Pakistan's Shift Towards Export-Led Growth

Understanding the 2025–2026 Trade Policy Reform and Its Economic Implications

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Background and Strategic Rationale

In June 2025, Pakistan unveiled its most comprehensive trade policy reform in over three decades as part of the 2025–2026 fiscal budget. The reform is central to the country's transition from a consumption-driven, import-dependent economy to an export-oriented growth model.

Key drivers for the reform include the following:

- **Chronic balance of payment crises** and rising external vulnerabilities
- **Overreliance on import taxes** for fiscal revenue, distorting investment flows
- **Low global competitiveness** and declining export-to-GDP ratios
- **Lagging industrial productivity**, compounded by high input costs

Prime Minister Shehbaz Sharif described the reform as a *"turning point"* toward a modern, open economy, while Finance Minister Muhammad Aurangzeb referred to it as a *"fundamental DNA change"* for the economy. The reform aligns with Pakistan's URAAN economic blueprint and broader IMF-supported structural transformation agenda.

As ***Dr. Manzoor Ahmad, Member of the Steering Committee for the Implementation of the National Tariff Policy 2025–30***, emphasizes:

"For too long, Pakistan's economy has trailed behind its regional peers, held back especially over the past 15 years by weak export performance. Yet the experience of other developing nations shows that this trajectory can be reversed. By embracing deeper regional and international integration, they unlocked new markets, attracted investment, and accelerated growth. Pakistan can do the same.

The Tariff Policy 2025–30 marks a bold and timely step toward opening our economy to the world. This paper highlights the policy's background and key features, and shows how, if implemented effectively, it can create new opportunities, strengthen competitiveness, and set Pakistan on a path to sustained prosperity despite the challenges ahead."

Export Performance and Structural Challenges

- Exports as % of GDP have fallen from over 15% in the 1990s to just 10.4% in 2024, while Pakistan's export potential is estimated at 26% of GDP. Current levels of exports are therefore estimated to be only half of the economy's potential, indicating significant room for expansion.
- Firms face compounding constraints: a misaligned exchange rate, high energy costs, limited trade finance, and complex regulations.
- Import duties on raw materials and intermediate goods severely undermined firm productivity, pushing businesses toward the domestic market and away from global value chains.
- Import substitution and tariff cascading policies made it more profitable for domestic assemblers/manufacturers to sell in the domestic market rather than export.

Core Elements of the Reform (2025–2030)

The trade policy reform is a central component of the broader National Tariff Policy (2025–2030) and targets tariff simplification, cost reduction, and institutional realignment over a five-year horizon:

Policy Area	Reform Measures
Tariff Reduction	PKR 120 billion in import tax cuts; max customs duty reduced to 15% (down from 20%, or higher in some cases, such as the auto sector)
Tariff Slabs	Simplified from 5 slabs to 4: 0%, 5%, 10%, and 15%
Additional Customs Duties (ACDs)	To be eliminated on 4,000 tariff lines within 4 years
Base Customs Duties	Reduced on 2,700 lines, with focus on raw materials & intermediates, directly supporting export-oriented industries
Regulatory Duties (RDs)	To be phased out entirely within 5 years
5th Schedule	Phased out over 5 years (special exemptions focused on capital goods and industrial inputs)
Tariff Peaks	Eliminated for greater predictability and transparency
Institutional Reform	Tariff policy shifted to the National Tariff Board for coherence

Policy Area	Reform Measures
Non-Tariff Measures	Streamlining of standards, certifications, and licensing procedures to facilitate trade flows

These changes aim to:

- **Lower production costs** for export-oriented firms
- **Improve investor confidence** and policy clarity and policy consistency
- **Strengthen backward linkages** between imports and exports
- Shift the tariff structure from import substitution to export-led growth

Economic Modeling by the World Bank: Expected Impact of Tariff Reform

Using a Computable General Equilibrium (CGE) model, the World Bank projected medium-term economic gains from full implementation of the proposed reforms:

Indicator	Expected Impact (% Increase)
GDP	+0.2%
Exports	+13.0%
Imports	+9.0%
Investment	+6.6%
Trade Balance	+4.0%
Tariff Revenue	+2.4% *(despite rate reduction)*
Employment	+300,000 jobs *(absolute figure)*

Key Insight: Despite fears of a revenue collapse or import surge, the model shows modest, sustainable impacts, with export gains outpacing import growth and no unsustainable fiscal deterioration.

Key Opportunities

Pakistan's new trade policy reform not only addresses structural weaknesses but also opens up important opportunities for the country to reposition itself in the global economy. By lowering trade barriers, rationalizing tariffs, and increasing competitiveness, Pakistan is now better placed to capture new markets, attract investment, and integrate into global value chains.

The reform creates:

- An opportunity for deeper integration into the global economy.
- A strong case for joining RCEP, which aims to be the world's largest trading bloc covering nearly all Asia-Pacific countries. Notably, Bangladesh and Sri Lanka have already applied for membership, highlighting a regional momentum that Pakistan could leverage.
- Much better positioning to market itself as a "China+1" manufacturing alternative, attracting foreign firms seeking supply chain diversification outside of China.
- A chance to increase participation in Global Value Chains, moving from less than 5% currently to levels above 40%, as seen in peer countries like Vietnam and Malaysia.

Taken together, these opportunities highlight the potential for Pakistan to transform its trade orientation beyond South Asia and firmly anchor itself within global supply chains. If supported by complementary reforms and effective policy execution, the reform agenda could help Pakistan achieve not only higher exports but also broader economic diversification and resilience.

