Advance Journal of Econometrics and Finance

Vol-4, Issue-1, 2026

Advance Journal of Econometrics and Finance

Online ISSN
2959-8990
Print ISSN
2959-8982
https://ajeaf.com/index.php/Journal/About

Name of Publisher: SCHOLAR CRAFT EDUCATION & RESEARCH HUB
Review Type: Double Blind Peer Review
Journal Frequency: Quarterly Research Journal (4- Issue)

Pakistan in the Global Arena: Trade Performance, Export Competitiveness, and Regional Integration

Dr. Abdul Latif[1] Hasnat Ahmad[2] Dr. Wasif Anis[3] Dr. Shahid Iqbal[4]

Dr. Abdul Latif[1], Hasnat Ahmad[2], Dr. Wasif Anis[3], Dr. Shahid Iqbal[4]
[1]Department of Management Sciences, Abbottabad University of Science and Technology, Khyber Pakhtunkhwa, Pakistan. (Corresponding author Email: Latif_hu117@yahoo.com).
[2]MPhil Economics. Economic Growth Officer, Sarhad Rural Support Programme (SRSP). Email: ahmadhasnat9@gmail.com.
[3]Deputy Director Audit, Women University Swabi Wasif.anis@wus.edu.pk
[4]CDPM/IER/Assistant Directorate of Advanced Studies, University of Peshawar,. Email address: shahidiqbalkhan@uop.edu.pk

Abstract

This paper examines Pakistan's trade performance, export competitiveness, and regional trade integration within the context of an evolving global economic landscape. Drawing on secondary data from global EDGE (Michigan State University), the World Bank, the World Trade Organization (WTO), the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), and the State Bank of Pakistan, this study provides a comprehensive analytical account of Pakistan's international business standing. The analysis covers trade volumes, commodity composition, trading partner concentration, foreign direct investment (FDI) inflows, competitiveness indices, and the role of regional frameworks including the China-Pakistan Economic Corridor (CPEC), the South Asian Association for Regional Cooperation (SAARC), and bilateral free trade agreements. The findings reveal that while Pakistan possesses significant export potential, its trade performance remains constrained by structural rigidities, a narrow export base, energy deficits, and institutional weaknesses. Regional integration, particularly through CPEC, offers transformative potential but is contingent upon governance reforms, infrastructural development, and export portfolio diversification. The paper concludes with policy recommendations being categorized by implementation horizon and aims at improving Pakistan's international competitiveness and deepening its regional and global trade linkages.

Keywords International trade, Trade performance, Export competitiveness, Regional integration, Emerging markets, CPEC, GVC participation.

1. Introduction

Pakistan, with a population exceeding 230 million people and a GDP of approximately USD 340 billion, represents one of South Asia's largest economies and a significant participant in international trade (World Bank, 2024a). Strategically located at the crossroads of South Asia, Central Asia, and the Middle East — and benefiting from preferential market access schemes such as the EU's GSP+ arrangement — Pakistan occupies a geopolitically advantageous position that has historically been underexploited in terms of trade and economic integration. Despite its considerable demographic and geographic advantages, Pakistan's share in global merchandise trade stood at just 0.13% in 2023, and its economic performance has been characterized by cyclical volatility, recurrent balance-of-payments crises, and persistent structural imbalances (WTO, 2024).

The global business environment has undergone profound transformations in the 21st century. The rise of global value chains (GVCs), the emergence of China as a dominant economic actor, the proliferation of regional trade agreements (RTAs), and the growing importance of services in international trade have collectively reshaped the landscape within which developing economies like Pakistan must navigate (UNCTAD, 2023; Baldwin, 2022). Against this backdrop, Pakistan's ability to compete internationally, attract foreign direct investment (FDI), and integrate meaningfully into regional and global production networks has become a central question for policymakers, academics, and international business practitioners (Nabi & Luthria, 2002; Hussain, 2018).

This paper aims to provide a rigorous, data-driven analysis of Pakistan's trade performance and regional integration trajectory. The primary data source is the globalEDGE database maintained by Michigan State University's International Business Center (GlobalEDGE, 2024), supplemented by World Bank Development Indicators, WTO trade statistics, IMF country reports, UNCTAD investment data, and Pakistan's own State Bank and Pakistan Bureau of Statistics. The use of multiple secondary data sources triangulates findings and ensures analytical robustness.

The paper is structured as follows: Section 2 reviews the relevant literature on trade competitiveness and regional integration in developing economies. Section 3 outlines the methodology. Section 4 analyzes Pakistan's trade performance including export and import trends, commodity composition, and trading partner structure. Section 5 examines Pakistan's export competitiveness through established indices. Section 6 evaluates Pakistan's regional trade integration, with particular focus on CPEC and SAARC. Section 7 discusses FDI inflows and their relationship with trade. Section 8 identifies key challenges and opportunities, and Section 9 concludes with policy recommendations in Section 10.

2. Literature Review

2.1 Trade Performance and Economic Development

The relationship between trade openness and economic development has been extensively studied in development economics. The export-led growth hypothesis posits that economies successfully expanding exports achieve higher growth rates through economies of scale, technology transfer, and competitive discipline. This hypothesis has been tested empirically across a wide range of developing Asian economies including South Korea, Taiwan, Malaysia, and more recently Vietnam and Bangladesh (Edwards, 1993; Feder, 1983; Greenaway & Sapsford, 1994).

