



# Impact of Imported Goods on Pakistan's Economy

Muhammad Imran Riaz

## HIGHLIGHTS

Focus on increasing local manufacturing and agricultural output to reduce reliance on imports and strengthen economic self-sufficiency.

Enhance competitiveness and diversify export products to improve the balance of payments and generate foreign exchange.

Invest in renewable energy sources to lower reliance on imported fuels, ensuring energy security and sustainable economic growth.



## Introduction

Pakistan, a developing country, has yet to fully establish a robust industrial base, relying heavily on three primary sectors for its economic activity: agriculture, manufacturing, and services. The country exports a variety of products, including textiles, leather goods, sports equipment, chemicals, and carpets. Despite the gradual improvement in economic output since independence, the rapid population growth has diluted individual wealth, leaving many citizens with lower per capita income than would be expected from national economic gains.

The economy of Pakistan is currently under significant strain due to a combination of low foreign reserves, a depreciating currency, and high inflation. In fiscal year 2022, economic growth exceeded expectations, largely driven by increased public spending. However, this surge has placed immense pressure on domestic prices, external fiscal sectors, exchange rates, and foreign reserves. The key question now is how the growing reliance on imported goods is affecting Pakistan's economy, especially in the context of ongoing economic challenges.

## Pakistan's Major Export Items

Pakistan's export base has shown positive growth in several sectors. During the fiscal year 2022-2023, the following export figures were noted:

1. Sporting Goods: Exported goods in this category saw a 10.94% increase, reaching \$404.797 million.
2. Fresh Mangoes and Fruits: The export value of fresh mangoes and other fruits surged by 7.3%, totaling an impressive \$8.5 billion.
3. Knitwear and Textiles: One of the most significant export categories, the knitwear and textiles sector recorded exports worth \$16.501 billion.
4. Leather Products and Footwear: Exports in this category amounted to \$484.1 million.
5. Rice: Rice exports also played a crucial role, with an export value of \$2.149 billion.

## Pakistan's Major Imported Goods

Pakistan imports a substantial volume of goods, which puts considerable pressure on its economy. The main imported items include:

1. Mineral Fuels and Oils: The largest import category, which includes refined petroleum, petroleum gas, and crude oil, accounts for 27% of Pakistan's total imports.
2. Machinery: This includes computers and various other types of machinery, comprising 8.1% of total imports.
3. Animal and Vegetable Fats, Oils, and Waxes: Essential commodities in Pakistan, these items make up 6% of total imports.
4. Iron and Steel: Important for the construction industry, these materials constitute 5.6% of total imports.
5. Electrical Machinery and Equipment: This category accounts for 5.4% of total imports.
6. Organic Chemicals: Comprising 4.7% of total imports, these chemicals are essential for Pakistan's industrial sector.
7. Plastics and Plastic Articles: Representing 4.2% of total imports, plastics play a key role in various industries.
8. Vehicles: Imported vehicles make up 3.7% of the total imports.
9. Cotton: As a critical raw material for textiles, cotton accounts for 2.9% of imports.
10. Oil Seeds: These make up 1.8% of Pakistan's total imports.

## Rising Import Costs and Their Economic Impact

Over the past few years, Pakistan's import bill has risen significantly. In 2022, imports reached a staggering \$82.28 billion, representing a 31.32% increase compared to the previous year. In 2021, imports were valued at \$62.66 billion, which itself was a substantial 19.74% increase from 2020. These rising import costs, particularly in critical categories like fuel and machinery, place immense pressure on Pakistan's foreign reserves, further exacerbating the already delicate economic situation.

The reliance on imported goods, especially in sectors like energy and machinery, continues to drive up the country's trade deficit. This creates a vicious cycle where Pakistan is forced to spend more foreign currency on imports, putting further strain on the devalued Pakistani Rupee and increasing inflationary pressures.

## Policy Recommendations

To alleviate the economic burden of imports and promote sustainable growth, the following policy measures should be considered:

1. **Regulatory Measures to Curb Imports:** Imposing regulatory duties and import controls can reduce unnecessary imports, especially of non-essential luxury goods.
2. **Boosting Domestic Manufacturing:** The 'Made in Pakistan' initiative, advocated by the Ministry of Commerce, aims to reduce the import bill by encouraging local production. Enhancing local industries can decrease dependency on foreign goods and improve export potential.

