Strategic Tariff Reform for Export-Led Growth in Pakistan

The Consortium for Development Policy Research (CDPR), in collaboration with the International Growth Centre (IGC) and the World Bank, hosted an online workshop on the 22nd of May 2025 on Export-led Growth and the Role of Tariff Reforms in Pakistan, to convene key private sector stakeholders and gather their insights and first reaction on the new tariff reforms and its implications on various economic sectors.

Background

Pakistan's high and complex tariff structure has distorted industrial incentives, hindered global competitiveness, and reinforced import substitution/protectionist policies. A recently proposed set of reforms aims to reduce average customs tariffs from 19% to 9.5% within the next five years. However, tariff reduction alone will not unlock Pakistan's export potential. Such reforms must be supported by a broader enabling environment including predictable policies, a simplified tax regime, improved ease of doing business, and investments in trade infrastructure and skills. Moreover, such reforms will translate into growth in exports only if sequenced properly and embedded within a supportive policy framework that lowers the overall cost of doing business, encourages innovation, and incentivizes exporters across sectors.

What are the proposed reforms?

The government's proposed tariff reform package includes the following key measures:

- Reduction of average applied tariffs from 10.6% to 7.2% over five years.
- Consolidation of tariff slabs to simplify the structure and improve transparency.
- Phasing out of cascading tariffs that disproportionately tax imported inputs.
- Alignment with WTO commitments, ensuring that all duties and charges are compliant.
- Prioritization of tariff cuts on inputs used by export-oriented industries to enhance competitiveness.
- Transition from protectionist tariffs to a strategic, export-supportive tariff regime under a rules-based system.
- Encourage green economic growth within Pakistan and promote innovation via global networking, technology transfer, and knowledge-sharing.

What do exporters say?

The discussions revealed a broad consensus that while tariff reform is essential for export-led growth, it cannot succeed in isolation. Multiple stakeholder groups, from industry representatives to trade experts, flagged certain concerns across the following areas:

1. **Lack of policy coherence and predictability:** Stakeholders highlighted that frequent reversals, inconsistent application, and poor coordination across ministries have undermined private sector confidence. Many firms hesitate to invest in capacity expansion or product diversification because tariff and industrial policies shift without warning or consultation.

2. **Cascading tariffs and supply chain bottlenecks**: In Pakistan's current tariff structure, a cascading pattern of tariff escalation persists whereby raw materials face lower duties, intermediate goods are taxed at higher rates, and finished products attract the highest tariffs. This structure was originally designed to protect domestic manufacturers of final goods, but it now hampers export-oriented industries. In sectors such as garments and pharmaceuticals, essential inputs like man-made fibres, dyes, and chemicals are subject to higher import duties than the raw materials, increasing production costs. As a result, local firms are discouraged from adding value domestically and integrating into global value/supply chains, weakening their international competitiveness.

3. **Fragmented and inefficient institutional setup:** Multiple participants, including industry associations and SMEs, pointed to the fragmentation of policy responsibilities across over 20 chambers, departments, and provincial authorities. This institutional clutter not only creates red tape (which can lead to lengthy company registration procedures) but also blocks coherent action on export strategy. Exporters demand a unified export platform, better data systems, and streamlined approval mechanisms.

4. **Political economy constraints and rent-seeking:** Concerns were raised over the politicization of tariff decisions, with vested interests manipulating protectionist measures to shield inefficient industries. This has led to perverse incentives where firms prioritize lobbying over innovation. Moreover, sectors such as fisheries and aquaculture reported that effective tax rates (regulatory, sales, and income combined) can exceed 60% of what they earn, hindering potential growth. The need for transparent and structured policy design was strongly emphasized.

5. **Mismatch with global trade dynamics:** There was disagreement over whether Pakistan should pursue liberalization amid rising global protectionism (such as US-China trade war). However, trade experts argued that many successful exporters (such as Turkey, Vietnam) reformed tariffs despite global headwinds. Participants agreed that Pakistan's failure to integrate into global value chains is not because of the global environment alone, but due to internal competitiveness and compliance failures such as poor product standards, insufficient quality control, documentation, and supply chain integration.

6. **SME constraints and export readiness:** Several speakers noted that SMEs lack the support systems needed to engage in exports from affordable finance and R&D to logistics and compliance. Despite comprising a large share of industrial employment, SMEs face disproportionate barriers, and the absence of a structured incentive system has worsened their exclusion and restricted growth. Exporters emphasized that targeted tariff relief and incentive programs must be tailored to SME capabilities and sectoral potential.

7. **Weak industrial base and import dependence:** Stakeholders cautioned that liberalizing tariffs in the absence of a coherent industrial policy could deepen reliance on imports without strengthening domestic production. For example, Pakistan's garment sector depends on synthetic inputs that are not produced locally at competitive prices. In such

cases, tariff reductions should be paired with measures to stimulate investment in upstream industries, workforce skills, and technology adoption.

8. **Employment and informality challenges:** High tariffs have fostered a small, inward-looking domestic market that generates high margins but generates few jobs. In contrast, export-led sectors compete on volume, scale up faster, and create more formal employment. Tariff reform is therefore not just about trade - it is also a jobs strategy. But its success depends on complementary efforts to reduce informality and integrate more workers into the formal, export-oriented economy.

