



TRADE, EXPORTS, AND INTEGRATION:

Pathways to Sustainable Economic Growth

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Trade has long been one of the most powerful engines of economic growth. A review of global economic history reveals a clear pattern: countries that have achieved sustained prosperity have done so by actively engaging with the international trading system. In our own lifetime, economies as diverse as China, Chile, Ireland, and Turkey have advanced rapidly by opening up and integrating with global markets.

At its core, trade is the sum of exports and imports. Yet public discourse often places disproportionate emphasis on exports while viewing imports with suspicion. This reflects the mercantilist mindset that dominated the 17th and 18th centuries and was decisively discredited over 250 years ago by Adam Smith in his seminal work, *The Wealth of Nations*.

In reality, exports and imports are complementary. No country can expand exports without also expanding imports. Imports provide the raw materials, intermediate goods, capital equipment, and technology necessary to produce competitive exports. Rather than being a leakage, they are an investment in productive capacity.

This relationship was rigorously formalized by Abba Lerner in what is often referred to as the Lerner Symmetry Theorem: tariffs on imports act, in effect, as taxes on exports. By raising the cost of imported inputs and appreciating the real exchange rate, protection reduces export competitiveness. Countries that maintain high tariff walls, therefore, implicitly penalize their own exporters.

Countries pursuing trade-led growth typically experience an initial surge in imports. This is both natural and necessary as industries modernize and integrate into global markets. While this phase may widen the trade deficit, such imbalances are often part of a broader process of economic restructuring. Cross-country evidence shows that successful exporters, from East Asia to Eastern Europe, passed through similar phases before achieving sustained export growth.

A comparison of Turkey and Pakistan illustrates this dynamic clearly. Turkey's trade (exports plus imports) now amounts to roughly 60–65 percent of GDP, broadly in line with the global average for middle-income countries. Its exports alone are about 30–35 percent of GDP, reflecting deep

integration into global markets and supply chains. By contrast, Pakistan's trade-to-GDP ratio remains around 25–30 percent, with exports at only 10–12 percent of GDP, one of the lowest among comparable economies. This gap in openness is not merely statistical; it reflects a fundamental difference in economic structure and strategy.

Turkey's transformation was rooted in a decisive policy change. Following a severe crisis in the late 1970s, it undertook comprehensive reforms under Turgut Özal, shifting from import substitution to outward orientation. By aligning its trade regime with the European Union and entering the EU–Turkey Customs Union, Turkey embedded itself in global and regional markets. Today, it is deeply integrated into global value chains, particularly in manufacturing sectors such as automobiles, machinery, and consumer durables.

In contrast, Pakistan remained largely inward-looking over the same period. High and cascading tariffs, combined with regulatory barriers, limited its integration into global markets. Participation in global value chains remains modest, estimated at less than 20 percent of exports, compared to over 40 percent in more integrated emerging economies. The result has been a narrow export base, concentrated in low-value textiles, and a persistent reliance on external financing, including repeated engagement with the International Monetary Fund.

Greater openness also shapes the composition and quality of capital inflows. Economies that are integrated into global trade networks tend to attract export-oriented foreign direct investment, which brings not only capital but also technology and managerial know-how. These inflows support productivity growth and help finance external imbalances sustainably.

A defining feature of modern trade is the rise of global value chains, which now account for a large share of world trade. Production is increasingly fragmented across borders, with countries specializing in specific stages of the production process. Integration into these networks requires low trade barriers, efficient logistics, and predictable policy regimes. High tariffs and cumbersome regulations act as barriers to entry, effectively excluding firms from participating in these networks.

This is where domestic reform becomes critical. While deep trade agreements can facilitate access,

they cannot substitute for unilateral liberalization. Countries that have successfully integrated into the global economy have done so by reducing tariffs, streamlining procedures, and creating an enabling environment for trade and investment.

Encouragingly, Pakistan is now moving in this direction. Its National Tariff Policy 2025–30 represents a significant shift in policy orientation. By reducing tariff dispersion and moving away from cascading protection, the policy aims to lower the anti-export bias embedded in the tariff structure. In effect, it seeks to remove the implicit taxation of exports highlighted by Lerner, thereby improving competitiveness.

Early signals are positive. Large-scale manufacturing has begun to recover, and ICT exports are growing at a robust pace. Lower tariffs are also enabling a transition from a control-based trade regime to one focused on facilitation, reducing transaction costs and improving reliability, both essential for participation in global value chains.

The broader lesson is clear. Countries that have prospered are those that have integrated regionally and globally, embedded themselves in global value chains, and adopted outward-oriented strategies. Those that remained inward-looking, relying on protection and import substitution, have struggled to sustain growth.

Pakistan's new tariff policy marks an important break from the past. By shifting toward export-led growth, reducing reliance on tariff protection, and aligning domestic incentives with global competitiveness, it represents a meaningful step toward integration with the world economy. Sustaining this trajectory will be critical, as long-term success depends not only on the direction of reform but on its consistency over time.

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