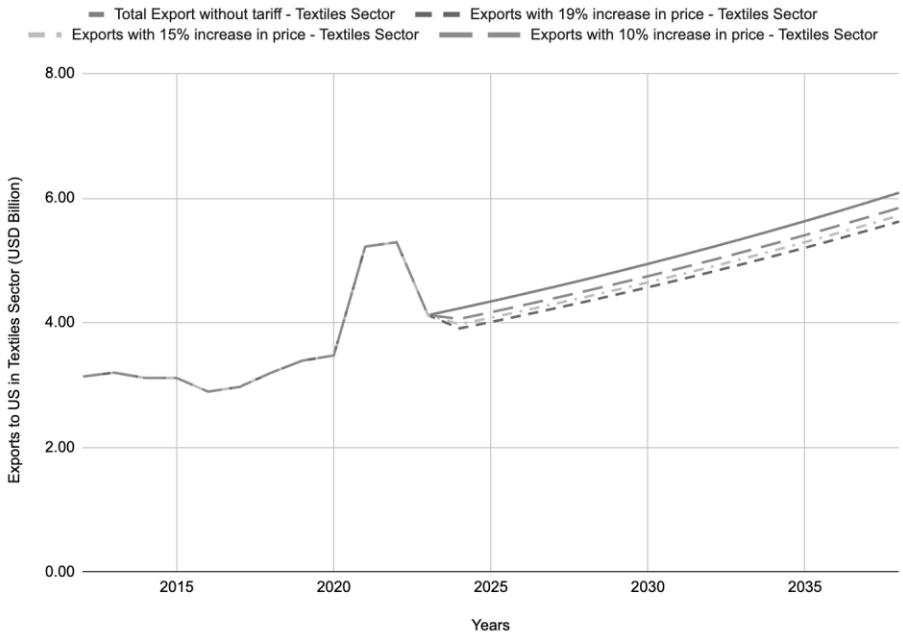
Figure 3: Potential decrease in Pakistan's exports to the US under various tariff rates in the manufacturing sector



Source: Authors' calculations.

The textile sector, which represents a significant portion of Pakistan's exports to the US, faces considerable losses. The full 19-percent tariff pass-through would lead to a USD 0.33 billion export reduction in 2025, with an estimated USD 1.74 billion cumulative loss over five years. For effective price increases of 15 percent and 10 percent, the one-year decline in textile exports is expected to be USD 0.26 billion and USD 0.17 billion, respectively, with corresponding five-year cumulative reductions of USD 1.37 billion and USD 0.92 billion (Figure 4).

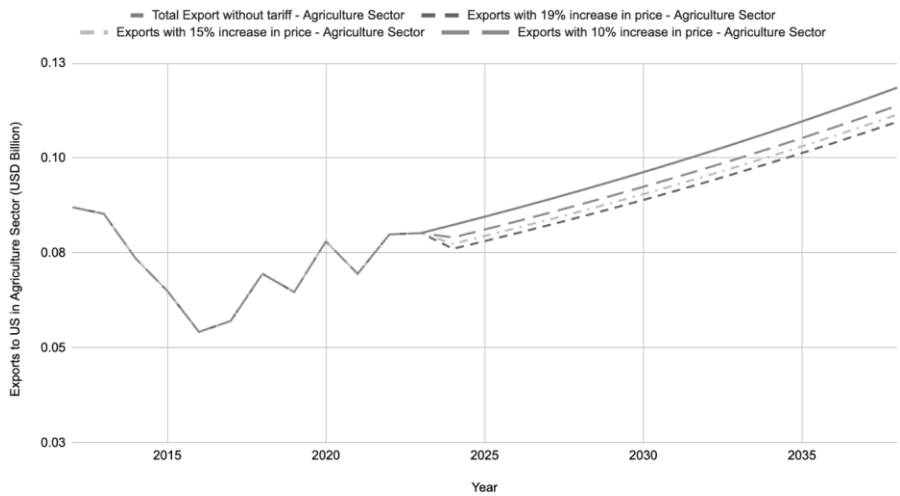
Figure 4: Potential decrease in Pakistan's exports to the US under various tariff rates in the textile subsector



Source: Authors' calculations.

