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The Return to Protectionism and Pakistan's Trade Competitiveness: Evidence from the US–China Trade War

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Abstract

This study examined the impact of the resurgence of global protectionism, particularly the US–China trade war, on Pakistan's trade competitiveness and export performance. A mixed-methods research design was adopted by combining quantitative analysis using the Revealed Comparative Advantage (RCA) index with qualitative content analysis of trade policies, institutional reports, and international trade data. The study analyzed Pakistan's export competitiveness before and after the escalation of the trade war to determine whether trade diversion created sustainable opportunities for the country. The findings revealed that the return to protectionism generated limited but identifiable export opportunities for Pakistan, particularly in textiles, apparel, cotton, leather products, and sports goods, where RCA values remained above one, indicating strong comparative advantage. However, the overall benefits remained modest because Pakistan failed to capitalize fully on global supply chain reconfiguration. The results further indicated that high energy costs, inadequate logistics, limited export diversification, weak technological capability, and low integration into global value chains constrained Pakistan's competitiveness. The study concluded that external trade opportunities alone were insufficient to enhance export performance without comprehensive domestic reforms. It was recommended that Pakistan diversify its export base, modernize industrial production, strengthen participation in regional and global value chains, improve trade facilitation, and implement technology-driven industrial policies. The findings contributed to the existing literature by applying the Revealed Comparative Advantage (RCA) model to evaluate Pakistan's trade competitiveness in an increasingly protectionist global trading environment.

Keywords: US–China Trade War, Protectionism, Trade competitiveness, Revealed Comparative Advantage, Trade Diversion, Global Value Chains (GVCs).

1. Introduction

For nearly thirty years, globalization served as the foundation of world commerce, driving a massive push toward open markets and deeply interconnected supply chains. This shift became official in 1995 with the creation of the World Trade Organization (WTO), which established a reliable, rules-based framework that lowered tariffs and gave companies the confidence to invest heavily across borders. Fueled by rapid breakthroughs in digital communication, shipping

logistics, and transportation, businesses began splitting up their manufacturing processes—building different components in whatever country offered the best competitive or financial edge. This structural change caused global trade to expand at a much faster rate than overall economic output, allowing numerous developing countries to plug into international production lines and lift their economies through export-driven growth. Even though shifting geopolitical rivalries have placed immense pressure on this setup in recent years, the international trading framework has proven remarkably durable, proving that cross-border commerce remains vital for worldwide economic progress (Irwin, 2020).

While globalization brought undeniable breakthroughs, its rewards were highly unequal, creating deep divides between different countries and economic sectors. In wealthier countries, a painful mix of chronic trade deficits, shuttered factories, aggressive tech rivalries, and a sudden, sharp fear of relying too heavily on foreign supply lines fueled a massive political backlash against open borders and free trade. To deal with this, world leaders shifted their focus from pure economic efficiency to national security, giving rise to a new, highly tactical era of protectionism (Mohr & Trebesch, 2024). This modern economic warfare goes way beyond old-school import taxes; today, governments routinely use tools like tight export limits, aggressive foreign investment screening, massive domestic corporate subsidies, and strict embargoes on cutting-edge technologies. Ultimately, this represents a fundamental rewrite of the international economic playbook, turning trade policy into a weapon for geostrategic dominance rather than a cooperative tool for boosting global prosperity.

The modern revival of protectionism became unmistakable in 2018 when the US–China trade war erupted, triggering massive tariff hikes on hundreds of billions of dollars in goods as Washington targeted Beijing's industrial subsidies, intellectual property practices, and lopsided trade balances. China immediately struck back with its own retaliatory measures, sparking one of the most intense bilateral economic standoffs in modern history. Even though a temporary "Phase One" agreement in 2020 offered a brief moment of breathing room, the underlying geopolitical friction has only grown sharper over time. Today, the battlefield has moved far beyond basic border taxes; it has expanded into a complex web of severe export controls, limits on outbound investment, and tight regulations over semiconductors and artificial intelligence aimed at fracturing mutual technological dependence (Liu & Lee, 2025). What began as a dispute over import duties has fundamentally transformed into a permanent geo-economic rivalry, where national security, supply chain resilience, and technological dominance dictate the rules of engagement.

One of the defining fallout effects of this new protectionist era has been a massive overhaul of how things are made and shipped around the world. Faced with a volatile mix of rising border taxes, political instability, and the structural shocks of the pandemic, multinational corporations realized that relying too heavily on any single manufacturing hub was a major liability. This realization kicked off a major wave of diversification, giving rise to tactical shifts like the "China Plus One" strategy, regionalized manufacturing, and friend-shoring—the practice of relocating factory lines to politically aligned nations. Consequently, emerging manufacturing hubs like Vietnam, India, Bangladesh, and Mexico have seen a massive influx of foreign investment as they plug directly into these shifting supply networks, all while companies learn to balance pure financial efficiency with long-term supply chain resilience (Attinasi et al., 2025). This widespread shuffling proves that global trade isn't actually collapsing into total isolationism; instead, it is

undergoing a highly calculated, selective restructuring driven by geopolitical survival and evolving economic realities.

Within this volatile global landscape, Pakistan serves as a strategically critical yet largely underutilized case study. The country is uniquely positioned at the crossroads of South Asia, Central Asia, the Middle East, and Western China, with its regional connectivity recently supercharged by extensive transport, energy, and logistical upgrades under the China–Pakistan Economic Corridor (CPEC). Yet, despite this logistical edge, Pakistan remains heavily isolated from high-value global supply networks, relying almost exclusively on low-tech exports like basic textiles and apparel. A stubborn mix of deep-rooted internal roadblocks—such as persistent energy shortages, a lack of industrial variety, weak technological adoption, and chronic macroeconomic volatility—continues to choke the country’s export potential and prevent it from capitalizing on its prized geography (World Bank, 2025).

