IPRI Islamabad Policy Research Institute
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Research Brief

Free Trade Agreements: A Bridge or a Burden for Pakistan Economy

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April 2025

OGDCL-IPRI Chair Economic Security

Executive Summary

This Policy Brief examines the impact of Free Trade Agreements (FTAs) on Pakistan's trade performance. It highlights that, over the years, Pakistan has concentrated on increasing the number of FTAs. However, there is inadequate empirical evidence to determine whether these FTAs have improved Pakistan's trade performance or contributed to its decline.

This Policy Brief provides empirical evidence regarding the role of FTAs in Pakistan's trade performance based on data from the International Trade Centre (ITC). The findings of this Brief highlight that to place Pakistan on a new economic trajectory of economic development and stability, it is essential to address trade distortions, introduce strategic trade interventions, and increase awareness about FTAs.

Furthermore, it highlights that challenges such as low productivity levels, lack of export diversification, and high production costs have hindered the existing FTAs from delivering the expected results. Hitherto, the FTAs have not significantly contributed to economic development in Pakistan and have failed to improve its trade performance. In contrast, Vietnam, which does not have an FTA with Pakistan, has outperformed Pakistan's FTA-based trading partners, with a positive trade balance of USD 81 million and a USD 633 million trade volume.

To address these challenges, Pakistan may:

Invest in emerging sectors such as sustainable agriculture, Information Technology (IT), pharmaceuticals, and green technologies to diversify exports, reduce reliance on traditional exports, and tap into high-value markets.

Encourage industries to move up the value chain by providing incentives for producing finished goods rather than exporting raw materials.

Negotiate FTAs and secure market access for higher-value and environmentally friendly goods (like dry fruits) while prioritising sectors with export potential. In doing so, the agriculture sector can make a significant contribution by exporting organic products and green technologies. Pakistan's diverse climate and resource abundance give it a competitive advantage in this area. This may also contribute positively to challenges related to climate change and the food security needs of Pakistan.

1. Introduction

A Free Trade Agreement (FTA) is an important trade instrument that eliminates trade barriers and reduces costs between nations[1]. Over the years, FTAs have contributed to the economic development of countries like Vietnam and China by lowering trade restrictions and giving consumers access to more affordable goods and services[2][3]. As a result, FTAs are regarded as an essential tool in international trade.

However, trade openness can also negatively impact an economy. Since trade openness often leads to import dependency and revenue losses that could be earned through tariffs. This especially occurs when a country struggles with low industrial production and labour productivity[4]. Moreover, some developed economies have lower trade-to-GDP ratios as they depend more on their domestic industry. Similarly, landlocked countries often trade less than those with coastlines.

Pakistan has signed multiple FTAs with various economies worldwide. However, its trade performance remains in jeopardy[5]. The country faces significant issues with foreign reserves, while its current account deficit is at a staggering 2% of its GDP[6].

The literature suggests that inaccurately negotiated trade agreements impact international trade performance negatively[7]. Moreover, it indicates that the presence of an underdeveloped industry, high production costs, and insufficient understanding or the lack of awareness of the FTA benefits and tariff provisions among the stakeholders can lead to underutilisation of the FTA by a country[8].

In Pakistan, over the years, the focus has been on increasing the number of FTAs and tariff reductions without empirical evidence about their performance[9][10]. There is a lack of

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[1] An FTA is a treaty/agreement between two or more countries to reduce/eliminate trade barriers, such as tariffs and quotas, to promote the free flow of goods and services across nations (Matsushita, 2024). https://www.lawanddevelopment.net/img/matsushita.pdf

[2] PBC (2023). https://www.pbc.org.pk/wp-content/uploads/Vietnam-Report-final.pdf

[3] Gomez (2020). *China-in-Malaysia*. Springer-Singapore.

[4] PBC (2024). https://www.pbc.org.pk/wp-content/uploads/Lessons-from-the-Trade-Agreements.pdf

[5] Ibid

[6] SBP (2024). https://www.sbp.org.pk/reports/annual/aarFY24/Complete.pdf

[7] PBC (2024). https://www.pbc.org.pk/wp-content/uploads/Lessons-from-the-Trade-Agreements.pdf

[8] Ibid

[9] After the current US imposed reciprocal tariffs, Ejaz Gohar, former Federal Minister for Commerce & Industries, stated that, to enhance its export competitiveness, Pakistan may pursue an FTA with the U.S. Tribune (2025). https://tribune.com.pk/story/2537966/ejaz-proposes-free-trade-agreement-with-us

[10] PIDE (2022). https://file.pide.org.pk/uploads/wp-0214-bilateral-free-trade-agreements-for-trade-promotion-boon-or-bane-for-pakistan.pdf

clarity about whether or not these FTAs have led to improvements in Pakistan. This requires evidence on "how the FTAs and openness to trade affect Pakistan's international trade performance as well as an evaluation of how such trade policies are performing.

Based on International Trade Centre (ITC) data, this Policy Brief aims to provide empirical evidence about the role of FTAs in the trade performance of Pakistan from the years 2004 to 2023. The findings of this Policy Brief highlight that the current FTAs have not significantly improved the trade performance of Pakistan. Furthermore, it highlights that challenges such as low productivity levels, lack of export diversification, and high production costs have hindered the existing FTAs from delivering the expected results. Hitherto, the FTAs have not significantly contributed to economic development in Pakistan and have failed to improve its trade performance.

