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Mohammad Younus Dagha – **Chairman**
Dr. Usama Ehsan – **Head of Research**
Farah Atiq - **Lead Researcher**

PAK-USA Policy Brief: 2.0

Tackling US-Pakistan Trade Balance via Trade Diversions

Recommendations

Bilateral Trade Negotiation with the US

- Pakistan should initiate a strategic, bilateral trade negotiation with the U.S., following a model similar to India's. This negotiation should focus on resolving key non-tariff barriers and aim for a clear timeline of agreed outcomes.

Tariff Rationalization for US Good

- Extending concessions on 3,292 tariff lines—comparable to those offered to key partners like China, Malaysia, and Sri Lanka—is projected to boost imports from the United States by approximately $1.45 billion through trade diversion. This move would lower Pakistan's average tariff rate on U.S. goods from 29% to 21%, thereby enhancing trade efficiency and improving market access. It is further recommended that additional tariff lines be identified for liberalization through comprehensive consultations with relevant stakeholders, ensuring balanced and inclusive trade policy development.

Science-Based SPS Measures

- Pakistan should eliminate non-transparent SPS barriers, such as the beef import ban and the past GE soybean detentions, which have drawn U.S. criticism. These measures should be replaced with science-based risk assessments consistent with international standards.

Expanding and Diversifying Export Destinations

- Pakistan should focus on expanding its export markets by strengthening trade relations with China and Middle Eastern countries, while exploring new opportunities in emerging economies, particularly through the Central Asian Republics (CARs). Initiatives such as the "Look Africa" Plan provide a strategic framework to enhance market access and reduce reliance on traditional export partners.

Aligning Technical Standards

- In response to U.S. concerns regarding SRO 237, Pakistan should align its halal certification standards with international technical regulations such as those under Codex and ISO. This includes expanding the acceptance of credible halal certification bodies and ensuring timely notifications to the WTO regarding any changes.

Ensuring Uninterrupted Internet for Digital Trade Growth

- To address U.S. concerns about frequent internet disruptions that hinder digital trade and e-commerce, Pakistan should implement a legal framework that ensures uninterrupted internet access. This framework should limit arbitrary shutdowns, promote transparency in decision-making, and align with global best practices.

Reassess Tariff Structure on Key US Imports:

- Pakistan should review the application of Additional Customs Duty (ACD) and Regulatory Duty (RD) on key U.S. imports such as cotton, soybeans, machinery, and dairy/meat products. The objective should be to identify potential tariff reductions within the framework of WTO compliance.

Strengthen Intellectual Property (IP) Protection

- To address concerns about weak IPR enforcement, particularly in pharmaceuticals, digital content, and software, Pakistan should strengthen its IP enforcement mechanisms. This includes bolstering agency resources, streamlining judicial processes, and enhancing training for law enforcement and the judiciary on IP laws.

Incentivize Quality and Product Upgrading:

- Pakistan should introduce targeted incentives and support mechanisms to encourage textile exporters to improve product quality, diversify product lines, and adopt modern technologies. This is crucial for maintaining competitiveness in key markets like Vietnam, Bangladesh, China, and India, who are advanced in both quality and value-added segments.

1. Pakistan–USA Trade Dynamics

In 2024, the United States remained Pakistan's largest export destination, with exports totaling $5.47 billion, representing 17% of Pakistan's total exports. This resulted in a trade surplus of $3.33 billion for Pakistan. However, Pakistan's share in total U.S. imports remained small—just 0.1%, indicating untapped potential for growth.

Pakistan imports from US amounted to $2.14 billion in 2024. Over the past decade (2015–2024), Pakistan's exports to the U.S. grew steadily, increasing from $3.91 billion in 2015 to a peak of $6.28 billion in 2022, before stabilizing at $5.47 billion in 2024.

Pakistan's exports are primarily concentrated in textiles and apparel, particularly:

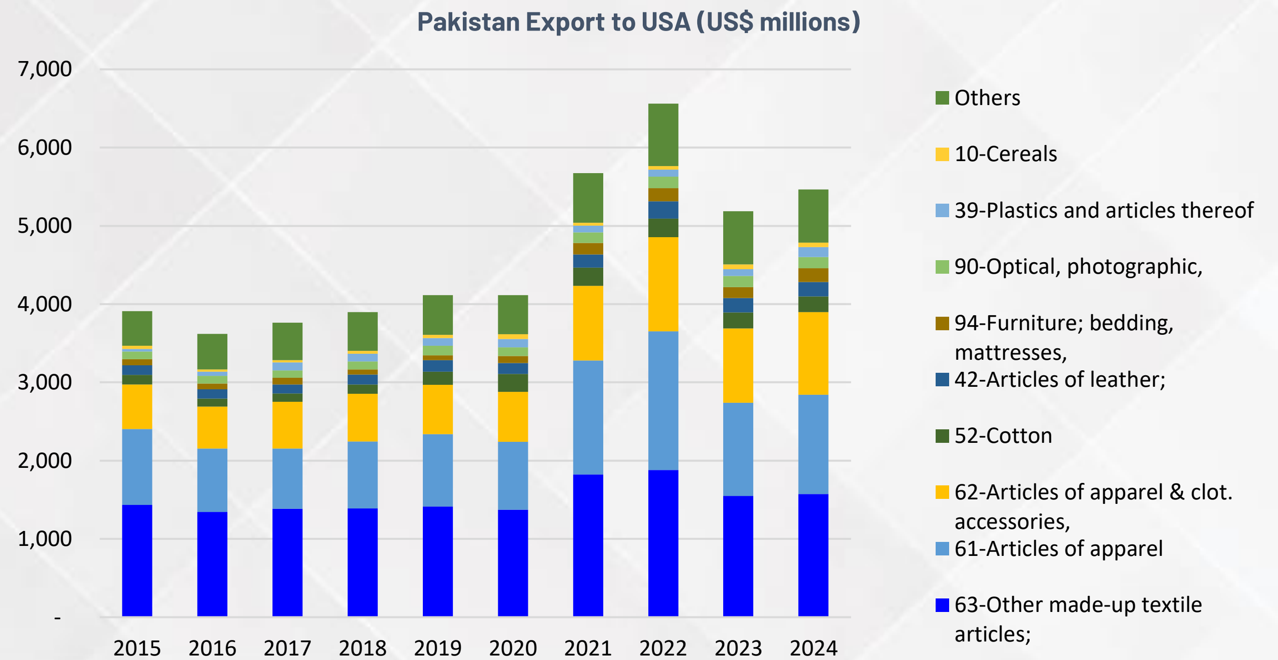
- **Other made-up textile articles (HS-63)**
- **Knitted or crocheted apparel (HS-61)**
- **Non-knitted apparel (HS-62)**

Together, textile categories consistently accounted for over 75% of total exports. Notably, apparel exports (HS-61 &62) nearly doubled—from $1.5 billion in 2015 to $3 billion in 2022. Exports of cotton (HS-52) remained stable but modest.

Encouragingly, there has been gradual product diversification in recent years, with rising exports of leather goods (HS-42), furniture (HS-94), and plastics (HS-39). On the import side, Pakistan's purchases from the U.S. have seen notable fluctuations:

- **Other made-up textiles (HS 63)**: Remained steady, rising from $1,436 million to $1,574 million, with a peak of $1,879 million in 2022.
- **Knitted apparel (HS 61)**: Increased from $966 million to $1,267 million, peaking at $1,774 million in 2022.