This revival of global protectionism acts as a double-edged sword for Pakistan, offering a unique mix of high-stakes hurdles and rare economic openings. On one hand, Washington’s steep tariffs on Chinese manufacturing have triggered a massive wave of trade diversion, giving rival developing nations a golden opportunity to capture American market share. Pakistan’s traditional export pillars—including textiles, apparel, leather, sports gear, and surgical instruments—are perfectly positioned to absorb this displaced demand, while the broader fragmentation of global supply chains could help the country attract fresh, export-driven foreign direct investment. On the other hand, turning these theoretical windfalls into actual economic growth hinges entirely on Islamabad’s ability to aggressively scale up industrial output, modernize its logistical networks, slash bureaucratic red tape, and integrate deeply into modern production lines (Asian Development Bank, 2025). Without immediate and far-reaching structural overhauls, Pakistan is highly likely to find itself stranded on the sidelines of this global manufacturing shakeup rather than emerging as a primary winner of trade diversion.

While a massive amount of research has carefully tracked how the trade war between the United States and China reshaped major global economies like Vietnam, India, and the US itself, Pakistan’s unique trade competitiveness has been largely ignored. Most existing studies on Pakistan stick to high-level geopolitical rivalries, basic tariff math, or generic theories about trade diversion. Very little data-driven work actually explores how this sharp shift toward protectionism has altered Pakistan’s day-to-day export performance, impacted specific manufacturing sectors, or affected its capacity to join newly restructured global supply networks (Choudary, 2023).

This study addresses that exact gap. We analyze whether shifting global trade barriers have created real, measurable export opportunities for Pakistan, identify which domestic industries managed to capture these changing markets, and assess how this massive geoeconomic shift alters Pakistan’s long-term position in global trade. By examining these dynamics, this article provides vital, real-world evidence to the broader conversation on protectionism and supply chain reconfigurations from the perspective of a strategically crucial yet routinely overlooked developing economy.

2. Research Problem

Although the shifting dynamics of the US–China trade war have opened up trade diversion avenues by reorganizing global commerce and supply lines, it remains uncertain if Pakistan has successfully converted these shifts into lasting export advantages. While regional neighbors like Bangladesh and India have achieved clear, documented export gains by filling the gaps left by reallocated Chinese production, empirical assessments indicate that Pakistan has largely struggled to capture similar momentum, even experiencing minor export contractions in key segments during initial tariff rounds (Keeryo et al., 2020). Despite its geographic positioning, a deeply rooted textile manufacturing base, and upgraded infrastructure via the China–Pakistan Economic Corridor (CPEC), Pakistan's progress continues to be held back by persistent internal hurdles—namely structural economic volatility, a narrow export portfolio, and institutional friction. Consequently, this study addresses this critical literature gap by investigating whether the global resurgence of protectionism has genuinely moved the needle for Pakistan's trade competitiveness, explicitly identifying which specific manufacturing and agricultural sectors emerged as winners or losers in the wake of the US–China trade conflict.

3. Research Questions

1. How has the return to protectionism, particularly the US–China trade war, affected Pakistan's trade competitiveness?
2. To what extent has the US–China trade war created trade diversion opportunities for Pakistan, and which export sectors have gained or lost competitiveness as a result?

4. Research Objectives

1. To examine the impact of the return to protectionism, particularly the US–China trade war, on Pakistan's trade competitiveness.
2. To assess whether the US–China trade war has created trade diversion opportunities for Pakistan and to identify the export sectors that have gained or lost competitiveness.

5. Research Gap

Even though the trade war between the United States and China and the global revival of protectionist policies have generated a massive amount of academic literature, most of this research tends to focus strictly on major global powers or highly visible winners of trade diversion, such as Vietnam, Bangladesh, India, and Mexico. In comparison, there is a striking shortage of concrete, empirical data analyzing how these massive structural shifts affect Pakistan's trade competitiveness—especially regarding its factory-level export performance, specific industrial sectors, and integration into newly reconfigured global supply lines. Furthermore, current studies offer mixed and inconclusive evidence on whether Pakistan has actually been able to leverage these trade diversion opportunities to its advantage, despite its strategic geographical location, large textile production base, and deep infrastructure connectivity via the China–Pakistan Economic Corridor (CPEC). This study directly addresses this empirical gap by providing a thorough, data-driven assessment of how renewed global protectionism and the US–China trade war impact Pakistan's export dynamics, precisely identifying which local sectors have managed to gain traction and which have lost ground in this rapidly changing international trade landscape.

6. Research Methodology

This study adopts a mixed-methods research design based on quantitative trade analysis and qualitative content analysis. The quantitative component examines changes in Pakistan's export competitiveness before and after the escalation of the US–China trade war by analyzing trade data, sectoral export trends, and indicators of trade diversion. The qualitative component uses content analysis to interpret policy documents, trade reports, institutional publications, and scholarly literature in order to assess how renewed protectionism, supply-chain restructuring, and geo-economic competition have shaped Pakistan's trade opportunities and constraints. This mixed-methods approach is appropriate because the study requires both empirical measurement of trade performance and contextual interpretation of policy, institutional, and structural factors influencing Pakistan's ability to benefit from trade diversion.

7. Variables

This study examines the relationship between the resurgence of protectionism and Pakistan's trade competitiveness in the context of the US–China trade war. Pakistan's export competitiveness is treated as the dependent variable, as it represents the primary outcome influenced by changes in the global trading environment. The independent variables include US tariffs, Chinese retaliatory tariffs, trade diversion, and broader protectionist measures, which collectively capture the key dimensions of renewed protectionism affecting international trade. Table 1 presents the operational definitions, measurement indicators, and data sources for each variable used in the study.

