Beyond Threads: A Policy Roadmap for Diversifying Pakistan's Export Base

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What policy interventions can most effectively enable Pakistan to diversify its export base beyond textiles into higher value-added sectors, in order to achieve sustainable economic growth and improved global competitiveness?

Summary

This policy brief analyses policies that will allow Pakistan to diversify its exports away from the current concentration in textiles to become diversified in value-added products to ensure sustainable economic growth. Based on the secondary trade statistics and a comparison between Bangladesh and Vietnam with respect to their policies, this analysis shows that the Pakistani export basket is narrowly concentrated, as its main exports consist of textiles, clothing, leather, and rice, accounting for about 74 percent of exports[1].

In spite of the changes in the structure and the use of a falling tariff system on intermediate inputs, energy inefficiencies, poor logistics, and concentrated export destinations that allowed other countries to move up the value chain, Pakistan continues to produce low-value products. Fortunately, Pakistan has a ready-made example, as it has managed to develop its exports in information technology products very successfully. This policy brief suggests that the Ministry of Commerce and Federal Board of Revenue consider tariff rationalization for intermediate inputs, while the State Bank of Pakistan should provide financing to non-textile exporters in high-potential products, that energy and connectivity be prioritised for the IT sector, and that Pakistan study Vietnam's trade agreement strategy as it negotiates its own future agreements.

Introduction

There is a structural issue with respect to Pakistan's exports that cannot be hidden under any fiscal year. The fiscal year 2026 ended up with an almost balanced current account due to unprecedented remittances into the country; however, these were not because of increased exports; instead, exports fell despite increasing imports. At the same time, the Real Effective Exchange Rate of Pakistan reached its seven-year maximum point, which indicates that its exports became less competitive[2]. Analysts have warned that dependence on remittances and foreign funding is not an alternative to structural changes to increase competitiveness of exports[3].

This is an old tale. According to the World Bank, Pakistan's export-to-GDP ratio fell from 15.4 percent in 1999 to only 10.4 percent in 2024 while its regional rivals have increased their

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[1]Junaid Ahmed, "Pakistan's Dismal Export Performance: A Survey of Empirical Literature," PIDE Working Paper 2025:10 (Pakistan Institute of Development Economics, 2025), citing Pakistan Economic Survey 2025, https://file.pide.org.pk/pdfpideresearch/wp-25-10-pakistans-dismal-export-performance-a-survey-of-empirical-literature.pdf.
[2]Daily Times, "Pakistan Posts $139m Current Account Deficit Despite Record Remittances in FY26," Daily Times, July 18, 2026, https://dailytimes.com.pk/1524687/pakistan-posts-139m-current-account-deficit-despite-record-remittances-in-fy26/.
[3]Business Recorder, "Pakistan Posts $324mn C/A Deficit in April 2026," Business Recorder, May 18, 2026, https://www.brecorder.com/news/40421693/pakistan-posts-324mn-ca-deficit-in-april-2026.

presence in the trading world[4]. Vietnamese exports have increased from USD 17.8 billion in 2001 to USD 375.1 billion in 2023, while Bangladeshi exports increased from USD 6.8 billion to USD 47.3 billion in the same span of time. Pakistan's exports have only increased from USD 10.5 billion to USD 36.2 billion, reaching a total value of USD 40.2 billion in 2024[5].

The issue here lies not in the quantity of exports but in their composition. Textiles, apparel, leather, and rice make up almost 74 percent of Pakistan's exports[6], whereas the share of exports of high-skill technological products has increased slightly from 3.6 percent in 2001 to 6.4 percent in 2024, in comparison to 33.9 percent for Vietnam and 41.1 percent for China in the same period[7]. A product space study conducted by the Consortium for Development Policy Research finds that Pakistan's export basket remains clustered around cotton-based goods, meaning the country's existing capabilities do not easily support diversification into more complex products, even within the same broad product categories[8].

This is relevant for several groups. For the Ministry of Commerce and the State Bank of Pakistan, the export concentration means fewer options of handling economic shocks and maintaining currency stability. For non-textile exporters, the lack of support implies that potential exporters in sectors such as engineering goods, pharmaceutical products and medical devices cannot develop. For the workers of Pakistan as a whole, employment creation outside a few textile industrial zones is conditional upon the establishment of export industries of a different profile, not only talking about them. As Pakistan develops new industrial and textile policies, it is highly important to understand what kinds of measures could create conditions for non-textile export development and how Bangladesh and Vietnam succeeded in their industrial diversification.

Methodology

This brief is based on a study that uses a combination of mixed-method approaches involving analysis of secondary (trade and macroeconomic) data and a comparative policy review. The quantitative information is based on information contained in reports of trade released by the Pakistan Bureau of Statistics, balance-of-payments data of the State Bank of Pakistan, quarterly reports of exports by the Pakistan Textile Council[9], as well as information in a working paper published in 2025 by the Pakistan Institute of Development Economics (PIDE), which includes data from World Bank, UNCTAD and ITC Trade Map. The comparative policy analysis portion of the study relies upon information available from case studies and news reports regarding Bangladesh's and Vietnam's export diversification experiences, particularly their use of trade agreements, foreign investment, and industrial policy to move beyond basic textile exports.

