

U.S. TRADE ENFORCEMENT AND VULNERABILITIES IN PAKISTAN'S EXPORTS

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Recent developments in the United States (U.S.) trade enforcement have increased new compliance challenges for exporting countries, with greater scrutiny of supply-chain practices, the origin of inputs, and adherence to labour-related import requirements. These evolving requirements could have implications for Pakistani exporters, particularly where compliance, traceability and documentation across complex supply chains remain uneven. In this context, the U.S. decision to impose a 10 per cent tariff on imports from Pakistan under Section 301 of the Trade Act of 1974, as announced by the Office of the United States Trade Representative (USTR) on July 23, 2026, has added another layer of uncertainty to the country's external trade outlook. This measure covers Pakistan and 59 other economies accused of failing to impose or effectively enforce restrictions on the import of goods produced through forced labour.¹ The tariff took effect on July 24, replacing the temporary 10 per cent global levy imposed by Washington earlier in the year.

Unlike the emergency-based measures previously used by the U.S. administration, Section 301 provides a more durable legal basis for the tariff. The measure could therefore remain in place for an extended period, be adjusted at Washington's discretion and become part of a broader system

¹ "USTR Takes Action in Forced Labor Section 301 Investigations," USTR, July 23, 2026, <https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/ustr-takes-action-forced-labor-section-301-investigations>

linking market access to labour standards, supply-chain transparency and the sourcing of industrial inputs. These developments are particularly significant for Pakistan given the concentrations of its exports in the U.S. market.

The New U.S. Tariff Framework

The U.S. action followed investigations initiated in March 2026 into the policies of 60 trading partners. Washington concluded that their failure to effectively restrict goods linked to forced labour constituted an unreasonable practice that burdened U.S. commerce. Countries that had enacted forced-labour import prohibitions, introduced partial restrictions or committed to stronger enforcement were placed in the lower 10 per cent tariff category. Economies without comparable measures were generally assigned a 12.5 per cent rate.²

Pakistan was included in the 10 per cent category. This classification acknowledges that Pakistan has taken some legal steps, including amendments to the Import Policy Order, 2022, prohibiting the import of goods produced through forced labour.³ Pakistan is also a party to key International Labour Organization instruments, including the Forced Labour Convention, the Abolition of Forced Labour Convention and the 2014 Protocol to the Forced Labour Convention.⁴

The tariff also reflects a wider transformation in U.S. trade policy. Labour standards, industrial policy, strategic competition and national security are increasingly being merged with conventional tariff instruments. Forced-labour concerns provide the formal justification, but the broader objective appears to encourage the use of U.S. origin inputs and retaining leverage over major trading partners.

Pakistan's Exposure to the U.S. Market

U.S. remains one of the few trading partners with which Pakistan has surplus trade balance. In 2025, Pakistan's annual exports to the U.S. were \$5.41 billion, while the imports from the U.S. were \$3.12 billion giving a surplus trade balance of \$2.29 billion in Pakistan's favour. While the surplus has decreased as compared to 2024 (\$3.01 billion), yet it is still valuable for Pakistan that regularly faces

² "USTR Takes Action in Forced Labor Section 301 Investigations," USTR, July 23, 2026, <https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/ustr-takes-action-forced-labor-section-301-investigations>

³ "SUSPENSION OF IMPORT CONDITIONS CONTAINED IN IMPORT POLICY ORDER 2022 WITH REGARD TO IMPORT OF TIMBER/WOOD," Ministry of Commerce, July 3, 2023, <https://www.commerce.gov.pk/wp-content/uploads/2023/07/Amendment-in-the-Import-Policy-Order-2022.pdf>

⁴ "Pakistan ratifies three International Labour Standards," ILO, March 17, 2025, <https://www.ilo.org/resource/news/pakistan-ratifies-three-international-labour-standards>

foreign-exchange shortages, high external financing requirements and pressure on its current account.⁵

An analysis of Pakistan's export data to the U.S. shows that the concentration of exports is in a limited number of sectors, making this relationship vulnerable. Textiles and apparel dominate Pakistan's sales to the U.S., followed by rice, leather products, surgical instruments, sports goods and other manufactured products. Ready-made garments, knitwear and home textiles remain the most exposed categories.

Likely Implications for Pakistan's Exports to the U.S.

- **Existing Competitiveness Pressures**

The new U.S. tariff will add pressure to an export sector already constrained by structural weaknesses. Pakistani exporters face high electricity and gas prices, expensive financing, an unpredictable tax environment, logistical inefficiencies and limited product diversification. These factors have narrowed margins and weakened competitiveness. The tariff therefore matters not only because it increases the landed cost of Pakistani goods in the U.S. market, but because exporters have limited capacity to absorb an additional cost shock.