Figure 1 Trend of Pakistan's Export to USA



Source: Trade Map

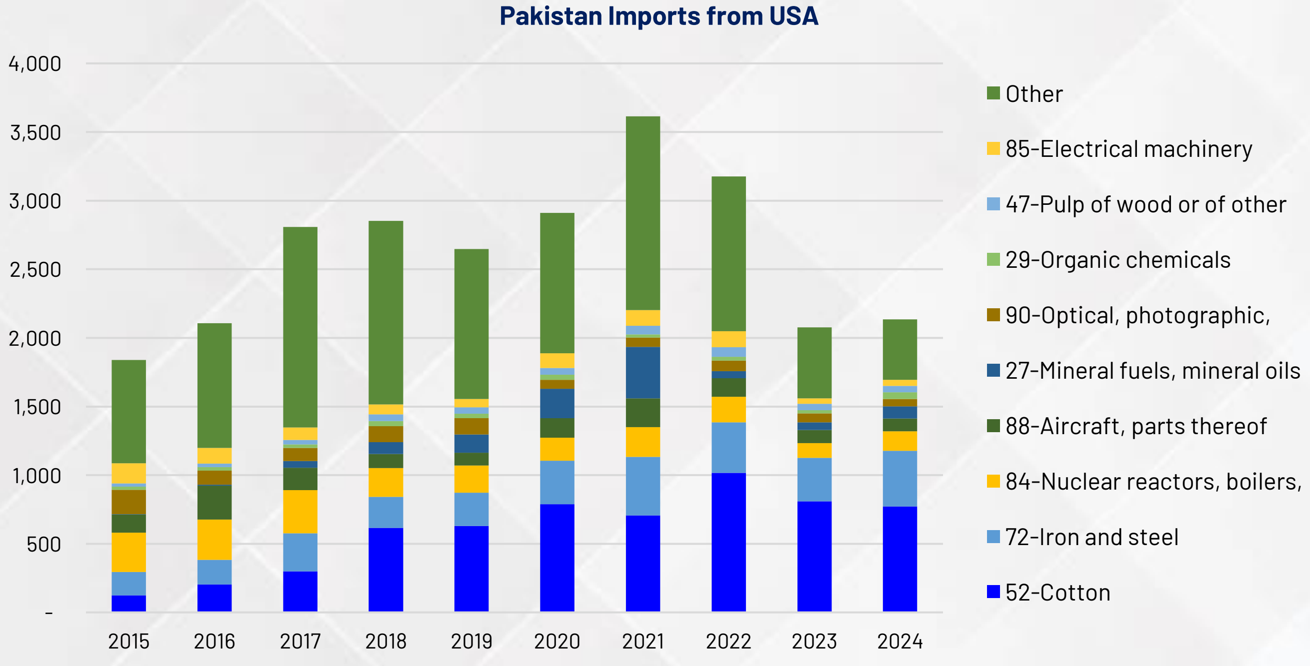
- **Woven apparel (HS 62)**: Doubled to $1,056 million, showing consistent growth.
- **Cotton (HS 52)**: Grew modestly from $122 million to $201 million, peaking in 2021.
- **Leather goods (HS 42**Grew modestly to $186 million, peaking in 2022.
- **Furniture (HS 94)**: Expanded from $78 million to $174 million, signaling rising demand.

Other categories, including medical and optical instruments (HS-90) and organic chemicals (HS-29), remained relatively stable. These trends highlight the need for targeted trade policies, investment in high-value manufacturing, and market diversification strategies to sustain and grow Pakistan's trade with the United States.

On the import side, Pakistan's purchases from the U.S. have seen notable fluctuations:

- **Cotton (HS-52):** Imports surged from $124 million in 2015 to $1,017 million in 2022, before dropping to $772 million in 2024..
- **Mineral fuels (HS-27) and iron and steel (HS-72):** Peaked in 2021 but then experienced sharp declines.
- **Machinery (HS-84):** Decreased from $294 million in 2016 to $141 million in 2024.
- **Aircraft, parts thereof (HS-88):** Saw steady decline, reaching $94 million in 2024.

Figure 2 Trend of Pakistan's Import from USA



Source: Trade Map

2. Expanding Tariff Concessions in U.S.-Pakistan Trade Negotiations

To strengthen bilateral trade and foster a more balanced economic partnership, Pakistan may consider proposing a reciprocal tariff concession framework with the United States. A Computable General Equilibrium (CGE) model using the Global Trade Analysis Project (GTAP) database is employed to assess the impact of simulating tariff cuts on Pakistan's imports, discussed below.

- **Precedent of Liberalization**: Pakistan has demonstrated considerable tariff liberalization through existing Free Trade Agreements (FTAs) with countries such as China, Malaysia, and Sri Lanka—providing a strong foundation for this proposal.
- **Tariff Offer:** Approximately 3,292 tariff lines could be offered to the United States under terms comparable to those in Pakistan's previous FTAs, reflecting Pakistan's commitment to open and fair trade.
- **Market Access Potential:** The proposed framework would extend access to a U.S. market exceeding USD 32 billion, enhancing the scope for bilateral trade.
- **Direct Concessions**: An additional USD 13.4 billion in U.S. exports could be supported via direct tariff concessions from Pakistan.
- **Tariff Reduction Impact:** The total estimated cumulative tariff reduction could reach up to 12 thousand percentage points in tariffs, providing a quantifiable basis for requesting reciprocal access from the U.S.

The framework would contribute to a more equitable and mutually beneficial trade relationship, aligning with Pakistan's broader economic diplomacy and trade diversification goals.