In contrast, Vietnam, which does not have an FTA with Pakistan, has outperformed Pakistan's FTA-based trading partners, with a positive trade balance of USD 81 million and a USD 633 million trade volume.

The rest of the Brief is organised as follows: Section 2 briefly summarises the theoretical literature on the role of FTAs. Section 3 discusses the methodology, its reliability, and the data set used in this brief. Section 4 reports the results and provides a detailed discussion pertaining to the results and challenges in international trade in Pakistan. Finally, section 5 concludes and provides recommendations.

2. Theoretical Literature

The traditional theories of trade, for example, Ricardo (1817) and Heckscher-Ohlin (1919), state that trade significantly aids economic development. It emphasises the role of FTAs in international trade. It argues that open economies with lower tariff rates perform better than closed economies with high tariff rates or trade barriers[11].

However, Slaughter (1997) criticised the traditional trade theories and termed them unrealistic. In the context of international economics, the study argues that developed economies tend to benefit more than developing economies from FTAs. They benefit from Economies of Scale as they are more diversified economies that trade with more countries. In contrast, developing countries primarily rely on the export of low-value goods,

[11] Salman (2018). Free Trade Agreements and Environmental Nexus in Pakistan. https://www.jstor.org/stable/pdf/10.13169/polipers.15.3.0179.pdf

raw materials, and natural resources, lacking significant trade diversification. This argument is based on the “Dependency Theory”, which suggests that free trade can sometimes lead to economic dependency when a country relies on low-value products.

Likewise, Karim (2020) stated that countries should protect their less competitive domestic industries from foreign competition by employing trade barriers such as tariffs, subsidies, etc. The argument is that free trade can negatively impact emerging industries that are not yet competitive on the international stage due to high production costs. This concept is rooted in the “infant industry argument”, which suggests that free trade can lead to job losses and hinder domestic economic development, as seen in many developing countries. This situation arises when one country exports high-value products while the other country either does not export or only exports low-value goods. As a result, the trade balance of the trading partners results in negative numbers[12].

The contemporary theoretical literature on regional integration finds that trade agreements lead to both higher incomes and economic dependency. On one hand, trade agreements enable member countries to exploit comparative advantages, reduce trade barriers, and achieve greater market access, resulting in improved economic welfare and enhanced productivity (Viner, 1950). This theory further aligns with theory of, which posits that regional integration replaces inefficient domestic production with more efficient imports from member countries. Such integration can also stimulate foreign direct investment, foster technology transfer, and create economies of scale.

On the other hand, the proponents of the dependency theory critique this optimistic view, arguing that trade agreements can exacerbate disparities among member nations. Peripheral economies often become reliant on importing high-value goods from core economies while exporting low-value primary goods, leading to unequal terms of trade. For instance, as observed in Pakistan’s FTAs, the influx of intermediate and finished goods from China has hindered the development of domestic industries, creating a dependency on imported goods and eroding local production capabilities (Ahmed et al., 2020).

Moreover, trade agreements may not uniformly benefit all sectors. Not all industries develop or are underdeveloped with trade. Industries that are not globally competitive can

[12] Salvatore (2019). *International-economics*. John-Wiley&Sons.

struggle to survive amidst reduced protection, leading to job losses and socioeconomic challenges.

Similar findings in the global context indicate that nations with robust industrial policies and export-oriented growth strategies, such as Vietnam, benefit more significantly from free trade agreements (World Bank, 2022).

In summary, in Pakistan, over the years, the focus has been on increasing the FTAs and tariff reductions without empirical evidence about their performance. There is a lack of research and empirical evidence on “which theory persists in the international trade of Pakistan” and which theory the Government of Pakistan should follow.

3. Methodology

This Policy Brief aims to present empirical evidence about Pakistan’s trade performance. It examines trade trends in Pakistan from 2004 to 2023, during which the country entered into multiple FTAs. To fully understand these trends, it’s essential to consider the specific trade dynamics of Pakistan. Over the years, Pakistan’s trade performance has shown considerable variability. Therefore, it is important to assess whether any growth (or decline) in trade is simply a continuation of existing trends prior to the FTAs or if the FTAs played a significant role in this improvement.

To address this issue, this Brief employs two counterfactuals to examine the impact of multiple FTAs on Pakistan’s trade performance.

1) The first counterfactual investigates import and export trends to identify any significant changes due to the signing and implementation of any FTA. By analysing the average trade growth rate, these pre- and post-FTA trend analyses ensure comparability and reliability.

2) The second counterfactual examines the overall trade performance of Pakistan during the same period. It also compares Pakistan’s trade performance with that of a non-FTA country. Here, Vietnam is taken as a control group, providing a baseline for analysis.

This will inform whether the trade performance is largely consistent with the trends observed before the FTA or if the FTA had any significant impact on trade performance.

Globally, the Trend-break analysis (TBA) and Difference-in-differences (DiD) model are used in such analysis. However, this study follows a digression from such statistical

techniques. This is due to the unavailability of data and the failure to establish the prerequisites of such models, such as the parallel trend assumption (PTA)[13].

