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Research Paper

# Tariff Rationalisation in Pakistan

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## Executive Summary

Tariff rationalisation is crucial for Pakistan's economic transformation, promoting export competitiveness, industrial efficiency, and trade integration. Pakistan's overdependence on high tariffs as a source of revenue has resulted in an anti-export bias, increasing the cost of production, deterring foreign investment, and constraining participation in global value chains. The existing tariff structure is complex, with embedded costs like Regulatory Duties (RDs) and Additional Customs Duties (ACDs), which distort the market and promote smuggling.

Empirical evidence indicates that tariff rationalisation can strongly enhance export-oriented sectors, induce investment, and support economic diversification. Pakistan's untapped export potential of $24 billion, especially in textiles, agriculture, and high-value sectors, could be tapped through reducing tariffs on raw materials, simplifying tariff regimes, and switching to direct taxation.

The main policy suggestions are cutting tariffs on raw materials, removing hidden tariffs, enhancing institutional capacity, making trade agreements more robust, and promoting export-oriented industrialisation. Tariff rationalisation is not just a budgetary measure but a strategic imperative for raising industrial productivity, lowering trade distortions, and unleashing sustainable economic growth. By bringing its tariff policies with global best practices, Pakistan can increase its international trade competitiveness and achieve long-term economic resilience.

## Introduction

Tariff Rationalisation is one of the major policy interventions that can help reshape the trade and industrial landscape in Pakistan toward a more competitive and export-oriented economy. Tariff rationalisation is expected to increase export competitiveness, discourage smuggling, offer targeted protection, and reduce dependence on tariffs as a significant source of revenue[1].

In Pakistan, tariffs have historically served as a significant source of revenue, often at the expense of export competitiveness and industrial efficiency. This reliance on protectionist policies has created an anti-export bias, discouraged participation in global value chains, and constrained economic diversification[2]. While geographical location and access to key regional markets have been conducive, a complex and high tariff regime has been a burden towards Pakistan exploiting its trade potential. For instance, International Trade Centre, 2023[3] estimates that the export potential of Pakistan in regional trade alone stands at US$ 24 billion; poor tariff policies and associated inefficiencies have kept the country back from attaining this. The tariff Rationalisation will be very instrumental in addressing these structural issues, which in turn will help reduce market distortions and smuggling and move toward a more export-oriented and competitive economy[4]. Drawing from the relevant economic theories and global best practices, the existing challenges in the tariff structure of Pakistan should be addressed and a comprehensive reform strategy aligned with Pakistan's aspirations for economic integration and sustainable growth.

Several studies have indicated the adverse effect of the present tariff regime in Pakistan. For instance, the IMF's 2023 position shows that Pakistan ranks 90th globally in terms of trade restrictions. High tariffs and non-tariff barriers are discouraging foreign investment and impeding competitiveness in exports. The high-growth potential sectors in textiles and agri-products, forming the backbone of the economy, have faced these barriers most disproportionately. The Federal Board of Revenue, 2023, through research, has been able to show that this complicated tariff structure has created ample opportunities for smuggling and informal trade, reduced government revenues, and distorted market incentives[5].

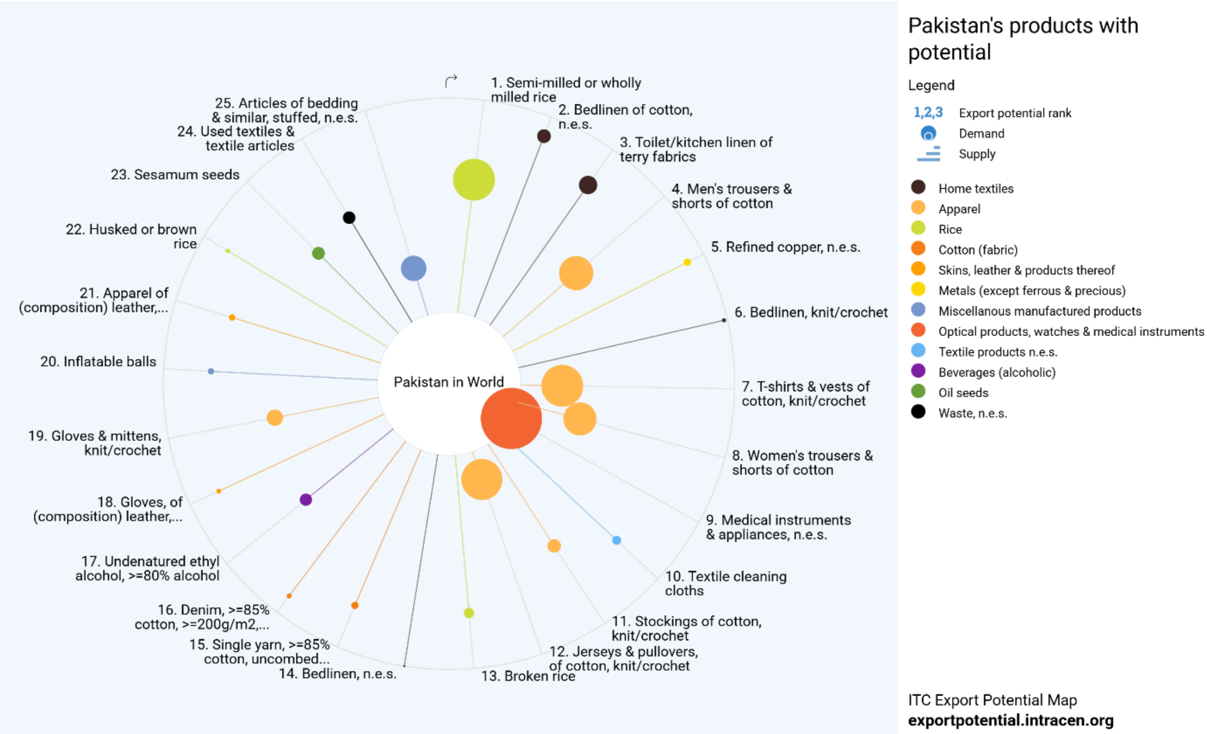
[1] Pakistan Institute of Development Economics (PIDE). (2022). "Tariff Rationalisation and Export Competitivenes
[2]International Monetary Fund. (2023). Pakistan: Staff Report for the 2023 Article IV Consultation. IMF.
[3] ITC Export Potential Map. (2023). Pakistan's Export Opportunities. International Trade Centre.
[4]Pakistan Business Council (PBC). (2023). "Addressing Smuggling through Tariff Reform in Pakistan
[5]Federal Board of Revenue (FBR). (2023). Trade and Tariff Dynamics in Pakistan. Government of Pakistan.