Table 1 Tariff Concessions under Pakistan's FTAs (China, Malaysia, Sri Lanka) & Trade Stats– 2024

Tariff Rates Applied on USA*	No. Tariff Lines	Exports to USA 2024 Mn	Imports from USA 2024 Mn	Trade Balance with USA 2024 Mn	Exports to World 2024 Mn	Imports from World 2024 Mn	Trade Balance with World 2024 Mn
0	1784	126	665	- 539	2,027	18,632	- 16,605
3	715	28	479	- 451	1,886	11,487	- 9,601
11	322	48	14	34	1,288	1,230	58
16	97	16	12	4	126	240	- 114
20	336	49	29	20	653	430	223
35	17	1	0	1	1	14	- 2
50	1	0	0	0	34	0	34
90	13	-	0	0	0	0	0
Rs. 120/KG	2	-	0	0	0	0	0
Rs. 2500/KG	3	-	5	-5	0	13	- 13
Rs. 5/m	2	-	-	0	0	0	- 0
Grand Total	3292	268	1,205	- 936	6,015	32,045	- 26,031

- **Tariff rates for 2024-25 imposed on the USA, where concessions have been granted to China, Malaysia, and Sri Lanka under respective trade agreements.**

Source: Trade Map & MoC

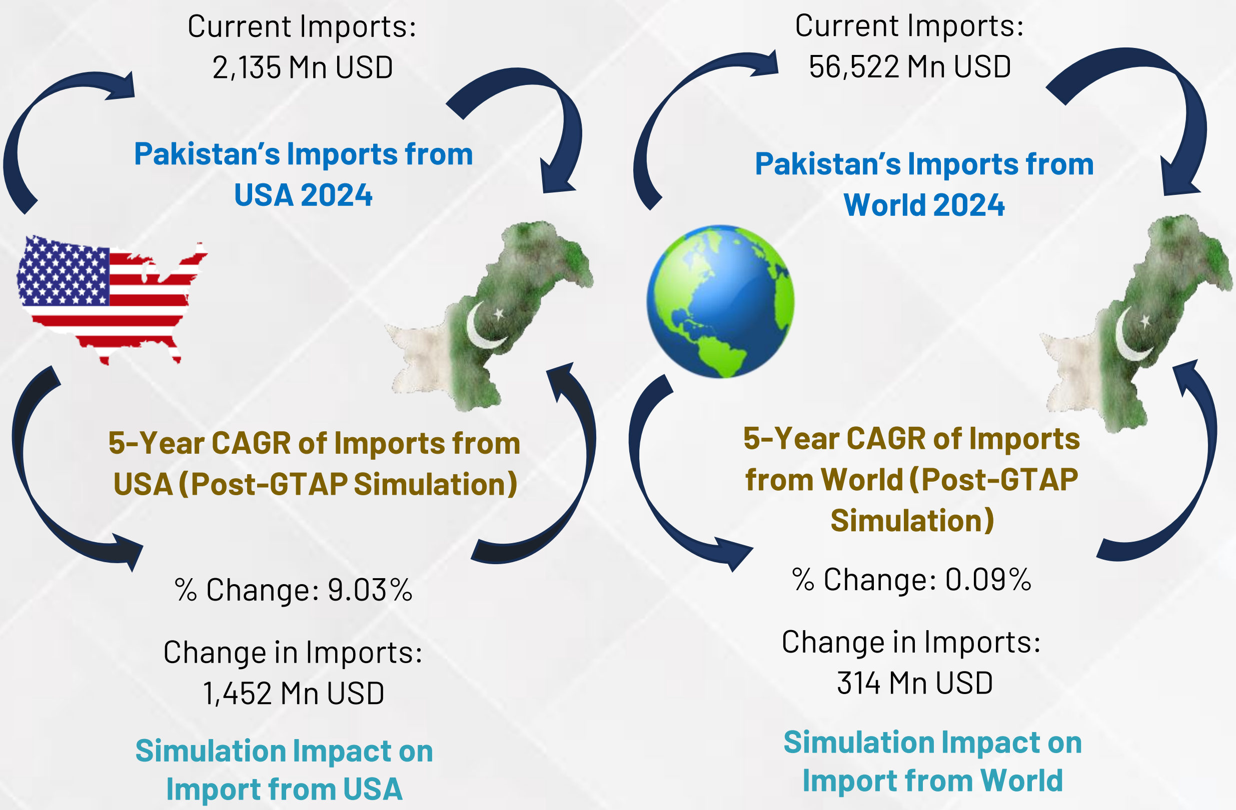
3. GTAP Simulation: U.S. Tariff Concessions Aligned with Existing FTAs

The GTAP model simulation demonstrates the potential impact of extending immediate zero-tariff concessions to the United States on 3,292 tariff lines—concessions that are already granted under Pakistan's Free Trade Agreements (FTAs) with China, Malaysia, and Sri Lanka.

