

COSTONOMICS

Cost of a Non-Competitive Economy

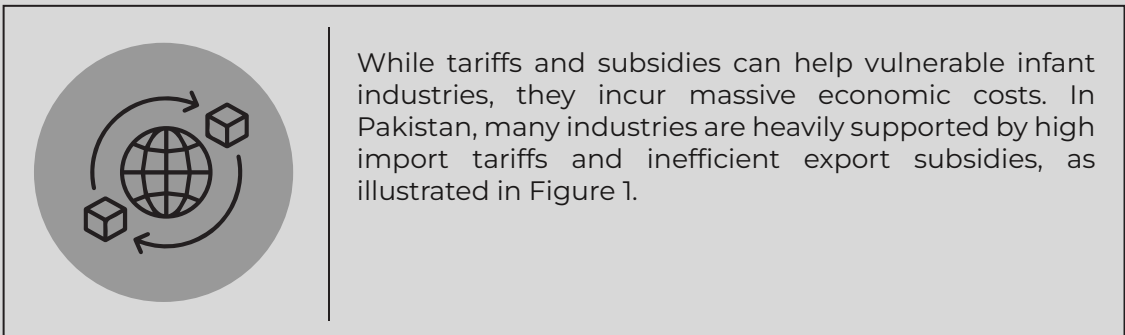
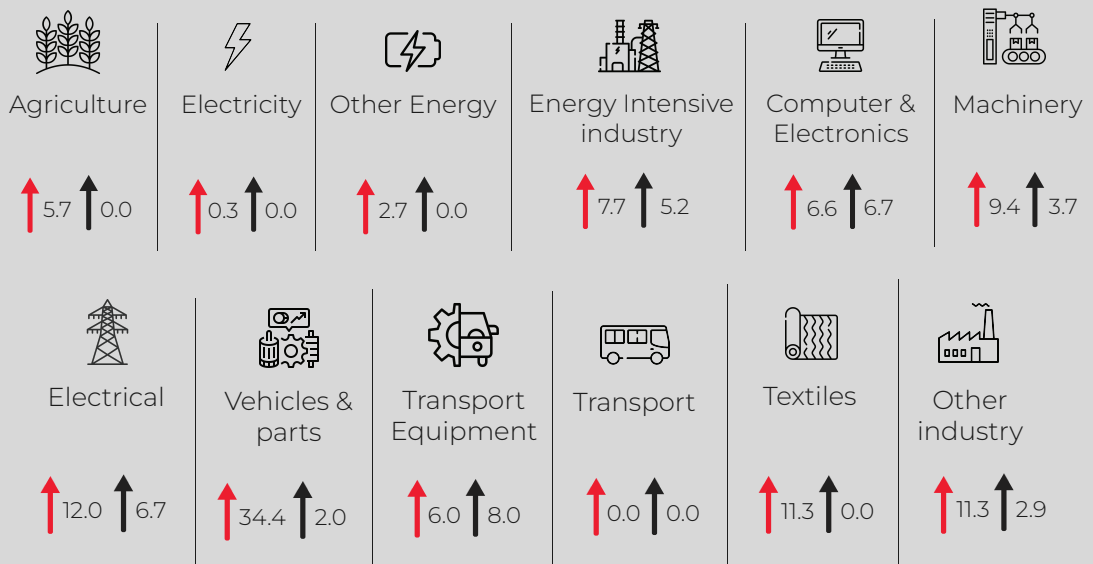


Figure 1: Import Tariffs and Export Subsidies in Pakistan (%)

↑ Import Tariffs ↑ Export Subsidy



Author's calculations



Import Tariffs

Import tariffs distort domestic industries more than export subsidies.

Broader analysis of trade industries in Pakistan shows that high import tariffs most negatively affect



Vehicles & Parts
PKR 240 billion



Energy Intensive Industry
PKR 230 billion

Despite zero import tariffs in other service sectors, these sectors face high costs due to the use of imported raw materials encumbered by high import tariffs.

Export Subsidies

Export subsidies heavily distort the textiles and agriculture sectors, reducing their competitiveness.

Non-competitive market structures prevent competitive firms from thriving, costing over

PKR 219 billion

Subsidies harm both exporting and domestic industries



Cost of Non-Competitive Economy

Pakistan: Approx. **PKR 1.67 trillion**¹ annual cost

Exporting industries pay most of the overall cost compared to domestic industries.

Cost of non-competitive economy (in PKR Billion) ²

		Import Tariffs	Export Subsidy
	Domestic Industry	365	155
	Domestic Industry	731	406

Author's calculations



Turbocharging Growth: The Economic Gains of Policy Reform

Removing distortions from import tariffs and export subsidies will boost productivity, increasing domestic production by **2.4%**, exports by **4.9% per annum**, and tax revenues by **PKR 278 billion** in the long run.

Annual growth of domestic industry and exports in Pakistan (%)

Removing distortions	 Domestic industry	 Exports
	2.4	4.9

Author's calculations

Recommendations

A smooth transition is essential to minimize disruption, maintain competitiveness, and support growth.

Phased Reduction Plan



Comprehensive Reform

Streamline non-tariff barriers and bureaucratic processes to enhance trade and strengthen institutions.

1. All figures which were initially calculated in US dollars were converted to Pakistani Rupees (PKR) using exchange rate PKR 277.61 = 1 USD. **The total annual cost in US dollars was 6 billion.**

2. Results of 2 simulation scenarios to quantify through the CGE framework, the cost of non-competitive economic activities like export subsidies and import tariffs via utilizing a social accounting matrix incorporating the latest Pakistan input-output table (Zeshan, 2022), aggregated to 15 sectors for simplicity.