For Pakistan specifically, the literature paints a complex picture. Khan and Qayyum (2007) found a positive long-run relationship between trade openness and growth, while Afzal, Rehman, and Rehman (2008) demonstrated that export diversification positively affects economic stability. However, Kemal, Din, Qadir, Fernando, and Colombage (2002) highlighted that Pakistan's export base has remained narrowly concentrated in low-value-added textiles, limiting gains from trade liberalization. More recent analyses confirm the persistent inability of Pakistani exporters to ascend global value chains as the central structural constraint (Haq & Kemal, 2020; Veeramani, 2007).

The role of institutional quality in shaping trade outcomes has received growing attention. Dollar and Kraay (2003) demonstrated that improvements in institutional quality and rule of law are strongly associated with export performance, while Rodrik, Subramanian, and Trebbi (2004) identified institutions as the primary determinant of long-run income levels — a finding directly relevant to Pakistan's persistent governance challenges. More recent scholarship on GVC integration (Antràs & Chor, 2022; Baldwin, 2022) further emphasizes that institutional reliability, regulatory predictability, and logistics performance determine whether a country can attract the foreign buyers and lead firms that anchor GVC participation — all areas where Pakistan underperforms.

2.2 Export Competitiveness Frameworks

Porter's (1990) diamond model of competitive advantage provides a foundational framework for understanding national competitiveness across four determinants: factor conditions, demand conditions, related and supporting industries, and firm strategy and rivalry. Applied to Pakistan, this model reveals weaknesses across all four dimensions. More recent competitiveness frameworks, including the World Economic Forum's Global Competitiveness Index (WEF, 2019) and the World Bank's Logistics Performance Index (World Bank, 2023a), consistently rank Pakistan in the lower quartiles among peer group economies.

The Revealed Comparative Advantage (RCA) index has been widely applied to Pakistan's trade structure. Studies consistently find comparative advantage in textiles, rice, leather goods, and sports goods — unchanged for decades (Mahmood & Azhar, 2001; Siddiqui, 2017). This contrasts with Bangladesh and Vietnam, which diversified into electronics, machinery, and pharmaceuticals through deliberate policy interventions: Bangladesh's garment sector was built on targeted FDI incentives and government-supported export processing zones, while Vietnam's electronics diversification relied on preferential tax regimes for technology multinationals and large-scale workforce training programmes (Golub & Hsieh, 2000; Lopez-Acevedo & Robertson, 2016). These international benchmarks provide actionable models for Pakistan's own diversification agenda.

2.3 Regional Trade Integration in South Asia

South Asia is among the least economically integrated regions globally, with intra-regional trade accounting for less than 5%... compared to over 25% for ASEAN and 60% for the European Union. While the EU represents the highest level of integration, ASEAN serves as a more realistic benchmark for South Asian potential, as it demonstrates how developing economies can successfully deepen regional ties (World Bank, 2023b). Researchers including Batra (2006) and Ahmed and Ghani (2007) have attributed this to historical political tensions, non-tariff barriers, inadequate transport infrastructure, and the absence of credible institutional enforcement.

The China-Pakistan Economic Corridor (CPEC), launched in 2015 as part of China's Belt and Road Initiative (BRI), has emerged as a potentially transformative development in Pakistan's economic geography (Hussain, 2018). Scholarly assessments range from optimistic projections to cautious analyses highlighting debt sustainability risks, limited technology transfer, and the enclave nature of Special Economic Zones (Rana & Bhave, 2019; Chaudhry, 2019). Malik (2019) further warned that without genuine industrial policy reforms, CPEC risks reinforcing rather than transforming Pakistan's existing trade structure.

Kemal (2004) assessed the potential gains from SAFTA and found that under full liberalization, South Asian intra-regional trade could triple. Suleri and Haq (2020) subsequently emphasized that non-tariff barriers (NTBs) — including para-tariffs, restrictive rules of origin, and customs procedural barriers — have replaced tariffs as the primary obstacle to deeper South Asian trade integration, a conclusion consistent with broader emerging market trade facilitation research (Limao & Venables, 2001).

3. Research Methodology

3.1 Research Design

This study employs a descriptive and analytical research design based entirely on secondary data. The methodological approach is consistent with established practices in international business research where the unit of analysis is a country's macro-level trade and investment performance. A mixed-methods approach is used, combining quantitative analysis of trade data with qualitative assessment of institutional and policy frameworks.

3.2 Data Sources

The primary data source is the globalEDGE database (GlobalEDGE, 2024), maintained by Michigan State University's International Business Center. This is supplemented by:

- World Bank World Development Indicators (WDI) (World Bank, 2024a) — GDP, trade-to-GDP ratios, FDI flows, infrastructure indices
- WTO Trade Statistics Database (WTO, 2024) — export/import volumes, commodity breakdown, partner concentration
- IMF World Economic Outlook (IMF, 2024) and Balance of Payments Statistics — macroeconomic context and current account data
- UNCTAD World Investment Report (UNCTAD, 2024) — FDI inflows and outflows, GVC participation indices
- State Bank of Pakistan (SBP, 2024) and Pakistan Bureau of Statistics (PBS, 2024) — domestic trade and financial data
- World Economic Forum Global Competitiveness Report (WEF, 2019) — competitiveness rankings and pillar scores
- World Bank Logistics Performance Index (World Bank, 2023a) — trade facilitation benchmarking

3.3 Analytical Framework and Study Period

The analytical framework integrates three complementary lenses: (1) Trade performance analysis using standard trade indicators as outlined by Krugman, Obstfeld, and Melitz (2018), including trade-to-GDP ratio, export growth rates, trade balance, and commodity concentration indices; (2) Export competitiveness assessment using the Revealed Comparative Advantage (RCA) index and global competitiveness rankings; and (3) Regional integration evaluation using intra-regional trade shares, institutional framework analysis, and assessment of CPEC's economic impact. The study period spans 2015 to 2024, consistent with the data presented in all tables.