Data:

Data related to Pakistan's international trade with its trading partners is provided by the International Trade Centre (ITC). For the analysis, it is, however, important to differentiate between countries with FTAs and Pakistan's other trading partners. The Ministry of Commerce (MOC) gives detailed information on the FTAs that Pakistan has signed. The FTA countries viz. China, Malaysia, and Sri Lanka were chosen based on the details provided by the MOC. According to the MOC, Pakistan has maintained long-standing trade relations with these countries.

Trade Indicators Used

Internationally, multiple indicators such as import, export, re-export, re-import, trade volume, trade balance, and trade as a per cent of GDP are used to track a country's trade performance. Among them, the import and export data are considered one of the most reliable empirics[14].

Import data are generally used to see the performance of an economy. Such data is kept in track by customs authorities as they frequently apply duties, taxes, and other regulatory controls on the goods coming into the border of an economy. On the other hand, export data is utilised more frequently, as exports are the primary driver of contemporary economies. Hence, exporting countries are strongly incentivised to track their economic growth by reporting segregated export data. More importantly, the rationale for selecting import and export data is that these two empirics are the foundation for all international trade statistics, which is why they are widely used[15].

4. Results and Discussion

[13] Here, PTA means that before a new trade policy is-introduced, the outcomes of-treated-areas (where the policy applies) and control areas (where it does not) must follow similar trends.

[14]

[15] Hubert Escaith (2012). World Trade Organisation. https://www.wto.org/english/res_e/statis_e/its2012_e/its12_understand_its_e.pdf?utm_source=chatgpt.com

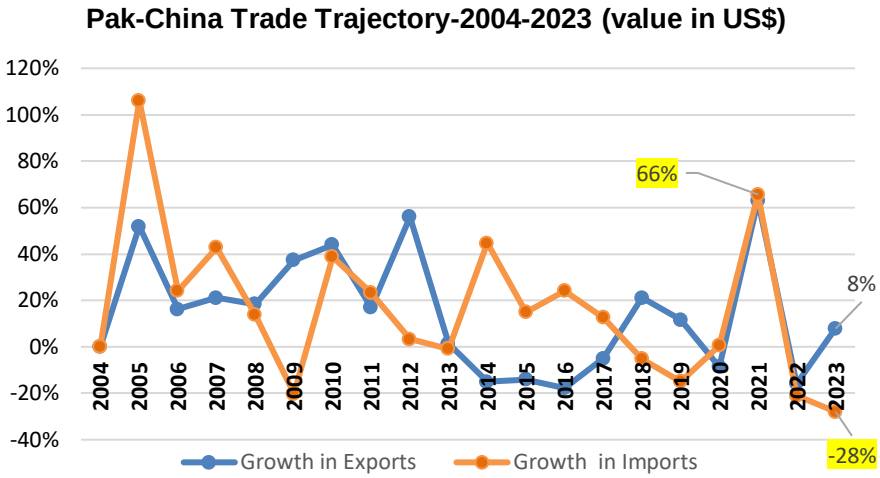

Figure 1: Growth in Pak-China Exports and Imports

Table 1: Pakistan's trade with China						
Pakistan's Exports to China				**Pakistan's Imports from China**		
Years	Value USD thousand	Growth		Years	Value USD thousand	Growth
2005	435682	0.52		2005	2349395	1.06
2006	506642	0.16		2006	2914926	0.24
2007	613759	0.21		2007	4164230	0.43
2008	726711	0.18		2008	4738055	0.14
2009	997854	0.37		2009	3779769	-0.20
2010	1435944	0.44		2010	5247713	0.39
2011	1678959	0.17		2011	6470653	0.23
2012	2619944	0.56		2012	6687566	0.03
2013	2652223	0.01		2013	6626323	-0.01
2014	2252900	-0.15		2014	9588418	0.45
2015	1934926	-0.14		2015	11019005	0.15
2016	1590858	-0.18		2016	13680153	0.24
2017	1510410	-0.05		2017	15404325	0.13
2018	1829435	0.21		2018	14599749	-0.05
2019	2042893	0.12		2019	12423997	-0.15
2020	1867755	-0.09		2020	12504581	0.01
2021	3042838	0.63		2021	20705497	0.66
2022	2561413	-0.16		2022	16343912	-0.21
2023	2762635	0.08		2023	11777695	-0.28
Average Growth:		15%		**Average Growth:**		17%
Ave. Growth(2019-2023):		12%		**Ave. Growth (2019-2023):**		1%
Source: ITC (2024)						

Based on the stated methodology, country-wise results regarding the trade performance of Pakistan are provided here.

China Pakistan FTA

In 2007, Pakistan and China signed an FTA. Since 2004, Pakistan's exports to China have increased by 14%, while imports from China have grown by 17% (as shown in Table 1). As a result, Pakistan has a trade deficit.

In 2018, Pakistan renegotiated the FTA. Consequently, from 2019 to 2023, Pakistan's exports to China increased by 12%, and Pakistan's imports from China increased by 1%. From 2019 to 2023, the trade between the two countries, on average, increased by 1%. However, overall, the trade deficit increased. In 2021, it was USD 17.66 Billion.

