PAKISTAN TEXTILE COUNCIL

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OFFICE OF THE CHAIRMAN

Dated: April 25th, 2025

SUBJECT: Impact Assessment of U.S. Reciprocal Tariffs on Pakistan's Textile Exports – A study conducted by Pakistan Textile Council

On behalf of the Pakistan Textile Council (PTC), I am pleased to share the recently completed study on Quantitative Impact Assessment of U.S. Reciprocal Tariffs on Pakistan's Textile Exports, developed in response to the sweeping tariff measures announced by the current U.S. administration.

The study reveals that Pakistan faces projected export losses of USD 2 to 4.35 billion, with devastating implications for our largest export destination—the U.S., which accounts for over 82% of Pakistan's textile and apparel exports. Contrary to assumptions that Pakistan's tariff is lower than that of some regional competitors, our structural disadvantages—higher costs, weaker margins, and lack of buffers—make this policy far more damaging to us.

If not addressed urgently, this will trigger large-scale disruption across our export value chain, suppress foreign exchange earnings, and intensify macroeconomic vulnerabilities.

Key recommendations include:

- Immediate diplomatic outreach to the U.S. for tariff relief or negotiated settlement.
- Cost rationalization and energy reform to restore competitiveness.
- Supply chain modernization to reduce lead times and defend/expand market share.

We urge policymakers, trade institutions, and research bodies to act swiftly and collaboratively. The tariff comes into force in less than 90 days—delayed action will only diminish our leverage.

The full report is enclosed. We remain at your disposal for briefings or stakeholder consultations.

With sincere regards,

Sincerely,

(Fawad Anwar)
Chairman
Pakistan Textile Council

PAKISTAN TEXTILE COUNCIL

QUANTITATIVE IMPACT ASSESSMENT OF US RECIPROCAL TARIFF ON PAKISTAN

APRIL 2025

Pakistan Textile Council is a not-for-profit public limited company that represents 28 leading textile and apparel exporters.

Our mission is to help shape a path of sustainable growth for Pakistan's textile and apparel sector and deliver economic and societal impact, putting Pakistan first. We aim to work on industry-level topics with key stakeholders of the textile and apparel sector in Pakistan and overseas.

The opinions expressed in this document are those of the Pakistan Textile Council and do not necessarily reflect the views of its member companies.

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April 2025

PAKISTAN TEXTILE COUNCIL

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Executive Summary

Recently, the US administration slammed tariffs on all its trading partners, rolling out a new wave of trade protectionism, needless to say in stark contrast to multilateral trading system and WTO's rules.

Starting with a baseline rate of 10% on all its trading partners, the policy escalated into a cascade of reciprocal tariffs at various rates to around 60 countries, reaching as high as 145% (in case of China). The US administration has labelled this move as an attempt to level off the trade deficit of US with each trading partner. Hence tariff rate is being portrayed as reflective of US trade deficit with that country.

Given the fact that US is a major export destination for Pakistani exports dominated by textile and apparel product categories, this policy move has sent ripples of shock across the entire textile and apparel value chain in Pakistan. It is worth noting that USA has slammed tariffs on all of Pakistan's competitor countries in the Asian region (Bangladesh 37%, India 26%, Vietnam 46%, Sri Lanka 44%). Experts are trying to portray this as a silver lining in the roaring cumulonimbus of US tariffs.

With this backdrop, Pakistan Textile council argues that, regardless of the magnitude of our competitor country tariffs, a 29% tariff on Pakistan is more damaging than a 37% tariff on Bangladesh or a 46% tariff on Vietnam, mainly because Pakistan is operating with fewer buffers, weaker margins, and little room to undercut.

The quantitative impact assessment, incorporating tariff breakdowns and simulated pass-through rates, indicates a sharp decline in demand for Pakistani textile exports to the U.S., estimated between $2 billion and $4.35 billion. Analysis of tariff impacts, textile dependency, and relative competitiveness reveals that Pakistan is confronting a serious competitiveness crisis in the U.S. apparel market.

However dubious and poorly logical might the methodology and rationale for the tariff rate determination be, this policy if implemented in its full spirit will put Pakistan textile industry under deep waters. This report dives into the quantitative impact assessment of this tariff policy and reveals devastating export losses.

The US tariff hike serves as yet another wake-up call for policy makers in Pakistan, reiterating the longstanding necessity of reducing cost of doing business in Pakistan. The time to act is now, engage in strategic government-to-government negotiations, at the same time make immediate efforts for cost rationalization and enhancement in supply chain efficiency to reduce lead times, and convert this threat into an opportunity.

