Pakistan Economic Insights

First Quarter of Fiscal Year 2027 (July - September 2026)

Executive Summary

Pakistan's economy entered FY2026-27 amid mixed developments, with improved international credit ratings, encouraging agricultural prospects, and positive export and remittance growth counterbalanced by rising inflation, weakening industrial momentum, and external financing pressures. GDP growth slowed to 2% in the fourth quarter of FY2025-26, while national CPI inflation reached 10.3% during July-September 2026, driven primarily by food, energy, and transport costs. Although tax collection marginally exceeded its quarterly target, its 7% growth remained below inflation. Exports improved, particularly in non-traditional products, food, and petroleum, while worker remittances increased by 14%. However, import growth outpaced export growth, widening the trade imbalance and placing additional pressure on the current account.

The report's second section evaluates Pakistan's free trade agreements (FTAs), preferential trade agreements (PTAs), and unilateral trade preferences. Despite some benefits, including improved market access, reduced input costs, and stronger diplomatic engagement, these arrangements have generally failed to generate proportionate export growth. Persistent trade deficits, asymmetric concessions, limited services coverage, and inadequate domestic productive capacity constrain their effectiveness. The report recommends commercially driven renegotiation, stronger export competitiveness, systematic impact assessments, diversification, and broader services liberalization.

Key Points

A. Macroeconomic performance

1. **Economic growth is losing momentum.** GDP growth declined to 2% in the fourth quarter of FY2025-26, compared with 4.4% in the preceding quarter. Industrial performance weakened sharply, while employment-intensive commodity-producing activities showed signs of strain.
2. **Inflation has re-emerged as a major concern.** National CPI inflation rose to 10.3% in July-September 2026, compared with 4.1% in the corresponding period of the previous year. Higher food, energy, and transport costs were the principal drivers.

3. **Agriculture offers cautious optimism.** Improved water availability, increased acreage under major crops, and better cotton arrivals support the sector. However, higher input costs and limited growth in fertilizer use could constrain productivity.

4. **Fiscal performance remains mixed.** The Federal Board of Revenue collected approximately PKR 3.07 trillion during the first quarter, slightly exceeding its target. Nevertheless, revenue growth of 7% fell below inflation, raising concerns about real revenue mobilization.

5. **External stability depends heavily on remittances.** Exports grew, but imports increased more rapidly. Remittances rose by 14% to approximately USD 10.9 billion, helping offset the widening trade imbalance. Financing future external requirements remains a challenge.

B. Effectiveness of trade agreements

6. **Market access has not translated into balanced trade growth.** Pakistan's agreements remain concentrated in goods, with limited services liberalization. Major arrangements, particularly with China and Indonesia, are associated with substantial bilateral trade deficits.

7. **Domestic productive capacity is the central constraint.** High preference utilization in markets such as China and the EU suggests that exporters use concessions when commercially viable opportunities exist. The deeper problem is insufficient exportable surplus and limited diversification.

8. **Negotiations require stronger commercial analysis.** Integration of Pakistan's economic realities while analyzing CPFTA Phase III negotiations and align tariff concessions with comparative advantage, revenue assessments, and industrial impacts, to have diversified export markets and expansion in services trade.

Section 1

Fundamental Macroeconomic Indicators of Pakistan's Economy

Economic Overview

The fiscal year began with credit rating upgrades from two top international credit rating agencies, i.e., Moody's and S&P. External and internal headwinds began testing the economy's resilience. The Middle East crisis contagion is now starting to threaten macroeconomic stability as inflation is nearing double digits. On the positive side, large-scale manufacturing growth is in positive territory. Agriculture prospects are better than last year.

The last fiscal year did not end on a positive note, as economic growth in the fourth quarter (April-June 2026) nosedived to 2% from 4.4% in the previous quarter. Normally, the final quarter has the highest growth as economic activity is in full swing, and in the last 10 years, final-quarter growth fell below the quarterly average of the first three quarters only twice.