Pak Indonesia Trade

Pakistan and Malaysia signed an FTA in 2009. When Pakistan offered concessions to Malaysia, being a trade partner of Indonesia, the country aligned its trade terms with those of Indonesia. In 2013, Pakistan signed a preferential PTA with Indonesia.

From 2004 to 2012, the average export growth rate was 30%. But, from 2013 to 2023, the average export growth rate came down to 17%. From 2004 to 2023, Pakistan's average exports to Indonesia were at 19%. Meanwhile, its imports from Indonesia increased by 20%. As a result, the trend remained the same between the two countries. (See Annexure 1 for the respective trade tables).

Pak Srilanka FTA

In 2005, Pakistan and Sri Lanka signed an FTA. During this period, Pakistan's exports to Sri Lanka increased by 8%, while Sri Lanka's exports to Pakistan grew by 3%. Hence, the pendulum of trade resulted in favour of Pakistan. (See Annexure 1 for the respective trade tables).

Pak Malaysia FTA

In 2007, Pakistan and Malaysia signed an FTA. From 2004 to 2023, Pakistan's exports to Malaysia increased by 13%, while its imports from Malaysia increased by 4% during the same period.

However, Pakistan has never achieved a trade surplus. The lowest trade deficit was in 2019 of $725 million. (See Annexure 1 for the respective trade tables).

Discussion:

The analysis reveals that Pakistan's FTAs with China, Sri Lanka, Malaysia, and Indonesia have had mixed outcomes. There are some positive trends. However, they are minimised or outpaced by significant challenges.

The Pak-China FTA led to an average annual growth of 15% in exports as well as 17% increase in imports (see Figure 1). This shows an increase in trade volume. However, the significant challenge of the trade deficit still persists. Especially after the renegotiation in 2018. This underscores structural imbalances in Pakistan's international trade structure.

The literature suggests that the rise in imports is of intermediate and finished goods. This has adversely impacted Pakistan's domestic industries by creating dependency on imported goods and suppressing local production capabilities. On the other hand, Pakistan has lost a significant amount of tariff-related revenues.

As discussed in the literature, contemporary trade theories (such as Slaughter (1997)) hold in the Pak-China FTA case. A country like Pakistan, which trades with a larger developed economy of China, benefits relatively less. Pakistan relies on trade based on agriculture and natural resources (minerals) exports). Meanwhile, China exports more high-tech and finished/final goods to Pakistan.

In trade with Sri Lanka, Pakistan experienced a favourable trade balance, with an 8% increase in exports compared to a modest 3% rise in imports. However, overall trade volume remained stagnant, as Pakistan continues to trade with Sri Lanka primarily in traditional goods such as unprocessed rice. This indicates that the FTA did not bring diversification or improvement in the trade performance of Pakistan, nor did it create significant new market opportunities. It also highlights Pakistan's limited integration into Sri Lanka's supply chains.

Nonetheless, Sri Lanka's economic crisis and global factors resulted in a significant depreciation of the Sri Lankan Rupee (LKR). As a result, Pakistan emerged as the main beneficiary in terms of net welfare from trade.

The FTA with Malaysia led to a 13% growth in exports for Pakistan, compared to a 4% increase in imports, which is a positive sign. However, Pakistan has consistently faced trade deficits. This indicates challenges in competing with Malaysia as well as highlights the difficulties of leveraging FTAs for economic gains.

Following the signing of the 2013 Preferential Trade Agreement (PTA) with Indonesia, Pakistan experienced a 19% growth in exports, but this was overshadowed by a 20% increase in imports. This imbalance suggests that the agreement did not provide Pakistan with substantial economic advantages.

The disparity occurred because Pakistan granted duty concessions on edible oil to Malaysia without considering Indonesia's interests. Indonesia is a major producer of palm oil and a key competitor to Malaysia. Eventually, similar favourable terms were provided to Indonesia. However, neither country could offer more favourable tariffs than those they arranged under the ASEAN pact. ASEAN countries agreed to reduce tariffs on intra-regional products to no more than 5% or eliminate them altogether. In contrast, Pakistan's average tariff rate remains above 10%[16].

International Trade Performance of Pakistan

This segment explores whether Pakistan's exports have declined overall or only the FTA countries have seen a decline or a constant trend. From 2004 to 2023, on average, a 2% decrease in exports has been observed in Pakistan. However, it has faced a 9% increase in its overall imports. This shows a trade imbalance that reflects both weaknesses in the FTAs and structural issues within Pakistan's economy. The rise in imports suggests that foreign goods are more competitive. Pakistan is grappling with high production costs, energy shortages, and outdated technology. The overall decline in exports also indicates the failure to capitalise on FTA tariff concessions. It moreover shows dependency on low-value goods/lack of diversification or trade creation.

Nonetheless, the FTAs' experiences of other regional partners, such as Bangladesh and India, stand in contrast to Pakistan's experiences. They have strategically utilised their FTAs, which helped them to uplift trade performance. Hitherto, Pakistan's export-to-GDP ratio is only 8.4pc (in 2023), whereas in Bangladesh, it is 15%, and in India, it is 19%.