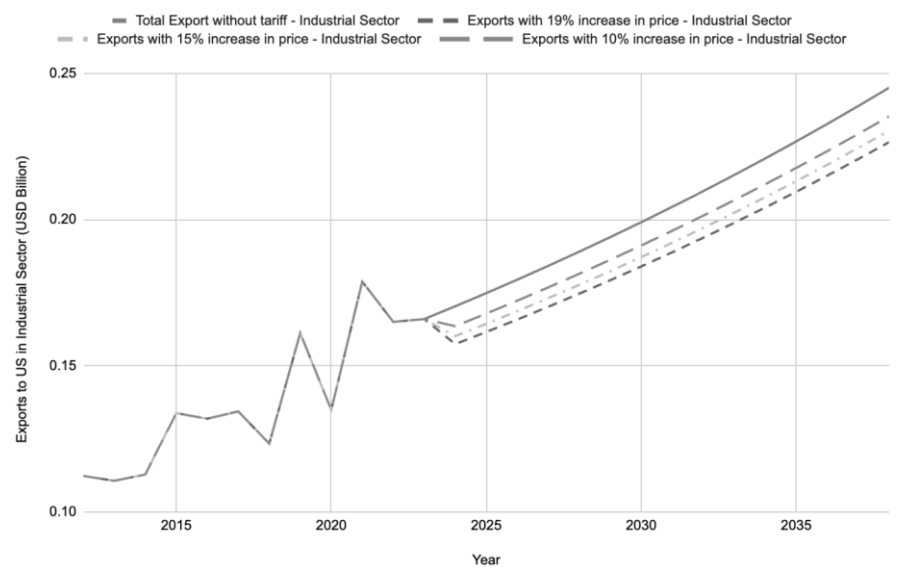
For the agricultural sector, a 19-percent tariff is projected to cause a USD 6.43 million reduction in exports in 2025, and a USD 33.87 million cumulative loss over 2025–2029 (Figure 5). The impact is cushioned under lower effective tariff burdens of 15 percent and 10 percent as the estimated loss of exports in 2025 amounts to USD 5.07 million and USD 3.38 million, respectively. This loss translates to USD 26.7 million and USD 17.82 million over five years. Likewise, for the industrial sector, a 19-percent tariff is projected to cause a USD 13.3 million reduction in exports in 2025, and a USD 70.03 million cumulative loss over 2025–2029 (Figure 6). Under lower effective tariff burdens of 15 percent and 10 percent, the estimated loss of exports in 2025 amounts to USD 10.5 million and USD 7.0 million, respectively. The corresponding figures for the cumulative five-year loss are USD 55.23 million and USD 36.86 million. These findings highlight the potential vulnerability of Pakistan's export sector to external trade policy shocks.

Figure 5: Potential decrease in Pakistan's exports to the US under various tariff rates in the agricultural sector



Source: Authors' calculations.

Figure 6: Potential decrease in Pakistan's exports to the US under various tariff rates in the industrial sector



Source: Authors' calculations.

Beyond direct price-related effects, we also consider potential macroeconomic risks, such as the onset of a global recession that may accompany escalating trade wars. Based on Pakistan's long-run estimated income elasticity of export demand (Appendix B), a one-percent decline in foreign income growth could reduce Pakistan's exports by USD 52.6 million to USD 87.8 million in 2025. If such a downturn persists, the five-year export loss attributable solely to reduced foreign income could fall to the range of USD 0.28 billion–0.46 billion.

Having stated these risks, it is important to emphasize that Bangladesh, Vietnam, and China, which are Pakistan's key competitors in apparel and textiles, face even higher tariffs. Trade diversion from these areas could shift demand toward Pakistani exporters, partially offsetting losses. Similarly, US buyers may negotiate pricing adjustments where Pakistani exporters absorb part of the tariff burden, thereby softening the impact on volumes exported. However, this would likely come at the cost of reduced margins for producers.

Mitigation Strategies

While the short-term effects of the tariff shock may appear manageable due to relatively inelastic demand, sustained tariff pressure is projected to significantly erode Pakistan's export earnings, particularly in textiles and manufacturing. The losses could be further exacerbated by external macroeconomic shocks unless proactive and adaptive trade and industrial strategies are implemented. A successful mitigation strategy hinges on a multi-pronged approach. This would involve enhancing export competitiveness by improving productivity, diversification, and value addition; exploring alternative markets and trade agreements; and implementing policy and institutional reforms to facilitate trade.

As trade liberalization episodes may incorporate both export-enhancing and export-reducing developments (Jamil et al., 2024), the cornerstone of effective mitigation is undertaking comprehensive structural reforms such that productivity gains offset tariff disadvantages and protect the country's competitive edge in global markets (Lovo & Varela, 2022). In response to the significant risk potentially posed by the imposition of a 19-percent US tariff on Pakistani exports, particularly in the textile and manufacturing sectors, Pakistan must adopt a strategy comprising immediate and medium- and long-term interventions. These strategies could buffer the economy against immediate revenue losses, reposition key industries to regain competitiveness, and build long-term resilience through structural transformation.