The results indicate that such a reciprocal arrangement would lead to a significant increase in Pakistan's imports from the U.S., rising by CAGR 9.03%, from US$ 2,135 million to US$ 3,587 million, resulting in an increase of US$ 1,452 million post-five year after granting concessions. In contrast, Pakistan's total imports from the world would experience only a marginal rise of 0.09%, increasing by US$ 314 million, indicating a positive trade diversion effect, shifting imports toward the U.S. without significantly increasing overall import volumes.

FTA partners, could meaningfully boost bilateral trade without causing any major disruption to Pakistan's overall import portfolio. The results reflect Pakistan's capacity to accommodate enhanced market access within a targeted and manageable framework.

Figure 3 Projected Impact of Immediate Tariff Concession to the U.S. on Pakistan's Imports (GTAP Simulation – 2024)



Source: Authors' Estimation

5. U.S. Tariff Calculation Mechanism

The Trump administration's reciprocal tariff formula sets U.S. tariffs at about half the perceived trade barriers from partner countries. While this is presented as a fairness doctrine, the actual calculation method relies on trade deficit metrics.

$$\Delta\tau_i \approx \frac{x_i - m_i}{\varepsilon * \varphi * m_i} * 100 \quad \Rightarrow \quad 60\% \approx \frac{2,135 - 5,466}{4 * 0.25 * 5,466} * 100$$

Tariff on U.S. Goods Determined Through

x_i - represents the United States' exports to a partner country.
m_i - denotes the United States' imports from that partner country.
ε - is the price elasticity of import demand, which is assumed to be 4, and
φ - refers to the elasticity of import prices with respect to tariffs, set at 0.25.

$$\Delta\tau_i \approx \frac{x_i - m_i}{\varepsilon * \varphi * m_i} \div 2 * 100 \quad \Rightarrow \quad 29 \approx \frac{2,135 - 5,466}{4 * 0.25 * 5,466} \div 2 * 100$$

Reciprocal Tariff by U.S Determined Through

$$21 \approx \frac{3,107 - 6,302}{4 * 0.25 * 6,302} \div 2 * 100$$

Reciprocal Post-Concession Tariff Determined Using U.S. Method

Following the immediate concessions extended to China, Sri Lanka, and Malaysia, the application of the U.S. tariff reduction formula brings Pakistan's average tariff down from 29% to 21% over a five-year period. Given this improved position, Pakistan could leverage its current standing to negotiate a more favorable bilateral tariff reduction framework with the United States. By capitalizing on the reduced tariff rates, Pakistan could seek to secure better trade terms, aiming for further tariff concessions or preferential treatment that would enhance its export competitiveness and overall trade relations with the U.S.

4. U.S. Claimed vs. Actual Tariffs: A Closer Look

The gap between the U.S.-reported tariffs and the actual Most Favored Nation (MFN) rates reveals a broader, more strategic trade approach employed by the United States. Rather than strictly following published tariff schedules, the U.S. often inflates its reported tariff rates by including non-tariff barriers (NTBs). Furthermore, the U.S. considers factors like currency manipulation, state subsidies, and other trade distortions when assessing effective protection levels or market access. This discrepancy is evident in several developing economies, where the actual MFN tariffs are significantly lower than the U.S. claims.

For example, Cambodia faces a reported tariff of 97%, while its actual MFN rate is approximately 9%. In Vietnam's case, the claimed tariff is 90%, but the actual MFN rate is around 12%. For Pakistan, despite an actual MFN rate of about 10%, the U.S. claims a tariff of 58% on its goods.

Furthermore, the U.S. has recently imposed a 29% tariff on Pakistan, signaling that its trade policies are shaped not just by formal tariff schedules but also by perceived trade imbalances.

Countries with relatively low official tariffs, such as China and Vietnam, are still subjected to elevated U.S. tariffs due to allegations of unfair trade practices, including currency manipulation and the use of non-tariff barriers. This approach highlights the need for greater transparency, as the methodology used by the U.S. to calculate these claimed tariffs remains unclear and warrants further scrutiny.