Table 1: GDP Growth (%)

Sector/Industry	2025-26			
	Q1	Q2	Q3	Q4
Agriculture Sector	**3.2**	**3.3**	**3.8**	**3.7**
Industrial Sector	**7.8**	**6.6**	**4.9**	**-4.7**
Mining & Quarrying	-4.5	-1.1	3.2	8.9
Manufacturing	5.2	6.4	9.1	3.1
i. Large Scale	3.9	5.7	9.6	0.4
Commodity Producing Sector	5.1	4.7	4.3	-0.2
Services Sector	**3.0**	**4.0**	**4.5**	**3.6**
GDP Growth	**3.9**	**4.3**	**4.4**	**2.0**

Source: Pakistan Bureau of Statistics

Final-quarter growth numbers furthered concerns as the employment-oriented commodity-producing sector registered negative growth, and the services sector grew entirely from less employment-intensive components like IT, government services, health and education rather than trade. Interestingly, small-scale manufacturing registered the highest quarterly growth since 2021 in the last quarter, when large-scale manufacturing witnessed almost flat growth. The mining sector also registered the highest growth in more than a decade, which is also very interesting.

Notwithstanding developments in the last quarter, economic activities remained encouraging at the onset of FY2026-27, while fiscal and external sector indicators maintained positive momentum. Services exports and workers' remittances remained buoyant with high double-digit growth, and exports turned into a positive growth trajectory (11.3% as compared to the first quarter of FY 2025-26). The only concern on the external account remained double-digit

import growth, which is outweighed by positive factors. An overview of indicators is given below;

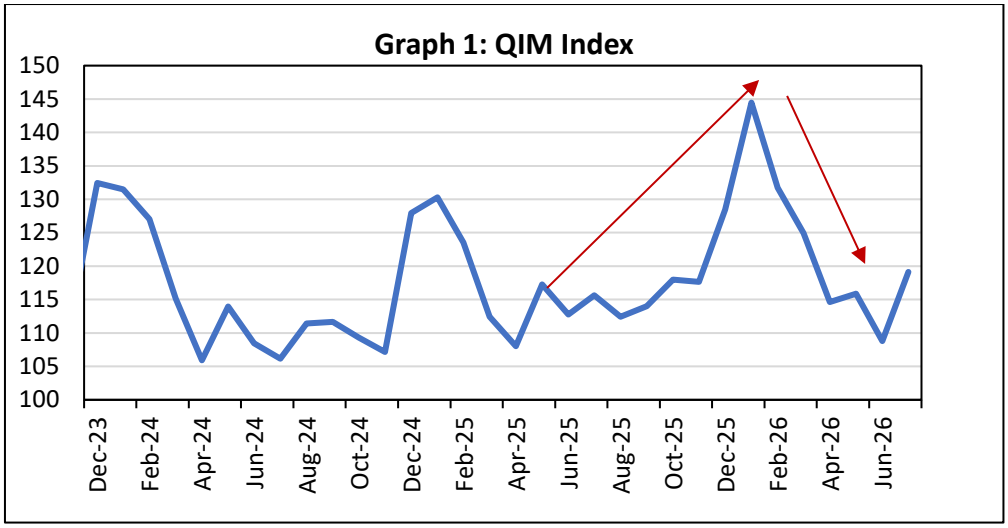
Agriculture is benefiting from enhanced water availability and a flood-related productivity dividend. Overall acreage under rice, cotton and sugarcane has increased. Input usage, such as fertilizer off-take, has not increased significantly, suggesting a cautious approach from farmers as fertilizer prices have risen and crop economics have been badly impacted. The cotton arrival at ginners improved by 5.4% by end-September 2026 compared to last year (3 million bales). The minor crop situation has also improved.