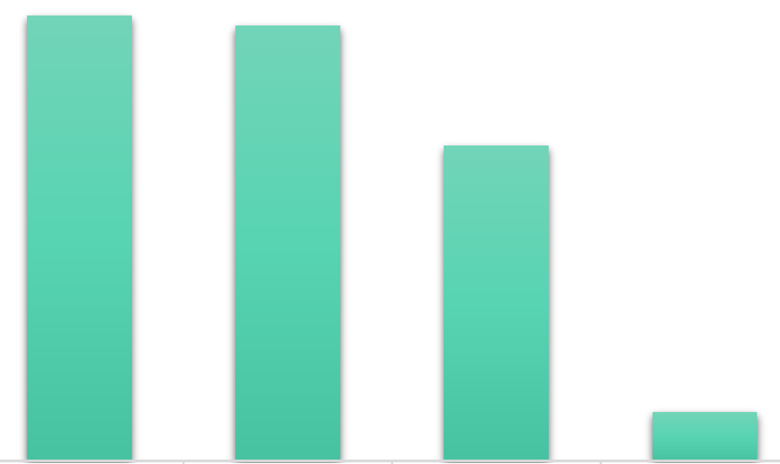
Section 1: Introduction and Strategic Context

In the aftermath of US tariffs escalation, many think tanks, research institutions, and policy experts have offered their own assessments of this policy shift, many emphasizing that Pakistan's relatively lower tariff, compared to some regional competitors, could offer a potential advantage. However, the Pakistan Textile Council (PTC) adopts a different outlook presenting the perspective of the textile exporters, while grounding the assumptions in economic principles and existing empirical evidence, offering a more dependable assessment compared to speculative analysis.

This report presents a quantitative impact assessment of the US reciprocal tariff implementation, focusing specifically on the economic vulnerabilities of the textile exporters. This report not only challenges the notion of a "lower tariff boon" but also highlights the structural weaknesses in Pakistan's export profile that pose disproportionate risks to the industry. To contextualize this issue, this section provides a product-wise breakdown of Pakistan's key export categories to the US (see Appendix I).

Unites States is Pakistan's biggest export destination with a total export of $5.614 billion (2nd China $2.378 billion, 3rd UK $2.145 billion, 4th UAE $1.764 billion and 5th Germany $1.722 billion)[1]. Pakistan's exports to USA span across 97 product lines. Of all these products, textile and apparel related product categories constitute 82% of Pakistan's total exports to USA. Four HS chapters stand out of all the textile exports: Ch 61 (Articles of apparel and clothing, knitted or crocheted), Ch 63 (Other made-up textile articles), Ch 62 (Articles of apparel and clothing, not knitted or crocheted) and Ch 52 (Cotton and articles of cotton). The respective share of these categories are shown in Figure 1.

Figure 1: Major Textile Product Categories as Exports to US



	'61	'63	'62	'52
2024 (USD bn)	1.62	1.58	1.14	0.18

Source: Author's elaboration based on ITC Trade Map data

[1] Data is retrieved from UNCOMTRADE and PBS for Calendar Year (CY) 2024.