Since there is no primary data collection in this brief due to time constraints, the conclusions that will be drawn are based on the trends and relationships observed in the available literature. If any of the findings in this brief are based on the association between two variables but there is no proven causation, this will be mentioned in the conclusions section below.

Key Findings

A narrow, low-value export base that is losing relative ground

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[4]Ahmed, “Pakistan's Dismal Export Performance,” citing World Bank, 2025.
[5]Ahmed, “Pakistan's Dismal Export Performance.”
[6]Ahmed, “Pakistan's Dismal Export Performance,” citing Pakistan Economic Survey 2025.
[7]Ahmed, “Pakistan's Dismal Export Performance,” citing UNCTAD, 2025.
[8]Syed Turab Hussain et al., “Export Diversification into Non-Traditional Product Segments” (Consortium for Development Policy Research, 2025), https://www.cdpr.org.pk/wp-content/uploads/2025/03/Export-Diversification-into-Non-Traditional-Product-Segments-PBC.pdf.
[9]Pakistan Textile Council, “Pakistan's Textile & Apparel Exports Q1FY26” (Pakistan Textile Council, October 16, 2025), https://ptc.org.pk/wp-content/uploads/2025/10/Q-1-PTC-Exp-Rep-July-September-2025-issued-16-Oct-2025.pdf.

Besides being concentrated, Pakistan's exports have been found to be growing increasingly less competitive compared to those of other regional countries. Vietnam, which derives the highest proportion of its total exports from broadcasting equipment, earned more money from the sale of the item, USD 83.2 billion, than Pakistan and Bangladesh combined in total exports in 2023[10]. This example shows how the difference goes beyond just the amount of money made by exporting goods to also include differences in the technological and complexity levels of the products being exported. While Pakistan's products exported in the last twenty years have changed slightly from labour and resource-based goods to technologically advanced manufacturing goods, Vietnam has taken a decisive step in that direction[11].

Structural barriers behind the concentration

One consistent finding across the literature is that this inactivity is linked to a specific and recurring cluster of constraints, rather than one dominant reason. The tariff system in Pakistan, through its anti-export bias on intermediate-input-dependent firms, implicitly discourages firms from improving quality[12]. Persistent supply limits related to the energy sector and high production costs are present in almost all manufacturing sub-sectors[13].

Pakistan's position at 122 out of 139 countries in the World Bank's Logistics Performance Index demonstrates its failures at customs, tracking, and transport, which together increase export costs[14].

Moreover, the export market has remained undiversified. Only 62.4 percent of Pakistan's exports flow to the top ten trading countries, which means a limited exposure to fast-growing regional markets[15]. Similarly, export subsidies tended to benefit large rather than small, newer exporters, who are more likely to undertake diversification[16]. Overall, these problems do not indicate one obvious solution but rather a cluster of drawbacks that require simultaneous solutions.

What Bangladesh and Vietnam did differently

These two nations have undergone different diversification techniques. Bangladesh achieved a globally second-largest position in apparel export (behind only China) through privileged trade access, particularly duty-free, quota-free access to the EU market for least developed countries (LDCs) under their Generalized Scheme of Preferences (GSP), along with a supportive domestic trade policy regime[17].

However, its diversification has remained within the broad heading of apparel: cotton products make up some 73 percent of its total export earnings from the apparel sector, thereby keeping it to a similar degree of concentrated export, as Bangladesh faces an imminent threat to its access to least developed countries and thus favourable access[18]. A word of caution on Bangladesh's case is that its preference in the EU requires compliance, and a trade partner also needs to agree to the environmental and labor standards required for entry and sustainability of access to the EU market[19].

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[10]Ahmed, "Pakistan's Dismal Export Performance," citing OEC, 2025.
[11]Ahmed, "Pakistan's Dismal Export Performance."
[12]Ahmed, "Pakistan's Dismal Export Performance," citing Varela et al., 2020, and Jamil & Arif, 2019.
[13]Ahmed, "Pakistan's Dismal Export Performance," citing Siddiqui et al., 2008, and Hussain et al., 2012.
[14]Ahmed, "Pakistan's Dismal Export Performance," citing World Bank Logistics Performance Index, 2025.
[15]Ahmed, "Pakistan's Dismal Export Performance," citing ITC Trade Map, 2025.
[16]Ahmed, "Pakistan's Dismal Export Performance," citing Zia, 2008, and Defever et al., 2020.
[17]The Financial Express, "Vietnam's Apparel Export Strategy Lesson for BD," The Financial Express (Dhaka), December 24, 2025, https://thefinancialexpress.com.bd/views/opinions/vietnams-apparel-export-strategy-lesson-for-bd.
[18]The Financial Express, "Vietnam's Apparel Export Strategy Lesson for BD."
[19]Hussain et al., "Export Diversification into Non-Traditional Product Segments," noting new EU sustainability and circularity requirements effective 2025.