3.4 Data Reconciliation and Methodological Notes

To ensure analytical robustness, this study reconciles specific discrepancies between international trade databases (WTO, UNCTAD) and domestic reporting (SBP, PBS). A primary methodological variation exists in the classification of IT and Digital Services. While WTO and PBS merchandise trade data include a "merchandise-equivalent" portion of digital receipts (approximately USD 1.0 billion in 2023), the State Bank of Pakistan (SBP) captures the full scope of IT and BPO earnings within the services balance, totaling USD 3.2 billion for FY2023-24. To maintain consistency, this paper uses WTO/PBS frameworks for merchandise-specific comparisons (Table 2) but relies on SBP figures for analysis of the digital economy's total impact (Section 4.2 and Section 7.2).

4. Pakistan's Trade Performance

4.1 Overview of Trade Volumes and GDP Share

As presented in Table 1, Pakistan's trade-to-GDP ratio has historically remained below 30%, one of the lowest among comparable economies in South and Southeast Asia (World Bank, 2024a; GlobalEDGE, 2024). According to World Bank and WTO data, Pakistan's merchandise exports in 2023 stood at approximately USD 27.7 billion, while merchandise imports reached USD 54.5 billion, yielding a trade deficit of nearly USD 26.8 billion (WTO, 2024; PBS, 2024). This persistent trade deficit is a defining structural feature of Pakistan's external sector and a primary driver of recurrent balance-of-payments crises (IMF, 2024).

Table 1: Pakistan's Key Trade Performance Indicators, 2015–2023 (Sources: WTO, 2024; World Bank, 2024a; PBS, 2024; IMF, 2024).

Indicator	2015	2017	2019	2021	2023
Merchandise Exports (USD bn)	21.9	22.0	24.2	25.6	27.7
Merchandise Imports (USD bn)	44.9	52.9	49.6	55.9	54.5
Trade Deficit (USD bn)	23.0	30.9	25.4	30.3	26.8
Trade-to-GDP Ratio (%)	26.2	28.1	25.9	27.4	28.3
Services Exports (USD bn)*	5.9	5.7	6.1	7.2	8.4
Current Account Balance (USD bn)	-2.8	-12.4	-13.4	-2.8	-0.8

Note: Services Exports represents the total services balance ($8.4 billion in 2023). For the methodological reconciliation of IT/BPO service figures versus merchandise-equivalent receipts, refer to Section 3.4.

Several notable trends emerge. Merchandise export growth has been sluggish, with a CAGR of approximately 2.6% between 2015 and 2023, significantly below rates achieved by Bangladesh and Vietnam (UNCTAD, 2023; WTO, 2024). Imports consistently outpace exports by approximately 2:1, reflecting Pakistan's dependence on imported energy, machinery, and intermediate goods. The current account deficit narrowed in 2023 primarily due to import compression under the IMF Extended Fund Facility rather than export growth — a distinction with critical sustainability implications (IMF, 2024; SBP, 2024).

Advance Journal of Econometrics and Finance

Vol-4, Issue-1, 2026

4.2 Export Composition and Structural Analysis

As presented in Table 2, Pakistan's export composition is characterized by a striking concentration in textiles and apparel. The textile sector — encompassing cotton yarn, fabric, knitwear, readymade garments, bed linen, and towels — accounts for approximately 60–65% of total merchandise exports, a share that has remained remarkably stable for over three decades (PBS, 2024; WTO, 2024). This structural persistence points to deep-rooted supply-side constraints (Kemal et al., 2002; Haq & Kemal, 2020).

The dominance of textiles reflects Pakistan's historical endowment of cotton and early industrial development centered on spinning and weaving (Afzal et al., 2008). While the sector has evolved toward higher-value readymade garments, it remains predominantly at the lower end of the global textile value chain. Bangladesh achieved higher per-unit garment values through government-supported export processing zones, compliance with international labour standards, and deliberate buyer relationship management (Golub & Hsieh, 2000; Lopez-Acevedo & Robertson, 2016) — all replicable policy levers for Pakistan.

Table 2: Pakistan's Total Export Receipts, 2023 (Sources: PBS, 2024; SBP, 2024; WTO, 2024).

Export Category	Share of Total Exports (%)	Approx. Value (USD bn)
Textiles & Apparel	61.4	17.0
Rice & Food Products	11.2	3.1
Leather & Footwear	4.3	1.2
Sports Goods	2.1	0.6
Chemicals & Pharmaceuticals	3.8	1.0
Engineering Goods	2.4	0.7
IT & Digital Services (export earnings)	3.5	1.0
Other Exports (minerals, gems, ceramics)	11.3	3.1

Note: The 'IT & Digital Services' figure1.0billion) reflects formally recorded receipts within merchandise trade data. Total sector earnings (3.2 billion) are analyzed as services; see Section 3.4 for methodological details.

The emergence of IT and BPO exports is particularly significant: total IT/BPO service earnings reached approximately USD 3.2 billion in FY2023-24, growing at a CAGR exceeding 20% (SBP, 2024). Siddiqui (2017) and Suleri and Haq (2020) both identify digital services as the most promising avenue for sustainable export diversification. Pakistan's estimated 2 million active freelancers represent an informal but growing digital export workforce whose formal sector transition could substantially expand recorded IT export earnings and contribute to Pakistan's foreign exchange position.