3. **Tax Reduction on Raw Material Imports:** Reducing import taxes on essential raw materials will promote domestic manufacturing, reduce reliance on finished imported goods, and boost overall economic growth.
4. **Enhancing Export Competitiveness:** Gradual tariff rationalization can reduce the effective protection rate on imports, encouraging exports and making Pakistani products more competitive in international markets.
5. **Strategic Allocation of Export Funding:** Shifting export financing towards capacity expansion through programs like the Long-Term Financing Facility will enhance Pakistan's export competitiveness.
6. **Reducing Reliance on Imported Fossil Fuels:** In the long run, investing in renewable energy sources like wind and solar can reduce Pakistan's dependence on expensive imported fossil fuels, stabilizing foreign reserves and reducing the trade deficit.

To further strengthen Pakistan's economy, increasing exports is vital. Key strategies to achieve this include:

1. **Enhancing Product Competitiveness:** Improving the quality of Pakistani products and reducing tariffs on imported raw materials will make local products more competitive globally.
2. **Supporting Small and Medium Enterprises (SMEs):** By providing SMEs with access to finance, technology, and market information, Pakistan can unlock their potential to drive export growth.
3. **Efficient Duty Drawback Systems:** Streamlining the process for duty refunds and adjusting rates can help exporters reduce their operational costs.
4. **Promoting Export Services:** Focusing on sectors like IT, tourism, education, and health can diversify Pakistan's export base and reduce dependency on traditional goods exports.
5. **Investing in Agriculture:** As an agricultural country, Pakistan can generate substantial foreign exchange through investment in modern farming techniques and export-focused policies.
6. The **'Made in Pakistan' initiative**, led by the Pakistan Business Council (PBC), is crucial for reviving and strengthening Pakistan's manufacturing sector. It should be further strengthened.

## Conclusion

Pakistan's increasing reliance on imported goods presents a significant challenge to its economic stability and growth. While imports are essential to meet the country's demand for certain goods and services, excessive dependence on foreign products not only drains the nation's foreign reserves but also exacerbates inflationary pressures, weakening the purchasing power of the local population. This imbalance creates a cycle of economic vulnerability, where the country is exposed to external shocks such as fluctuations in global commodity prices and shifts in the exchange rate.

To address these challenges and strengthen its economy, Pakistan must strategically focus on boosting domestic production across key sectors, such as agriculture, manufacturing, and technology. By investing in infrastructure, modernizing industrial processes, and improving productivity, the country can reduce its dependency on imports and increase the supply of domestically produced goods. This, in turn, can help stabilize prices, promote job creation, and enhance self-sufficiency.

Furthermore, promoting exports is crucial for improving the balance of payments and generating foreign exchange. A more robust export sector can reduce the pressure on foreign reserves and stimulate industrial growth. To achieve this, Pakistan should focus on enhancing the competitiveness of its exports by improving quality standards, diversifying products, and targeting new international markets. Additionally, strengthening trade agreements and partnerships with global and regional economic blocs will expand opportunities for Pakistani goods and services.

Another key area of focus is reducing reliance on imported fuels. Pakistan's energy sector, heavily reliant on imported oil and gas, is a significant drain on foreign reserves. To mitigate this, Pakistan must prioritize investments in renewable energy sources such as solar, wind, and hydropower. Expanding the renewable energy sector will not only help reduce import bills but also promote environmental sustainability and energy security.

Implementing these policy measures will require coordinated efforts from the government, private sector, and civil society. Creating an enabling environment for investment, supporting innovation, and fostering public-private partnerships are vital for achieving the necessary economic transformation. With a clear focus on boosting domestic production, enhancing exports, and reducing energy import dependence, Pakistan can achieve sustainable economic growth and build a more resilient economy by 2025. This holistic approach will not only mitigate the current economic pressures but also lay the foundation for long-term prosperity and stability.

### **Author's Profile:**

**Muhammad Imran Riaz**  
M.Phil Student  
Superior University, Lahore

### **Disclaimer**

The CARBS Policy Lab is an initiative of the Chaudhry Abdul Rehman Business School (CARBS), designed to contribute to informed policymaking through the publication of policy papers and working papers. These papers reflect the independent work and perspectives of their authors. While CARBS supports the dissemination of research and analysis, it does not assume responsibility for the accuracy of the facts, or the interpretations presented by the authors.