The experiences of regional partners demonstrate the missed opportunities Pakistan has faced by concentrating on the number of FTAs rather than enhancing its domestic industries, productivity, and economic structure. China is the top trading partner of Pakistan. Currently, the top exported goods of Pakistan is semi-milled rice, with no high-value industrial goods making the top of the product list. Conversely, the top imported

[16] WTO (2024). https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/PK_E.pdf

goods consist of high-value petroleum products and smartphones. Additionally, Pakistan imports photovoltaic cells from China, while its exports to China predominantly include low-value cotton.

In this Brief, the final yardstick employed in the FTA debate is to assess whether Pakistan's trade has improved compared to a non-FTA country or whether all countries face the same declining trend. To determine this, the benchmark country viz. Vietnam was taken in this Brief (since Vietnam has a similar economic structure, which is why it is chosen for comparison[17]). Vietnam, with no FTA, has outperformed the trade statistics with the Pakistan's trading partner. Figure 2 shows the trade performance of the Pak-Vietnam trade.

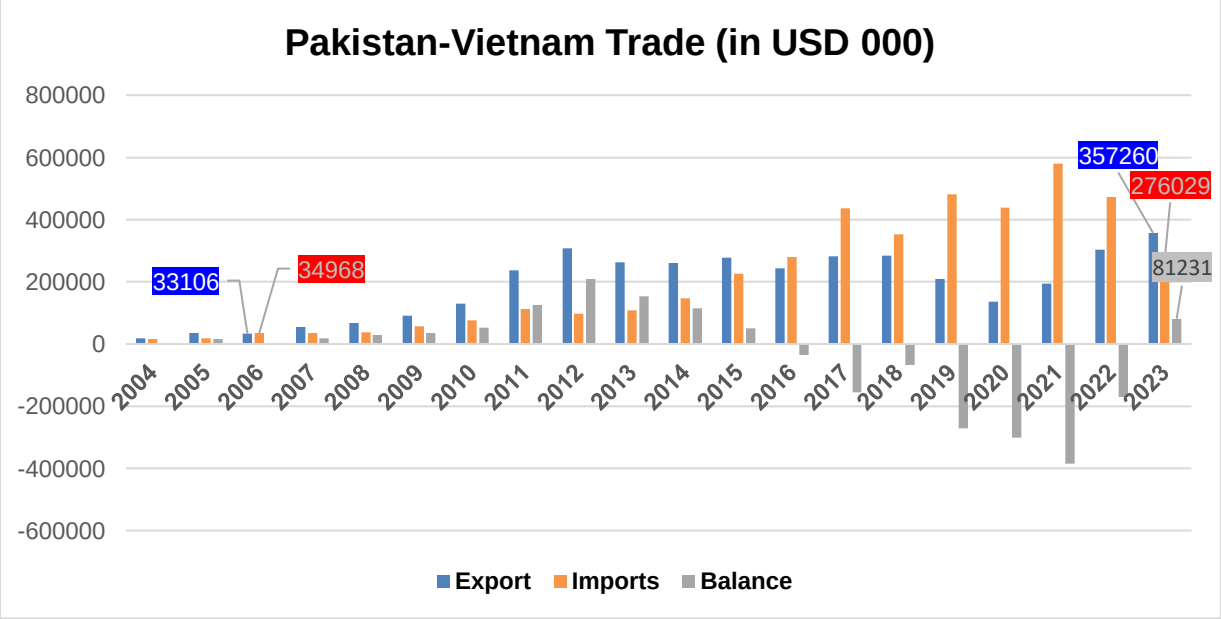

Figure 2: Pakistan-Vietnam Trade (2004-2023)
Source: ITC (2024)

Figure 2 depicts the trade dynamics between Pakistan and Vietnam. In 2006, exports from Pakistan stood at USD 33 million, while imports totalled USD 35 million. In 2023, exports have risen to USD 357 million, with imports recorded at USD 276 million. In 2023, this resulted in a trade surplus of USD 81 million. As a result, a positive shift in the trade relationship between the two countries was observed.

[17] FPCCI (2024). https://fpcci.org.pk/wp-content/uploads/2021/06/REPORT-ECONOMIC_RELATIONS_BETWEEN_PAKISTAN_AND_VIETNAM.pdf

Alignment with trading partners' demands significantly influences trade. This acted as a key driver behind the Pak-Vietnam trade. Vietnam's economy is more oriented towards services and industrial sectors. Over the years, this has resulted in a complementary trade relationship where each country benefits from the other's strengths and resulted in alignment with trading partners' demands.

In 2023, Pakistan exported maize worth USD 1.75 billion to Vietnam, making up 50% of its total exports to Vietnam. Simultaneously, Pakistan, having an underdeveloped industrial structure, imports electronic goods, including smartphones, from Vietnam, further solidifying trade ties.

However, these statistics also raise important questions about the effectiveness of FTAs. Despite their intended purpose to enhance trade, the current data suggests that the agreements have not significantly improved trade figures. Moreover, Pakistan faces the challenge of losing considerable tariff revenues due to the concessions offered under these agreements.

Challenges Grappling Pakistan Trade

International Trade of Pakistan faces several critical challenges that have hindered its ability to benefit from the FTAs. The existing challenges and the questionable impact of multiple FTAs must be addressed to strengthen and optimise this partnership for the future. This section provides an overview of the challenges.