4.3 Trading Partner Structure

As presented in Table 3, Pakistan's export markets are concentrated among a small number of partners, primarily in the developed world. The United States, European Union, and China collectively account for over 50% of total merchandise exports, creating significant vulnerability to demand shocks (WTO, 2024; GlobalEDGE, 2024).

Notably, despite CPEC's significant investment flows from China, trade with China remains heavily import-oriented. China is Pakistan's largest source of imports (approximately 26% of total) but only the third-largest export destination (SBP, 2024; WTO, 2024). This asymmetry is consistent with concerns raised by Rana and Bhave (2019) and Malik (2019) that economic corridor investment may deepen Pakistan's trade dependence on China rather than building reciprocal export capacity.

Table 3: Pakistan's Major Export Partners, 2023.

Partner	Export Share (%)	Key Exports
United States	17.2	Textiles, garments, sports goods
European Union	22.8	Textiles, rice, leather, chemicals
China	7.5	Cotton, fish, minerals
United Kingdom	7.1	Textiles, garments, food

Partner	Export Share (%)	Key Exports
Afghanistan	4.9	Food, textiles, cement
UAE	4.2	Food, textiles, chemicals
Other Markets	36.3	Diversified

Sources: WTO, 2024; PBS, 2024; GlobalEDGE, 2024.

5. Export Competitiveness Analysis

5.1 Global Competitiveness and Governance Rankings

Pakistan's global competitiveness rankings reveal a consistent pattern of underperformance. According to WEF (2019), Pakistan ranked 110th out of 141 economies in the Global Competitiveness Index 4.0, with weaknesses in macroeconomic stability (117th), ICT adoption (122nd), and innovation capability (109th). The World Bank's Logistics Performance Index ranked Pakistan 122nd out of 160 countries in 2023, reflecting deficiencies in customs efficiency, infrastructure quality, and tracking capabilities (World Bank, 2023a). India ranked 38th, China 19th, and Bangladesh 88th on the same index. This performance gap is directly linked to Pakistan's documented export processing time of over 100 hours — more than double India's 48 hours and over four times China's 24 hours (World Bank, 2023a) — creating a clear causal pathway through which logistical inefficiency erodes price competitiveness (Limao & Venables, 2001; Portugal-Perez & Wilson, 2012).

Transparency International (2023) ranked Pakistan 133rd out of 180 countries in its Corruption Perceptions Index (CPI). This governance deficit imposes additional transaction costs on businesses and deters foreign investors — an effect empirically demonstrated by Dollar and Kraay (2003). To avoid redundancy, this paper consolidates all governance-related constraints here rather than treating corruption rankings as a separate challenge in the subsequent sections.

5.2 Revealed Comparative Advantage Analysis

The Revealed Comparative Advantage (RCA) index provides an empirical measure of competitive advantage by comparing a product's share in a country's total exports against its share in world exports. An RCA value greater than 1.0 indicates comparative advantage.

Table 4 presents RCA estimates for Pakistan's key export categories derived from WTO and UNCTAD trade data.

Table 4: Revealed Comparative Advantage (RCA) Indices for Pakistan, Selected Products

Product Category	RCA Index (Est. 2022)	Trend (2015–2022)
Cotton Yarn & Fabric	8.2	Declining
Bed Linen & Towels	12.4	Stable
Knitwear	6.8	Slightly Increasing
Rice	9.1	Increasing
Leather Goods	3.2	Declining
Sports Goods	5.7	Stable
IT Services	1.4	Rapidly Increasing
Pharmaceuticals	0.9	Increasing
Machinery & Equipment	0.2	Stable (Low)

Sources: WTO, 2024; UNCTAD, 2024; Authors' calculations using the RCA methodology.

These results confirm findings by Mahmood and Azhar (2001) and Siddiqui (2017) on Pakistan's enduring textile and rice advantage, while revealing concerning declining trends in cotton yarn and fabric — sectors losing ground to Bangladesh, Vietnam, and Cambodia (Golub & Hsieh, 2000; UNCTAD, 2023). The rapidly increasing RCA in IT services reflects Pakistan's growing pool of English-speaking software developers and the global shift toward remote digital service delivery. The divergence between declining traditional RCA (textiles) and rising digital RCA (IT) necessitates a fundamental shift in industrial support, as detailed in Section 10.4.

5.3 Structural Constraints on Export Competitiveness

Pakistan's export competitiveness faces several structural constraints. The energy crisis, characterized by frequent power outages and high industrial electricity costs, imposes significant cost burdens on exporters. World Bank (2020) estimated that energy-related production losses reduce manufacturing output by 4–6% annually, with the textile sector particularly affected. Nabi and Luthria (2002) similarly identified infrastructure deficiencies — energy and transport — as the primary binding constraints on Pakistan's industrial competitiveness.

Pakistan's limited participation in global value chains (GVCs) further restricts access to technology transfer, managerial expertise, and market access. According to UNCTAD (2024), Pakistan's GVC participation index is among the lowest in Asia, reflecting primarily arm's-length, commodity-based trade relationships (Rodrik, 2006; Veeramani, 2007). Recent scholarship (Antràs & Chor, 2022; Baldwin, 2022) underscores that overcoming GVC exclusion requires not just tariff reductions but improvements in behind-the-border regulatory quality and trade-in-services frameworks — areas where Pakistan's reform agenda has advanced slowly.