Table 2 Impacted Countries by New US Tariffs – Comparative Tariff Rates and MFN Benchmarks

S. No.	Country	Tariff Claimed by the US (%) Including Currency Manipulation and Trade Barriers	New Tariff Charged by USA (%)	Actual Average MFN Rate Charged to USA (2023)
1	Cambodia	97%	49%	9%
2	Laos	95%	48%	9%
3	Madagascar	93%	47%	12%
4	Viet Nam	90%	46%	12%
5	Sri Lanka	88%	44%	8%
6	Myanmar	88%	44%	8%
7	Bangladesh	74%	37%	14%
8	Botswana	74%	37%	8%
9	Thailand	72%	36%	10%
10	China	67%	34%	8%
11	Taiwan	64%	32%	-
12	Indonesia	64%	32%	8%
13	Switzerland	61%	31%	5%
14	South Africa	60%	30%	8%
15	Pakistan	58%	29%	10%
16	Tunisia	55%	28%	20%
17	Kazakhstan	54%	27%	6%
18	India	52%	26%	17%
19	South Korea	50%	25%	13%
20	Japan	46%	24%	4%
21	Malaysia	47%	24%	6%
22	EU	39%	20%	5%
23	Jordan	40%	20%	4%
24	Nicaragua	36%	18%	6%
25	Philippines	34%	17%	6%

Source: Executive order & WTO

6. Global Trade Responses to US Tariff Actions

In the wake of the United States' imposition of elevated tariffs on key imports, countries across the globe responded in varied ways, shaped by their economic structures, trade dependencies, and geopolitical priorities. While some nations opted for retaliation, others pursued diplomatic engagement or internal cushioning measures.

- **Retaliatory Measures:** Major economies like China and Canada imposed reciprocal tariffs—China notably raising tariffs across key sectors, while Canada targeted U.S. auto exports. The European Union approved countermeasures but delayed their execution pending further negotiations.
- **Mitigation Strategies:** Countries such as Australia and South Korea introduced domestic support programs, subsidies, and incentives to protect vulnerable industries from the impact of U.S. tariffs.
- **Diplomatic Engagements:** Nations including India, Japan, and Pakistan have favored dialogue over confrontation. These countries are leveraging diplomatic channels to defuse trade tensions and explore mutually beneficial outcomes.
- **Pakistan's Constructive Approach:** Pakistan has pursued a negotiation-driven strategy by sending a delegation to the U.S. to advocate for fairer trade terms. This reflects a commitment to diplomacy, trade diversification, and building long-term strategic economic partnerships without escalating tensions.

This diverse set of global responses underscores the strategic balancing act countries must perform between protecting national interests and maintaining stable international trade relations.

Table 3 Country-Level Responses to April 2025 US Tariff Actions

Type of Response	Country/Region	Details	Date
Retaliated (Reciprocal Tariffs)	China	Increased duties from 34% → 84% → 125%; added US firms to Unreliable Entity & Dual-Use Export Control Lists; WTO dispute.	4–11 April 2025
	Canada	25% tariff on US autos; provincial countermeasures.	2–8 April 2025
Threatening Retaliation	Brazil	Declared intention to retaliate or go to WTO if talks fail.	2 & 9 April 2025
	Colombia	Warned reciprocal measures if local jobs impacted.	04-Apr-25
	EU (incl. France)	Approved countermeasures; paused implementation for 90 days. Macron suggested suspending US investments.	3–10 April 2025

Type of Response	Country/Region	Details	Date
Offsetting Measures	Australia	Announced subsidies to offset impact.	03-Apr-25
	Chile	Financial support for exporters; export diversification strategy.	10-Apr-25
	Chinese Taipei	$2.7B Export Supply Chain Support Plan.	03-Apr-25
	Colombia	Joint working group; trade diversification roadmap.	07-Apr-25
	Indonesia	Called for ending import quotas; strategic mitigation steps.	3 & 9 April 2025
	Japan	SME support via state loans.	03-Apr-25
	Portugal	EUR 10B "Reinforce Programme".	10-Apr-25
	Republic of Korea	KRW 100T liquidity plan; KRW 20T from Export-Import Bank; auto supply chain support.	3–11 April 2025
	South Africa	Investment in impacted industries; AfCFTA leverage.	04-Apr-25
	Spain	EUR 14.1B national plan + EUR 1.5B Catalonia support plan.	3 & 7 April 2025
	Canada (Provinces)	Ontario: CAD 11B relief; Manitoba: CAD 140.8M for agriculture; NL: Seafood Marketing Support Program.	2–7 April 2025
Seeking Negotiations	ASEAN	Expressed collective intent to negotiate with US.	10-Apr-25
	Bahamas	Engaging with US on new tariffs.	02-Apr-25
	Brazil	Pursuing talks; open to retaliation.	2 & 9 April 2025
	Chile	Using US-Chile FTA for dialogue.	10-Apr-25
	Chinese Taipei	Formed team to pursue zero-tariff deal.	06-Apr-25
	EU	Proposed zero-for-zero tariffs.	07-Apr-25
	Fiji	Initiated discussions with US.	03-Apr-25
	India	India confirmed ongoing trade talks with the US, and considered removing duties on US ethane, LPG, LNG, and other fuels.	06 & 16-Apr-25
	Indonesia	Sending delegation to Washington.	08-Apr-25
	Israel	PM aiming for tariff relief in US visit.	06-Apr-25
	Italy	Expressed desire to avoid trade war.	06-Apr-25
	Iraq	Open dialogue directive issued; seeking US market access.	05-Apr-25
	Japan	Launched good faith discussions.	07-Apr-25
	Kazakhstan	Requested tariff exemptions.	03-Apr-25
	Lesotho	Preparing delegation.	04-Apr-25
	Norway	Committed to exploring all options.	03-Apr-25
	Pakistan	Delegation being sent for a win-win deal.	05-Apr-25
	Peru	Requested 10% tariff suspension; deeper convergence talks.	09-Apr-25
	Philippines	Planning tariff reductions + US talks.	07-Apr-25
	Rep. Korea	Engaged US on lowering 25% tariff.	07-Apr-25
	South Africa	Seeking exemptions and quota deals.	04-Apr-25