In the immediate term, Pakistan's policymakers must strategize to capture more of the US market share as countries like China, Bangladesh, and Vietnam become less competitive. They can also focus on diplomatic engagement to seek tariff concessions or exemptions. Pakistan can negotiate for lower tariffs by highlighting its adherence to international standards or aligning with US trade interests. Additionally, Pakistan can look inward and work on reducing its own tariff and non-tariff barriers, particularly for US products, to create grounds for reciprocal reductions. These concessions could be instrumental in improving terms of trade and increasing Pakistani exports' competitiveness in the US market.

In the medium term, Pakistan must shift its focus toward increasing value addition and upgrading production processes in export-oriented industries. The priority should be to lower operating costs by relying on renewable energy resources more than fossil fuels. Similarly, the textile sector should transition from low value-added apparel to higher-end fashion, technical textiles, and branded goods. Establishing vertical integration, i.e., combining raw material production with finished goods manufacturing, could help reduce input costs and improve competitiveness. Moreover, Pakistan should invest in building institutional capacity to respond proactively to international trade restrictions. This could be achieved by enhancing market intelligence to anticipate trade-related challenges, improving trade defense infrastructure to counter unfair trade practices, and supporting export diversification at the policy level through targeted incentives and assistance programs. Strengthening relationships with emerging markets could reduce dependence on a few concentrated destinations like the US.

In the long term, the emphasis should be on transforming Pakistan's export base and upgrading industrial productivity. Export diversification is essential in terms of both product variety and market destinations. Pakistan must expand beyond traditional textiles and explore sectors like pharmaceuticals, IT services, light engineering, agro-processing, and electronics assembly. Diversification into non-traditional markets such as Central Asia, Sub-Saharan Africa, and Latin America will also reduce vulnerability to shocks in any one region. Such measures will make Pakistani exports more resilient to future non-tariff barriers, such as environmental regulations like the EU's Carbon Border Adjustment Mechanism.

Ultimately, the impact of US tariffs should serve as an early warning for Pakistan to reform its export sector. Rather than reacting to shocks, the country

must embed resilience into its export strategy by pursuing renewable energy adoption, moving up the value chain, and diversifying into new related products.

Conclusion

The imposition of a 19-percent tariff by the US on imports from Pakistan is an external shock with wide-ranging implications for Pakistan's export-dependent economy. Our methodology reveals that the estimated revenue losses could be as high as USD 0.40 billion in 2025 and USD 2.11 billion over the period of 2025–2029. This could be a concerning development given Pakistan's reliance on the US market, particularly textiles and manufacturing. Sector-specific estimates reveal the acute exposure of textiles to tariff shocks, and even that of smaller sectors like agriculture and industry. While the direct economic consequences are quite severe, the potential compounding effect of a global recession could deepen export contractions further. A one-year loss in export revenues could be as much as USD 87.8 million, and the five-year cumulative loss could be USD 0.46 billion.

However, our analysis also highlights potential offsets through trade diversion, as higher tariffs on competing countries like China, Bangladesh, and Vietnam may shift demand toward Pakistani goods, provided Pakistan remains cost competitive.

Mitigating the economic impact of a possible tariff barrier requires a multi-pronged approach. Pakistan must secure short-term relief through diplomacy and by taking advantage of comparatively lower tariffs. It must enhance value addition and compliance capabilities in the medium term and pursue broad-based export diversification and technological transformation in the long term. Structural reforms in energy efficiency, institutional trade support, and product sophistication are central to this vision. In essence, while US tariffs pose a serious challenge, they also present Pakistan with a critical opportunity to reconfigure its export ecosystem and strengthen long-term resilience in the face of possible future tariff or non-tariff shocks.

References

Abbas, S., & Waheed, A. (2015). Pakistan's potential export flow: The gravity model approach. *The Journal of Developing Areas, 49*(4), 367–378.

Asmatullah, & Khalil, H. (2021). Pakistan USA relations: Prospects and dynamics in a new world order. *Global Political Review, 6*(1), 66–73.

Federation of Pakistan Chambers of Commerce and Industry. (2024, December 25). *Pak-US trade volume crosses $7bn mark in 2023: FPCCI* [Press release]. https://www.brecorder.com/news/40339438

Handley, K., Kamal, F., & Monarch, R. (2020, October 16). *Beyond imports: The supply chain effects of trade protection on export growth.* US Federal Reserve. https://www.federalreserve.gov/econres/notes/feds-notes/beyond-imports-the-supply-chain-effects-of-trade-protection-on-export-growth-20201016.html

International Trade Administration. (2024, January 12). *Pakistan - Market overview.* https://www.trade.gov/country-commercial-guides/pakistan-market-overview

Jamil, N., Chaudhry, T., & Chaudhry, A. (2024). Trade liberalization and carbon emissions: Firm-level evidence from Pakistan.