6. Regional Trade Integration

6.1 SAARC and South Asian Trade Dynamics

The South Asian Association for Regional Cooperation (SAARC), established in 1985, and the South Asian Free Trade Area (SAFTA), in force since 2006, were designed to promote economic cooperation among eight member states. Despite these institutional frameworks, South Asia remains one of the least economically integrated regions globally (World Bank, 2023b; Batra, 2006).

This 5% share contrasts sharply with ASEAN's intra-regional trade share of approximately 25%. Unlike the European Union's 60%, which involves a common market and currency, ASEAN provides a more attainable model for SAARC to follow by focusing on reducing non-tariff barriers among developing neighbors. The economic cost of Pakistan-India trade restrictions is substantial. World Bank (2023b) and ADB studies estimate that formal bilateral trade could reach USD 37 billion annually under a liberalized trade regime, compared to less than USD 200 million in recent years. Much of this potential trade flows informally through third-country routes — primarily the UAE and Singapore — at significantly higher transaction costs (Ahmed & Ghani, 2007; Suleri & Haq, 2020). Suleri and Haq (2020) specifically identified non-tariff barriers (NTBs) — including para-tariffs, restrictive rules of origin, and customs procedural barriers — as the primary obstacle to deeper regional integration, having effectively replaced formal tariffs since SAFTA's implementation.

6.2 China-Pakistan Economic Corridor (CPEC)

The China-Pakistan Economic Corridor (CPEC), launched in 2015 as a flagship BRI component, represents Pakistan's most significant 21st-century economic partnership (Hussain, 2018; CPEC Authority, 2023).

As shown in Table 5, CPEC encompasses infrastructure, energy, and industrial projects with committed investment of approximately USD 62 billion, connecting China's Xinjiang province to Pakistan's Gwadar port. Note that the sum of individually quantified project components in Table 5 reflects confirmed allocations; the residual to USD 62 billion relates to contingency provisions and projects still under final financing negotiation, principally the ML-1 railway upgrade.

CPEC-financed power plants added approximately 8,000 megawatts to Pakistan's electricity generation capacity between 2015 and 2022, providing significant relief from chronic power shortages (CPEC Authority, 2023; SBP, 2024). However, Rana and Bhave (2019) cautioned that these gains come with debt sustainability risks, as obligations to Chinese creditors constitute a growing share of external debt servicing — concerns echoed by IMF (2024). Nine SEZs have been designated but progress has been slower than projected, with Chaudhry (2019) and Malik (2019) noting SEZ governance challenges, inadequate utility provision, and limited domestic backward linkages.

Table 5: CPEC Investment Components and Status, 2024

CPEC Component	Committed Investment	Status (2024)
Energy Projects	~USD 33.0 bn	Largely completed; operational
Infrastructure (Roads, Ports)	~USD 11.0 bn	Substantially complete
Gwadar Development	~USD 1.6 bn	Ongoing
Special Economic Zones	~USD 3.0 bn	Partially operational
ML-1 Railway Upgrade	~USD 6.2 bn	Financing under negotiation
Industrial Cooperation	~USD 5.0 bn	Early stages
Contingency/Projects Under Negotiation	~USD 2.2 bn	To be confirmed
Total	~USD 62.0 bn	—

Sources: CPEC Authority, 2023; SBP, 2024. Figures are approximate committed investment values; actual disbursements vary by project stage.

6.3 Bilateral Trade Agreements and Preferential Market Access

Pakistan's bilateral trade agreements and preferential arrangements shape international market access. The Pakistan-China FTA (Phase II, 2019) provides preferential tariff rates in the Chinese market, though utilization has been low due to supply-side constraints and standards compliance challenges (WTO, 2024; GlobalEDGE, 2024).

Pakistan also benefits from the EU's Generalized System of Preferences Plus (GSP+), granting duty-free access to approximately 6,000 product categories in exchange for adherence to international conventions on human rights, labour standards, and governance. GSP+ access has been particularly valuable for Pakistan's textile sector and represents the geopolitical advantage referenced in Section 1 (GlobalEDGE, 2024; WTO, 2024). However, EU reviews have repeatedly identified compliance gaps in labour rights, creating periodic uncertainty about GSP+ continuity — uncertainty that Rodrik (2006) identifies as particularly damaging to export-oriented investment decisions.

7. Foreign Direct Investment and Trade Nexus

7.1 FDI Inflow Trends

Foreign direct investment inflows into Pakistan have been historically volatile, reflecting a challenging investment climate, political instability, and security concerns. According to UNCTAD (2024), Pakistan received USD 1.9 billion in FDI inflows in 2023, down from a peak of USD 3.4 billion in 2007. This contrasts sharply with Bangladesh (USD 3.2 billion) and Vietnam (USD 18 billion) in the same year, reflecting vastly different investment climates and degrees of GVC integration (UNCTAD, 2024; World Bank, 2024a).

The sectoral composition of FDI has shifted significantly post-CPEC, with energy and infrastructure-related Chinese investment dominating annual FDI totals after 2015 (SBP, 2024; UNCTAD, 2024). While this addresses critical infrastructure gaps, it concentrates FDI in non-tradeable sectors and limits its contribution to export capacity expansion — a concern consistent with the FDI-trade complementarity literature (Feder, 1983; Golub & Hsieh, 2000).

7.2 FDI-Trade Linkages and the Digital Economy

FDI can be trade-complementing (supporting export-oriented production) or trade-substituting (serving domestic markets previously supplied by imports) (Krugman et al., 2018). State Bank data suggests that FDI in manufacturing has generally been trade-complementing in Pakistan, while FDI in energy and infrastructure has primarily supported domestic economic activity (SBP, 2024).