Source: Global Trade Alert

7. U.S. Claims on Trade Barriers: Pakistan, India, and Bangladesh

According to U.S. claims, Pakistan's tariff burden is 58%, which includes the tariff equivalent of 14 non-tariff barriers (NTBs), such as SROs, unpredictable tariff hikes, and trade restrictions.

While Pakistan's MFN tariff rate of 10.3% is lower than India's (17%) and Bangladesh's (14.1%), NTBs can create trade challenges for U.S. exporters, particularly with issues like customs valuation, licensing requirements, and import bans. Similarly, the U.S. faces high tariffs and NTBs from India, such as mandatory certifications, while also having concerns over customs valuation and trade restrictions from Bangladesh.

The following table shows the 14 Non-Tariff Barrier categories defined by USA with their specific claims

Table 4 Impacted Countries by New US Tariffs —

Categories	U.S. Allegations on Pakistan	U.S. Allegations on India	U.S. Allegations on Bangladesh
Import Policies	- High tariffs (10.3% MFN) on goods like autos.	- Highest MFN (17%) with peaks at 150% (e.g., alcohol).	- High MFN tariffs (14.1%) on U.S. exports.
	- SROs used for import bans (e.g., wheat bans).	- Unpredictable tariff hikes (2019-2022).	- Lack of transparency in WTO notifications.
Technical Barriers	- SRO 237 mandates halal certificates, restricts overprinting, and requires 66% shelf-life.	- BIS standards (chemicals, telecom) are misaligned with norms, impose burdens (e.g., testing, site visits).	- No specific allegations.
	- Delayed WTO TBT notification (May 2020 after U.S. pressure).	- MTCTE & CRO require local testing, rejecting international lab results, raising U.S. costs.	
Sanitary & Phytosanitary	- Beef import ban (pending TIFA finalization). - GE soybean shipment detention (resolved 2024).	- Unscientific dairy requirements. - Non-GM certificate for 24 products. - Slow biotech approvals. - Zero-tolerance pest standards.	- No specific allegations.
Government Procurement	- U.S. bids used by Pakistani agencies to negotiate lower prices, disadvantaging U.S. firms.	- Preference for domestic suppliers and high local content requirements exclude U.S. firms. - Defense offset rules and restrictions on foreign bids disadvantage U.S. manufacturers.	- Lack of transparency, outdated specs, and bid structuring favor non-U.S. firms. - Alleged bid rigging and bribery disadvantage U.S. firms.
Intellectual Property	- High counterfeiting/piracy, weak enforcement.	- High piracy, trademark delays, weak enforcement. - Patent delays and restrictive criteria hinder U.S. innovation. - No WIPO Internet Treaties, copyright issues.	- Widespread counterfeiting/piracy, weak enforcement. - Limited resources and inefficiencies in IP enforcement.
Services Barriers	- National Insurance Company monopoly and local reinsurance requirements restrict U.S. insurers.	- Equity caps and local sourcing rules limit U.S. market access. - Restrictions on foreign professionals and telecom services block U.S. providers.	- State-owned insurance dominance and local reinsurance preferences disadvantage U.S. firms.

