Rethinking Trade Policy

THE preparation of the Strategic Trade Policy (STP) for 2026-31 is an opportunity not merely to set fresh export targets but also rethink our export strategy in the light of lessons of the past decade. Any new policy's credibility depends on fixing structural weaknesses that have repeatedly undermined implementation.

First, policies alone don't produce results. Pakistan has prepared numerous strategies over the past three decade, but most have fallen short because governance has been weak and institutions ineffective. Good governance is the foundation on which sound economic policies rest. It improves resource allocation, boosts competitiveness, raises productivity, reduces transaction costs and enables efficient functioning of markets. Unless accompanied by governance reforms, the new STP is unlikely to deliver outcomes different from its predecessors.

The new policy should begin with an honest assessment of the previous two STPs. STP 2015-20 envisaged exports of $35 billion by 2020, but actual exports amounted to only $20.5bn. STP 2021-26 targeted exports of $57bn by 2025, but actual exports reached only about $32bn. The government should analyse why earlier policies failed. Were the targets too optimistic? Was production capacity, particularly for non-traditional exports, assessed before targets were set? Were industrial bottlenecks identified and removed? Did the National Export Promotion Board (NEPB), chaired by the prime minister, meet regularly to review progress and resolve implementation issues? Were problems such as excessive taxation, high energy prices, tariff protection, cumbersome regulations and rising cost of doing business effectively addressed?

The review must distinguish between policy failures and external shocks. Covid-19, floods, the Ukraine war and Middle East tensions disrupted global supply chains and global trade, affecting export performance. But they can't alone explain Pakistan's stagnation. Domestic policy choices also had a role. Between 2013 and 2018, the exchange rate remained effectively fixed while the real effective exchange rate appreciated steadily, indicating an overvalued currency. During this time, exports were stagnant at around $25bn, imported inputs became more expensive and exports as a share of GDP declined from 13.1 per cent in 2005 to 7.9pc by 2025.

Second is the failure to diversify exports despite repeated policy commitments. Successive STPs identified product and market diversification and technological upgrading as central goals, yet little changed. Textiles, food products and leather still account for over four-fifths of our exports, almost the same proportion as a decade ago. Export destinations, too, remain highly concentrated. The US, EU, China and UAE together account for over 60pc of exports.

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The EU illustrates both Pakistan's success and its missed opportunities. Since gaining GSP-Plus status in 2014, exports to the EU have expanded significantly because of preferential access to about two-thirds of tariff lines. But, Pakistan has failed to diversify beyond traditional cotton textiles. It has not adequately exploited opportunities in synthetic fibre products, technical textiles and other higher-value segments where global demand is growing rapidly. Despite substantial export growth, Pakistan still accounts for only a small fraction of total EU imports.

The broader export basket remains concentrated in low-technology, resource-based products with limited long-term growth prospects. We still lack a meaningful presence in medium- and high-technology sectors such as electronics, engineering goods, pharmaceuticals, chemicals, medical equipment and e-mobility components. These account for a growing share of world trade, offering opportunities for productivity gains and higher wages.

Integration into global value chains offers perhaps the greatest opportunity for export expansion, especially through deep industrial linkages with China. Recent tariff reforms and the Pakistan Single Window initiative are important, but must be implemented consistently. Domestic taxes and tariffs on imported polyester, synthetic fibres and other industrial raw material should be gradually reduced to improve competitiveness. We also need a medium-term industrial policy to encourage investment in upstream industries, including a petrochemical complex that can supply raw materials for synthetic fibres and downstream manufacturing industries. Even the World Bank now recognises that carefully designed industrial policies have an important role in accelerating structural transformation in developing countries.

The third requirement is realism. In an uncertain global environment, single-point export targets have little practical meaning. The new STP should present a range of possible outcomes supported by analysis. Its underlying assumptions should be clear. Industrial, tariff, tax, exchange rate, fiscal, monetary and skills development policies must reinforce and not contradict one another. Regulatory simplification, digitalisation, logistics efficiency, technical skills and higher female labour force participation are equally critical and should be fully reflected in implementation frameworks.

Consultations with exporters should be substantive. Existing and indirect exporters and potential entrants understand regulatory obstacles and market opportunities that policymakers often overlook. Their advice should shape policy design and implementation. The STP should assess emerging global trends including AI, climate change, demographics, geopolitics and supply-chain realignment, to ensure that its assumptions stay robust over the next five years.

Finally, the commerce ministry and NEPB should focus on steps within their direct control. Pakistan must pursue preferential trade agreements with Asean, the GCC, Japan, Korea, the UK, the US, Central Asia and Russia, while seeking more favourable terms under the China-Pakistan Free Trade Agreement. Compliance with the 27 international conventions underpinning GSP-Plus must be a priority.

Export financing should be expanded through instruments like guarantees and export insurance. The Export Facilitation Scheme must be restored with stronger safeguards. The Export Development Fund should finance product development, market diversification, testing, certification, technology upgrading and skills development. The Pakistan Single Window should be extended to cover remaining regulatory agencies. A formal stability clause, committing the government not to make major policy changes without consultation, would boost long-term investment. Finally, strong trade diplomacy needs qualified commercial representatives abroad. Export promotion should be made a central rather than a subsidiary responsibility of foreign service officers and their performance metrics.

Pakistan’s export problem is no longer one of diagnosis. The constraints are well known and the priorities have been identified. The real challenge lies in implementation, coordination and policy consistency. The next STP should be judged not by the size of its export targets but the credibility of its assumptions, the coherence of its implementation strategy and, above all, its ability to produce measurable results.

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