Pakistan's IT services sector presents a dynamic case of FDI-trade complementarity, where foreign-funded startups and outsourcing relationships have directly generated export revenue. Siddiqui (2017) argued that Pakistan's cost-competitive software talent and English language proficiency constitute genuine comparative advantages in digital services. If the estimated 2 million active freelancers were transitioned into formal IT firms — even partially — total recorded IT export earnings could plausibly grow from USD 3.2 billion toward USD 6–8 billion annually within a five-year horizon, substantially improving Pakistan's current account position (SBP, 2024).

8. Challenges and Opportunities

8.1 Structural Challenges

Pakistan's international business landscape is shaped by persistent structural challenges. Macroeconomic instability — characterized by inflation peaking at 38% in May 2023, a depreciating currency, elevated debt-to-GDP ratios, and frequent recourse to IMF programs — creates a deeply uncertain environment for long-term investment decisions (IMF, 2024; GlobalEDGE, 2024). Rodrik (2006) argued that macroeconomic stability is a necessary precondition for sustained export growth — a condition Pakistan has repeatedly failed to maintain.

Governance deficiencies impose significant transaction costs: Pakistan ranked 133rd on the CPI (Transparency International, 2023), and its performance on regulatory quality and rule of law consistently falls below regional peers (World Bank, 2024a). As established by Rodrik, Subramanian, and Trebbi (2004), institutional quality exerts a more powerful influence on long-run economic outcomes than either geography or trade openness — underscoring governance reform as the foundational priority.

Political instability further compounds these challenges. Frequent government changes and civil-military tensions create policy discontinuity that erodes investor confidence and undermines long-term structural reform implementation (Nabi & Luthria, 2002).

8.2 Emerging Opportunities

Despite these challenges, Pakistan possesses competitive assets that could support improved performance. The country's young population — median age approximately 22 years, with over 60% under 30 — represents a significant demographic dividend if matched with appropriate education and employment investments (World Bank, 2024a; GlobalEDGE, 2024).

The IT and digital economy presents the most dynamic opportunity. Siddiqui (2017) and Suleri and Haq (2020) identify the digital sector as the most promising avenue for sustainable export diversification. The rapid growth of technology hubs in Lahore, Karachi, and Islamabad suggests nascent ecosystem development (SBP, 2024).

Agricultural modernization offers another substantial opportunity. Pakistan is among the world's leading producers of wheat, cotton, sugarcane, and mangoes, yet agricultural export value remains a fraction of potential due to post-harvest losses, quality control deficiencies, and limited processing capacity (PBS, 2024; GlobalEDGE, 2024). Gwadar's development as a deepwater port offers strategic potential for regional transit trade, particularly for landlocked Central Asian states (Hussain, 2018; CPEC Authority, 2023), consistent with Limao and Venables (2001)'s empirical finding that improved transit infrastructure significantly increases trade volumes.

9. Conclusion

This paper has provided a comprehensive secondary data analysis of Pakistan's trade performance, export competitiveness, and regional trade integration. The findings present a nuanced picture: a country with significant economic potential — a large domestic market, strategic geographic location, GSP+ preferential access, and emerging digital services strength — yet held back by structural rigidities, governance weaknesses, political instability, and a failure to diversify an export base concentrated in textiles for decades (Kemal et al., 2002; Haq & Kemal, 2020).

The analysis reveals five interconnected conclusions. First, Pakistan's 0.13% share in global merchandise trade is disproportionately small relative to its economic size — a reflection of the structural rigidities identified across Sections 4–8. Second, the RCA analysis confirms comparative advantage in traditional sectors while identifying IT

services as a genuinely emerging area of competitive strength — one that policy must actively support. Third, CPEC has delivered Phase I infrastructure and energy dividends, but Phase II industrial cooperation has underperformed expectations; the bilateral trade asymmetry with China (26% of imports, 7.5% of exports) reflects a structural imbalance requiring deliberate negotiation (Rana & Bhave, 2019; Malik, 2019).

Fourth, South Asian regional integration remains vastly below potential, with non-tariff barriers identified as the dominant obstacle following SAFTA's tariff reductions (Suleri & Haq, 2020; World Bank, 2023b). The normalization of Pakistan-India trade relations — addressing NTBs, para-tariffs, and rules of origin — represents the single largest untapped trade opportunity in the region, with potential formal bilateral trade estimated at USD 37 billion annually. Fifth, governance and institutional reform is not merely one reform among several: it is the foundational precondition for realizing all other improvements, as empirically established by Rodrik, Subramanian, and Trebbi (2004) and Dollar and Kraay (2003). Pakistan's export trajectory will ultimately be determined not by geography or endowment, but by the coherence and consistency of governance, policy, and institutional development (Porter, 1990).

10. Policy Recommendations

The foregoing analysis — encompassing Pakistan's structural trade imbalances, declining competitiveness in traditional sectors, underperforming CPEC industrial dividends, NTB-dominated regional integration constraints, and nascent digital economy strengths — points to a set of coherent, sequenced policy priorities. These are organized below by implementation horizon.

Short-Term Priorities (0–3 Years)

10.1 Trade Facilitation and Customs Modernization

The analysis in Section 5.1 directly establishes that Pakistan's export processing time of over 100 hours — more than double India's and four times China's — constitutes a measurable competitive handicap. In the near term, the Government should prioritize full customs digitization and implementation of a Single Window System to reduce documentary compliance burdens; adoption of risk-based inspection protocols to reduce physical inspection rates from current high levels; and harmonization of border procedures with regional partners. These measures are the highest-return, lowest-cost interventions available given that trade facilitation improvements empirically generate larger export gains than equivalent tariff reductions.