Persistent Trade Deficits

Despite FTAs, Pakistan consistently faces current account deficits with its trade partners, such as China, Malaysia, and Indonesia. This shows structural imbalances in its trade framework, such as an over-reliance on imports of intermediate and finished goods.

Low Export Diversification

Low value agriculture products or raw materials are Pakistan's main exports. Hence, exports remain heavily concentrated in low-value goods. For example, agricultural products and textiles in the case of Vietnam and China. The lack of diversification restricts the country's access to global high-value markets. In 2023, Pakistan exported maize worth USD 1.75 billion (50% of the export to Vietnam). Moreover, exports of raw materials or semi-processed goods, rather than finished products, reduce the economic benefits of

trade. This reliance on low-value goods limits growth opportunities in sectors requiring innovation and advanced manufacturing.

Weak Infrastructure

Infrastructure is crucial for the operation of any country. Trade needs roads for transporting goods, as well as ports and airports for exporting industrial products to international trade partners. Pakistan's infrastructure is relatively poor by international standards, significantly affecting its international trade[18]. Pakistan reportedly loses about 4 to 6 percent of its GDP, which amounts to roughly $6 billion, due to inefficiencies in logistics. These challenges elevate the cost of producing goods by around 30 per cent. This situation is crucial, especially as Pakistan is situated at a strategic location. It competes vigorously with countries such as India and China in the export market.

Lack of Sustainable Trade Practices

Pakistan's lack of sustainable trade practices has also hindered its export potential. For instance, the EU has banned Pakistan's seafood exports multiple times due to poor sanitary standards. Over 55 interceptions[19] of shipments, mainly mangoes with fruit flies and untreated rice by the EU this year[20]. This has cost the industry significant revenue. Exporting green technologies and adhering to international environmental standards is a significant challenge in Pakistan's international trade.

High Production Costs

Domestic industries in Pakistan are facing significant challenges due to high production costs driven by energy shortages, outdated technology, and inefficient manufacturing practices. As a result, Pakistani goods are struggling to compete in international markets.

Currently, production costs in Pakistan are higher than those in India and Bangladesh, putting considerable financial pressure on businesses and negatively impacting trade. For households, electricity rates in Pakistan are 45.1% of the global average and 84.5% of

[18] SBP (2024). https://www.sbp.org.pk/departments/ihfd/InfrastructureTaskForceReport.pdf?utm_source=chatgpt.com
[19] Refers to cases where shipments of items are stopped, inspected, and potentially rejected.
[20] Abbas (2023). https://profit.pakistantoday.com.pk/2023/10/27/noncompliance-of-eu-export-standards/

the Asian average. However, business electricity rates are considerably higher, standing at 110.1% of the global average and an alarming 154.3% of the Asian average[21].

Geopolitical Challenges

Geopolitical dynamics, particularly sea or oil-related that increase the cost of trade, often create challenges for the trade prospects of Pakistan. Global factors like the China-U.S. trade war have added complexity. Pakistan is trying to navigate economic alignments between its key partner, China, and the U.S., a traditional ally. For example, Pakistan's reliance on China for trade and investment through CPEC aligns it more closely with Beijing. Pakistan is facing sanctions and potentially limiting trade options via Free Trade toward high-value Western markets.

Regulatory and Bureaucratic Barriers

Inefficient regulatory processes, excessive bureaucracy, and slow customs procedures deter exporters and importers, raising transaction costs and reducing trade efficiency. The name suggests that the FTA means free trade agreements however in reality these trade agreements still face both financial and non-financial barriers. Nonetheless, they are called FTA but still the duty on these agreements is higher. Some goods in the Pak-China FTA face 16% tariff rates.

Special Economic Zones (SEZ)

Special Economic Zones (SEZs) exist in multiple countries to facilitate trade. These zones aim to enhance value addition in exports, generate employment, encourage import substitution, and mobilize foreign exchange to support the balance of payments. Both developing and developed economies have established SEZs, with approximately 5,400 located in 150 countries worldwide.

There are 425 approved SEZs in India, of which 270 are operational. In Pakistan, the SEZ Act was established in 2012. In contrast, a few SEZs near Karachi and Lahore are currently functioning in Pakistan. Among only 27 notified SEZs in Pakistan, no significant economic activities related to exports, imports, or investments are directly attributable to these zones[22].

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[21] Israr Khan (2024). https://www.thenews.com.pk/print/1245129-pakistan-s-power-costs-among-highest-in-s-asia-for-industry-commerce

[22] Tewari (2024). https://gipe.ac.in/special-economic-zones-in-india-location-and-land-utilisation/

Fail to tap in its Geographical Proximity

Unlike regional peers such as India and Bangladesh, Pakistan has not stretigically leveraged its geographic location to enhance trade performance.

Low Labour Productivity Levels

Pakistan's labour productivity growth has lagged behind regional competitors, further reducing its global competitiveness. A World Bank report states that Pakistan's labour productivity lagged behind that of its trading partners. It has increased only from about USD 3,200 to USD 4,700 in the last two decades. However, in Vietnam, it increased from USD 1,200 to USD 6,000 (in the same time period).