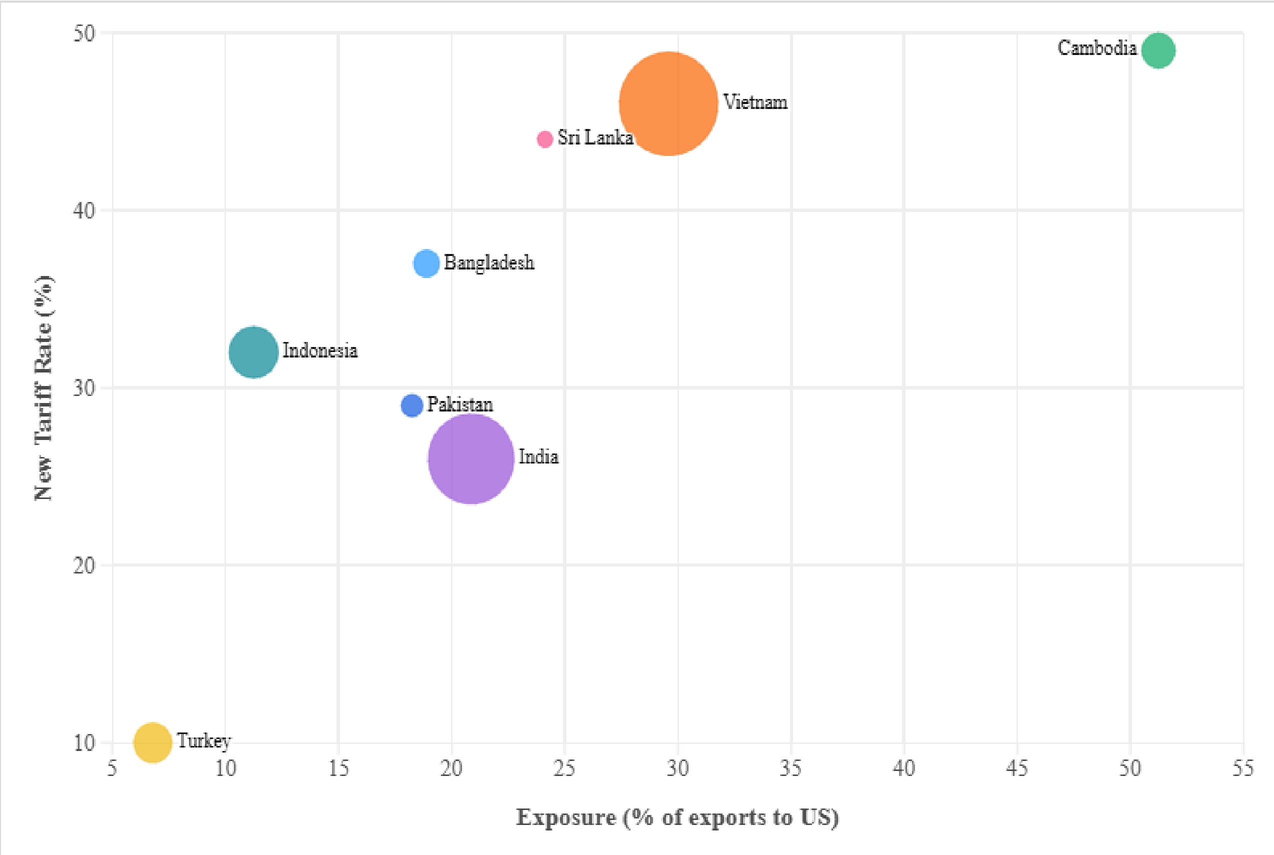
Alternate suppliers in the US market for the same product categories was also mapped, the analysis highlights the major product categories being threatened are **knitwear, woven garments and home textiles** from Pakistan, while the major competitors for these categories in the US market are China, Bangladesh, India, and Vietnam. (see Appendix II).

Section 2 of this report presents a relative competitiveness analysis, comparing Pakistan with its close competitors, post-tariff. Indicators such as textile dependency, shock exposure, structural positioning, and Freight on Board (FOB) pricing strategies have been used to conduct this analysis. The post tariff export price comparison among sample countries, on the basis of FOB export prices, was also simulated to see its impact on Pakistan's textile and apparel exports. **Section 3** elaborates the transmission mechanism and quantitative impact of tariff on textile exports.

Section 2: Relative Competitiveness Assessment

Given the magnitude of new reciprocal tariffs, the burden is not equal for all the competitors. Initial price differentials (the pre-tariff prices) also matter when assessing the competitiveness. An understanding of the tariff impact can be gained by comparing the level of the newly applied tariffs with each country's export reliance on the US market. This is shown in Figure 2 below.

Figure 2:Exposure of countries by the new tariff applied



Source: Author's Visualization based on ITC Trade Map.

The figure above indicates how much each country is exposed to the tariff shocks. While the size of the bubbles indicates relative volume of total exports to US. It can be seen that Cambodia is most exposed to tariff impact. Pakistan's relative size in the market, and hence exposure is small. However, over-reliance of Pakistan's product portfolio on US market, the largest single country export destination of Pakistan, and comparative price of the Pakistani products in US market, erodes the benefit of the tariff difference under newly imposed tariffs. The potential impact has been detailed in the following section.

Reciprocal Tariffs vs. Present Competitive Position

Tariff rates alone do not determine export vulnerability; structural differences, value addition, and market access strategies are critically important in shaping outcomes (Kouskoura et al., 2024). Table 1 highlights these differences among the Asian textile suppliers to US along with dependency of the reporting country on textile as percentage of total exports of the reporting country.

Table 1: A Comparison of Present Competitive Positions

Country	Tariff Rate (%)	Textile Dependency	Competitive Position
Pakistan	29%	High (55%)	Mid-range cost + quality
India	26%	Low (7.8%)	Stronger design, higher production base
Bangladesh	37%	Very High (88%)	Cheaper labor, price leader
Vietnam	46%	Medium (10.8%)	High-tech manufacturing, better market access
Sri Lanka	44%	Medium to High (28%)	Small but high-quality Niche + ESG friendly

Author's calculations based on aggregated data from National Statistical Agencies[2] and ITC Trade Map (2024).