10.2 Formalizing and Scaling the IT and Digital Services Sector

Section 4.2 and 7.2 together establish that Pakistan's estimated 2 million active freelancers represent an informal but growing digital export base, and that total IT/BPO earnings already exceed USD 3.2 billion annually. The short-term priority is formal sector transition: the government should extend the IT export income tax exemption beyond its current 2025 expiry, establish a National Digital Freelancer Registry to channel freelance earnings through the formal banking system, and create a Technology Business Incubation Fund to facilitate the transition of freelancer collectives into registered IT firms. These targeted instruments directly address the digital services gap identified in the analysis and would strengthen Pakistan's foreign exchange position within the current programme period.

10.3 Negotiating NTB Reduction in South Asian Trade

The regional integration analysis in Section 6.1 identifies non-tariff barriers — not tariffs — as the primary obstacle to South Asian trade integration post-SAFTA. A phased approach to normalizing Pakistan-India trade should therefore focus explicitly on NTB reduction: mutual recognition agreements for standards and testing in priority sectors (agricultural commodities, pharmaceuticals); simplification of rules of origin under SAFTA; reduction of para-tariff measures on goods traded through third countries; and establishment of a dedicated bilateral trade facilitation committee with a structured NTB review mechanism. Beginning with commercially sensitive but politically tractable sectors — such as pharmaceutical raw materials and seasonal agricultural commodities — would generate early economic wins that build confidence for broader normalization.

Medium-Term Priorities (3–7 Years)

10.4 Export Diversification Strategy and Value Chain Upgrading

The RCA analysis confirms that Pakistan's comparative advantage in textiles and rice, while significant, is static or declining in key sub-sectors, while no new sectors of meaningful scale have emerged in merchandise trade. The National Export Policy must therefore set concrete, sector-specific diversification targets: pharmaceuticals (building on the positive RCA trend), engineering goods (leveraging CPEC infrastructure demand), halal food products (targeting Gulf and East Asian premium markets), and agricultural value-added processing. For textiles, the objective is not exit but value chain upgrading — moving from commodity cotton yarn toward design-intensive readymade garments and technical textiles, following Bangladesh's trajectory through targeted investment in compliance infrastructure and buyer relationship management.

10.5 Rebalancing CPEC Toward Industrial Cooperation

Section 6.2 establishes that CPEC Phase I infrastructure investments have delivered, but Phase II industrial cooperation and SEZ development have underperformed. The medium-term priority is rebalancing: the CPEC Authority should formally negotiate with Chinese counterparts for greater Pakistani supplier participation in ongoing Chinese-invested projects; accelerate SEZ utility provision (electricity, gas, water) at the Rashakai and Allama Iqbal Industrial City zones where development is most advanced; and stipulate minimum local content requirements in new industrial cooperation agreements. The bilateral China-Pakistan trade asymmetry — China providing 26% of imports but receiving only 7.5% of exports — is both an indictment of CPEC Phase I's trade impact and a strategic opportunity for Phase II negotiation.

10.6 Agricultural Value Chain Development and Cold Chain Infrastructure

Section 8.2 identifies agricultural modernization as a substantial untapped export opportunity. Pakistan's status as a leading producer of mangoes, rice, citrus, and other high-value commodities is not matched by its export revenues, due to post-harvest losses estimated at 25–40% of production and poor food safety standards compliance.

The medium-term priority is systematic cold-chain infrastructure development — linking farm gate to port — combined with investment in SPS (sanitary and phytosanitary) standards compliance capacity to meet EU, Gulf, and East Asian import requirements. Development of geographic indication (GI) registrations for premium Pakistani agricultural products would further support value chain upgrading and premium market access.

Long-Term Priorities (7+ Years)

10.7 Human Capital Development and Innovation Ecosystem

Pakistan's long-term export competitiveness — and its ability to participate in GVCs beyond commodity and low-skill manufacturing — depends fundamentally on human capital investment. Public expenditure on education, currently approximately 2% of GDP among the world's lowest, must be substantially increased. The government should establish Public-Private Partnerships for STEM and digital skills development, with explicit linkages to the IT export targets identified in Recommendation 10.2. Support for R&D, university-industry linkages, and technology transfer offices should be prioritized to begin building the innovation capacity that Porter's competitive advantage framework identifies as the ultimate determinant of sustained national competitiveness. This is the longest-horizon investment and the one whose absence has been most consequential for Pakistan's inability to diversify its export base over the past three decades.

10.8 Institutional Reform and Governance

The analysis consistently establishes — drawing on Pakistan's CPI ranking (133rd), LPI ranking (122nd), GCI ranking (110th), and the broader institutional economics literature — that governance quality is the foundational constraint on Pakistan's international business performance. No individual sector policy or bilateral trade agreement will deliver sustainable results without parallel improvements in contract enforcement, regulatory predictability, anti-corruption enforcement, and judicial efficiency. These reforms are long-term by nature — requiring constitutional, legislative, and behavioral change across institutions — but as they are the reforms take 7+ years to complete, they must commence immediately.. Macroeconomic stability, as a prerequisite for investment planning, similarly requires sustained commitment to fiscal consolidation and monetary discipline beyond any single IMF programme cycle.

References:

Afzal, M., Rehman, H. U., & Rehman, J. U. (2008). Causal nexus between economic growth, export and external debt servicing: The case of Pakistan. The Pakistan Development Review, 47(4), 473-490.