Categories	U.S. Allegations on Pakistan	U.S. Allegations on India	U.S. Allegations on Bangladesh
Digital Trade Barriers	- Personal Data Protection Act (2025) restricts data transfer. - Internet shutdowns and PECA disrupt U.S. services.	- Data localization and RBI rules increase costs and fraud risks. - IT Rules impose takedown burdens on U.S. social media. - Personal Data Protection Act limits U.S. digital trade. - Frequent internet shutdowns disrupt U.S. digital commerce.	- ICT Act & OTT Regulations enable censorship, impacting U.S. firms. - Internet shutdowns disrupt digital trade. - Equalization levy discriminates against U.S. providers.
Investment Barriers	- Equity caps, royalty remittance limits, bureaucratic hurdles. - Delays in profit repatriation, though improved in 2024.	- Foreign equity limits and stringent FDI conditions deter U.S. investment. - Ban on inventory-based e-commerce restricts U.S. retailers.	- Equity caps, delays in repatriation processes hinder U.S. investors. - Delays in regulatory approvals for remittances.
Subsidies	- No specific U.S. allegations.	- Extensive agricultural subsidies distort markets, limit U.S. imports, and boost export competitiveness. - Public stockholding exceeds WTO limits, with export subsidies harming U.S. exporters.	- Agricultural subsidies and export incentives potentially harm U.S. exports. - Lack of WTO notification on diesel/machinery subsidies. - Outdated export subsidy data obscures impact on U.S. trade.
Anticompetitive Practices	- Government procurement favors lower bids, undermining fair competition.	- Procurement preferences and offsets favor domestic firms over U.S. bids.	- Procurement practices like bid rigging favor local/foreign partners, disadvantaging U.S. firms.
State-Owned Enterprises	- National Insurance Company's monopoly disadvantages U.S. insurers. *Source: Report by US*	- State-owned banks and insurance firms distort competition against U.S. firms.	- No specific U.S. allegations.
Labor	- No specific U.S. allegations.	- No specific U.S. allegations.	- GSP benefits suspended in 2013 due to labor rights issues.
Environment	- No specific U.S. allegations	- No specific U.S. allegations	- No specific U.S. allegations
Other Barriers	- Corruption and weak judiciary hinder U.S. firms. - NAB ineffective and politicized.	- Lack of transparency, inconsistent WTO notifications hinder U.S. input. - Medical device price controls deter U.S. suppliers.	- Bribery and corruption delay U.S. licenses/bids. - Anti-corruption commission lacks independence.

Source: Report by US

8. Implications for the Business Community

The business community, particularly exporters, faces significant challenges but also potential opportunities:

- **Higher Export Costs:** The 29% U.S. tariff raises export costs, squeezing margins for textile exporters, who dominate Pakistan's $5.47 billion U.S. exports. SMEs, with limited financial flexibility, are particularly vulnerable. U.S. allegations of NTBs, such as unpredictable tariff hikes and customs valuation issues, further complicate market access for Pakistani firms.

- **Competitive Disadvantage:** Regional peers with advanced quality and value-added products may outperform Pakistani businesses, necessitating investments in technology and product diversification.
- **Diversification Imperative:** Businesses must diversify export markets to reduce U.S. dependency, targeting regions like Africa, Central Asian Republics, or deepening ties with China and the Middle East. This requires investment in market research, compliance with new standards, and logistics, which may strain resources but mitigate tariff risks.
- **Uncertainty:** Unpredictable U.S. trade policies and global trade escalations create risks for long-term planning, particularly for SMEs with limited resources to absorb cost increases.

9. Implications for the Government

The government must navigate economic and diplomatic challenges to mitigate the tariff's impact:

- **Trade Policy Reforms:** Streamlining non-tariff barriers (e.g., regulatory processes) and reassessing duties on U.S. goods could reduce the perceived trade barriers and facilitate tariff relief negotiations.
- **Diplomatic Engagement:** Pursuing constructive dialogue with the U.S. to secure tariff exemptions or reciprocal concessions is critical. Offering market access for U.S. goods could strengthen bilateral ties.
- **Economic Stabilization:** Diversifying export markets and reducing reliance on U.S. imports are essential to address the trade deficit. Subsidies or financial support for affected industries, like textiles, can cushion the impact.
- **Industry Support:** Incentives for exporters to upgrade quality and adopt modern technologies will help maintain competitiveness against regional rivals.
- **Economic Resilience:** The government must address Pakistan's limited export portfolio to safeguard the trade surplus. Promoting diversification into value-added and high-tech sectors will reduce vulnerability to global trade policy shifts.