The problem is further compounded by the fact that anti-export bias is inlaid in the country's tariff policy. Evidence from ITC Export Potential Map 2023[6] indicates that Pakistan's exports remain concentrated in lowly value items such as raw cotton and rice, which are susceptible to price volatility in global markets. This trend is further aggravated by tariff structures that favour import substitution over export promotion and discourage the building up of high-value, export-oriented industries. For export growth to be achieved sustainably, there is a need for economic complexity and diversification, which Pakistan has stagnated in due to protectionist policies[7].

## Pakistan’s Export Potential

Pakistan can earn $24 billion through regional exports, but it faces serious challenges that hinder further progress. Among these are high tariffs and trade restrictions; dependence on low-value exports, such as raw rice and textiles, reduces the country's global competitiveness. Besides, political tension and poor infrastructure further discourage trade opportunities, and security concerns/smuggling disrupt transit trade with the landlocked neighbours. Despite an already acknowledged innovation ecosystem, high-value exports from Pakistan are non-existent, and the country has also failed to capitalise on various trade agreements such as the China-Pakistan Free Trade Agreement. Simplification of tariffs, enhancement in logistics, and regional cooperation might resolve these issues, which can lead to unleashing Pakistan's trade potential for sustainable economic growth.[8].

[6]ITC Export Potential Map. (2023). Pakistan’s Export Opportunities. International Trade Centre.
[7]Harvard Growth Lab. (2023). Economic Complexity Rankings and Pakistan’s Export Diversification Challenges. Harvard University.
[8] Nida Gulzar. Pakistan can earn at least $24 billion from just regional exports. Why has it been unable to do that?. Nukta.com. January 2025
https://nukta.com/pakistan-can-earn-at-least-24-billion-from-just-regional-exports-why-has-it-been-unable-to-do-that




**Source: ITC, Export Potential Map**[9]

The above diagram points to export opportunities in various product categories where Pakistan can enhance its global trade competitiveness. It identifies 25 priority products: textiles, bed linen, cotton fabrics, denim, agriculture produce-semi-milled rice and husked rice-and even niche high-value products such as medical instruments and refined copper. Colour coding depicts various industries in bubbles, the size of which indicates relative export potential, using demand, supply, and ranking in global trade. The diagram illustrates the strengths that Pakistan has in textiles and agriculture while showcasing opportunities for diversification into advanced industries like optical goods and medical instruments. By addressing gaps in supply, quality, and trade barriers, Pakistan can capitalise on its existing strengths and increase its export revenue in both regional and global markets.

Empirical research has invariably shown that tariff Rationalisation in Pakistan has been beneficial to export growth and economic development. For example, one study using a computable general equilibrium model analysed the impact of different tariff levels on major export industries such as textiles, leather, metals, and manufacturing. The results indicated that higher tariffs resulted in the contraction of major export industries, negatively impacting market prices and industrial production. On the other hand, cutting tariffs improved export

[9] ITC. Export Potential Map, 2024. Available at: https://exportpotential.intracen.org/en/products/analyze?fromMarker=i&exporter=586&toMarker=w&market=w&whatMarker=k

competitiveness, albeit with varying effects across industries. The research advised cutting tariffs, especially on raw materials and intermediate products essential for export-oriented industries, to minimise production costs and enhance global market competitiveness[10].

Additional evidence reveals that increased effective protection levels in Pakistan are adverse to economic performance. Empirical studies have also revealed a negative association between effective protection rates and industry attributes like labour intensity, export orientation, and comparative advantage. Significantly, excessive effective protection in manufacturing industries has been linked to low productivity, and this is why tariff structure reform is required to improve economic efficiency[11].

## Tariffs and imports

Pakistan's trade policy reflects a balance between protecting domestic industries and promoting export competitiveness. With relatively higher tariffs on agricultural products, the country aims to safeguard its agrarian economy, while lower rates on non-agricultural goods facilitate industrial growth and global market integration. Duty-free access to key trading partners, especially the European Union and the United States, underscores the importance of strategic trade agreements. However, the significant variation in tariff structures across product categories indicates a need for further refinement to align with global trade norms and enhance competitiveness. By leveraging its export potential in high-demand markets and rationalising tariffs on critical imports, Pakistan can strengthen its position in the global trade landscape.

**Table 1: Summary and duty ranges[12]**

| Category | Subcategory | Details/Values |
|---|---|---|
| **Tariffs and Imports (2023)** | Simple Average Tariff | Overall: 10.3% |
| | | Agricultural Products: 13.0% |
| | | Non-Agricultural Products: 9.9% |
| | Trade-Weighted Average | Overall: 7.6% |
| | | Agricultural Products: 6.3% |
| | | Non-Agricultural Products: 7.9% |

[10] World Bank. (2020). Pakistan Economic Policy for Competitiveness: Import Duties and Performance – Some Stylized Facts for Pakistan. World Bank Group. Retrieved from https://documents1.worldbank.org/curated/fr/226941591075288820/pdf/Pakistan-Economic-Policy-for-Competitiveness-Import-Duties-and-Performance-Some-Stylized-Facts-for-Pakistan.pdf

[11] Khan, Afaq, Farhan Nasim, and Ahmed Khan. "Impact of Tariff, Exchange Rate and Investment Efficiency on Economic Growth: Evidence from Pakistan." JOURNAL OF LAW, SOCIAL AND MANAGEMENT SCIENCES 3, no. 1 (2024): 1-9.

