

PAKISTAN CUSTOMS TARIFF – WHY IT NEEDS SERIOUS REFORMS



PIDE

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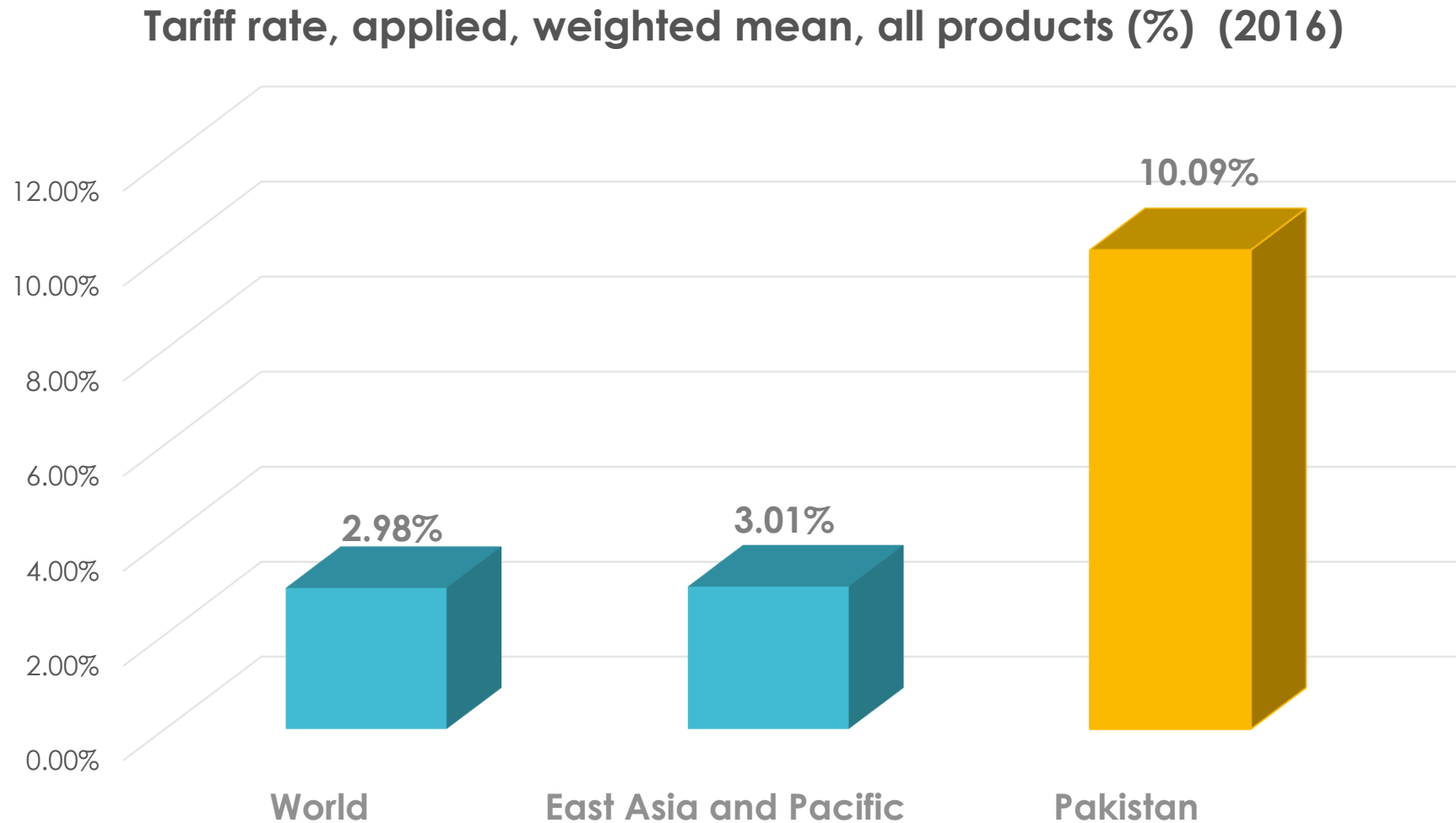
IMPORTANCE OF TARIFF FOR THE ECONOMY

- ✓ Main trade policy instrument
- ✓ Contributes ~18% of total tax revenue
- ✓ Plays an important role for entering into trade agreements and thus global integration of Pakistan's economy

MAJOR ISSUES (AS IDENTIFIED BY WTO)

- 1 Tariff levels high
- 2 Weak productivity growth
- 3 Constitutes an impediment to efficient resource allocation
- 4 Impedes Pakistan's integration into global value chains
- 5 SROs severely undermine the predictability of the trade regime
- 6 Supports a culture of rent-seeking

LOWER TAXES ON INTERNATIONAL TRADE – APPLIED TARIFFS IN PAKISTAN VS OTHERS



CASE STUDIES

Engineering Industries

- Raw materials at much higher rates than finished products
- Result: Pakistan's share of export of industrial goods less than 0.2% against global average of 50%