Table 2: CPI Inflation (%)

	2025-26	July-September	
		2025-26	2026-27
CPI National	**7.0**	**4.1**	**10.3**
Food	4.7	2.1	10.1
Non-Food	7.7	5.7	10.4
Energy	12.1	0.8	15.8
Core	7.7	7.5	8.6
CPI Urban	**7.1**	**4.4**	**9.8**
Food	4.2	2.0	9.9
Non-Food	9.0	6.0	9.8
Energy	13.4	3.6	13.0
Core	7.4	6.9	8.7
CPI Rural	**6.9**	**3.9**	**10.9**
Food	5.3	2.3	10.3
Non-Food	8.1	5.4	11.5
Energy	7.8	-2.2	22.7
Core	5.4	1.6	11.2

Source: PBS

Large-scale manufacturing (LSM) registered a growth of 3% in July 2026 compared to 8.9% in July 2025. The index rose by 9.5% over the previous month of June 2026. The major impetus in July 2026 came from automobiles (57%), garments (22%), and cement (6.2%), which means the primary drivers remained the same as in FY 2026; however, momentum has tapered off. The items that dragged growth include: beverages (-8.8%), textiles (3.1%), paper and board (4.3%), chemicals (6.2%), pharmaceuticals (20.8%), and iron & steel (11.4%). LSM growth is likely to witness a correction this year.



Source: PBS

Inflation

Inflationary pressures have elevated, mainly driven by energy and transport. National CPI increased by 10.3% in the first quarter compared to 4.1%. Both food and non-food inflation remained in double digits, which suggests that inflation is evenly contributed by food and non-food sources. Major contributors to this escalation came from wheat (64.4%), meat (11.5%), onion (111.4%), tomato (80.6%), transport group (22%), LPG (53%), and electricity (23.8%). Energy was the primary source that pushed inflation higher, as energy inflation rose to 15.8% compared to almost flat last year. Core inflation increased by 8.6%, which means the core component of inflation remained tamed, with impetus primarily coming from energy and food to some extent. The ongoing crisis in the Middle East continues to take its toll on Pakistan's economy mainly through oil imports.

Monetary contraction of 2.8% occurred in the first quarter, which is similar to the 2.7% contraction in the corresponding period of last year. The banking sector and SBP witnessed massive debt retirement during the period from the government sector. The private sector also retired its debt obligations on a large scale during the period.

FBR tax collection was in line with budgeted numbers, surpassing the quarterly target during July–September 2026. Total collection stood at PKR 3,066 billion to PKR 3,072 billion (vs. target of PKR 3,053 billion), surpassing the quarterly goal by roughly PKR 13 to PKR 19 billion. However, this represents modest growth of 7% (below the double-digit inflation in the period) over PKR 2,889 billion collected in the same period last year.

External sector account seems comfortably placed on the back of buoyant workers' remittances; imports have bounced back, but exports of goods and services sectors are both showing decent growth. More importantly, USD 3 billion was added to forex reserves during the first quarter. The only worry is on the financing side, which was met through euro bond sales in the first quarter at a hefty interest rate. However, going forward, it may become a major challenge to meet financing needs.

The current account deficit is higher by 15.8% in the first quarter, moving from USD 755 million last year to USD 874 million this year. Given the Middle East situation, this is an

achievement. The worrying trend is the widening trade imbalance, which is higher by USD 1.6 billion, offset mostly by an additional inflow of remittances of USD 1.3 billion.