7.1. Variables and Operationalization Table 1

Operationalization Matrix for Variables Affecting Pakistan's Export Competitiveness

Variable Type	Variable	Operational Definition	Indicators/Measurement	Data Source
Dependent Variable	Pakistan's Export Competitiveness (EC)	Pakistan's ability to maintain and improve its competitive position in international export markets during the period of renewed protectionism.	Export value (US\$), export growth rate, export market share, sectoral export performance, export diversification, Revealed Comparative Advantage (RCA) (where applicable).	UN Comtrade, ITC Trade Map, World Bank (WITS), Pakistan Bureau of Statistics (PBS), State Bank of Pakistan (SBP)
Independent Variable 1	US Tariffs (UST)	Tariff measures imposed by the United States on Chinese imports during the US–China trade war.	Tariff rates (%), product coverage, tariff rounds (2018–2024), value of affected imports (US\$).	Peterson Institute for International Economics (PIIE), USTR, WTO
Independent Variable 2	Chinese Tariffs (CT)	Retaliatory tariffs imposed by China on imports from the United States.	Tariff rates (%), product coverage, value of affected imports (US\$), implementation phases.	MOFCOM, WTO, PIIE
Independent Variable 3	Trade Diversion (TD)	Changes in trade flows resulting from the reallocation of exports from China to alternative exporting countries.	Growth in Pakistan's exports to the US, changes in export market share, sectoral export performance relative to Vietnam, Bangladesh, and India.	UN Comtrade, ITC Trade Map, WITS, World Bank
Independent Variable 4	Protectionist Measures (PM)	Government policies restricting international trade beyond tariffs.	Tariffs, non-tariff barriers, export controls, investment restrictions, industrial subsidies, technology restrictions, trade policy changes.	WTO, Global Trade Alert, IMF, UNCTAD, Government Policy Documents

Note. This operationalization framework structures the analysis of trade patterns amidst shifting tariff policies and protectionist trends from 2018 to 2024.

8. Data Analysis Technique

This study uses the Revealed Comparative Advantage (RCA) index as the principal quantitative technique to measure Pakistan's export competitiveness before and after the escalation of the US–China trade war. RCA is appropriate because the dependent variable of the study is Pakistan's export competitiveness, and RCA directly measures whether a country has a comparative advantage in a specific export sector relative to the world export structure. The qualitative component relies on content analysis of trade-policy documents, WTO notifications, IMF the Revealed Comparative Advantage (RCA) index is employed as the principal analytical tool in this study because it provides a widely accepted and objective measure of a country's export competitiveness based on observed trade performance rather than theoretical assumptions (Laursen, 2015). Since this research examines how the

resurgence of protectionism and the US–China trade war have influenced Pakistan's export competitiveness, the RCA index enables a comparison of sectoral comparative advantage before and after the trade war (2014–2017 and 2018–2023), thereby identifying sectors that have gained or lost competitiveness. It is also particularly suitable for assessing trade diversion, as improvements in RCA values indicate Pakistan's ability to capitalize on export opportunities created by higher US tariffs on Chinese goods, while stagnant or declining values reflect persistent structural constraints. Furthermore, the RCA index is extensively applied in international trade research and by organizations such as the World Bank, UNCTAD, ITC, and the WTO to evaluate export specialization and competitiveness, making it an appropriate and reliable measure for analyzing Pakistan's trade performance in the context of renewed global protectionism (Laursen, 2015).

The RCA index is calculated as:

$$[RCA_{ij}] = \frac{X_{ij}/X_{it}}{X_{wj}/X_{wt}}$$

Where:

(X_{ij}) = Pakistan's exports of product/sector (j)

(X_{it}) = Pakistan's total exports

(X_{wj}) = world exports of product/sector (j)

(X_{wt}) = total world exports

An RCA value greater than 1 indicates that Pakistan has a revealed comparative advantage in that sector, while an RCA value below 1 indicates weak or no comparative advantage.

Verified variable data for application Table 2

Descriptive Empirical Baseline and Tariff Coverage Data for Trade Analysis

Variable	Verified Indicator / Data	Source
Pakistan's total exports, 2023	US\$28.95 billion	PIPS/ITC Trade data
Pakistan exports to US, 2023	US\$5.046 billion; 17.43% of Pakistan's exports	PIPS/ITC Trade data
Pakistan textiles and clothing export partners, 2023	US, UK, Spain, Germany, Netherlands are top partners	WITS (World Integrated Trade Solution)
US tariffs on Chinese imports	By late 2019, US tariffs covered about US\$350 billion of Chinese imports	Fajgelbaum & Khandelwal/NBER (NBER)
Chinese retaliatory tariffs	By late 2019, China retaliated on about US\$100 billion of US exports	Fajgelbaum & Khandelwal/NBER (NBER)
US tariff timeline	25% tariffs on US\$34bn and US\$16bn Chinese goods; later 10–25% on US\$200bn; 15% on US\$112bn	University of Georgia timeline (CAES Field Report)
Pakistan key export sectors, 2023	HS63: US\$5.015bn; HS61: US\$4.208bn; HS62: US\$3.346bn; cereals: US\$3.230bn; cotton: US\$3.077bn	PIPS/ITC Trade data
Other relevant sectors, 2023	Leather articles: US\$636.53m; surgical/medical instruments: US\$471.46m; sports goods/toys: US\$330.79m	PIPS/ITC Trade data

Note. Data compiled from national trade reports, international databases, and academic literature on the US–China trade friction impact.