What needs to happen next? key action points

To address the above concerns, stakeholders identified the following reform priorities:

- **Adopt a sequenced, sector-specific tariff strategy**
    - Prioritize reducing tariffs on raw materials and intermediate goods in export-oriented sectors (such as garments, light engineering, electronics, pharmaceuticals).
    - Maintain or adjust tariffs for non-exporting sectors (such as steel) to prevent fiscal shocks and preserve domestic industry stability.
- **Eliminate cascading tariffs**
    - Address the cascading effect, where high input tariffs make final products non-competitive globally.
    - Move toward a simplified, transparent tariff regime with fewer slabs.
- **Supportive policy environment**
    - Ensure that taxation, energy pricing, and regulatory frameworks align with export objectives.
    - Lower the cost of doing business through reforms in logistics, customs clearance, and industrial land access.
- **Build robust and connected supply chains**
    - Reduce tariffs on synthetic fibres, chemicals, dyes, and technical materials to enable product diversification in textiles and beyond.
    - Encourage vertical integration and local input sourcing to reduce production delays and import dependence.
- **Support SMEs and high-potential exporters**
    - Provide targeted incentives and financing for SMEs to integrate into export value chains, especially in garments, light engineering, and fisheries.
    - Address the lack of data and fragmented institutional structures by creating a unified export platform.
- **Strengthen institutional coordination**
    - Foster coordination between ministries, provincial governments, and chambers of commerce to ensure policy coherence.
    - Engage stakeholders early in the design and rollout of reforms.
- **Mitigate political economy risks**
    - Phase reforms to reduce rent-seeking behaviour and policy capture.

- Ensure reforms are evidence-based and accompanied by exit strategies for failing interventions.

- **Improve regulatory and digital infrastructure:**
    - Invest in digital product passports, electronic trade portals, and real-time HS-code data.
    - Streamline customs processes and remove discretionary approvals.

A proposed action plan

Trade reforms should be gradual and accompanied by complementary policies such as horizontal industrial policies, as well as fiscal and monetary policy, to create a level playing field for all exporters. Some immediate/tangible steps are listed/suggested below.

Level of priority	Recommendation	Key policy stakeholders
Immediate	Finalize HS-code-level analysis to guide sector-specific tariff cuts	Finance & Commerce Ministries, Tariff policy board
	Eliminate tariffs on raw materials and inputs for key export sectors	FBR, MoC
	Remove tariffs on green technologies (solar, EV parts, recycling tech etc)	FBR, Ministry of Climate Change
	Publicly disclose all proposed tariff changes with justification to improve transparency	FBR, Planning Commission
	Launch stakeholder consultations to co-design reform sequencing	MoC, CDPR, IGC, Chambers of Commerce
	Expand duty drawback and bonded warehousing schemes to allow for stockists and warehouses	FBR, Ministry of Commerce
	Rationalize, review and develop a qualification criterion for exporters, their connected supply chain partners, and SMEs	MOC, TDAP, SMEDA,
	Create a fund at private banks to seed per-shipment finance for SMEs against valid purchase orders and allow for back-to-back L/Cs against master L/Cs without asking for collateral	SBP, MoF
	Ask insurance companies to offer a product for credit risk insurance for exporters	SECP, MoC
Short-term	Create unified SME export facilitation platform	SMEDA, TDAP, Provincial Governments
	Develop one-window digital portal for exporters, with customs, certification, and approvals integration	MoC, Pakistan Single Window (PSW), BOI

	Introduce negative list of zero-rated inputs across priority sectors	FBR
	Design pilot interventions based on leading economics research to inform the broader policy	Research community (IGC, CDPR etc), SMEDA
Medium-term	Launch a national industrial policy/competitiveness strategy aligned with the tariff reform policy	MoI&P, BOI
	Rationalize tariff structure to eliminate cascading and simplify slabs across sectors	FBR, Tariff Policy Board
	Develop fully serviced industrial clusters for priority sectors	BOI, SEZ Authority, Industries Departments
	Remove tariff and non-tariff barriers for digital and services exports	MoITT, SBP, SECP
	Support development of backward linkages (such as synthetic fibre plants, pharma APIs)	MoI&P, Engineering Development Board (EDB), BOI
Long-term	Institutionalize tariff review mechanisms tied to competitiveness metrics	Planning Commission, Private sector, Business councils/associations
	Invest in export logistics, testing labs, and trade infrastructure	MoC, Development Authorities, Private Sector
	Negotiate and implement market-access focused regional and bilateral trade agreements	MoC, Ministry of Foreign Affairs, TDAP
	Create a permanent program to promote workforce skills and digital readiness	NAVTTC, Ministry of Education, MoITT
	Integrate environmental and carbon standards into export incentive and certification schemes	Ministry of Climate Change, PSQCA
	Embed sunset clauses and review timelines for all remaining protectionist tariffs	FBR, Tariff Policy Board

Conclusion

Across the board, exporters and industry stakeholders expressed strong support for an export-led growth strategy and acknowledged the need for tariff reforms to improve competitiveness. However, they also emphasised on the need for broader structural and institutional reforms. Exporters called for a conducive business environment that reduces the cost of doing business, ensures policy stability, and tackles systemic inefficiencies. They stressed the need for complementary measures such as streamlined regulations, affordable financing, improved logistics, simplified taxation, and targeted investment in industrial infrastructure and skills development. The message was clear that while tariff rationalization is welcomed, it should be embedded in a coherent policy ecosystem that enables firms to innovate, scale, and compete globally.

Tariff reform is a critical first step toward unlocking Pakistan’s export potential, but its success hinges on policy coherence, sequencing, and institutional capacity. A rules-based, transparent, and sector-sensitive approach backed by reforms in taxation, logistics, skills development, and industrial policy can help position Pakistan in global value chains, create formal jobs, and sustain growth.