The table above highlights Pakistan's reliance on textile-related products, which constitute 55% of its total exports, the second highest after Bangladesh. For both countries, any change in market share will have significant repercussions. Despite Bangladesh's greater dependence on textiles, the lower cost of doing business gives it a competitive edge. Thus, Pakistan is likely to face a more severe negative impact due to the high elasticity of demand for textile products (Gautam & Lal, 2020; Latif & Javaid, 2016; Paudel et al., 2004); and the limited capacity of its exporters to absorb price shocks compared to Bangladesh.

Price Comparison: Pakistan vs. Key Competitors

Using estimated $100 baseline FOB export price[3] for a comparable product (e.g., cotton bedding) the post-tariff landed cost of garments in US was simulated. The results are shown in Table 2, which indicate that:

- Pakistan is already disadvantaged with regards to competitiveness because of being too expensive to win on price and not differentiated enough to compete on compliance or innovation.
- Even with higher tariffs, Bangladesh and India remain cheaper than Pakistan post-tariff due to their lower FOB prices.
- Vietnam becomes more expensive, but it offers high compliance, quicker lead times, and near-shoring alternatives, which can offset cost disadvantages for many US buyers.

Table 2: Post-tariff Price Comparisons and Relative Position

Country	FOB Export Price[4] (USD)	Tariff Rate (%)	Post-Tariff Price (USD)	Relative Position
Pakistan	$100	29%	$129	_
India	$95	26%	$119.70	$9.3 cheaper
Bangladesh	$90	37%	$123.30	$5.7 cheaper

[2] Ministry of Commerce and Industry (India), Vietnam General Statistics Office, EPB (Bangladesh), Pakistan Bureau of Statistics, and the General Administration of Customs (China).

[3] The estimate is derived from Free on Board (FOB) export values and product quantity/count data sourced from the World Integrated Trade Solution (WITS). This WITS data for the specified product were compared with the average export prices of products under the corresponding HS Code, as available on the Trade Data Portal of Zauba Corp. The resulting comparative values were then utilized as proxies for this analysis.

[4] Estimates rationale based on Bangladesh's structural cost advantage, India's economies of scale, and Vietnam's higher-tech, higher compliance model, and Pakistan's mid-range quality and value

Vietnam	$105	46%	$153.30	$24.3 more expensive *(still better off due to reasons quoted above)*

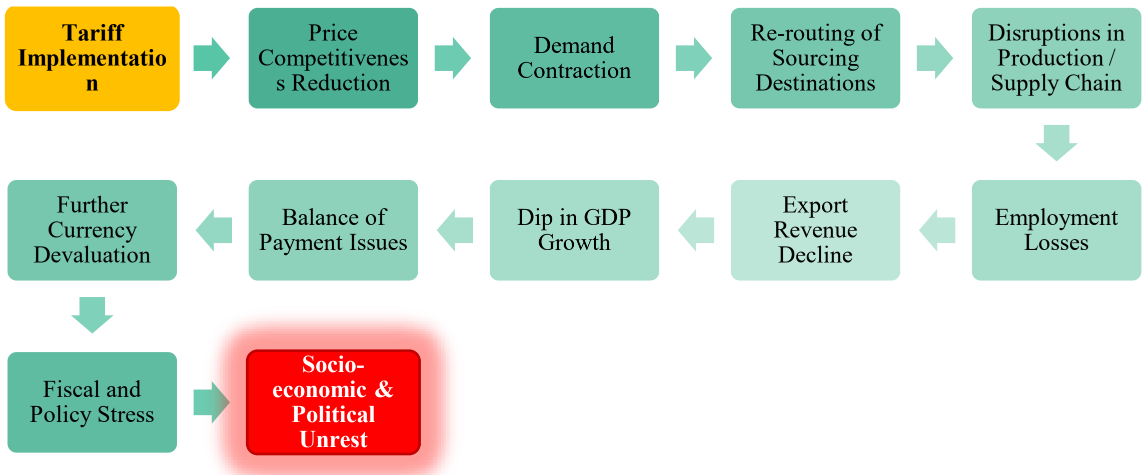
Author's estimations.

The simulation of post-tariff export price comparisons across sample countries indicates that **Pakistan's FOB prices remain the highest among its peers, making it the least competitive supplier for U.S. buyers in a post-tariff market. Despite higher export prices, textile and apparel exporters in Pakistan have little to no margin to sustain price cuts, as they are already burdened by high production costs.** Hence, all calls for maintaining market share through price reductions are impractical and unsustainable. **Overall, this presents a bleak outlook for Pakistan's textile exporters in the evolving global trade landscape**.

Section 3: Transmission Mechanism of the 29% Reciprocal Tariff on Pakistani Exports to the US

The imposition of reciprocal tariffs by the United States will set off a ripple effect across Pakistan's industrial value chain, with far-reaching consequences for trade, textile and apparel industry, and macroeconomic instability. This transmission mechanism is traced in the following illustration.