Vietnam embarked on a more structural route. Having entered into a number of trade agreements with major trading blocs like CPTPP, RCEP, and the EU and UK, the country guaranteed long-term access to major markets, while continuously investing in synthetic and technical textile and then electronics allowed its exporters to move towards complex, high-value-added export categories instead of increasing capacity in old segments of export[20]. A lesson from comparing the two cases suggests that while market access alone, like Bangladesh, can contribute to a high level of export growth, combining access with planned, step-by-step upgrading to more complex products, like Vietnam, can help cushion against the overconcentration risk currently being faced by Pakistan.

Pakistan's own counter-example: IT-enabled services

Fortunately, Pakistan doesn't have to look solely to the external world for a successful case study. Exports of information technology (IT) and IT-enabled services broke the record, hitting US$4.6 billion in Fiscal Year 2025-26, up 21% from last year; this has made IT Pakistan's single biggest service export[21]. Overall services exports increased by 17.68% during the same period, reaching US$8.27 billion in just the first ten months of FY26[22].

This has been driven both by increasing global demand for software development, business process outsourcing, and increasing IT-enabled services related to AI, and by government initiatives to support the IT sector[23].

The figures of the IT sector indicate that Pakistani firms can successfully enter higher-value and non-traditional exports where global demand and a supportive policy environment align, although representatives of the sector also acknowledge that challenges such as slower speeds and regular power outages continue to delay growth[24]. These are some indicators that, for the foreseeable future at least, a targeted approach rather than a broader reform will more likely lead to broader diversification success.

Recommendations

Based on the above evidence, this brief recommends four policy actions, each targeted to a specific department that has direct authority over the corresponding policy.

1. The Federal Board of Revenue and Ministry of Commerce should reduce tariffs on imported intermediate inputs consumed by non-textile manufacturers, especially in the engineering goods and pharmaceutical industries, to address the anti-export bias of imports described in the literature[25]. This reform should be implemented alongside, and not as a substitute for, the existing textile-sector tariff concessions, to prevent disruption of Pakistan's largest current export earner until new sectors gain competitiveness.

2. The State Bank of Pakistan should expand access to cheap, long-term financing facilities, such as the 'Long-Term Finance Facility,' which is currently biased towards textiles, to a well-defined list of non-traditional, high-complexity sectors such as surgical equipment, sporting goods, and fibre textile products[26]. To reduce the risk of subsidy capture by non-exporting firms[27] subsidy eligibility should be strictly linked to export performance and not to the firm's size or relationships.

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[20]The Financial Express, "Vietnam's Apparel Export Strategy Lesson for BD."

[21]ProPakistani, "Pakistan's IT Exports Reach All-Time High of $4.6 Billion," ProPakistani, July 17, 2026, https://propakistani.pk/2026/07/17/pakistans-it-exports-reach-all-time-high-of-4-6-billion/.

[22]Dawn, "IT Leads Services Export Surge to $8.27bn," Dawn, June 7, 2026, https://www.dawn.com/news/2005768/it-leads-services-export-surge-to-827bn.

[23]ProPakistani, "Pakistan's IT Exports Reach All-Time High."

[24]ProPakistani, "Pakistan's IT Exports Reach All-Time High."

[25]Ahmed, "Pakistan's Dismal Export Performance," citing Varela et al., 2020.

[26]Hussain et al., "Export Diversification into Non-Traditional Product Segments."

[27]Ahmed, "Pakistan's Dismal Export Performance," citing Zia, 2008, and Defever et al., 2020.

3. The Ministry of IT and Telecommunication and the National Electric Power Regulatory Authority should prioritize reliable electricity and quality internet access for IT and IT-enabled service exporters, as these are frequently cited by sector representatives as major obstacles in an already export-successful sector[28]. This is a low-risk and high-return reform (since the sector already has a proven track record of growth), compared to similar reforms that aim to grow new exporting sectors that have not yet shown success.

4. The Trade Development Authority of Pakistan should commission an in-depth study of Vietnam's strategy on trade agreements, including the sequencing of CPTPP and RCEP membership along with their domestic industrial upgrading policy, to inform the ongoing and future free trade negotiations, so that it makes sure that the agreements support domestic capability-building rather than simply opening markets. This would help Pakistan avoid the narrower focus which characterized Bangladesh's experiences with preferential agreements.

The four policy actions recommended are targeted based on evidence, and each of them addresses a known, specific problem, such as tariffs, financing gaps, energy or connectivity limits, or market access, rather than the vague and often unfeasible goal of "diversification in general," and each also targets the specific institution that can make the necessary change.

Conclusion

For more than two decades now, Pakistan's exports have been overly concentrated in textiles, a trend that appears to be getting increasingly difficult, rather than easy, to maintain, considering recent current account numbers which indicate that it is remittances that are protecting Pakistan from balance-of-payments problems, rather than exports. It can be seen that the trends highlighted above do not indicate an impossibility of the above diversification of exports; it is rather a result of a particular set of factors, such as tariffs, finance, energy, and access to markets, which need to be addressed, and even Pakistan's own IT industry highlights how this can happen successfully through deliberate effort.

[28]ProPakistani, “Pakistan's IT Exports Reach All-Time High.”

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