9. Data Analysis Framework Based on Revealed Comparative Advantage (RCA)

Pakistan's outbound trade structure shows that its global competitiveness is heavily tied to a small number of labor-intensive manufacturing sectors. According to national trade statistics from 2023, made-up textile articles (HS63) led the country's export basket at US\$5.01 billion (17.3%), closely followed by knitted apparel (HS61) at US\$4.21 billion (14.5%), non-knitted clothing (HS62) at US\$3.35 billion (11.6%), cereals (HS10) at US\$3.23 billion (11.2%), and raw cotton or yarn (HS52) at US\$3.08 billion (10.6%). Together, these five sectors make up more than half of Pakistan's entire merchandise exports, exposing a risky reliance on traditional, low-value-added manufacturing industries. Compounding this concentration, the United States remains Pakistan's single largest destination country, buying US\$5.05 billion worth of goods in 2023—nearly 17.4% of total exports—with apparel and fabrics dominating the shipments. This rigid trade pattern indicates that Pakistan's strongest comparative advantages are locked within the exact textile and garment industries that are most deeply exposed to the ongoing tariff disruptions and supply chain shifts between Washington and Beijing.

The onset of the US–China trade war fundamentally disrupted global commerce, driving up tariffs on massive amounts of bilateral trade and pushing multinational companies to actively shift their supply chains away from China. As the United States slapped extra duties on hundreds of billions of dollars' worth of Chinese goods, Beijing fired back with sweeping retaliatory tariffs, drastically raising the cost of doing business between the two economic giants and forcing a rapid reorganization of global manufacturing networks. Recent data clearly shows that as US tariffs made Chinese goods more expensive, China's share of the American market shrank significantly, prompting buyers to source materials from alternative countries and ultimately opening up lucrative trade diversion opportunities for nations ready to step in and supply those same products (Boullenois & Smith, 2025).

Against this backdrop, the Revealed Comparative Advantage (RCA) index provides an appropriate analytical framework for evaluating whether Pakistan strengthened its export competitiveness during the period of renewed protectionism. The analysis will compare sector-specific RCA values for the pre-trade-war period (2014–2017) and the post-trade-war period (2018–2023) across Pakistan's major export industries, including HS61 (Knitted Apparel), HS62 (Non-Knitted Apparel), HS63 (Made-up Textile Articles), HS42 (Leather Articles), HS90 (Medical and Surgical Instruments), HS95 (Sports Goods), and HS52 (Cotton). Changes in RCA values will reveal whether Pakistan improved its comparative advantage in sectors expected to benefit from trade diversion following the imposition of US tariffs on Chinese products.

An upward shift in Revealed Comparative Advantage (RCA) values after 2018 would demonstrate a genuine boost in Pakistan's global competitiveness, proving that local exporters successfully capitalized on the market gaps left behind by restructured global supply chains. On the flip side, stagnant or dropping RCA metrics would confirm that deep-seated domestic hurdles—such as a lack of export diversification, lagging technological upgrades, infrastructure deficits, and bureaucratic inefficiencies—crippled Pakistan's ability to pivot, despite a highly favorable global trade climate. To unpack these dynamics completely, this study blends quantitative RCA data with a qualitative review of WTO notifications, official government trade policies, IMF and UNCTAD briefings, and Global Trade Alert metrics (Keeryo et al., 2020). This multi-layered analytical framework offers a definitive view of whether the modern return to protectionism

handed Pakistan a pathway to long-term economic gains or merely provided a fleeting, short-lived export bump.

10. Results

10.1 Trends in Global Protectionism

The empirical findings show that global protectionism spiked dramatically following the escalation of the US–China trade confrontation in 2018. Through successive rounds of penalties, the United States aggressively expanded its tariff dragnet so that by February 2020, the duties impacted roughly 66.6% of all American imports from China—translating to about US\$335 billion in commerce—while pushing the average US tariff rate on Chinese products to 19.3%, a staggering sixfold increase from pre-conflict levels (Bown, 2021). China immediately struck back with its own retaliatory measures on American goods, cementing this feud as one of the most disruptive bilateral trade wars since the creation of the World Trade Organization. Crucially, this friction quickly spilled past traditional customs barriers into a wider geo-economic battleground of strict export controls, investment restrictions, subsidized industrial policies, and tech-sector blockades. This structural shift forced multinational corporations to aggressively rethink their total reliance on Chinese manufacturing hubs and supercharged supply chain diversification, driving the rapid adoption of "China Plus One" sourcing models across the globe.

10.2 Pakistan's Export Performance Before and After the Trade War

Pakistan's export performance after the escalation of the US–China trade war shows modest improvement but continued structural concentration. According to WITS, Pakistan's merchandise exports in 2023 were approximately US\$28.75 billion, while the United States remained Pakistan's largest export market, importing about US\$5.01 billion, or 17.43% of Pakistan's total exports (World Bank, 2024a). PIPS, using ITC Trade Map data, reports Pakistan's total exports in 2023 at US\$28.95 billion, with the export basket dominated by made-up textile articles, knitted apparel, non-knitted apparel, cotton, and cereals (Pakistan Institute for Parliamentary Services [PIPS], 2024). The 2023 export structure confirms that Pakistan's trade competitiveness remains concentrated in labor-intensive sectors rather than diversified, technology-intensive manufacturing. Trend Economy data similarly show that knitted apparel alone accounted for 14.5% of Pakistan's exports in 2023, while the United States absorbed 33% of Pakistan's knitted apparel exports, worth about US\$1.41 billion (Trend Economy, 2024a). These results suggest that Pakistan's export base is strongly linked to sectors in which trade diversion from China could matter, but the overall structure remains narrow.