[12] WTO. Tariff Profile, Pakistan. 2024. Available at: https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/PK_E.pdf

| | | |
|---|---|---|
| | Duty-Free Imports (2022) | Agricultural Products: 15.5% |
| | | Non-Agricultural Products: 38.9% |
| | Imports Value (2022) | Overall: $65.3 billion |
| | | Agricultural Products: $12.9 billion |
| | | Non-Agricultural Products: $52.5 billion |
| **Duty Range Distribution** | Agricultural Products (Final Bound) | 90.3% > 100% duty; 0.4% > 50% duty; 2.9% duty-free |
| | Agricultural Products (MFN Applied) | 44.5% between 15%-25% duty; 5.7% duty-free |
| | Non-Agricultural Products (Final Bound) | 63.5% between 50%-100% duty; 1.7% duty-free |
| | Non-Agricultural Products (MFN Applied) | 35.1% between 15%-25% duty; 35.1% between 0%-5% duty |
| **Exports to Major Trading Partners (2022)** | Agricultural Products | **Top Destinations**: |
| | | European Union: $1,064 million |
| | | United Arab Emirates: $496 million |
| | | China: $469 million |
| | Non-Agricultural Products | **Top Destinations**: |
| | | European Union: $8,835 million |
| | | United States: $5,744 million |
| | | UAE: $2,362 million |
| | Duty-Free Exports | Agricultural Products: 70.6% (EU); 33.6% (UAE); 52.3% (China) |
| | Duty-Free Exports | Non-Agricultural Products: 99.6% (EU); 52.9% (USA); 63.1% (China) |
| **Product-Specific Tariffs** | Key Product Groups | Live Animals and Meat: Avg. Tariff 22.4% |
| | | Cereals and Food Preparations: Avg. Tariff 66.5% |
| | Duty-Free Products | Electrical Machinery, Transport Equipment, Mechanical Machinery |

Pakistan's tariff and trade data reveal a diverse structure with significant variation across product categories. In 2023, the simple average tariff rates were 10.3%, with higher rates for agricultural products (13.0%) compared to non-agricultural goods (9.9%). Duty-free imports accounted for a significant portion of trade, with 15.5% for agricultural products and 38.9% for non-agricultural goods. The country's major trading partners for agricultural exports include the European Union ($1,064 million) and the United Arab Emirates ($496 million), while non-agricultural exports were dominated by the European Union ($8,835 million) and the United States ($5,744 million). Pakistan's exports to key markets also benefit from high duty-free access, such as 99.6% for non-agricultural products to the EU and 70.6% for agricultural goods. Product-specific tariffs highlight significant duties on items like cereals and food preparations (66.5%) and live animals and meat (22.4%).

## Role of Tariffs as a Tool of Trade Policy in Pakistan

Tariffs have been an important element of trade policy and a major determinant of economic performance. For Pakistan, shifting tariffs from their historical role as the main source of revenue to a trade facilitation instrument is key to attaining sustainable growth and international competitiveness. This will need adjustment of tariff policies in line with overall trade goals and removal of systemic distortions in the present fiscal regime.

Historically, Pakistan has relied heavily on tariffs for fiscal revenue, creating a structural dependency that hampers trade efficiency. Over-reliance on high tariffs discourages investment, increases production costs, and limits industrial competitiveness. By transitioning towards trade facilitation, tariffs can be rationalised to promote economic growth through reduced input costs for industries, especially export-oriented sectors. This is in line with international best practice, where tariffs are structured, sanguine, and supportive of supply chain efficiency rather than serving as a fiscal crutch.

Tariffs are to serve as an effective instrument of trade policy, they need to be aligned with the overall economic and trade objectives of Pakistan. In their rationalised form, tariffs can stimulate value addition, and export diversification, and attract FDI. For instance, tariffs on finished products could be higher, as opposed to raw materials and intermediary goods that are reduced, in order to gradually develop the local industries into value addition. This means the alignment of tariffs towards favouring industrial growth and increasing Pakistan's share in global trade networks.

Over-reliance by the government of Pakistan on withholding taxes and GST as main revenue sources has caused fiscal imbalances that give rise to distorted economic incentives. High import duties further exacerbate these distortions by increasing business costs and reducing competitiveness. These imbalances can be substantially reduced through the Rationalisation of tariff structures, together with strengthened direct tax collection and compliance. This does not only provide diversification for revenue streams but also a more level fiscal playing field to facilitate sustainable economic growth.

## Tariff Profile

The table below gives the tariff profile of Pakistan, featuring various significant aspects of trade policy. These include statistics about Most Favoured Nation (MFN) Applied Tariffs pertaining to the years 2021, 2022, and 2023. The binding coverage includes the percentage share of products subject to bound tariffs and reflects a commitment to a certain tariff structure in international agreements. The simple average tariff is given together with the per cent of products for which duty-free importation is allowed. Thus, one may get the openness of trade. Moreover, the table has information on non-ad valorem duties, which are the tariffs by quantity, weight and other measures of a good but not by its value. The section over 15% duties shows the share of tariff lines with duties over 15%, and the share of HS 6-digit subheadings reflects the distribution of tariff lines according to the Harmonised System classification. Overall, the data reflects that the tariff system of Pakistan has been quite stable for years, with minor changes in duty rates and exemptions and a slight fall in the percentage share of tariff lines with high duties, which may signal some trade policy reforms or shifts. This becomes vital information needed to understand Pakistan's trade commitments, economic openness, and adherence to international standards of trade.

**Table 2: Pakistan's Tariff Profile[13]**

| **Country/Territory** | **Year of MFN Applied Tariff** | **Binding Coverage in %** | **Simple Average** | | **Duty-Free** | | **Non-Ad Valorem Duties** | | **Duties > 15%** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Bound | MFN Applied | Bound | MFN Applied | Bound | MFN Applied | Bound | MFN Applied |
| | | | | | Share of HS 6-digit subheadings in per cent | | | | | |
| **Pakistan** | 2023[14] | 98.6 | 60.8 | 10.3 | 0 | 31.1 | 0.1 | 0.8 | 95.0 | 39.1 |
| | 2022[15] | 98.6 | 60.8 | 10.3 | 0 | 31.1 | 0.1 | 0.8 | 95.0 | 39.1 |
| | 2021[16] | 98.6 | 60.8 | 11.2 | 0 | 24.1 | 0.1 | 0.7 | 95.0 | 43.7 |

[13] WTO. Country's Tariff Profile. Available at: https://www.wto.org/english/res_e/reser_e/tariff_profiles_e.htm

[14] WTO. Tariff Profile. 2024. Available at: https://www.wto.org/english/res_e/booksp_e/world_tariff_profiles24_e.pdf

[15] WTO. Tariff Profile. 2023. Available at: https://www.wto.org/english/res_e/booksp_e/world_tariff_profiles23_e.pdf

[16] WTO. Tariff Profile. 2022. Available at: https://www.wto.org/english/res_e/booksp_e/world_tariff_profiles22_e.pdf

By analysing the proportion of tariff lines with high duties, as well as the distribution of goods classified under the Harmonised System, a tariff profile helps to assess a country's economic openness, its level of commitment to trade agreements, and the extent to which it adheres to global trade standards.