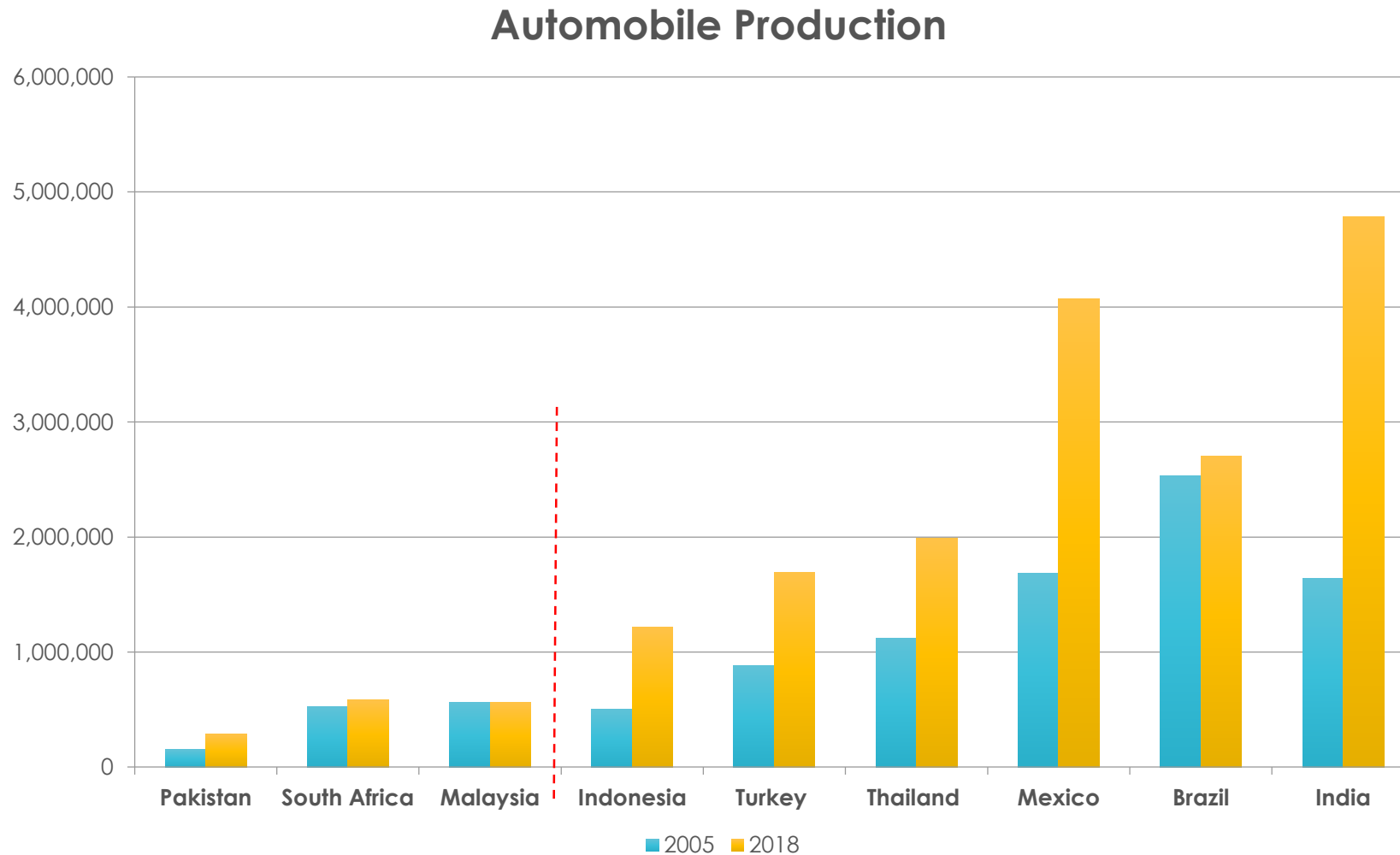
Auto Industry

- Import substitution and high protection policies
- Result: Cars produced in Pakistan are expensive and low quality

Information Technology Products

- Pakistan opting to stay out of Information Technology Agreement for tariff revenue
- Result: Pakistan ranked at 68th amongst 86 countries for internet penetration and losing out on export of ICT goods and services
- Pakistan's exports about US\$1 billion, Philippines \$20 billion, India \$108 billion

MOVING TO EXPORT LED GROWTH INSTEAD OF IMPORT SUBSTITUTION – CASE OF AUTO INDUSTRY



Note: Import substitution policies still in force in Pakistan, South Africa and Malaysia

IF PAKISTAN WAS TO RATIONALIZE ITS TARIFF IT CAN...

- ✓ Become a part of Global Value Chains
- ✓ Diversify into value added products
- ✓ Become more globally integrated
- ✓ Move its focus from import substitution to export-led growth
- ✓ Provide cheaper and quality products to its consumers
- ✓ Considerably raise its industrial output
- ✓ Provide higher employment