Key Challenges and Risks

While the medium- to long-term outlook is positive, several short-term risks could complicate the reform's implementation:

- **Foreign Currency Pressure:** Lower import duties are supposed to lead to rising imports and increased foreign exchange outflows, putting pressure on reserves. Unless export growth accelerates and brings in sufficient foreign currency inflows, this could exacerbate Pakistan's vulnerabilities.
- **Short-Term Revenue Loss:** The government projects a revenue shortfall of PKR 512 billion. Though offset over time by higher import volumes, the immediate fiscal gap may strain the budget.
- **Balance of Payments Risk:** A 1% tariff reduction could increase the trade deficit by up to 1.7%, as estimated by the Finance Ministry, unless export growth materializes in time.
- **Sectoral Concerns:** Domestic industries—particularly in automotive and light manufacturing—fear intensified foreign competition and erosion of local market share.

- **Structural Cost Factors:** Some sectors may not fully benefit from cheaper imports due to persistent structural challenges, such as high energy prices and productivity gaps.

These factors underscore not only the need for careful sequencing and pacing of tariff reforms also highlight the critical importance of advancing complementary structural reforms, as outlined below, to ensure the long-term success and stability of Pakistan's export-led growth strategy.

Complementary Reforms Required

The World Bank and the International Monetary Fund (IMF) strongly emphasize that tariff reform alone is insufficient. It must be paired with broader structural and institutional changes, including:

1. **Foreign exchange market reform:** Ensure a liquid, market-based exchange rate.
2. **Energy sector efficiency:** Deliver affordable, reliable power to industry.
3. **Trade finance access:** Expand credit access to exporters.
4. **Business environment improvements:**
    - Launch of a single business registry
    - New Investment Act
    - Establishment of the National Regulatory Delivery Office
    - Stronger competition and insolvency frameworks
5. **Modernise the National Tariff Commission** to enable it to deal with any likely increase in unfair trade practices such as dumping, subsidised exports, and import surges.

These reforms are designed to unlock Pakistan's export potential and make the economy more resilient, diversified, and globally integrated.

This view is echoed by the **Overseas Investors Chamber of Commerce and Industry (OICCI)**, which has welcomed the reform as a step toward improving industrial competitiveness and investor confidence.

"The OICCI acknowledges the Fiscal Budget 2025–2026 as a step forward in addressing some of Pakistan's economic challenges. Positive measures such as the introduction of a Carbon Levy and the increased income tax threshold for salaried individuals reflect efforts to create a more equitable and sustainable fiscal framework. However, the Chamber believes that considerable scope remains to further improve the investment climate through a more structured approach to tax reform and greater expenditure efficiency. We continue to emphasize the need for fiscal discipline, rationalization of government spending,

and simplification of tax processes, all of which are critical to promoting investor confidence and enhancing foreign direct investment.

The Chamber welcomes the reduction in import duties as a constructive move toward tariff rationalization, which could improve industrial competitiveness and exports. Complementary efforts such as lowering energy costs, advancing fair trade practices, and securing strategic Free Trade Agreements will be vital to sustaining investor interest and enhancing Pakistan's global economic integration."

— ***M. Abdul Aleem****, Chief Executive / Secretary General,* ***OICCI***

Legal and Compliance Implications for Businesses

The implementation of Pakistan's 2025–2026 trade policy reform also carries immediate implications for legal compliance and contract management. As regulatory frameworks shift rapidly to reflect tariff and procedural changes, businesses must prepare to respond with legal clarity and agility.

"The 2025–2026 trade policy reforms are set to introduce sweeping changes to the existing trade framework of the country which may direct the country towards an open and export-oriented economy. However, the significant set of changes would demand immediate legal and compliance attention from businesses.

With reduced customs duties across 2,700 tariff lines and the phased elimination of ACDs on over 4,000 lines, businesses must diligently revalidate the HS codes used in their import and export declarations and regularly monitor the Statutory Regulatory Orders (SROs) issued by the respective authorities to give effect to the said changes. Additionally, businesses may also wish to review / amend their contracts specifically the "change of law", "cost allocation" and "price adjustment" clauses to ensure that the tariff changes are handled as per their commercial intentions / needs. Last but not the least, businesses should take into account the short-term impact of the changes especially the "potential forex issues" and may amend the payment terms in their contracts, accordingly, going forward.

In this new environment, legal preparedness around classification, valuation, and contract adjustment is not optional—it is critical for uninterrupted trade and full realization of benefits that reforms would bring about."

— ***Usama Munir****, Head of Pakistan Practice at* ***SCHLÜTER GRAF Legal Consultants LLC*** *(Legal Partner of AHK UAE incl. Pakistan)*

Conclusion

Pakistan's 2025–2030 trade policy reform marks a pivotal shift in its economic orientation—moving from inward protectionism toward competitive, export-driven growth. The reform lays the groundwork for long-term gains in productivity, investment, and global integration.

However, success is not guaranteed. Short-term risks—particularly in fiscal revenue, trade balance, and sectoral competitiveness—must be actively managed. The reform's full impact will depend on the government's ability to implement complementary measures in foreign exchange policy, energy reliability, and regulatory streamlining.

If approached holistically and with policy coherence and policy consistency, this reform can serve as a cornerstone for Pakistan's economic transformation—unlocking its true export potential and fostering sustainable, inclusive growth over the coming decade.