In 2019, Pakistan made substantial reforms in its tariff management system to resolve past inefficiencies. The Federal Cabinet endorsed the first-ever National Tariff Policy (NTP) on November 19, 2019, to use import tariffs strategically for industrialisation and export development. This policy replaced the past method, wherein the Federal Board of Revenue (FBR) was responsible for managing tariffs, frequently causing unstable changes without holistic analysis, creating trade disruptions[17].

The NTP created the Tariff Policy Board (TPB) and the Tariff Policy Centre within the Ministry of Commerce. The TPB shall develop, amend, and execute the National Tariff Policy and ensure that tariffs, including regulatory duties and customs duties, changes are made through wide consultations with stakeholders[18].

Despite these developments, issues remain, especially about Additional Customs Duties (ACDs) and Regulatory Duties (RDs). These duties have complicated the tariff regime, frequently being levied without first receiving approval from the TPB, mainly to achieve fiscal objectives. Such actions can create unintended trade barriers and uncertainty for companies[19].

To realise a completely transparent and business-friendly tariff regime, it is important to incorporate ACDs and RDs in the structured tariff Rationalisation process. This incorporation would provide predictability and conformity with Pakistan's economic competitiveness objectives, creating a more favourable environment for trade and industry.

## Comparison with Bangladesh[20]

The comparison of Bangladesh with Pakistan indicates the great role played by tariff policies as well as facilitating trade measures toward export performance. Bangladesh has textiles, a comparative advantage area. Having minimum tariffs for raw materials with proper customs

[17] National Tariff Commission (NTC). (n.d.). Tariff Policy Center. Retrieved from https://www.ntc.gov.pk/tariff-policy-center/
[18] Ministry of Commerce, Government of Pakistan. (2019). National Tariff Policy 2019-24. Retrieved from https://www.commerce.gov.pk/wp-content/uploads/2019/11/National-Tariff-Policy-2019-24.pdf
[19] The Express Tribune. (2024, January 30). Rs476b trade liberalisation plan made. Retrieved from https://tribune.com.pk/story/2492585/rs476b-trade-liberalisation-plan-made
[20] International Finance Corporation (2022). Improving Competitiveness in the Textile Sector: Lessons from Bangladesh and Pakistan. Retrieved from https://www.ifc.org.

processes in place, and access to vast-duty-free markets had brought it into a $44 billion-export-generating powerhouse beyond the dreams of Pakistan's US$ 20 billion exports. Bangladesh has enjoyed sustained export-oriented policies, VAT refunds, and tax holidays, all of which have reduced production costs and given a competitive advantage in international markets. Pakistan's over-reliance on higher tariffs, more complicated tax structures, and inefficient processes is raising its costs of production with slower growth of exports. This comparison calls for Pakistan to similarly implement reforms such as tariff Rationalisation and export incentives, which may close the export gap with regional competitors and enhance its industrial competitiveness.

| Aspect | Bangladesh | Pakistan |
|---|---|---|
| **Textile Exports (2022)** | $57.7 billion[21] | $22.1 billion[22] |
| **Tariffs on Raw Materials** | Zero to minimal tariffs on cotton, synthetic fibres, and machinery | 11-15% tariffs on cotton, synthetic fibres, and machinery |
| **Duty-Free Market Access** | Extensive access to EU markets under GSP; $22 billion exported to the EU | Limited benefits under GSP+; $8.8 billion exported to the EU |
| **Tax Policies** | Refunds on VAT for inputs; tax holidays for exporters | Reliance on GST and withholding taxes, increasing exporter costs |
| **Customs Efficiency** | Streamlined customs processes ensuring timely delivery of raw materials | Bureaucratic delays and complex tariff structures hamper supply chains |
| **Export Growth (2010-2022)** | 12% annual growth | 4.6% annual growth |
| **Cost of Production** | 15% lower production costs due to tariff exemptions on key inputs | Higher costs driven by tariffs and indirect taxes |
| **Policy Focus** | Export-oriented policies with consistent government support | Reliance on indirect taxation and protectionist measures for domestic markets |

**Sustainable Growth through Economic Diversification**

Tariff Rationalisation is a critical policy reform that Pakistan needs to achieve its broader economic goals, such as sustainable growth, fiscal independence, and alignment with Vision 2030. Historically, Pakistan relied on high tariffs as a source of revenue, which created

[21] OECD. Bangladesh Exports. Available at: https://oec.world/en/profile/bilateral-product/textiles/reporter/bgd
[22] OEC. Pakistan Exports. Available at: https://oec.world/en/profile/bilateral-product/textiles/reporter/pak

inefficiencies, increased production costs, and reduced export competitiveness. According to FBR, in 2023, the simple average tariff rate for Pakistan is 10.3%, but for agricultural goods, it's a high of 13%, while for non-agricultural goods, the rate is lower at 9.9%. Such a structure disproportionately affects industries with raw materials being imported, more so export-oriented sectors like textiles and agriculture.

Tariff Rationalisation directly supports sustainable growth by encouraging economic diversification and enhancing industrial competitiveness. Pakistan's exports remain concentrated in low-value goods such as raw textiles and semi-processed agricultural products. Data from the International Trade Centre (ITC) reveals that Pakistan's untapped export potential in regional trade alone stands at $24 billion. Pakistan can encourage value addition by bringing down tariffs on raw materials and intermediate goods but raising duties on finished goods, allowing industries to move up the global value chain. Bangladesh, for instance, being a major competitor, enjoys lower import tariffs on inputs, making it possible to generate $44 billion in exports compared to Pakistan's $20 billion. Rationalised tariffs can reproduce such success and lead to innovation and competitiveness.