Figure 3: The Cause-Effect chain of US Reciprocal Tariffs



The projected outcome of this cause-effect chain will of course not be unique only to Pakistan. But in the case of Pakistan, as it is already in an IMF program, grappling with an outstanding debt, high interest rates, high energy costs, low tax to GDP ratio and high public expenditures, the projected outcome becomes highly likely.

Breakdown of the Tariff Impact

According to the assumptions provided by the USTR for tariff calculations the elasticity of import prices with respect to tariffs (the tariff pass-through rate) is 0.25 (25%) and price elasticity of import demand is 4, which implies that:

→ Every 1% tariff increase leads to a 25% rise in import prices.

→ Every 1% price increase results in a 4% drop in import demand.
→ There is a linear relationship between tariff hike and demand contraction

Based on tariff rates for major apparel suppliers to US (i.e. Bangladesh, India, Pakistan, Sri Lanka, Vietnam, and China); the average tariff rate is over 40%**.** If we quantify these assumptions, it leads to the conclusion that a 10% increase in apparel import prices will result in a 40% approximate decline in U.S import demand from these countries combined.

This overall drop in demand (~40%) is a collective estimate across all major suppliers to US, but the impact on each individual country depends on the USA's price elasticity of demand for the specific goods originating from each individual country. If demand for apparel from Pakistan is more elastic than demand for apparel from China, Pakistan's export volume to the U.S. may fall more drastically compared to China's.

Estimated demand contraction for Pakistan

The USTR has assumed that the price elasticity of demand is 4 and tariff pass through rate is 25%. However, the tariff pass-through rate used by the USTR is a technical assumption, not a fixed policy parameter. In real terms, the actual pass-through rate (how much of the tariff increase is reflected in import prices) can vary based on several structural, economic and strategic factors unique to each affected country. The pass-through rate can be much higher, intensifying the shockwave and potentially causing trade disruptions in a short time.

Expected magnitude of demand contraction for Pakistan with different pass-through rates are shown in the following table:

Table 3: Potential Variations in Export Losses

Tariff Rate	Pass-through Rate	Demand Loss (%)	Export Loss (USD)
Baseline (10%)	0.25	10%	500 million
	1.00	−40%	**2 billion**
29%	**0.25**	**29%**	**1.45 billion**
	0.35	40.6%	2.03 billion
	0.45	52.2%	2.61 billion
	0.55	63.8%	3.19 billion
	0.75	**87%**	**4.35 billion**

If 10% import tariff is imposed and pass-through rate is 25% expected export loss is US$ 500 million. But if 100% price is to be absorbed by Pakistani suppliers (as being reported[5]) this loss could reach **US$2 billion** by just 10% increase in tariff for Pakistan.

After the lapse of 90 days 29% tariff will be imposed on Pakistan. In that case at 25% pass through rate export loss will be **US$1.45 billion**. But in-case pass through rate is increased to just 75% that export loss can reach a staggering **US$ 4.35 billion**.

[5] It has been reported by the textile exporters that buyers in US are demanding from their suppliers to absorb the price difference resulting due to the application of the baseline tariff (10%).

The precise impact, however, is not straightforward. It depends, among other factors, on price elasticity of import demand in US, elasticity for Pakistan as well Pakistani exporters' ability to adjust and absorb increased costs. Textile & Apparel exporters in Pakistan are already operating on very thin margins. Therefore, it is likely that even the 10% increase will result in firm shutdown scenario for many exporters in Pakistan.

Section 4: Risk Factors for Pakistan

(i) In the post reciprocal tariffs world, China and Vietnam with their excess textile and apparel supply might shift to alternative markets such as EU, Japan and Australia. Here lies the real challenge for Pakistan, whose major export destinations are USA, EU and UK. If China, Vietnam and Bangladesh also redirect their export focus to EU, it will intensify competition in these markets too, thereby making trade difficult for Pakistan in EU's market. This means that Pakistan will be faced with a **dual competitive challenge**:

- In the US market, given the lower tariff on India, Pakistan will have to face competition with India as well as Bangladesh
- In the EU, UK and eastern markets stricter competition with China, Vietnam and Bangladesh.

(ii) Dead FTAs: Despite having FTAs, Pakistan has not been able to negotiate them in a way that its competitive advantage in apparel exports is utilised. Instead these FTAs have brought more injury to local manufacturers rather than any benefit.

(iii) Limited Trade Leverage in US: Pakistan's minimal share in total U.S. imports weakens its negotiating position in trade discussions. With limited market influence, Pakistan may struggle to secure favourable terms, as its bargaining power remains constrained compared to larger exporters.

