



PROTECTION WITHOUT COMPETITION:

Rethinking Industrial Strategy in Pakistan

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Pakistan has spent decades trying to build industry through tariffs, subsidies, selective incentives, and periodic policy packages. Yet despite phases of respectable economic growth, its industrial base remains narrow, exports underperform, productivity growth is weak, and competitiveness remains elusive. The puzzle is not that Pakistan lacked industrial ambition. It is that it attempted to build industry without sufficient competition.

This distinction is central to understanding Pakistan's economic trajectory. For years, industrial policy has often been framed as a choice between

protection and openness, between shielding domestic firms and exposing them to global markets. In reality, the more important question is whether protection creates capability—or merely preserves inefficiency. Protection can support industrial development when it is temporary, disciplined, and linked to performance. But when protection becomes permanent insulation, it weakens incentives to innovate, reduce costs, improve quality, or compete internationally.

Pakistan's broader growth experience reflects this contradiction. The economy has averaged moderate

growth over long periods, but much of that expansion has been consumption-led rather than productivity-led. Domestic demand, often supported by remittances, credit cycles, and episodic macroeconomic stimulus, has created the appearance of momentum without generating deep structural transformation. Imports rise quickly during expansions, while exports remain sluggish. The result has been repeated balance-of-payments crises, stop-go cycles, and an industrial structure that survives but does not evolve.

At the firm level, the consequences are visible. In competitive economies, firms are pushed to scale, adopt technology, improve management practices, and search for export markets. In Pakistan, many firms rationally behave differently. Where profitability depends more on tariff protection, regulatory discretion, or limited market rivalry, the incentive to invest in productivity weakens. Effort shifts from competing in markets to securing advantages within the system, particularly from the Government.

This helps explain why Pakistan's productivity record has remained disappointing. Total Factor Productivity—the measure of how efficiently labour and capital are combined—has been volatile and largely stagnant over time. That stagnation is not simply a technical statistic. It is the economic signature of a system where innovation is sporadic, technological upgradation is slow, and inefficient resource allocation persists.

Several sectors illustrate the pattern. Industries such as automobiles, sugar, fertilizer, cement, and steel have often operated within varying degrees of protection or concentrated market structures. While each sector has its own complexities, the broader outcome is familiar: higher domestic prices, uneven quality improvements, limited export competitiveness, and periodic demands for further Government support. Consumers pay more, downstream industries face higher input costs, and the economy gains less than it should from industrial policy.

The automobile sector offers a particularly clear example. After decades of policy support, domestic assembly exists, yet prices remain high relative to incomes, localization remains incomplete in many segments, and exports are negligible. Protection helped create an industry, but not necessarily a globally competitive one. Similarly, recurrent sugar, cement and automobiles shortages and policy reversals highlight how state support without

market discipline can create instability rather than resilience.

This is not merely an economic issue; it is also a political economy problem. Once protection generates rents, beneficiaries gain incentives to preserve it. Over time, temporary support can become structurally embedded. Policy then shifts from promoting productivity to managing claims for privilege. Regulatory discretion expands, transparency weakens, and reform becomes harder because the status quo develops organized defenders.

The international record offers a different lesson. Successful industrializers did not simply protect firms—they disciplined them. South Korea tied state support to export performance. Vietnam accelerated industrial upgrading through openness, foreign investment, and integration into global value chains. Turkey pursued rules-based reforms and external competitiveness. Across these diverse experiences, the common principle was instilling a sense of competition with purpose.

The global context has now become even more demanding. According to the McKinsey Global Institute, growth is increasingly concentrated in a new generation of high-value arenas—including semiconductors, AI software, batteries, robotics, cybersecurity, advanced biotech, and next-generation mobility. These sectors added trillions of dollars in market value within a few years, while firms headquartered in the United States and China account for the overwhelming share of value creation. Industrial competition today is no longer factory versus factory. It is ecosystem versus ecosystem—where scale, talent, technology, capital, and execution speed reinforce each other.

This should serve as a warning for Pakistan. While the world competes in future industries, Pakistan remains preoccupied with protecting legacy sectors through tariff walls and discretionary incentives. An industrial strategy anchored solely in defending yesterday's markets cannot secure tomorrow's prosperity.

Pakistan's challenge, therefore, is not to tweak industrial policy but to redesign it. The country still needs strategic support in areas such as technology adoption, export diversification, SME upgrading, skills development, logistics, and innovation. But support must reward performance rather than survival.

A modern industrial strategy for Pakistan should rest on five principles.

First, protection should be time-bound and transparent. Tariffs and incentives should contain sunset clauses rather than becoming permanent entitlements.

Second, support should be conditional on measurable outcomes—exports, productivity gains, technology transfer, localization targets, or quality employment generation.

Third, domestic competition must be strengthened. The Competition Commission of Pakistan should be empowered to address collusion, abuse of dominance, and barriers to entry. Dynamic economies need contestable markets.

Fourth, trade policy should be simplified and made predictable. Complex tariff structures create distortions, rent-seeking, and anti-export bias. Firms invest when rules are clear and sufficiently durable.

Fifth, industrial policy must be explicitly export-oriented. Pakistan's domestic market matters, but it is not large enough to sustain high-productivity industrialization on its own. Global markets provide scale, discipline, and learning opportunities that inward-looking strategies cannot replicate.

This transition will not be effortless. Some firms accustomed to protection will resist change. Certain sectors may require phased adjustment. Government capacity to monitor performance must improve. Yet the cost of inaction is far greater: continued low productivity, shallow industrialization, expensive imports, weak exports, and recurring external crises.

Pakistan does not suffer from a shortage of entrepreneurs, workers, or ideas. It suffers from a shortage of incentives that consistently reward efficiency, innovation, and scale. Where the system rewards access more than performance, rational firms adapt accordingly.

The real lesson of Pakistan's industrial history is not that protection never works. It is that protection without competition does not.

If Pakistan wants an industrial sector that competes globally, creates quality jobs, and sustains growth, it must move beyond the old debate of protection versus openness. The real choice is between policies that preserve firms as they are—and policies that push them to become what they could be.

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