The fiscal vulnerabilities of Pakistan, including its overdependence on international financial support and IMF programs, find their correlation with other indicators. As per IMF's 2023 report, Pakistan ranked 90 on the global list in terms of trade restrictions. Higher tariffs dampen formal trade while supporting smuggling, along with leaving Pakistan losing almost $2 billion in revenue per year. With this change from a major source of revenue in the form of tariffs to more direct forms of taxation, the fiscal deficit can be overcome in a sustainable manner. For example, broadening the tax base and progressive income taxes could make Pakistan less reliant on IMF bailouts, which, in the past two years alone, have run over $7 billion.

The Vision 2030 of the government focuses on economic resilience, innovation, and regional integration as key elements of sustainable development. Rationalised tariffs serve these objectives in that they streamline trade policies, reduce the costs of industries, and spur participation in global value chains. Pakistan's participation in regional agreements, such as the China-Pakistan Free Trade Agreement (CPFTA), is still underutilised due to non-tariff barriers and lack of compliance with international standards. Addressing these challenges through tariff reforms can unlock access to lucrative markets like China, where demand for Pakistani agricultural goods and textiles remains high. Moreover, countries like Vietnam, which adopted similar reforms, saw a 300% increase in export revenues within a decade.

Export-oriented industries, particularly textiles, agriculture, and manufacturing, are critical to Pakistan's economic success. Tariff reforms that reduce input costs can significantly enhance these sectors' competitiveness. For instance, Pakistan imposes a 66.5% tariff on cereal and food preparations, compared to regional averages of 15%-25%, making exports uncompetitive. Rationalisation can ensure cost-efficient production, enabling industries to meet global demand while creating jobs and stimulating economic growth.

## Key Challenges in Pakistan's Current Tariff Regime

The current Pakistani tariff regime is riddled with structural inefficiencies and policy issues that run counter to the goals of encouraging economic growth, industrial competitiveness, and export potential. Of the many issues, one major problem pertains to the high tariffs on raw material inputs, raising costs in supply chains and increasing production costs at the backend. These high input costs not only undermine the competitiveness of domestic industries but also discourage foreign investment since global companies always look for markets with low-cost structures. This is particularly disturbing to the export-oriented sectors that rely on low-cost raw materials to stay price-competitive in world markets.

The over-dependence on tariffs as the principal source of revenue collection exacerbates this situation. While tariffs provide short-term fiscal relief, such a strategy harbours inefficiencies in the long run, prioritising revenue collection over economic growth. In addition, a dependence of this nature does not allow for diversification of the revenue base and limits the government's investment in other areas so vital for development, including infrastructure, education, and technological innovation. This dependence on revenues from tariffs provides an explanation as to why hidden tariffs like Regulatory Duty (RD), Additional Customs Duty (ACD), and cesses burdens are imposed for further complicating the tariff regime. Hidden cost means a cost imposed on businesses, eroding the profit margin as the quest to satisfy these costs, for one thing or another is endless, limiting growth in view, especially in the SMEs.

Besides, the anti-export bias of the tariff regime at present depicts a policy of blanket protection to protect the domestic industry from international competition. Though it may give some temporary relief for the local manufacturer, such a protectionist policy raises the input costs for export-oriented industries, thus decreasing their competitiveness in the world markets. For instance, exporters in the textile and agricultural sectors face high-cost disadvantages emanating from high duties on machinery, equipment, and raw materials. This imbalance undermines Pakistan's efforts toward expanding its export base and achieving sustainable economic growth.

Another crucial challenge pertains to the low capacity of government officials to design and monitor the implementation of effective tariff reforms. Poorly designed policies, stemming from a lack of both technical and institutional capacity, usually do not tackle the root causes of inefficiencies. Additionally, inconsistent enforcement along with limited participation of stakeholders in policy formulation further lowers the effectiveness of these reforms. This weak institutional capacity begets a vicious circle of inefficiency whereby short-term palliatives are adopted at the expense of long-term strategies to overcome the problems of enterprises and industries.

Addressing these challenges requires a multidimensional approach. First, the reduction of duties on raw materials, especially those utilised in export-oriented sectors, would enhance efficiency in supply chains and make the economy more competitive. Second, diversification of revenue sources away from tariffs through an expansion of the base and strengthening mechanisms for collecting taxes can decrease reliance on tariff revenues by the government. Third, simplification of the tariff structure by abolition or consolidation of hidden charges makes the regime more predictable and business-friendly. Fourth, protectionist policies should be reviewed in a manner that protects domestic industries while promoting exports for sustainable growth. Lastly, strengthening the capacity of government institutions through training, technical assistance, and stakeholder engagements has the potential to ensure that reforms are well-designed, effectively implemented, and aligned with the broader economic objectives.

Tariff policy problems in Pakistan are closely linked with political instability, revenue issues, and inept subsidy mechanisms, which result in long-term reform sustainability being an uphill task. Because of political unrest, no government dares to adopt long-term economic strategies since it generally takes a minimum of five years for tariff reforms to bear fruits. Short-term strategies hamper steady and thoughtful economic planning. Moreover, the Federal Board of Revenue (FBR) opposes cuts in tariffs, as it foresees a reduction in revenue from customs duty, even in the face of economic data presented by the Ministry of Commerce that lower protectionism leads to increased economic activity and higher tax collection in the long term. Nevertheless, the Finance Ministry continues to levy Additional Customs Duties (ACDs) and Regulatory Duties (RDs) largely because FBR has limited capacity to efficiently collect direct taxes. The dependence on readily available source import duties indicates systemic deficiencies in domestic tax administration, deterring necessary reforms in direct taxation. In addition, across-the-board subsidies, like those provided to the textile sector, tend not to induce technological progress and sustainable development. Rather than blanket subsidies, Pakistan requires targeted interventions, like subsidies for X amperes and Y HP looms based on green technology, which would encourage modernisation and competitiveness. Without reforms, the same old entrenched industrial elites (Saiths) remain in control, blocking innovation and industrial transformation. Tackling these interrelated issues needs a holistic approach that will provide policy continuity, efficient tax systems, and wiser subsidies to finance economic modernisation and export competitiveness.