(iv) Pakistan's productivity levels and innovation lag behind Vietnam, India and even Bangladesh.

(v) The dependency on cotton-based products (not synthetics or blended textiles) limits diversification options

(vi) Pakistan Industry is already struggling with high energy cost, taxation, capex and opex costs.

Conclusion and Recommendations

The quantitative impact assessment based on breakdown of tariff impact and simulated pass-through rates reveals a significant contraction in demand for Pakistani textile exports to the U.S., ranging from **$2 billion to $4.35 billion.** When tariff rates impact was analysed, textile dependency and competitiveness positioning for Pakistan vis-a-vis its apparel competitors, it was evident that Pakistan faces a **serious competitiveness crisis in the U.S. market**.

Furthermore, re-routing of export flows by China and Vietnam, in response to high tariffs, is expected to **saturate other export markets of Pakistan**, intensifying the pressure on its already vulnerable export base. The intensified competition in both the U.S. and EU markets due to trade diversion by China, Vietnam, and Bangladesh **will only worsen the trade landscape if immediate diplomatic engagement with US administration is not prioritized.**

This boils down to the **conclusion that** the argument that **higher tariffs on Bangladesh** and Vietnam present **an opportunity for Pakistan** is simply **misplaced optimism**. In trade, relative tariff rates matter only when product competitiveness, production efficiency, and value addition levels are comparable. A 29% tariff on Pakistan is more damaging than a 37% tariff on Bangladesh or a 46% tariff on Vietnam, mainly because Pakistan is operating with fewer buffers, weaker margins, and little room to undercut.

To mitigate these challenges and retain the market share, the following **immediate and medium-term actions are recommended**:

- Urgent government-to-government negotiation/ Immediate diplomatic engagement
  There is always a **first mover advantage, which we have already lost**. Any further delay will only weaken our position, reducing our leverage in critical discussions. As the saying goes, "***Either you're at the table or you're on the menu***"—it is time to ensure we are active participants in shaping outcomes rather than passive recipients of decisions.
- Support from Govt to reduce cost of business so that Pakistani products become competitive and are able to capture more market share.
- Supply Chain Efficiency to reduce lead times[6]

[6] Abdallah, Ayman Bahjat, et al. "Supply chain integration and export performance: the mediating role of supply chain performance." *International Journal of Productivity and Performance Management* 70.7 (2021): 1907-1929.

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Appendices

Appendix I

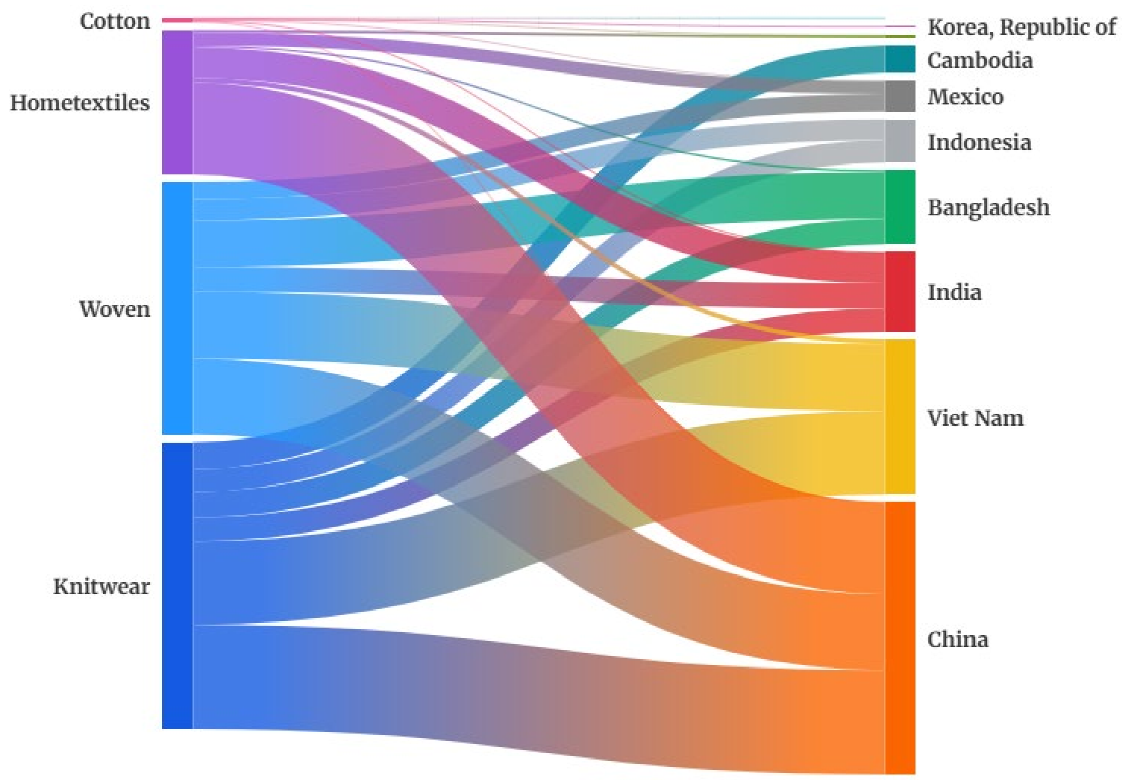
Table 4: Textile and Apparel Exports to the US