Recommendations:

Pakistan may:

- Invest in emerging sectors such as sustainable agriculture, IT, pharmaceuticals, and green technologies to reduce reliance on traditional exports and tap into high-value markets.
- Prioritise competitiveness, domestic industrial development, and export diversification. Without these foundational reforms, FTAs may continue to yield suboptimal outcomes, further exacerbating the country's trade imbalances. It may encourage industries to move up the value chain by providing incentives for producing finished goods rather than exporting raw materials. Address energy shortages and modernise infrastructure and manufacturing technology to lower production costs and improve competitiveness. Then, re-negotiate and strengthen trade ties with neighbouring countries and regional blocs by negotiating mutually beneficial trade agreements and aligning with regional trade practices.
- Simplify customs procedures, reduce bureaucratic hurdles, and adopt digitisation s in FBR and Custom institutions to enhance trade efficiency and transparency.
- Invest in education, vocational training, and technology adoption to improve workforce skills and productivity, matching the pace of regional competitors like Vietnam, India, and Bangladesh. Moreover, traders and the general public need to be aware of FTAs to get more into trade and earn foreign reserves.

- Emphasise the negotiation FTAs that secure market access for higher-value goods and environmentally friendly goods (like dry fruits) while prioritising sectors with strong export potential. The agriculture sector can make a significant contribution by exporting organic products and green technologies. Pakistan's diverse climate and resource abundance give it a competitive advantage in this area. This will also contribute positively to challenges related to climate change and the food security needs of Pakistan.
- Not prioritise importing manufacturing items like solar panels and EV batteries that it can produce domestically. Greater emphasis should be placed on importing intermediate goods to help the economy, uplift the industry, and improve the trade balance.

5. Conclusion

This Brief highlights that a trade agreement can benefit domestic manufacturing by offering reduced-duty inputs. However, it can also negatively impact domestic industries when finished goods from countries like China where producers enjoy scale and unit cost advantages, face low or no duties. Pakistan is currently grappling in such a policy dilemma.

Pakistan's FTAs have largely failed to deliver the anticipated benefits. There have been instances of export growth, but the overarching trend has been a consistent increase in trade deficits due to the focus on low-value goods in the absence of trade creation. These agreements, moreover, have often resulted in trade-offs, including lost revenue due to tariff concessions and weakened domestic industries unable to compete with cheaper imports.

If Pakistan can reduce the inefficiencies, it could gain trade advantages from the FTAs and use them to capitalise on its strategic geographical position. Pakistan also must enhance its infrastructure, streamline customs procedures, and improve logistics. By doing so, not only will it benefit from increased trade volume, but it will also foster economic ties with its regional partners.

Such a policy will ultimately result in a more robust and prosperous economy for all involved. **Hitherto, these FTAs may not place a burden on Pakistan's economy, but they are certainly not acting as a bridge in its economic development.**

Action Matrix

Action Area	Pathways to Solution	How to Implement Each Solution	Actor Responsible	Timelines
Strategic Imports	Avoid importing items such as edible oil and other food products that Pakistan can produce domestically and prioritise intermediate goods.	Introduce policies to encourage energy saving behaviours, domestic oil production such as olive, and related technologies.	Ministry of Commerce, Ministry of Industries, TDAP.	**Short-term:** Develop import substitution policies. **Long-term:** Expand domestic production capabilities for strategic goods.
Export Diversification	Offer incentives to industries and firms to move up the value chain by producing or exporting finished goods rather than raw materials as well as renegotiate FTAs accordingly to get access for the finished goods.	Targeted incentives tied to output for sectors with high export potential, such as organic agriculture, pharmaceuticals, and green technologies, to drive growth.	Ministry of Commerce, MNFSR, TDAP.	**Short-term:** Launch incentive schemes for specific industries. Negotiate with immediate regional partners. **Long-term:** Target FTAs with larger global markets. Foster continuous innovation, human capital development, and value-added production.
Infrastructure & Energy	Address energy shortages and modernise infrastructure and manufacturing technology to improve competitiveness.	Less tariff and and access to cost-effective energy. Modernise infrastructure through public-private partnerships (PPP).	Ministry of Energy, Ministry of Finance, Private Sector, Ministry of Communication.	**Short-term:** Identify and fast-track critical projects. **Long-term:** Implement energy sustainability programs.
Education & Vocational Training	Invest in education, vocational training, and	Develop new curricula and skill-building programs	Ministry of Education, Ministry of	**Short-term:** Introduce pilot programs for technology adoption.

	technology adoption to enhance workforce skills and productivity.	focused on trade as well as on sectors with export potential like IT and sustainable agriculture.	Labour and Manpower	**Long-term:** Establish vocational training departments in institutes.
Public Awarenes s on FTAs	Increase awareness about FTAs among traders and the general public.	Launch a national awareness campaign through media, workshops, and outreach programs targeting small and medium enterprises (SMEs).	Ministry of Commerce, Pakistan Chamber of Commerce and Industry	**Short-term:** Organise awareness campaigns targeting SMEs. **Long-term:** Foster a continuous educational outreach program.