## The solution to these challenges

The overall reform strategy needs to address the challenges posed by the current tariff regime of Pakistan. Tariff reduction for critical raw materials and intermediate goods would decrease the cost of production and enhance efficiency in supply chains and industrial competitiveness, particularly for export-oriented sectors. Overdependence on tariffs for meeting fiscal needs can be reduced by diversification of sources through improved tax collection, broadening of the tax base, and the implementation of progressive taxation. The simplification of the tariff structure by doing away with all hidden charges such as RDs and ACDs, together with the modernisation of customs, would go a long way in making the regime more transparent and business-friendly. Anti-export bias should be overcome by phasing out blanket protectionist measures, providing focused incentives for exporters, and encouraging export-oriented SEZs. In addition, the capacity building of government officials and involvement of stakeholders at the policy-formulation level will strengthen the institutional capacity for the implementation and monitoring of reforms. International organisations can further provide technical support to the introduction of best practices. Collectively, these are intended to bring in a streamlined, clear, and growth-oriented tariff regime in line with global trade best practices and enhance Pakistan's economic resilience.

| Challenge | Solution | Expected Impact |
| --- | --- | --- |
| **High Duties on Raw Materials** | - Reduce tariffs on raw materials and intermediate goods. | - Enhanced supply chain efficiency. |
| | - Create sector-specific tariff policies. | - Lower costs for industries. |
| | | - Improved competitiveness. |
| **Over-Reliance on Tariffs** | - Diversify revenue sources (broaden tax base, progressive taxation). | - Reduced dependency on trade taxes. |
| | - Improve tax collection efficiency. | - Stable government finances. |
| **Hidden Tariffs and Complexity** | - Simplify tariff structure by eliminating hidden charges. | - Transparent and predictable tariff system. |
| | - Modernise customs through automation. | - Improved ease of doing business. |
| **Anti-Export Bias** | - Phase out blanket protection measures. | - Increased export diversification. |
| | - Provide export incentives (e.g., tax rebates, SEZs). | - Cost competitiveness in global markets. |
| **Weak Institutional Capacity** | - Train government officials on modern trade practices. | - Better-designed policies. |
| | - Engage stakeholders in policy design. | - Consistent implementation and monitoring. |
| **Global Integration** | - Seek technical assistance from international organisations. | - Adoption of global best practices. |
| | - Align tariff reforms with global trade norms. | - Enhanced market access and competitiveness. |

## China-Pakistan Free Trade Agreement (CPFTA)

The China-Pakistan Free Trade Agreement (CPFTA) presents a critical opportunity for Pakistan to enhance its export competitiveness, diversify its trade portfolio, and achieve deeper integration into global value chains. However, Pakistan has yet to fully utilise this agreement despite the promising provisions of CPFTA Phase II, which grants duty-free access to over 313 Chinese tariff lines covering textiles, agriculture, and industrial goods. Pakistan exported merely \$3.1 billion worth of goods to China in 2022, and imported \$18.5 billion worth from the country, causing a large trade deficit of \$15 billion. This calls for focused reforms and strategic efforts to exploit the trade agreement more fruitfully[23].

[23] Ministry of Commerce, Government of Pakistan - For details on CPFTA Phase II and tariff concessions. Available at: www.commerce.gov.pk

Another area of difficulty is the limited application of Chinese standards of quality and certification by Pakistan, mainly in agriculture and food products. Most exports from Pakistan to China do not pass the rigorous requirements of importers in that country, calling for investments in quality assurance infrastructure such as testing laboratories and certification facilities to increase competitiveness. Besides, the composition of Pakistan's exports under CPFTA is heavily biased toward low-value items, like raw textiles and rice, which are easily affected by fluctuations in prices and competition in global markets. Focusing on high-value-added products, such as processed foods, home textiles, machinery, and specialised textiles, is the best approach for Pakistan to maximise the benefits of preferential tariffs and expand its market presence.

Industrial cooperation under CPFTA also promises to be promising. Joint ventures and technology transfer in key areas like electronics, renewable energy, and manufacturing can develop capacity, make the industrial base of Pakistan more modern, and increase export volumes. For example, collaborative ventures on renewable energy will align with sustainability goals for Pakistan at the same time as enhancing its industrial productivity. Similarly, China's expertise in advanced manufacturing opens a pathway for Pakistan to raise its production capability.

Improvement in trade infrastructure and connectivity under the China-Pakistan Economic Corridor (CPEC) is another critical area. Strengthening logistics networks, including port operations, trade corridors, and customs facilities, will reduce bottlenecks in trade and enable timely delivery of goods to Chinese markets. Access to remote regions of China will also be facilitated through enhanced connectivity, opening up further opportunities for Pakistani exporters.

Pakistan needs to take proactive steps against non-tariff barriers such as complexities in customs procedures, quotas, and technical regulations that impair access to markets. Interaction with Chinese counterparts on these issues through policy advocacy and bilateral negotiations will make the trade environment more predictable and business-friendly. Simultaneously, awareness-building and capacity-building among exporters would make them better equipped to leverage the Chinese market.

## Framework for Tariff Rationalisation in Pakistan

The Rationalisation of Pakistan's tariff regime requires a structured and holistic approach to achieve economic efficiency, global competitiveness, and sustainable growth.

**Export-Oriented Industries**

The framework shall recommend the revision in the tariff structure in which lower tariffs on raw materials and intermediates have been proposed with the imposition of high tariffs on finished goods. This should reduce the production cost of exporters and help strengthen domestic industries through value addition.

In this direction, adjustment of tariffs along the value chain-levying lower duties on raw materials and intermediate goods and higher tariffs on finished products be crucial to enhance the competitiveness of export-oriented industries. This would encourage local value addition and enable the industry to compete globally. In Pakistan, the textile industry is an important contributor to exports but faces huge input costs partly due to the imposition of tariffs on raw-material imports such as cotton and synthetic fibres. Pakistan can try to enhance its production capabilities and augment its exports through the reduction in tariffs on major inputs and thereby increase duties imposed on finished textile products.

This is well illustrated by the success of Pakistan's neighbour Bangladesh in textiles, which has gained from low tariffs on inputs and free access to major export markets. This approach thus holds key lessons for Pakistan's initiatives in-textile and garments exports through creating a friendly tariff environment that reduces the cost and enhances value addition domestically.

**Gradual Withdrawal of Across-the-Board Protection**

The process of transition towards a balanced trade regime in turn implies phasing out the policies of blanket protection and temporary protection to infant industries with high growth potentials. The productivity-enhancing measures include R&D incentives, and easy access to modern technology, which would enhance industrial efficiency and reduce dependence on protectionist policies.