Table 3: Balance of Payments

USD Million

			July-September		
	2024-25	2025-26	2025-26	2026-27	% Change
Current Account Balance	**1,838**	**-304**	**-755**	**-874**	**-15.8**
Trade Balance	**-26,803**	**-33,650**	**-7,705**	**-9,330**	**-21.1**
Exports	32,343	30,821	7,853	8,454	7.7
Imports	59,146	64,471	15,558	17,784	14.3
Services (Net)	**-2,836**	**-1,999**	**-840**	**-831**	**1.1**
Credit	8,450	10,020	2,214	2,719	22.8
Debit	11,286	12,019	3,054	3,550	16.2
Income (Net)	**-8,838**	**-8,456**	**-2,272**	**-2,320**	**-2.1**
Credit	999	1,139	316	244	-22.8
Debit	9,837	9,595	2,588	2,564	-0.9
Current Transfers (Net)	**40,315**	**43,801**	**10,062**	**11,607**	**15.4**
Current Transfers Credit	40,906	44,359	10,204	11,725	14.9
Worker Remittances	38,300	41,585	9,536	10,875	14.0
Current Transfers Debit	591	558	142	118	-16.9
Financial & Capital Account, o/w	**1,753**	**1,573**	**757**	**4,187**	453.1
Direct Investment (net)	2,462	1,335	554	714	28.9
Portfolio Investment (net)	-720	-1,177	-630	2,935	565.9
Net Liabilities	**-159**	**1,299**	**809**	**517**	-36.1
General Government	1,901	1,709	311	-856	-375.2
Disbursement	9,544	8,540	1,257	1,226	-2.5
Amortization	7,643	6,831	946	2,082	120.1
Overall Balance	**3,744**	**1,834**	**-274**	**3,118**	
Use of Fund Credit and Loans	**1,433**	**1,822**	**-91**	**-8**	
Gross Official Reserve	15,836	19,689	15,492	22,878	3,190

Source: SBP

Exports grew by 7.7% in the first quarter, and on a shipment basis, it grew by 11.1%. The textile group generally remained sluggish apart from readymade garments and cotton yarn, where growth was in the high double digits. Non-traditional exports led the momentum of exports as non-textile exports grew by 22% whereas textile exports grew by 5.3%; consequently, the share of textiles went down to below 60% from around 63% last year. The food and petroleum groups showed tremendous growth of 25% and 91%, respectively. Rice exports grew by 56%.

Table 4: Group-wise Increase in Exports

USD Million

Particulars	July-September		Change
	2025-26	2026-27	(%)
A. Food Group	**1,108**	**1,389**	**25.3**
Rice	419	652	55.9
Meat and Meat Prep.	122	148	21.1
B. Textile Group	**4,775**	**5,026**	**5.3**
Cotton Yarn	182	227	24.5
Cotton Cloth	449	425	-5.3
Knitwear	1,424	1,483	4.1
Bed Wear	853	852	-0.1
Readymade Garments	1,057	1,223	15.7
Synthetic	98	91	-7.0
C. Petroleum Group	**108**	**207**	**90.9**
D. Other Manufacturer	**1,036**	**1,106**	**6.7**
Chemicals & Pharma. Pro.	333	353	5.9
Engineering Goods	112	119	5.7
Cement	99	97	-2.1
Leather Products	187	216	15.7
E. All Other Items	**571**	**717**	**25.6**
Total	**7,599**	**8,445**	**11.1**
Excluding Textile	**2,824**	**3,418**	**21.1**
Share of Textile	62.8	59.5	
Share of non-Textile	37.2	40.5	

Imports followed consistent growth of 14.3% in the first quarter. The share of petroleum in the overall increase in imports remained minimal, as it increased by less than USD 250 million in the total increase in imports of USD 2.2 billion. Over half of the increase in imports came from the machinery group and raw materials like iron and steel. The downside is that imports of textile machinery fell by 35.7%, which is not a good omen for future textile exports. Car imports continue to rise at a high double-digit rate.