10.3 Evidence of Trade Diversion

The data reveals that while the friction between the United States and China opened up clear trade diversion avenues for neutral nations, Pakistan's export gains were highly isolated rather than widespread. When Washington slammed tariffs on Chinese manufacturing, Beijing's relative edge in those targeted sectors slipped, pushing Western buyers to hunt for alternative supply lines. While regional powerhouses and near-shoring hubs like Vietnam, Bangladesh, India, and Mexico easily scooped up the lion's share of this redirected commerce due to their advanced export infrastructure, diversified factories, and deep integration into global value chains, Pakistan's trajectory looked very different. Local manufacturers did see a localized spike in

demand within specific textile and apparel categories—especially from American buyers—but the country's capacity to pull in broader, high-value manufacturing orders was severely choked by internal roadblocks. These long-standing domestic drag factors included a dangerously narrow export basket, slow technological adoption, crippling energy costs, transport bottlenecks, and constant regulatory pivots (State Bank of Pakistan, 2024). Ultimately, this indicates that Pakistan's trade diversion victories were almost entirely locked within its traditional fabric and garment sectors, failing to spark a broader manufacturing boom.

10.4 Sector-wise Competitiveness: RCA-Based Results

The sector-by-sector Revealed Comparative Advantage (RCA) metrics verify that Pakistan's global trade strengths remain firmly anchored in its traditional export pillars, specifically textiles, apparel, cotton, leather items, and sporting equipment. Structurally, the RCA index isolates an industry's performance by dividing its share within Pakistan's total export pool against that same industry's footprint in overall global trade. Any score crossing the 1.0 threshold signals a distinct comparative advantage, whereas a score dipping below 1.0 points to a weak competitive stance on the global stage. Drawing from 2023 international trade tallies, Pakistan pulled in exceptionally high RCA marks across raw cotton and yarns, knitted apparel, woven garments, processed leather goods, and athletic gear. This data underscores that while Pakistan maintains a fierce, specialized edge in these labor-intensive segments, its competitive footprint remains heavily concentrated within a very familiar, narrow band of industrial production (Pakistan Institute for Parliamentary Services, 2024).

Table 3

Pakistan's Sector-wise Revealed Comparative Advantage, 2023

HS Code	Sector	Pakistan Exports 2023 (US\$ Billion)	Pakistan Export Share (%)	World Exports 2023 (US\$ Billion)	World Export Share (%)	RCA
HS52	Cotton	3.077	10.63	47.0	0.20	54.31
HS61	Knitted apparel	4.208	14.54	213.0	0.89	16.38
HS62	Non-knitted apparel	3.346	11.56	229.0	0.95	12.12
HS42	Leather articles	0.637	2.20	97.0	0.40	5.44
HS95	Toys, games, and sports requisites	0.331	1.14	149.0	0.62	1.84

Note. HS = Harmonized System; RCA = Revealed Comparative Advantage. Values are presented in billions of US dollars where indicated. An RCA greater than 1 indicates a comparative advantage in that sector.

The RCA results show that Pakistan's strongest comparative advantage lies in cotton and apparel-related exports. Cotton records the highest RCA value, reflecting the centrality of cotton and cotton-based production in Pakistan's export structure. Knitted and non-knitted apparel also show strong RCA values, confirming Pakistan's competitiveness in the labor-intensive apparel

sectors most relevant to US market demand. Leather articles and sports goods also record RCA values above 1, indicating revealed comparative advantage, but their export scale remains significantly smaller than textiles and apparel. These findings support the argument that Pakistan has the sectoral capacity to benefit from trade diversion, but mainly in a narrow range of traditional exports.

Overall, the RCA-based results indicate that Pakistan's export competitiveness is strong but structurally concentrated. The trade war created potential opportunities for Pakistan because its strongest sectors overlap with areas where buyers sought alternative suppliers to China. However, Pakistan's competitiveness remains limited by weak diversification into higher-value manufacturing. Therefore, the results suggest that Pakistan benefited from the US–China trade war only partially: it retained and possibly strengthened competitiveness in textiles and apparel, but it did not transform the trade shock into broad-based export upgrading.

11. Major Challenges to Pakistan's Trade Competitiveness

Despite the sweeping trade diversion windows opened up by the US–China trade war, Pakistan has struggled to fully exploit these global shifts due to deeply entrenched, systemic structural roadblocks. These internal hurdles actively suppress the country's export edge, restrict its integration into modern global value chains (GVCs), and weaken its appeal to foreign investors looking to set up export-driven manufacturing hubs. According to recent economic assessments, the most crippling drag factors include punishingly high industrial energy tariffs, slow and costly logistics networks, a rigid lack of export product diversification, and a persistent inability to move beyond basic, low-value assembly processes (State Bank of Pakistan, 2024).

11.1 High Energy Costs

Punishingly high energy costs continue to stand as one of the most severe obstacles to Pakistan's global export edge. The country's core manufacturing sectors—most notably textiles, apparel, leather tanning, and surgical instrument fabrication—are highly energy-intensive, leaving them completely exposed to unpredictable spikes in electricity and gas prices. Frequent hikes in industrial power tariffs, climbing fuel costs, and chronic grid unreliability have driven up baseline production expenses far past those of regional competitors like Bangladesh, Vietnam, and India (State Bank of Pakistan, 2024). This cost asymmetry heavily squeezes factory profit margins, suffocates domestic industrial expansion, and cripples Pakistan's capacity to bid competitively in hyper-price-sensitive international markets. Ultimately, as multinational corporations aggressively search for cost-effective manufacturing hubs to buffer their post-trade-war supply chains, Pakistan's expensive and volatile energy infrastructure severely damages its appeal as a viable alternative production destination.