Annexure 1

Pakistan's International Trade						Pakistan's Trade with Indonesia					
Exports			Imports			Exports			Imports		
Years	Vale in USD (000)	Growth	Years	Value in USD (000)	Growth	Year	Value in USD (000)	Growth	Year	Value in USD(000)	Growth
2005	16050201	5%	2005	25096575	63%	2005	68167	50%	2005	684079	93%
2006	16932873	5%	2006	29825754	19%	2006	61929	-9%	2006	808935	18%
2007	17838407	14%	2007	32593936	9%	2007	66458	7%	2007	876974	8%
2008	20279046	-13%	2008	42326567	30%	2008	63048	-5%	2008	1191686	36%
2009	17554698	22%	2009	31583718	-25%	2009	67073	6%	2009	653589	-45%
2010	21413103	18%	2010	37537025	19%	2010	73853	10%	2010	675655	3%
2011	25343769	-3%	2011	43578259	16%	2011	188527	155%	2011	929761	38%
2012	24613676	2%	2012	43813262	1%	2012	236323	25%	2012	1351328	45%
2013	25120883	-2%	2013	43775183	0%	2013	144380	-39%	2013	1208316	-11%
2014	24722182	-11%	2014	47544889	9%	2014	138165	-4%	2014	2107232	74%
2015	22089018	-7%	2015	43989645	-7%	2015	140754	2%	2015	2041765	-3%
2016	20533793	7%	2016	46998269	7%	2016	127689	-9%	2016	2088831	2%
2017	21911598	9%	2017	57518651	22%	2017	165844	30%	2017	2586768	24%
2018	23778621	0%	2018	60391133	5%	2018	304792	84%	2018	2511831	-3%
2019	23818817	-7%	2019	50134812	-17%	2019	146651	-52%	2019	2222140	-12%
2020	22245688	30%	2020	45841651	-9%	2020	137253	-6%	2020	2408783	8%
2021	28880006	8%	2021	73106624	59%	2021	170726	24%	2021	4203791	75%
2022	31175925	-7%	2022	71104684	-3%	2022	155656	-9%	2022	4955306	18%
2023	28950086	-100%	2023	50362541	-29%	2023	330490	112%	2023	3517481	-29%
Average Growth:		-2%	Average Growth:		9%	Average: 0.19%			Average: 18%		
Source: ITC (2024)											

Pakistan's Trade with Malaysia (2005-2023)					
Exports			Imports		
Years	Value	Growth	Year	Value	Growth
2005	66614	-20%	2005	731358	23%
2006	60971	-8%	2006	765848	5%
2007	81334	33%	2007	1157505	51%
2008	138068	70%	2008	1693664	46%
2009	158256	15%	2009	1608445	-5%
2010	145585	-8%	2010	2054747	28%
2011	243054	67%	2011	2727991	33%
2012	233479	-4%	2012	2131984	-22%
2013	204464	-12%	2013	1919737	-10%
2014	233925	14%	2014	1280078	-33%
2015	186226	-20%	2015	910959	-29%
2016	151746	-19%	2016	944632	4%
2017	129266	-15%	2017	1102497	17%
2018	158487	23%	2018	1164333	6%
2019	232781	47%	2019	956870	-18%
2020	233067	0%	2020	1087153	14%
2021	383975	65%	2021	1319062	21%
2022	379594	-1%	2022	1076668	-18%
2023	465232	23%	2023	773623	-28%
Average growth rate: 1%			**Average growth rate: 4%**		

Pak-Sri Lanka Trade					
Exports			Imports		
Years	Value	Growth	Years	Value	Growth
2005	153662	59%	2005	59177	24%
2006	177595	16%	2006	70973	20%
2007	208573	17%	2007	59789	-16%
2008	216720	4%	2008	66216	11%
2009	216963	0%	2009	55790	-16%
2010	283870	31%	2010	53369	-4%
2011	347722	22%	2011	61130	15%
2012	300904	-13%	2012	83413	36%
2013	316382	5%	2013	63524	-24%
2014	266147	-16%	2014	62971	-1%
2015	260015	-2%	2015	72256	15%
2016	237183	-9%	2016	76689	6%
2017	269334	14%	2017	103492	35%
2018	356750	32%	2018	105360	2%
2019	323868	-9%	2019	64940	-38%
2020	253809	-22%	2020	71347	10%
2021	349510	38%	2021	73982	4%
2022	368667	5%	2022	74357	1%
2023	303500	-18%	2023	62289	-16%
Average	274272	8%	**Average**	70582.32	3%

Pak-Vietnam Trade			
Years	**Export**	**Imports**	**Trade Balance**
2004	18886	16677	2209
2005	35700	18787	16913
2006	33106	34968	-1862
2007	54973	35745	19228
2008	67206	37904	29302
2009	91674	56826	34848
2010	129118	76509	52609
2011	237543	112010	125533
2012	307416	97976	209440
2013	262559	108302	154257
2014	260530	146213	114317
2015	276628	226986	49642
2016	244014	280327	-36313
2017	281637	436388	-154751
2018	284012	352526	-68514
2019	209068	480855	-271787
2020	136722	438585	-301863
2021	194755	579098	-384343
2022	302649	472223	-169574
2023	357260	276029	81231

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