DAWN

Weak tariff policies

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Pakistan's tariff policy suffers from a persistent anti-export bias. High and inconsistent tariffs on imported inputs raise production costs, distort incentives, and make exporting less attractive than selling into a protected domestic market.

The result: inefficiency, stagnating exports, and lost consumer welfare.

Complex tariff structures, regulatory duties, and selective exemptions further reinforce rent-seeking and misallocation of resources. With protectionism costing the economy an estimated Rs1.77 trillion annually, meaningful tariff reform is urgent. Rationalising the structure — lowering input tariffs, simplifying slabs, and phasing out arbitrary duties — is essential to unleash Pakistan's export potential and shift to a competitive, outward-orientated economy.

Pakistan's tariff system has long suffered from an "anti-export bias". High import tariffs, levied mainly for revenue or to shelter domestic industries, make imported inputs artificially expensive and domestic prices artificially high. This raises costs for exporters and reduces incentives for export, while increasing incentives for import substitution.

In effect, domestic producers can sell into a protected home market rather than compete abroad. But in doing so, it penalises exporters and consumers alike, distorts resource allocation, and impedes Pakistan's integration into global markets.

High tariffs raise the cost of imported inputs — especially raw materials and intermediate goods — used by domestic manufacturers. These cost increases ripple through supply chains, eroding the competitiveness of export-orientated firms. As the World Bank has noted, such policies "reduce incentives for export while increasing incentives for import substitution". In effect, it becomes more profitable to sell to a protected domestic market than to compete in international markets.

The country's high and complex tariff structure erodes the competitiveness of export-orientated firms

Pakistan's tariff structure is not just high — it is also extremely complex. The tariff schedule comprises multiple duty slabs, a shifting array of regulatory duties (RDs) and additional customs duties (ADCs), and a patchwork of industry-specific exemptions issued through Statutory Regulatory Orders. As a result, identical inputs often face widely different tariffs depending on the end use or the sector importing them. These anomalies introduce discrimination, discourage efficient allocation of inputs, and undermine the neutrality of the tax system. Worse, they foster rent-seeking behaviour and policy unpredictability.

The bias in favour of domestic producers comes at a significant cost to the economy. Sheltered industries face limited pressure to become efficient or upgrade technologically. Without the discipline of export markets, firms become complacent and less innovative. Protected firms often enjoy artificially high prices at home without needing to improve quality or productivity. The result is an industrial base stuck in low-productivity enclaves, unable to compete abroad.

This misalignment of incentives also harms consumers. When domestic production is protected from competition, prices remain high and choice remains limited. Tariffs act as indirect taxes on consumers, reducing purchasing power and disproportionately affecting low- and middleincome households. As a recent Pakistan Institute of Development Economics study noted, the cost of protectionism in Pakistan in 2022 was estimated at Rs1.77tr — equivalent to 0.6 per cent of GDP — of which Rs412 billion came from non-tariff barriers alone. These are significant welfare losses in a country facing persistent inflation and stagnant incomes.

There is also a governance cost. When tariffs are high and inconsistent, they create incentives for smuggling, mis-invoicing, and under-invoicing. This not only erodes the tax base but also undermines the credibility of trade policy. Border enforcement becomes harder and regulatory discretion increases — opening the door to corruption and inefficiency.

Perhaps most damaging of all, the current tariff structure discourages export diversification. Pakistan's export basket remains narrow, dominated by low value-added textiles. Sectors with the potential to scale up — engineering, chemicals, agro-processing, and information technology hardware — struggle to take off because their inputs are taxed heavily, while incumbents in protected sectors face no incentive to upgrade or reorient toward exports. Firms that do want to export are hamstrung by high costs, slow rebate mechanisms, and a cumbersome duty suspension regime. According to the World Bank, fewer than 2pc of Pakistani firms in the textile and apparel sector use the duty and tax remission scheme — compared to over 90pc in Bangladesh.

Despite repeated devaluation of the rupee and export-promotion rhetoric, Pakistan's export-to-GDP ratio remains stubbornly low. Between 2014 and 2023, exports stagnated around $25–28bn, even as global trade and regional competitors expanded rapidly. Basically, we are exporting less, taxing consumption more, and depending increasingly on external bailouts to sustain the balance of payments.

The urgent need is to reduce tariffs on raw materials and intermediate inputs, eliminating arbitrary exemptions, phasing out RDs and ADCs, and simplifying the schedule into a few transparent slabs. Revenue needs can be met through broader tax reform, not through penalising trade.

Trade policy should be neutral and predictable encouraging firms to become competitive, not rent-seeking. Without a shift in mindset, Pakistan’s ambitions for export-led growth will remain hostage to a system designed to shelter the inefficient, at the cost of consumers, taxpayers, and future growth.

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