

# Breaking the tariff trap

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Muhammad Zeeshan | 02<sup>nd</sup> June 2025

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Picture this: You walk into a Pakistani electronics store in 2027, and for the first time in decades, you don't need to choose between buying overpriced local products or smuggled goods. Quality smartphones, laptops and home appliances are competitively priced, local businesses are thriving through healthy competition, and consumers actually have real choices.

Sound too good to be true? Well, it all hinges on what our policymakers do with import tariffs in the upcoming FY 2026 budget. And folks, this isn't just another boring fiscal policy debate – this is about fundamentally rewiring Pakistan's economic DNA.

Let's be brutally honest about where we stand. Pakistan's import tariff structure is a hot mess – a patchwork of protections, exemptions, and arbitrary rates that would make even a seasoned economist's head spin. We've got tariffs ranging from zero to over 100 per cent, often with no rhyme or reason.

The original idea was noble enough: protect local industries, encourage domestic production, and shield our manufacturers from unfair foreign competition. But somewhere along the way, we created a big problem. Instead of nurturing competitive industries, we've bred complacency. Instead of protecting consumers, we've made them hostages to high prices and limited choices.

Take our auto industry – please! After decades of sky-high tariffs, what do we have to show for it? Cars that cost twice what they should, waiting lists that stretch for months, and technology that's perpetually stuck in the past. Meanwhile, countries like Vietnam and Thailand became automotive hubs by embracing competition, not hiding from it.

Here's where the FY2026 budget comes in. This isn't just another annual fiscal exercise – it's potentially the most important economic policy decision of the decade. Why? Because the global economy is reshuffling, and Pakistan needs to decide: Are we going to be players or spectators?

The smart money says we need a comprehensive tariff rationalisation programme -- not the half-hearted tweaks we've seen before, but a bold, systematic overhaul that actually makes sense. Think fewer tariff bands,

lower average rates, and – brace yourselves – actual competition in protected sectors.

But here's the political reality check: Every tariff cut will face fierce resistance from vested interests. The textile lobby will scream about unfair competition. Auto manufacturers will warn of job losses. The usual suspects will trot out the same tired arguments about protecting local industry.

Now, I'm not suggesting we throw caution to the wind and eliminate all tariffs overnight. That would be economic suicide. But we need a carefully calibrated approach that balances reform with pragmatism.

Picture a five-year roadmap where tariffs are gradually reduced across sectors, giving local industries time to adjust while ensuring consumers start seeing benefits immediately. Start with intermediate goods and raw materials – stuff that makes our manufacturers more competitive. Then gradually open up consumer goods where we're clearly not globally competitive.

Take smartphones, for instance. Our attempts at local assembly have been lukewarm at best. Why not reduce tariffs gradually while incentivising genuine technology transfer and local value addition? Let consumers benefit from lower prices while encouraging real, competitive local production.

Here's the elephant in the room that nobody wants to talk about: We're addicted to tariff revenues. When you're desperate for revenues, those customs duties look mighty attractive. But it's a shortsighted game in the long run.

Lower tariffs can actually boost overall tax revenues through increased economic activity. More imports mean more business, more jobs, and ultimately more income and sales tax. It's not rocket science – it's basic economics. Countries like Chile and Vietnam figured this out decades ago.

The FY2026 budget needs to bite this bullet. Yes, tariff revenues will initially decline. But the increased economic dynamism will more than make up for it – if we have the political courage to see it through.

Here's what really gets me excited about meaningful tariff reform: the competition dividend. When local businesses actually have to compete, magic happens. They innovate, improve quality, reduce costs, and become genuinely competitive.

Look at our IT sector – one of the few industries that grew up in a competitive global environment. Result? Pakistani software developers are competing globally, winning contracts, and building world-class companies. That's what happens when you don't wrap industries in cotton wool.

We've been systematically ripping off our own consumers for decades through high tariffs. A middle-class family in Lahore pays more for basic appliances than their counterparts in Bangkok or Mumbai. That's not protecting local industry – that's daylight robbery.

Tariff reform in FY2026 could trigger a consumer revolution. Lower prices, better quality, more choices – imagine that. And before you ask about local jobs, remember that cheaper inputs and more competitive markets often create more employment than they destroy.

So here's the million-rupee question: Does Pakistan have the political will to break free from the tariff trap in FY2026? Can we finally graduate from an economy built on protection to one built on competition?

The stakes couldn't be higher. Get it right -- and we could unleash a wave of economic dynamism that transforms Pakistan into a competitive, consumer-friendly economy. Get it wrong -- and we'll keep stumbling along with our current dysfunctional system.

The choice is ours. The budget is coming. The question is: Are we ready to choose courage over complacency?

Time will tell. But one way or another, FY2026 will be remembered as the year Pakistan either broke free from its tariff chains or decided to keep wearing them. Which Pakistan do you want to live in?

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