Kuusi, T., Björklund, M., Kaitila, V., Kokko, K., Lehmus, M., Mehling, M., Oikarinen, T. S., Pohjola, J., Soimakallio, S., & Wang, M. (2020, October 29). *Carbon border adjustment mechanisms and their economic impact on Finland and the EU.* Research Institute of the Finnish Economy. https://www.etla.fi/en/publications/carbon-border-adjustment-mechanisms-and-their-economic-impact-on-finland-and-the-eu/.

Lovo, S., & Varela, G. (2022). Internationally linked firms and productivity in Pakistan: A look at the top end of the distribution. *The Journal of Development Studies, 58*(10), 2110.

Mustafa, G., & Hussain, S. (2023). What are the factors making Pakistan's exports stagnant? Insight from literature review. *The Pakistan Development Review, 62*(3), 449–460.

World Resources Institute. (2022). Climate watch country greenhouse gas emissions data method note. https://wri-sites.s3.us-east-

1.amazonaws.com/climatewatch.org/www.climatewatch.org/climate-watch/wri_metadata/CW_GHG_Method_Note.pdf

Zeshan, M., Farooq, S., & Qadir, U. (2025). Impact of unilateral tariff increase by United States on Pakistani exports. *PIDE Policy Viewpoint, 46.*

Appendix A: Subcategories Within the Agricultural, Manufacturing, and Industrial Sectors

Agriculture	HS 2-digit codes
01	Animal products
02	Animal products
03	Animal products
04	Animal products
05	Animal products
06	Vegetable products
07	Vegetable products
08	Vegetable products
09	Vegetable products
10	Vegetable products
11	Vegetable products
12	Vegetable products
13	Vegetable products
14	Vegetable products
15	Animal or vegetable oils

Manufacturing	HS 2-digit codes
16	Food, beverages, and tobacco
17	Food, beverages, and tobacco
18	Food, beverages, and tobacco
19	Food, beverages, and tobacco
20	Food, beverages, and tobacco
21	Food, beverages, and tobacco
22	Food, beverages, and tobacco
23	Food, beverages, and tobacco
24	Food, beverages, and tobacco
28	Chemical products
29	Chemical products
30	Chemical products
31	Chemical products
32	Chemical products
33	Chemical products
34	Chemical products

Manufacturing	**HS 2-digit codes**
35	Chemical products
36	Chemical products
37	Chemical products
38	Chemical products
39	Plastics and rubber
40	Plastics and rubber
41	Raw hides and skins
42	Raw hides and skins
43	Raw hides and skins
44	Wood
45	Wood
46	Wood
47	Wood
48	Wood
49	Wood
50	Textiles
51	Textiles
52	Textiles
53	Textiles
54	Textiles
55	Textiles
56	Textiles
57	Textiles
58	Textiles
59	Textiles
60	Textiles
61	Textiles
62	Textiles
63	Textiles
64	Textiles
65	Textiles
66	Textiles
67	Textiles
68	Stones and glass
69	Stones and glass

Manufacturing	HS 2-digit codes
70	Stones and glass
71	Pearls and precious metals
72	Base metal
73	Base metal
74	Base metal
75	Base metal
76	Base metal
78	Base metal
79	Base metal
80	Base metal
81	Base metal
82	Base metal
83	Base metal
84	Nuclear
86	Transport equipment
87	Transport equipment
88	Transport equipment
89	Transport equipment
91	Clocks and musical instruments
92	Clocks and musical instruments
93	Arms
94	Misc. manufactured
95	Misc. manufactured
96	Misc. manufactured
97	Arts and antiques
98	Arts and antiques

Industry	HS 2-digit codes
85	Electrical
90	Optical
25	Minerals
26	Minerals
27	Minerals

Appendix B: Export demand function (1994–2020)

Johansen normalization restriction imposed:

Beta	Coefficient	Std. error	z-stat.	P > |z|	95% confidence interval
Ln-exports	1				
Ln-foreign-GDP (weighted by export share)	-1.234263	0.1921181	-6.42	0	-1.610808, -0.8577187
Ln-PPP	0.3724517	0.2622682	1.42	0.156	-0.1415844, 0.8864879
Constant	5.402005				

GDP = gross domestic product, PPP = purchasing power parity.