Table 5: Increase in Imports During FY2026

	July-September			Increase in Imports	% Contribution in Increase
	2025-26	2026-27	% Change		
Total Imports	**16,973**	**19,213**	**13.2**	**2,240**	**100.0**
Food Group	**2,253**	**2,330**	**3.0**	**77**	**3.5**
Pulses	204	180	-12	(25)	(1.1)
Palm Oil	1,001	978	-2.0	(23)	(1.0)
Machinery Group	**2,115**	**2,702**	**27.7**	**587**	**26.2**
Elect. Machinery & Appl.	779	1,135	45.7	356	15.9
Power Generating Mach.	166	180	8.4	14	0.6
Textile Machinery	170	109	-35.7	(61)	(2.7)
Consumer Durables	**1,463**	**1,555**	**6.3**	**92**	**4.1**
Mobiles Phone	500	417	-16.6	(83)	(3.7)
Road Motor Vehicles	963	1,138	18.1	175	7.8
Textile Group	**1,695**	**1,829**	**7.9**	**134**	**6.0**
Raw Cotton (M.MT)	393	507	28.9	114	5.1
Raw Materials	**2,299**	**2,642**	**14.9**	**451**	**20.1**
Plastic Material	746	885	19	139	6.2
Iron & Steel Scrap	486	693	43	303	13.5
Iron & Steel	689	786	14	108	4.8
Medicinal Products	377	278	-26	(99)	(4.4)
Petroleum Products	**3,775**	**4,020**	**6.5**	**245**	**11.0**
Petroleum Products (M.MT)	1,396	1,557	11.6	162	7.2
Petroleum Crude (M.Barrels)	1,428	1,758	23.1	330	14.7
LNG	716	418	-41.6	(297)	(13.3)
Others	**3,373**	**4,135**	**22.6**	**654**	**29.2**

Source: PBS

Remittances remained vibrant and grew by 14% in the first quarter. Dubai led growth at 30%, followed by the UK at 19.4%. For the remaining major origins, growth was in the double digits. They remained the saving grace of the external sector and neutralized the rise in trade imbalance.

Table 6: Workers' Remittances

(USD Billion)

	July-September		
	2025-26	**2026-27**	**% Change**
USA	0.8	0.9	15.5
UK	1.4	1.6	19.4
Saudi Arabia	2.3	2.7	16.2
UAE	2.0	2.2	12.6
Dubai	1.4	1.8	30.1
Other GCC Countries	0.9	1.0	11.7
EU Countries	1.3	1.4	9.8
Total	**9.5**	**10.9**	**14.0**

Section 2

Economic Issue of the Quarter

Overview of Pakistan's Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs)

1. Overview of Pakistan's Trade Agreement Architecture

Pakistan has pursued preferential market access through three distinct instruments since the early 2000s: comprehensive Free Trade Agreements (FTAs), which liberalize tariffs across most of the tariff schedule and are sometimes accompanied by separate services protocols. Preferential Trade Agreements (PTAs), which grant concessions on a narrow, negotiated list of tariff lines, and unilateral schemes such as the European Union's (EU) GSP+ (Generalized Scheme of Preferences), where concessions are granted by the partner without reciprocal obligations. Moreover, there is another category which focuses on the framework instruments such as the Trade and Investment Framework Agreement (TIFA) with the US, which creates consultative machinery but confers no tariff benefit.

The portfolio is summarized below. Three features stand out immediately: the agreements are heavily concentrated in Asia and the Muslim world; almost all are goods-only with negligible services liberalization; and the single largest source of Pakistan's preferential export earnings, i.e., the EU's GSP+, is not an FTA at all, but a unilateral and conditional concession subject to periodic review.

Table 7: Pakistan's Free & Preferential Trade Agreements With Different Countries

Agreement	Type	In Force	Scope
China (CPFTA I & II)	FTA	2007 / Phase II 2020	Goods; separate services agreement (2009)
Sri Lanka	FTA	2005	Goods only
Malaysia (MPCEPA)	FTA	2008	Goods, services, investment
South Asia (SAFTA)	Regional FTA	2006	Goods; largely inoperative with India
Iran	PTA	2006	Goods but limited list
Indonesia	PTA	2013	Goods but limited list
Mauritius	PTA	2007	Goods but limited list
Türkiye	PTA	2023	Goods but limited list
Uzbekistan	PTA	2022	Goods but limited list
Azerbaijan	PTA	2022	Goods but limited list
D-8 (8 Muslim economies)	Plurilateral PTA	2011	Goods but limited list
Afghanistan (APTTA)	Transit	2010	Transit trade, not tariff preference
European Union (GSP+)	Unilateral	2014	Duty-free on ~66% of EU tariff lines
United States (TIFA)	Framework	2003	Consultative only, no tariff effect