Ahmed, S., & Ghani, E. (Eds.). (2007). South Asia: Growth and regional integration. World Bank Publications.

Antràs, P., & Chor, D. (2022). Global value chains. In G. Gopinath, E. Helpman, & K. Rogoff (Eds.), Handbook of International Economics (Vol. 5, pp. 297-376). Elsevier.

Baldwin, R. (2022). The globotics upheaval: Globalization, robotics and the future of work. Oxford University Press.

Batra, A. (2006). India's global trade potential: The gravity model approach. Global Economic Review, 35(3), 327-361.

Chaudhry, A. (2019). CPEC, industrialization and structural transformation in Pakistan. The Pakistan Development Review, 58(3), 323-344.

CPEC Authority. (2023). CPEC Progress Report 2023. Ministry of Planning, Development and Special Initiatives, Government of Pakistan.

Dollar, D., & Kraay, A. (2003). Institutions, trade, and growth. Journal of Monetary Economics, 50(1), 133-162.

Edwards, S. (1993). Openness, trade liberalization, and growth in developing countries. Journal of Economic Literature, 31(3), 1358-1393.

Feder, G. (1983). On exports and economic growth. Journal of Development Economics, 12(1-2), 59-73.

GlobalEDGE. (2024). Pakistan country insights. Michigan State University International Business Center. Retrieved from https://globaledge.msu.edu/global-insights/by/country

Golub, S. S., & Hsieh, C. T. (2000). Classical Ricardian theory of comparative advantage revisited. Review of International Economics, 8(2), 221-234.

Greenaway, D., & Sapsford, D. (1994). Exports, growth and liberalisation: An evaluation. Journal of Policy Modeling, 16(2), 165-186.

Haq, M. U., & Kemal, M. A. (2020). Impact of export subsidies on Pakistan's exports. The Pakistan Development Review, 59(2), 33-52.

Hussain, I. (2018). CPEC and Pakistan's economic transformation. Journal of Contemporary China, 27(114), 842-857.

IMF. (2024). Pakistan: 2024 Article IV consultation and staff report. International Monetary Fund.

Kemal, A. R. (2004). SAFTA and the South Asian countries: Quantitative assessments of trade potential. The Pakistan Development Review, 43(4), 933-947.

Kemal, A. R., Din, M. U., Qadir, U., Fernando, L., & Colombage, S. (2002). Exports and economic growth in South Asia. South Asia Network of Economic Research Institutes (SANEI).

Khan, M. A., & Qayyum, A. (2007). Trade liberalisation, financial development and economic growth. The Pakistan Development Review, 46(4), 487-503.

Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2018). International economics: Theory and policy (11th ed.). Pearson.

Limao, N., & Venables, A. J. (2001). Infrastructure, geographical disadvantage, transport costs, and trade. World Bank Economic Review, 15(3), 451-479.

Lopez-Acevedo, G., & Robertson, R. (Eds.). (2016). Stitches to riches? Apparel employment, trade, and economic development in South Asia. World Bank Publications.

Mahmood, Z., & Azhar, M. (2001). On overinvoicing of exports in Pakistan. The Pakistan Development Review, 40(3), 173-185.

Malik, A. (2019). Understanding CPEC: Hopes and pitfalls for Pakistan. PIDE Working Papers Series.

Nabi, I., & Luthria, M. (Eds.). (2002). Building competitive firms: Incentives and capabilities. World Bank Publications.

Pakistan Bureau of Statistics. (2024). Pakistan Statistical Yearbook 2024. Government of Pakistan.

Porter, M. E. (1990). The competitive advantage of nations. Harvard Business Review, 68(2), 73-93.

Portugal-Perez, A., & Wilson, J. S. (2012). Export performance and trade facilitation reform: Hard and soft infrastructure. World Development, 40(7), 1295-1307.

Rana, P. B., & Bhave, A. (2019). China's Belt and Road Initiative: Challenges and prospects. Journal of Infrastructure, Policy and Development, 3(1), 160-173.
Rodrik, D. (2006). What's so special about China's exports? China & World Economy, 14(5), 1-19.
Rodrik, D., Subramanian, A., & Trebbi, F. (2004). Institutions rule: The primacy of institutions over geography and integration in economic development. Journal of Economic Growth, 9(2), 131-165.
Siddiqui, R. (2017). Pakistan's IT exports and the potential for export diversification. PIDE Working Paper No. 2017:151.
State Bank of Pakistan. (2024). Annual report 2023-24. State Bank of Pakistan.
Suleri, A. Q., & Haq, A. (2020). Reducing non-tariff barriers in South Asia: Policy options for Pakistan. Sustainable Development Policy Institute (SDPI).
Transparency International. (2023). Corruption Perceptions Index 2023. Transparency International.
UNCTAD. (2023). World investment report 2023: Investing in sustainable energy for all. United Nations Conference on Trade and Development.
UNCTAD. (2024). World investment report 2024. United Nations Conference on Trade and Development.
Veeramani, C. (2007). Sources of India's export growth in pre- and post-reform periods. Economic and Political Weekly, 42(25), 2419-2427.
World Bank. (2020). Pakistan development update: Making the most of Pakistan's demographic dividend. World Bank Group.
World Bank. (2023a). Logistics Performance Index 2023. World Bank Group.
World Bank. (2023b). South Asia regional integration report 2023. World Bank Group.
World Bank. (2024a). World Development Indicators 2024. World Bank Group.
World Economic Forum. (2019). The global competitiveness report 2019. World Economic Forum.
WTO. (2024). Pakistan trade profile 2024. World Trade Organization.