**Gradual Removal of Protection to Counter Anti-Export Bias**

High tariffs have historically given Pakistan an anti-export bias by protecting the local industries to the extent that they become unviable on the international market. A gradual elimination of protectionist policies such as high tariffs on imports can spur industries on to become efficient and globally competitive. In that respect, protection from the high tariff on imported raw materials has pulled in motivation for innovation and export performance in, for example, Pakistan's automotive sector. For Example, the Indian experience in the 1990s has shown that a decline in the intensity of import protection is positively linked with export growth. The gradual opening of markets exposed Indian industries to international competition, which improved the quality of the products and subsequently their exports. Such an approach can be emulated in Pakistan for the reduction of anti-export bias to create a more dynamic export sector.

**Smuggling-Prone Commodities**

The tariffs should be aligned with regional market forces to reduce the price wedge between formal and informal channels, which in turn will reduce illicit trade. Smuggling will decrease and formal trade, along with government revenue, will increase with better customs administration and border control.

Tight tariffs on commodities such as electronics, auto parts, and luxury goods may been responsible for high levels of smuggling into Pakistan, hurting legitimate businesses and depriving the government of badly needed revenue. To begin, smuggling can be disincentivised while also moving merchandise through formal trade channels by allowing Pakistan to reduce duties on such items and rationalise tariffs. The reduction of duty on cellular phones in Pakistan serves as a perfect example: Phone smuggling fell massively while legal imports started to rise and boosted the revenues collected by the government, therefore structuring that market.

**Targeted Protection for Strategic Sectors**

Focused support for industries of strategic importance or with high growth potential can contribute to GDP growth and job creation. Protections should be pegged to clear, objective criteria and be reviewed regularly to avoid distortions and ensure that they remain relevant.

Much of Pakistan's current approach is about protecting the entirety of certain sectors; these have usually bred inefficiency and complacency within local industries. In their stead, only strategic industries, or those still in nascent stages, need protection-this, without keeping necessary sectors from needed competition. Examples are the support offered to the IT industry by the government itself; one-time taxation and lower duty on IT-related equipment helped make India's exports rise many times within the past several years.

South Korea’s targeted approach in the 1980s, where protection was gradually removed from industries that matured and became globally competitive, offers a blueprint for Pakistan. This approach helps build industries capable of standing on their own in international markets without perpetual protection.

**Elimination of Hidden Tariffs and Duties**

These hidden tariffs include RD, ACD, and various cesses that raise the overall cost of imports and make the trade regime unpredictable. Eliminating these hidden tariffs will simplify the trade regime, reduce compliance costs, and make Pakistani exports more competitive. Recent steps to reduce additional customs duties on industrial raw materials have been positively received by the business community and should be further expanded.

**Shifting from Indirect to Direct Taxation**

The heavy reliance of FBR on indirect taxes, especially withholding taxes and GST, distorts market dynamics and places an unfair burden on consumers and businesses. A shift in this regard towards direct taxation, such as income tax, can create a more equitable and efficient tax system, reducing reliance on trade taxes and supporting economic growth.

These various experiences in the reduction of indirect taxes and enhancement of the collection of direct taxes in New Zealand provide a useful model that may be applied to Pakistan. The shifting of the burden of taxation from trade and consumption to direct income and corporate taxes would yield a fairer and more predictable tax environment for trade and investment.

**Tariff Rationalisation for Export Processing Zones**

EPZs are particularly important in accelerating the export growth curve by offering a congenial tariff environment attractive for investment and enhanced production for exports. How tariff Rationalisation could be advanced within these zones, by way of reducing import duties on inputs and keeping duties on finished goods at a competitive level, has driven the growth of these zones. The EPZs in Karachi and Gwadar in Pakistan have great potential for more FDI with such reforms and significant enhancement of their exports.

The successful EPZs of China serve as a role model for Pakistan because they import raw materials and components duty-free. Pakistan could, with a cue from China, raise the export competitiveness of their EPZs which would result in substantial contributions to national export performance.

**Export Processing Zones (EPZs) and Re-Exports**

It will be further integrative for Pakistan in the global supply chains of trade to have a simplification of the EPZs tariff structure and special provision for re-exports. These are measures to attract FDI and diversify export products and markets.

For re-export manufacturing hubs importing raw materials to produce goods for export, for instance or minimal tariffs on imported inputs are essential. Rationalising tariffs for re-export can further improve the competitiveness of such industries by reducing their input costs. The approach has been emulated in countries such as Singapore, which leverages re-export strategies to add value and increase its role as a global trading hub.

**Capacity Building of Government Officers**

Effective tariff policy implementation demands highly trained and knowledgeable government officers. Such capacity-building programs could be trained in global trade dynamics, tariff impacts, and policy analysis that would lead to enhancing the capability for the design and implementation of rationalised tariffs. Due to limited capacity in Pakistan, tariff policies are often inconsistent, with ad-hoc adjustments that bear no relevance to broader economic objectives.

The FBR has undertaken capacity-building exercises with international partners like the World Bank to enhance the capacity of customs officials. Continuous professional development will help ensure that tariff policies are not only effective but also meet the trade objectives of Pakistan.

**Institutional Strengthening**

Effective tariff policy implementation involves training government officials on modern trade practices and establishing a strong framework for stakeholder engagement. This will be further assured through the use of technical assistance from international organisations such as the WTO and World Bank to ensure that policies are aligned with global trade standards.

**Monitoring and Evaluation**

To make reforms effective, it is worth developing some KPIs to check how revision in tariffs would influence trade. Such reviews of tariffs would therefore lead to informed decision-making in keeping with national and global priorities.

***Table 3: Implementation Roadmap***

| Phase | Action Items | Timeline |
|---|---|---|
| **Phase 1: Preparation** | Conduct a comprehensive review of the current tariff structure and identify priority areas. | 0-6 months |
| **Phase 2: Transition** | Gradually reduce tariffs on raw materials and phase out blanket protections. | 6-24 months |
| **Phase 3: Strengthening** | Implement targeted support for strategic sectors and align tariffs for smuggling-prone items. | 24-36 months |
| **Phase 4: Integration** | Streamline tariffs for EPZs, re-exports, and ensure institutional capacity building. | 36-48 months |
| **Phase 5: Evaluation** | Monitor and evaluate the impact of reforms, updating policies as needed based on KPIs. | Continuous |

Tariffs in Pakistan have mainly been utilised for revenue-raising rather than as an instrument of trade policy. The outcome has been trade distortion, heightened costs for the industries, and eroded competitiveness. Protection through tariffs is meant to safeguard key sectors, guide trade flows, and assist in attaining industrial policy imperatives, rather than using it simply as a fiscal tool.