Sources: Ministry of Commerce, ADB Asia Regional Integration Center; WTO Trade Policy Review

2. Free Trade Agreements: Coverage and Performance

2.1 Goods and Services Covered

Pakistan's FTAs are overwhelmingly goods agreements. Only the Malaysia CEPA contains meaningful services and investment chapters; the China agreement has a companion services protocol that has generated little measurable trade. Under CPFTA Phase II, the most consequential among the above, China eliminated or reduced duties on 313 priority tariff lines of Pakistani export interest, and by the final year of the schedule approximately 83% of Priority-1 lines are to enjoy duty-free access. However, as far as the rice is concerned, one of Pakistan's few genuinely competitive agricultural exports is not part of the list and continues to face high out-of-quota duties.

Table 8: Pakistan's Free Trade Agreements With Different Countries

FTA	Principal Goods Covered	Tariff Outcome for Pakistan
China (CPFTA-II)	Textiles & made-ups, rice, seafood, leather, chemicals, surgical goods, meat	313 priority lines liberalized; ~83% of Priority-1 lines duty-free by end-schedule; rice concessions still restricted
Malaysia (MPCEPA)	Rice, textiles & garments, cotton yarn, fruits, cutlery; and services & investment	Phased elimination on most industrial lines; palm oil liberalized on Pakistan's import side
Sri Lanka	Cement, textiles, pharmaceuticals, engineering goods, potatoes	Duty-free on ~4,500 lines, subject to 35% domestic value-addition rule of origin; tariff rate quotas (TRQs) on tea and betel nut
SAFTA	Broad list, but sensitive lists retain most of Pakistan's export interest	Largely unrealized; India trade suspended, limiting practical benefit

2.2 Pakistan's Competitive Position and Realized Trade

Pakistan's revealed comparative advantage is narrow and stable, i.e., cotton textiles and made-ups, rice, leather, surgical instruments, sports goods and selected horticulture. These are precisely the sectors in which its FTA partners are either self-sufficient (China in textiles) or small markets (Sri Lanka, Mauritius). The consequence is visible in the trade balances below, where every major FTA has produced a widening deficit rather than an export surge.

Table 9: Overview of Pakistan's Competitive Position in Trade				
Partner	**Pakistan Exports *(USD billion)***	**Pakistan Imports *(USD billion)***	**Balance**	**Assessment**
China	~2.4	~17–20	−15 to −18	Deficit ≈ 59% of Pakistan's total trade gap
Malaysia	~0.3	~1.7	−1.4	Palm oil imports dominate
Sri Lanka	~0.3	~0.07	+0.23	Small but consistently positive
SAFTA (regional)	negligible	negligible	—	Effectively dormant

Source: Numbers for FY2024-25 based on PBS, Ministry of Commerce. Pakistan exported USD 2.375 billion to China in FY25, of which USD 2.16 billion moved under the FTA framework – a high utilization rate on a very small base.

The China figures deserve emphasis. Bilateral trade reached roughly USD 19.4 billion in FY2024-25, but the composition is starkly asymmetric: Pakistani exports of around USD 2.4 billion against imports approaching USD 20 billion.[1] Utilization of the preferences Pakistan did secure is actually high, i.e., over 90% of exports to China travel under FTA cover, which indicates that the binding constraint is not administrative failure but the absence of exportable surplus in the lines where concessions were granted.

3. Preferential Trade Agreements (PTAs): Coverage and Performance

3.1 Goods Covered and Tariff Concessions

PTAs operate on positive lists, i.e., only the enumerated tariff lines receive a margin of preference, usually expressed as a percentage reduction off the applied Most Favored Nation (MFN) rate rather than outright duty elimination. The table below sets out the principal arrangements.