- **Cost-Sharing and Pressure on Export Margins**

Although the tariff is formally paid by U.S. importers, its commercial burden is likely to be shared across the supply chain. Large American buyers may seek lower prices from Pakistani suppliers, reduce order volumes or shift sourcing toward producers able to absorb more of the additional cost. Exporters operating on already thin margins will find it difficult to offer further discounts while managing high domestic energy, labour, financing and compliance costs.

- **Relative Position Against Regional Competitors**

The competitive effect, however, is relative. Bangladesh and India have also been placed in the 10 per cent tariff category, meaning Pakistan does not face an immediate disadvantage against its closest regional competitors. China and Vietnam face a higher 12.5 per cent rate, giving Pakistani exporters a modest 2.5 percentage-point advantage.⁶ This could create limited opportunities for

⁵ "Trade in Goods with Pakistan," U.S. Census Bureau, Accessed on August 4, 2026, <https://www.census.gov/foreign-trade/balance/c5350.html>

⁶ "Notice of Actions in Section 301 Investigations of Acts, Policies, and Practices of Various Economies Related to the Failure of Each Economy to Impose and Effectively Enforce a Prohibition on the Importation of Goods Produced with Forced Labor," USTR, July 23, 2026,

trade diversion, particularly in textiles and apparel. However, the advantage should not be overstated. Higher production costs, power disruptions, weaker productivity and unreliable delivery can easily offset a small tariff differential.

- **Uneven Impact Across Exporting Firms**

The impact will also vary across firms. Large, vertically integrated textile exporters with established U.S. buyers, better compliance systems and stronger financial capacity are more likely to retain orders. Smaller exporters, indirect suppliers and firms operating through fragmented production networks will be more exposed. Their limited resources make it harder to meet increasingly demanding documentation and traceability requirements.

- **Traceability as the Emerging Market-Access Challenge**

This is where the tariff issue intersects with a more significant long-term challenge: supply-chain compliance. U.S. authorities are increasingly examining not only where a final product is manufactured, but also the origin of cotton, yarn, chemicals and other inputs. A garment produced in Pakistan could still face detention or exclusion if exporters cannot demonstrate that key inputs comply with forced-labour due diligence requirements.

Pakistan's fragmented production structure makes this particularly difficult. Cotton and textile inputs often pass through multiple growers, traders, ginneries, spinners and processors before reaching exporters, while record-keeping remains uneven. As enforcement becomes more data-driven, weak documentation may become as serious a commercial risk as the tariff itself.

- **Gaps in Pakistan's Compliance Architecture**

Pakistan's compliance architecture is also insufficiently integrated. The Pakistan Single Window, National Compliance Centre, Federal Board of Revenue, provincial labour departments and export-promotion bodies operate within separate mandates. What is missing is a unified traceability and enforcement framework. Pakistan Customs would require stronger legal authority, data systems and technical capacity to identify high-risk imports, trace upstream suppliers and prevent problematic inputs from entering export-oriented production chains.

<https://ustr.gov/sites/default/files/files/Press/Releases/2026/FLIP%20301%20Investigation%20Final%20Action%20FRN%207-23-26%20FINAL.pdf>

- **Wider Employment and Economic Risks**

The broader economic consequences could extend beyond export earnings. Textiles and apparel support employment across spinning, weaving, processing, garments, transport and retail services, with women particularly concentrated in garment and home-based production. A sustained decline in U.S. orders could therefore weaken industrial activity and household incomes in major centres such as Karachi, Faisalabad, Lahore and Sialkot.

Policy Options for Pakistan

- Pakistan should pursue a formal agreement with Washington that recognises domestic legal reforms, sets measurable enforcement benchmarks and provides a pathway towards tariff reduction or product-specific exemptions.
- A national forced-labour compliance and traceability framework should be developed for export-oriented sectors, beginning with textiles, surgical instruments, sports goods and leather products.
- Pakistan should also seek mutual recognition arrangements under which credible domestic audits and certifications are accepted by U.S. authorities.
- At the industrial level, the tariff reinforces the need to reduce energy costs, improve logistics and provide predictable tax and export policies.
- Export diversification towards engineering products, pharmaceuticals, information technology services and processed agricultural goods is equally important, as excessive dependence on textiles leaves the external sector exposed to policy changes in a few markets.

In conclusion the U.S. decision should therefore be viewed as both a trade challenge and a warning. Pakistan may have secured the lower tariff rate, but its access to the American market remains conditional and vulnerable. Legal commitments have prevented harsher treatment, yet weak enforcement and limited traceability continue to carry economic costs. The most effective response lies in combining sustained diplomacy with credible labour protections, transparent supply chains and long-delayed improvements in industrial competitiveness.