Product code	Product label	Value in 2020	Value in 2021	Value in 2022	Value in 2023	Value in 2024	2024 (value in USD bn)
'61	Articles of apparel and clothing accessories, knitted or crocheted	1128223	1955615	2030382	1423879	1615677	1.62
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	1417287	1895463	1779019	1465349	1578763	1.58
'62	Articles of apparel and clothing accessories, not knitted or crocheted	669465	1085093	1240731	1001134	1143147	1.14
'52	Cotton	187817	192824	194777	166683	177291	0.18
'57	Carpets and other textile floor coverings	27750	41972	51231	36575	33743	0.03
'55	Man-made staple fibres	12941	16665	21841	13645	12292	0.01
'54	Man-made filaments; strip and the like of man-made textile materials	8649	20120	14489	17941	11524	0.01
'60	Knitted or crocheted fabrics	3120	5973	4335	3508	4880	0.00
'58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	3995	4394	5377	4441	4789	0.00
'56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	218	184	441	440	4032	0.00
'59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	3602	1257	378	969	775	0.00
'51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	126	49	90	61	236	0.00
'53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	140	259	182	62	101	0.00
'50	Silk	18	17	18	3	8	0.00
Total	Chapter 50-63 USD billion	3.463351	5.219885	5.343291	4.13469	4.587258	4.59

Source: ITC Trademap

Appendix II

Figure 4: Top competitors of Pakistan in US market (selected categories)