[1] According to international trade and customs tracking (such as data analyzed via the World Bank WITS and global export statistics, China actually runs an **overall trade surplus** with about 150 out of 181 trading nations.

Table 10: PTAs Coverage and Performance in Context of Pakistan Trade				
PTA	**Lines to Pakistan**	**Lines to Partner**	**Key Pakistani Products**	**Preference Margin**
Türkiye (2023)	261	130	Leather, rice, dates, mangoes, cutlery, sports goods, seafood, plastics	Phased reductions; several lines to zero over 5-10 yrs
Indonesia (2013)	~20 (expanded 2016)	~230	Kinnow, mangoes, cotton yarn, fabrics, ethanol	10-50% margin; palm oil concession to Indonesia
Iran (2006)	338	309	Rice, kinnow, meat, textiles, cutlery	10-30% margin of preference
Mauritius (2007)	102	110	Textiles, pharmaceuticals, leather	Up to 100% on selected lines
D-8 (2011)	Common list	Common list	Textiles, rice, surgical goods	Target 10-15% max tariff among members

3.2 Realized Trade Under the PTAs

PTA-covered trade is modest in absolute terms and, with the partial exception of Türkiye and Indonesia, has not altered established trade patterns. The Indonesia PTA is the clearest cautionary case: Pakistan granted a substantial concession on palm oil, i.e., Indonesia's single largest export interest, in exchange for preferences on citrus and textiles that Pakistan has been unable to scale.

Table 11: Country-wise Realized Trade Under PTAs				
Partner	**Pakistan Exports *(USD billion)***	**Pakistan Imports *(USD billion)***	**Balance**	**Comment**
Türkiye	~0.45	~0.9–1.0	−0.5	Trade ~USD 1.4 bn vs USD 5 bn target
Indonesia	~0.3	~3.0	−2.7	Palm oil drives the deficit
Iran	~0.4 (formal)	~0.9	−0.5	Sanctions push much trade informal
Mauritius	<0.05	<0.02	+0.03	Negligible in both directions
D-8 Combined	~1.5	~4.5	−3.0	Dominated by Indonesia & Türkiye

Source: PBS

Two patterns persist,

- First, Pakistan's concession lists have consistently been more commercially valuable to partners than the lists it received; for example, Türkiye's largest concessions from Pakistan fall under HS-84 and HS-85 (machinery and electrical equipment), categories where Türkiye is globally competitive, while Pakistan's own 261 lines are concentrated in products where it lacks scale.
- Second, preference margins on PTA lines are often too shallow, i.e., 10-30% off an applied rate to overcome freight, compliance and rules-of-origin costs, so firms simply trade at MFN rates and the concession goes unused.

4. Critical Evaluation: Benefits, Costs and the Way Forward

4.1 Benefits Gained

- **Preference-dependent export earnings:** GSP+ alone generated an estimated EUR 732 million in tariff exemptions in 2024, on EUR 7.5 billion of eligible exports, roughly 9% of Pakistan's export value to the EU and the single most valuable preference Pakistan holds.
- **High utilization where preferences match capability:** EU preference utilization runs at 93.6-97.7% across Pakistan's top five export sectors; over 90% of exports to China move under FTA cover, so where a usable preference exists, exporters do use it.
- **Input cost reduction:** Liberalized imports of machinery, chemicals and intermediate goods have lowered input costs for domestic manufacturing, including for export industries.
- **Diplomatic and strategic value:** The agreements have institutionalized economic engagement with China, Türkiye and the D-8 bloc, with spillovers into investment and connectivity.