11.2 Logistics and Trade Facilitation Constraints

Smooth logistical operations are absolutely vital for surviving in modern global production networks, where international corporations depend on just-in-time delivery, predictable transport networks, and rapid customs processing. Unfortunately, Pakistan continues to grapple with severe logistical bottlenecks, characterized by outdated transport infrastructure, frequent port congestion, bureaucratic customs delays, steep inland freight costs, and clunky trade facilitation mechanisms. While targeted infrastructure investments through the China–Pakistan

Economic Corridor (CPEC) have successfully modernized key segments of the national highway network, deeper institutional gridlock and operational inefficiencies continue to drive up transaction costs and erode the country's export edge (World Bank, 2024). This friction is clearly reflected in international benchmarks; the World Bank's Logistics Performance Index routinely shows Pakistan lagging behind rival Asian exporters in core metrics like customs efficiency, infrastructure quality, shipment tracking, and overall logistics reliability, severely capping its ability to break into fast-moving, time-sensitive global value chains.

11.3 Limited Export Diversification

A glaring structural vulnerability holding back Pakistan's trade potential is its dangerously narrow export basket. The nation's outbound merchandise trade is heavily anchored in textiles, apparel, raw cotton, rice, and a scattering of primary, low-value commodities. In fact, textile and garment shipments make up well over half of the country's entire export revenue, creating a risky sectoral concentration that exposes the wider economy to unpredictable shifts in global consumer demand, commodity market crashes, and targeted foreign policy changes (Trade Development Authority of Pakistan, 2025). This stands in stark contrast to the breakout stars of modern trade diversion—such as Vietnam—which have deliberately built highly diversified export architectures spanning electronics, industrial machinery, chemicals, and complex automotive components. Because Pakistan has struggled to break out of this traditional manufacturing silo, its capacity to absorb changing global production flows remains severely bottlenecked, leaving it highly vulnerable to external economic shocks.

11.4 Low Participation in Global Value Chains

Pakistan's isolation from global value chains (GVCs) stands as the single biggest structural roadblock to reviving its long-term export edge. Modern global trade no longer relies on single countries building a product from scratch; instead, it operates through deeply fragmented production networks where different nations specialize in hyper-specific stages of manufacturing (Antràs, 2020). While agile economies like Vietnam, Malaysia, and Thailand have integrated seamlessly into these networks, Pakistan remains stuck in low-value, downstream assembly segments with very weak ties to multinational manufacturing hubs. This lack of integration stems from a perfect storm of stagnant technological capability, minimal industrial innovation, and a chronic shortage of foreign direct investment—all of which prevent local factories from moving up the ladder into advanced electronics, precision component production, or tech-heavy exports. Ultimately, even though the friction between Washington and Beijing opened up massive windows for factory relocation, Pakistan's weak position in global supply networks severely restricted its ability to pull in relocating corporations and capture a meaningful slice of the shifting global market.

12. Discussion

The findings of this study reinforce the expanding consensus in recent economic literature that the global resurgence of protectionism has fundamentally rewritten international commerce rather than merely depressing trade between Washington and Beijing. Mirroring recent empirical evaluations, our data confirms that the US–China trade confrontation heavily accelerated the fracturing and restructuring of global supply networks, bent traditional trade routes, and opened unexpected market doors for third-country exporters. However, this shift

reveals a stark reality: the economic windfalls of this protectionist era are being distributed highly unevenly across developing nations. While countries armed with diverse industrial bases and deep integration into global production networks swiftly expanded their market shares, Pakistan captured only marginal, isolated victories despite its strategic geography and mature textile infrastructure. Ultimately, these outcomes prove that the mere presence of trade diversion opportunities cannot salvage a nation's export trajectory without robust domestic manufacturing capabilities, competitive energy structures, and institutional agility (Boullenois & Smith, 2025).

The quantitative results align closely with classical trade diversion theory, which posits that shifting trade barriers distort global commerce by forcing importers to abandon heavily taxed partners in favor of more cost-competitive, alternative suppliers. While Washington's steep tariff hikes on Chinese factories created a massive vacuum for neutral exporters to fill, the empirical data shows that Pakistan only managed to capture a fractional slice of this redirected market, whereas agile nations like Vietnam, Bangladesh, and Mexico secured massive export windfalls. This stark difference proves that trade diversion is never an automatic win for developing countries; instead, the economic payoffs depend heavily on a nation's baseline manufacturing capacity, export flexibility, institutional transparency, and speed in adapting to fluctuating global buyer demands.

Furthermore, these findings emphasize how deeply global value chains (GVCs) dictate a nation's export survival under a protectionist global framework. Modern international trade is no longer a game of single-factory production; it relies entirely on fragmented, cross-border networks where countries specialize in narrow, highly optimized assembly phases. Rivals like Vietnam and Bangladesh successfully locked themselves into these high-velocity networks by aggressively courting export-driven foreign direct investment, overhauling their logistics networks, and deploying highly targeted industrial policies. By contrast, Pakistan remains structurally cornered in low-margin, downstream segments of global production, held back by stagnant technological integration and weak linkages to multinational corporate supply lines. As a result, when the US–China trade war triggered a massive global scramble to relocate factory hubs, Pakistan simply lacked the industrial foundation and regulatory readiness needed to pull in large-scale corporate migrations.

Finally, the Revealed Comparative Advantage (RCA) metrics confirm that Pakistan's global competitiveness is stubbornly bottlenecked within traditional, low-wage industries—specifically textiles, ready-made clothing, raw cotton, leather goods, and athletic equipment. While these legacy sectors still carry a mathematical comparative edge and generate the vast majority of the country's export revenue, they also expose a dangerous level of macroeconomic concentration. Failing to diversify into tech-heavy, high-value-added manufacturing leaves the broader economy intensely vulnerable to sudden drops in global consumer spending, foreign policy revisions, and raw commodity price crashes (State Bank of Pakistan, 2024). Ultimately, while Pakistan can reliably defend its turf in traditional spinning and sewing, its broader export growth remains paralyzed by structural inefficiencies that block it from competing in more sophisticated global industries.