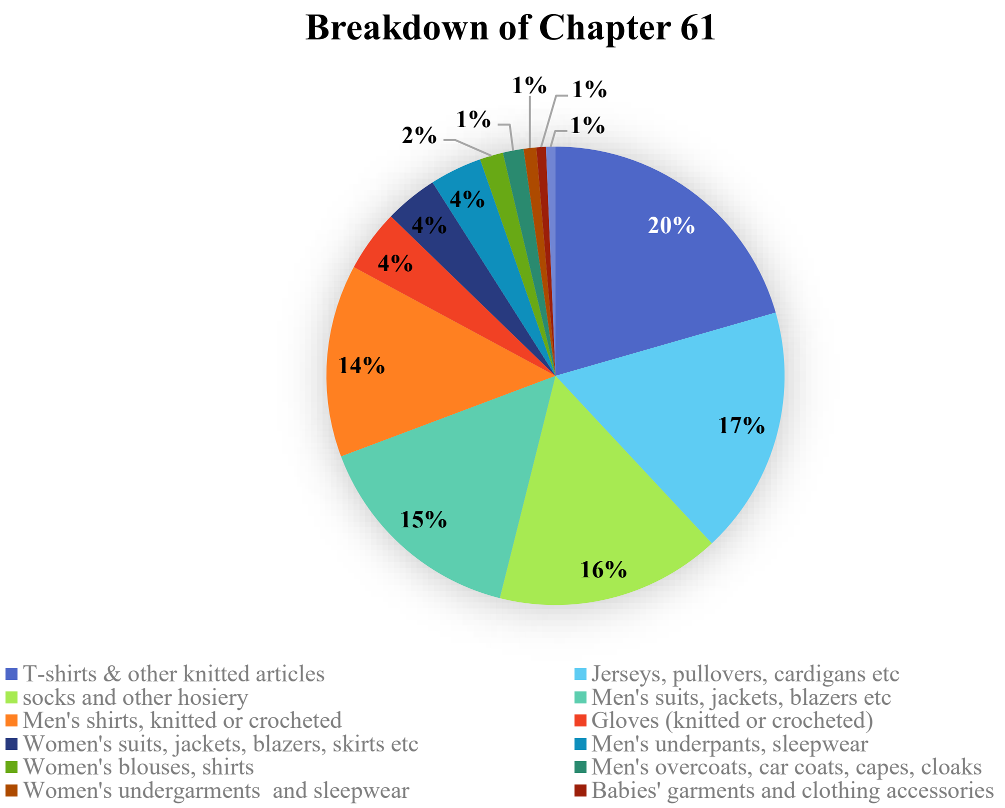


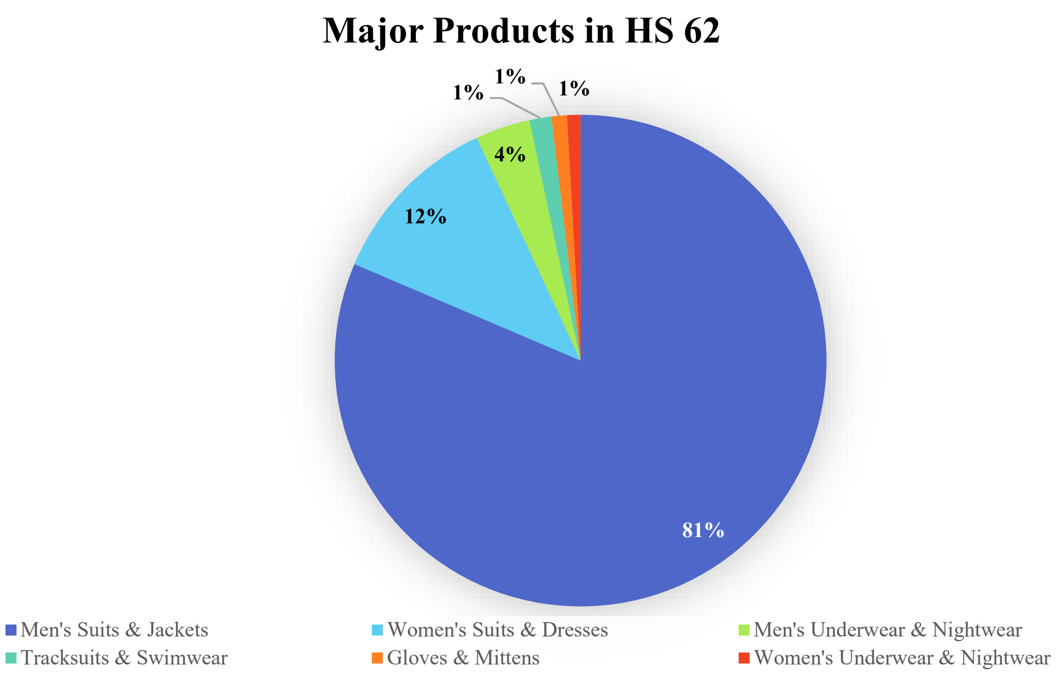
Source: Author's elaboration based on ITC Trade Map

Note: The width depicts the quantity of export flow from each country.

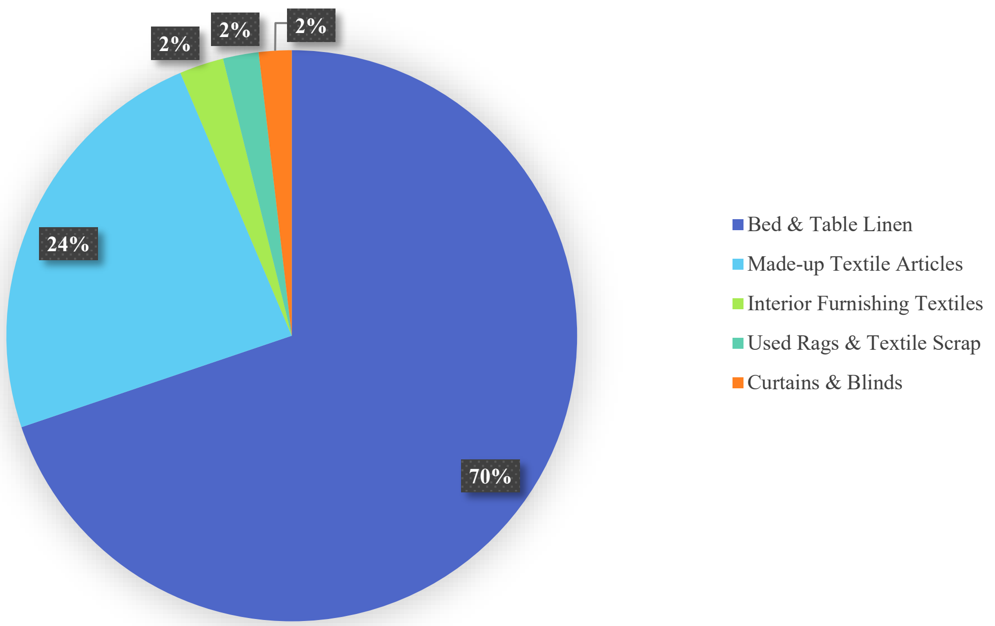
Appendix III

Major Product subcategories in each HS Chapter





Major Products in HS 63



Maor Products in HS 52