4.2 Costs Incurred

- **Structurally widening deficits:** The China deficit alone accounts for close to 59% of Pakistan's total trade gap. Pakistan's overall deficit reached USD 26.3 billion in FY2024-25 on exports of USD 32.1 billion against imports of USD 58.4 billion.
- **Asymmetric negotiation outcomes:** Pakistan has repeatedly conceded lines of high commercial value to partners while accepting concessions on products it cannot supply at scale; i.e., the palm oil concession to Indonesia and the machinery concessions to Türkiye are illustrative.
- **Revenue loss without offsetting export gain:** Tariff concessions reduce customs revenue, which is a significant consideration given Pakistan's narrow tax base, without generating the export volumes that would justify the foregone receipts.
- **Import competition and deindustrialization pressure:** Business associations have consistently argued that liberalized Chinese imports displaced domestic light manufacturing rather than complementing it.
- **Concentration and conditionality risk:** Roughly three-quarters of exports to the EU are textiles and clothing, and GSP+ is contingent on compliance with 27 conventions. The EU's 2026 monitoring report flagged regression in several areas, which means Pakistan's most valuable preference is also its most politically exposed.

4.3 Recommendations

1. **Renegotiate on commercial rather than only a diplomatic logic:** Pakistan's own analysts note a pattern of invoking friendly relations in place of hard commercial bargaining. Concession lists should be built from product-level revealed comparative advantage and partner import demand, not reciprocal goodwill.
2. **Prioritize the CPFTA Phase III negotiation:** Pakistan is seeking zero-tariff access on roughly 700 additional lines and tariff parity with ASEAN and African competitors. Securing rice duty relief, a rice import quota and long-term procurement arrangements with Chinese state buyers would deliver more than any new agreement.
3. **Conduct mandatory ex-ante and ex-post impact assessment:** No concession list should be tabled without published modeling of revenue loss, import displacement and realistic export upside, and every agreement should be reviewed against those projections at fixed intervals.
4. **Address the binding supply-side constraint:** Preferences cannot create exportable surplus. Energy cost competitiveness, product diversification beyond cotton textiles, and compliance capacity (standards, certification, traceability) determine whether market access converts into shipments.
5. **Insulate and diversify away from GSP+ dependence:** Sustained compliance with the 27 conventions is a commercial imperative, not merely a human-rights question. In parallel, Pakistan should pursue market access in the Gulf, Africa and Central Asia to reduce single-scheme exposure.
6. **Move beyond goods:** Pakistan's fastest-growing export category is IT and IT-enabled services, which sits almost entirely outside its trade agreement architecture. Future negotiations should seek services commitments, mutual recognition of qualifications and data-flow provisions.
7. **Build exporter awareness and simplify origin procedures:** Low uptake on PTA lines partly reflects firms' unfamiliarity with preference schedules and the administrative burden of origin certification. A single digital portal mapping every concession by HS code would materially improve utilization.

Conclusion

The two sections of this edition suggest that the quarter's macroeconomic pressures and the uneven record of Pakistan's trade agreements may be facets of a single structural question: the economy's capacity to generate tradable output. The widening of the trade gap by roughly USD 1.6 billion, largely absorbed by an additional USD 1.3 billion in remittances, illustrates how external balance has come to rest on income flows that preferential market access was never designed to replace.

An encouraging signal lies in the composition of export growth. Non-textile exports expanded by more than 21% and rice by about 56%, lowering the textile share to 59.5%. Rice, notably, remains among the products with restricted concessions under the China agreement. This could imply that diversification is emerging organically, ahead of the negotiated architecture, and that concession lists might prove more productive if aligned with such emerging strengths.

Conversely, the 35.7% fall in textile machinery imports may point to cautious capacity investment in the sector that has historically anchored preference use.

A further linkage merits attention. With revenue growth trailing inflation, customs receipts foregone under preferential arrangements may carry a larger opportunity cost than commonly assumed, lending weight to the case for systematic impact assessment.

From a research perspective, future editions could pair quarterly macroeconomic indicators with preference-utilization and sector-level data, since trade-agreement evidence currently relies largely on annual figures. Such pairing might allow trade-policy effects to be observed closer to real time.

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