A central finding of this study is that Pakistan captured only a limited share of trade diversion compared with countries such as Vietnam and Bangladesh. Several interrelated factors explain this outcome. First, Pakistan's export basket remains heavily concentrated in a few labour-

intensive sectors, whereas Vietnam has successfully diversified into electronics, machinery, electrical equipment, and other higher value-added manufactures integrated into multinational production networks (Freund et al., 2023; World Bank, 2024). Second, Vietnam and Bangladesh have consistently attracted larger volumes of export-oriented foreign direct investment by providing relatively stable policy environments, competitive labour costs, efficient export-processing zones, and stronger integration into global value chains (ADB, 2024). Third, Pakistan continues to face persistent structural constraints—including high industrial energy costs, inadequate logistics infrastructure, customs inefficiencies, regulatory uncertainty, limited technological upgrading, and weak institutional capacity—which reduce manufacturing competitiveness and discourage large-scale investment (SBP, 2024; World Bank, 2023). Finally, although the China–Pakistan Economic Corridor (CPEC) has significantly improved transport and energy infrastructure, these investments have not yet translated into substantial industrial upgrading or broad-based export diversification capable of supporting sustained participation in reconfigured global supply chains (Ahmed, 2020; World Bank, 2024).

Broadly speaking, these findings indicate that the modern resurgence of protectionism shouldn't be interpreted merely as a lucky break from the outside world; rather, it serves as a rigorous evaluation of a nation's internal economic resilience and competitive edge. While the heavy tariff standoffs between Washington and Beijing cleared a path and generated highly favorable market conditions for neutral exporters, how much a country actually capitalized on the situation came down to its existing structural capabilities rather than the trade shock itself. For Pakistan, converting these shifting global dynamics into lasting export growth demands a deep, comprehensive suite of domestic reforms. This means aggressively bringing down high factory operational costs, cutting through transport and custom-house bottlenecks, driving rapid technological adoption, diversifying the product catalog beyond basic goods, and sharpening human labor productivity. Without a commitment to these core institutional changes, Pakistan will likely remain stuck on the sidelines—securing only marginal, temporary windfalls from global trade diversions despite its ideal geographic position and historical advantages in legacy industries.

13. Policy Implications

The empirical results of this study demonstrate that while the global revival of protectionism and the escalating US–China trade war cleared pathways for trade diversion, Pakistan's ability to exploit these shifts was severely bottlenecked by its own long-standing domestic vulnerabilities rather than a lack of external market openings. This stark divergence highlights that global supply chain realignments do not automatically benefit a neutral country. Consequently, enhancing Pakistan's trade competitiveness requires moving beyond short-term fixes and implementing a cohesive, comprehensive policy framework. This strategic pivot must focus on rapidly advancing industrial capabilities, aggressively diversifying the export portfolio into high-value sectors, and systematically driving deeper integration into both regional and global supply networks.

13.1 Export Diversification

To break out of its macroeconomic bottleneck, Pakistan must aggressively scale back its overwhelming dependence on traditional textiles and apparel by shifting fiscal support toward high-value, tech-heavy export sectors. This means using targeted industrial policies, R&D tax incentives, and deep industry-academia partnerships to jumpstart higher-margin fields like

engineering goods, pharmaceuticals, information technology (IT) services, processed agro-dairies, and advanced light manufacturing. Building a highly diversified export architecture is the only way for the country to buffer itself against unpredictable global demand shocks, build long-term trade resilience, and position local firms to scoop up sophisticated manufacturing contracts as global electronics and machinery networks continue to decentralize away from China (Malik, 2025).

13.2 Industrial Upgrading

Boosting industrial productivity is absolutely vital for maintaining an international competitive edge in a world economy that is becoming increasingly protectionist. To achieve this, domestic policymakers must prioritize factory-level technological modernization, industrial automation, localized innovation, and technical skills development to elevate both output efficiency and end-product quality. Simultaneously, rolling out structural reforms designed to slash high industrial energy tariffs, guarantee reliable power and gas distribution, and incentivize capital investment in advanced manufacturing technologies would provide an immediate and significant lift to Pakistan's outbound trade sectors. This type of comprehensive industrial upgrading would also ease the transition toward higher-value-added production, allowing local factories to step up and compete effectively within highly sophisticated, time-sensitive international markets.

13.3 Strengthening Participation in Regional and Global Value Chains

The findings demonstrate that countries benefiting most from the US–China trade war were those deeply integrated into global value chains (GVCs). Pakistan should therefore pursue policies that strengthen linkages with multinational enterprises and attract export-oriented foreign direct investment, particularly in sectors with high export potential. Special Economic Zones (SEZs) established under the China–Pakistan Economic Corridor (CPEC) should be utilized more effectively to develop export-oriented manufacturing clusters, encourage technology transfer, and integrate domestic firms into regional production networks (Ahmed, 2020; World Bank, 2024). Greater participation in GVCs would enable Pakistan to move beyond the export of primary and low-value products toward higher-value manufacturing activities.

13.4 Improving Trade Facilitation and Logistics

Bringing down trade costs by optimizing logistics and trade facilitation must be a top priority for the national agenda. Streamlining customs clearance, scaling up digital customs networks, modernizing port infrastructures, upgrading multimodal transit systems, and cutting down border processing times would drastically boost Pakistan's appeal as a premier manufacturing and export hub. Sustained capital investments in freight corridors and supply chain infrastructure will only succeed if paired with deep institutional overhauls that champion regulatory transparency and strip away bureaucratic friction for local exporters. Taking these steps will systematically lower transaction costs, unlocking Pakistan's competitive potential within both regional and global markets.

13.5 Promoting Digital Trade and Technological Transformation

The rapid shift toward digitalized international commerce means Pakistan must immediately upgrade its digital trade ecosystem. Expanding broadband infrastructure, cutting red tape for e-commerce, legalizing cross-border paperless trade documentation, and subsidizing digital

upgrades for local exporters will sharply lower transaction costs and make global markets accessible to local businesses. Furthermore, strategic public-private investments in advanced digital skills, incubator hubs, robust cybersecurity networks, and seamless international payment gateways would provide an immediate competitive boost to both physical goods and service exports, particularly within the country's fast-growing IT and freelancing sectors (Ministry of Information Technology and Telecommunication, 2025).

13.6 Diversifying Export Markets

Broadening export destinations is critical for Pakistan to reduce its heavy reliance on a handful of traditional markets and insulate the economy from global shocks. While maintaining strong trade ties with long-standing partners like the United States, the European Union, and China, Pakistan must place a greater emphasis on expanding its footprint in emerging markets across Central Asia, the Middle East, Africa, and the Association of Southeast Asian Nations (ASEAN). Pursuing fresh preferential trade agreements, strengthening regional economic frameworks, and sharpening commercial diplomacy are essential steps to reduce market concentration risks and build long-term export resilience. A highly diversified geographic strategy would also shield Pakistan from sudden shifts in international commerce sparked by geopolitical friction or protectionist policies.

Ultimately, these strategic pivots show that Pakistan's long-term trade survival depends far less on reacting to external shocks and far more on its own capacity to drive deep structural reforms. Sustained competitive gains will only follow if the state systematically improves factory-level productivity, upgrades logistical infrastructure, expands participation in global value chains, and broadens both its product offerings and its destination markets. By proactively pushing these domestic changes, Pakistan can transition from a passive bystander capturing minor trade diversion windfalls to a highly resilient player anchoring itself within a newly fractured global trading system.

14. Conclusion

The modern resurgence of protectionism, heavily driven by the US–China trade war, has completely rewritten global trade dynamics by bending traditional trade flows, forcing supply chains to reconfigure, and opening unexpected windows of opportunity for neutral nations. This study reveals that Pakistan only managed to secure selective, partial victories from these tectonic shifts. While local exporters reliably defended their deep-seated comparative advantages in traditional legacy pillars—such as textiles, apparel, raw cotton, leather goods, athletic equipment, and surgical instruments—the broader needle on Pakistan's national trade competitiveness barely moved. Our Revealed Comparative Advantage (RCA) analysis confirms that the country's export strengths remain dangerously bottle-necked within a narrow, labor-intensive industrial band, showing chronic weakness when it comes to diversifying into high-value-added or tech-heavy manufacturing. As a result, even though the global retreat from free trade generated highly encouraging external conditions for export expansion, Pakistan simply could not fully exploit the moment.

Our empirical findings clarify that the tariff war between Washington and Beijing did spark substantial, documented trade diversion by eroding the dominance of Chinese goods in American markets and prompting multinational brands to actively decentralize their

manufacturing footprints. However, compared to agile regional competitors and near-shoring stars like Vietnam, Bangladesh, and Mexico, Pakistan pulled in only a marginal share of this redirected commerce. The data underscores that the breakout winners of this trade diversion era were countries armed with robust baseline industrial capabilities, seamless integration into global value chains (GVCs), highly efficient logistics pipelines, and highly stable regulatory environments. Pakistan's ideal geographic crossroads, preferential trade access to Western consumer hubs, and massive infrastructure injections via the China–Pakistan Economic Corridor (CPEC) provided vital structural advantages—yet these external assets were completely overshadowed by crippling domestic drag factors.

A perfect storm of internal vulnerabilities continues to paralyze Pakistan's international trade performance. Punishingly high industrial energy tariffs, a bottlenecked logistics network, a stark lack of export variety, stagnant technological adoption, minimal integration into modern global supply grids, bureaucratic red tape, and slow factory modernization collectively choke the country's ability to pivot when global market dynamics change. These deep-seated hurdles do more than just suppress annual export revenues; they actively scare away export-driven foreign direct investment and prevent local firms from breaking into highly sophisticated, fragmented global production chains. Consequently, achieving lasting, long-term improvements in trade performance will ultimately hinge on aggressive, comprehensive domestic overhauls rather than a reliance on external trade windfalls.

From a policy standpoint, this analysis underscores the urgent need for a cohesive, multi-decade strategy centered on export diversification, industrial automation, technological upgrading, trade facilitation, digital commerce expansion, and deliberate alignment with regional supply networks. Stripping away bureaucratic friction, overhauling baseline transport networks, aggressively lowering factory overheads, and fostering localized innovation are absolute prerequisites for transforming short-lived trade diversion windfalls into permanent export growth and macroeconomic resilience. Implementing these structural adjustments is the only way Pakistan can successfully climb the value ladder within an international trading system defined by aggressive geopolitical competition, supply chain realignments, and evolving protectionist barriers (State Bank of Pakistan, 2026).

Finally, this paper contributes vital empirical data to the broader academic conversation on protectionism, supply network reconfigurations, and developing-world trade dynamics by offering a thorough look into an economically crucial yet historically understudied nation. Naturally, this research carries certain boundaries, focusing primarily on merchandise trade volumes and sector-specific export competitiveness during the peak years of the US–China tariff conflict. Future studies can build significantly on this foundation by utilizing granular, firm-level data, analyzing outbound services and digital trade, tracking foreign investment inflows, and providing direct comparative matrices with rival South and Southeast Asian economies. Furthermore, tracking the long-term macroeconomic footprints of modern industrial subsidization, shifting geopolitical alignments, and the changing global manufacturing architecture will yield deeper insights into how developing economies can survive and thrive within an increasingly fractured global marketplace.

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