For example, the European Union strategically uses tariffs to protect specific industries while maintaining overall low tariff levels to promote trade and economic integration. Pakistan should adopt a similar approach, aligning tariffs with trade policy goals to enhance a more balanced and competitive economic environment.

## The Role of Temporary Protection for Nascent Industries

Temporary protectionist policies can play a very important role in developing strategic sectors and, hence, in industrial growth if these are instituted with clearly defined objectives and time-bound frameworks. Protectionist measures in the form of tariffs on competing imports or subsidies to local industries offer nascent industries breathing space, allowing them to grow, enhance productivity, and improve economies of scale. For instance, South Korea implemented temporary protection for its automobile and electronics sectors in the 1980s. The government supported automobile and electronics production industries by levying import duties on imported goods while investing in research, innovation, and infrastructure. This enabled them to become globally competitive, then gradually removed protections once they matured enough to be incorporated into international markets.

While it is similarly true for Vietnam, that country has utilised targeted protectionist policies to support its high-tech and agricultural processing industries, so its producers can stand against initial market pressures. Those are accompanied by incentives for foreign direct investment, which brings in advanced technologies and management practices. Vietnam has incrementally reduced tariffs and opened up its markets over time, allowing electronics to become an export powerhouse, adding more than $50 billion annually to its economy.

Selective protection for the textile industry during its formative years in Bangladesh proved very critical. It enjoyed tax holidays, subsidised credit, and lower import duties on crucial raw materials whereas the government collected higher duties on the finished imported textiles. Thus, it shielded the home industry from overseas competition while making sure inputs were low-priced. Thus, Bangladesh gradually became a world leader in exporting textiles.

For Pakistan, temporary protection is beneficial for the development of strategic sectors, like renewable energy, IT, and advanced manufacturing. But protections have to be crafted with measurable performance targets like export targets or improvements in productivity that avoid long-term inefficiency. Transitioning from protection to open competition must also be done in a way that reflects the best practices across the globe so that the industry can find a position in the global market.

Learning from the experience of South Korea, Vietnam, and Bangladesh, Pakistan can find a middle path between protecting domestic industries and obtaining global competitiveness. Temporary protection, coupled with innovation, infrastructure, and capacity-building investments, could spur diversified, sustainable growth in such economies.

## Political and Administrative Barriers to Tariff Reforms

Pakistan's trade and tariff policies face several critical challenges, including anti-export bias, high duties on raw materials, and over-reliance on tariffs for revenue generation, which collectively hinder the country's economic competitiveness. For instance, Pakistan loses an estimated PKR 200-300 billion annually to smuggling, driven by high tariffs on goods like electronics and auto parts. The reduction of cellular phone' duties in 2019, demonstrates the reform benefits by smuggling decrease by 70% and formal importation that increases 40%, contributing PKR 8 billion to the revenue. Comparatively, Pakistan's export performance also lags the competition as Bangladesh and Vietnam both enjoyed a textile export at $44 billion and $50 billion respectively, which is contrasted to Pakistan at $20 billion in 2022. This gap is partly explained by Pakistani duty levels of 11-15% on raw materials, while Bangladesh imposes minimal duties, lowering production costs and enhancing export competitiveness. However, despite these economic imperatives, tariff reforms face a whole set of political as well as administrative barriers. Politically influential sectors benefiting from protection resist change, and Pakistan's dependence upon tariffs that account for a staggering 43% of total revenue in 2022 creates fiscal disincentives for reform. Furthermore, weak institutional capacity and inconsistent policy implementation have been undermining the reform efforts; the temporary measures, such as Regulatory Duty (RD) and Additional Customs Duty (ACD), tend to become permanent fixtures. These can be addressed by aligning tariffs with regional averages to reduce smuggling, strengthening direct taxation to diversify revenue sources, enhancing institutional capacity through technical training, and fostering stakeholder engagement to balance protectionist interests with export growth.

## Conclusion

Rationalisation of tariffs is indispensable for an eventual change in the trade profile and economic growth in a sustainable way. The high duty, complex structure, and over-reliance on tariffs for revenue generation have created inefficiencies in the existing tariff regime that are detrimental to industrial competitiveness, discourage exports, and perpetuate smuggling. These issues have not only retarded the development of the domestic industries of Pakistan but have also discouraged foreign investment, as business looks for an environment with predictable and transparent trade policies. The existing tariff framework has added to the costs of export-oriented sectors, thereby eroding their competitiveness in world markets and constraining Pakistan's ability to diversify its export base beyond low-value goods such as raw textiles and agricultural products.

This is compounded by an anti-export bias embedded in protectionist policies that protect in-efficient industries at home while inflating the input costs for those who would try to compete in world markets. High tariffs on raw materials and semi-processed products have resulted in industries failing to move up the value chain of production, in effect limiting their capacity to produce higher-value-added products for the international market. These limitations have resulted in a persistent trade imbalance and left Pakistan at a point beyond leveraging its geographical advantage or existing trade agreements to the full.

Smuggling and informal trade channels also thrive on large price differentials between formal and informal markets, which have grown under the current tariff regime. It not only causes the government to miss out on huge revenue but, more importantly, weakens the legitimate business, leading to a parallel economy that can destabilise the formal sector. The inability of institutions makes the problem even graver, with inconsistent enforcement, poor design of policy, and minimum stakeholder buy-in preventing the effective application of meaningful reforms in tariffs. Lowering the duties on items that are known to be prone to smuggling like electronics and auto parts can improve both formal trade and government revenue. For example, the Pakistan experience with a reduction in the tariffs on cellular phones is an excellent precedent. When the duty on mobile phones was rationalised, the smuggling of mobile phones came down by over 70 percent, while the formal imports rose, which translated into an additional PKR 8 billion in annual revenue for the government. Reforms in the high-duty items, such as auto parts and consumer electronics, which are the largest items part of smuggled goods, will have quite comparable impacts. Auto parts business alone loses smuggling more than PKR 20 billion, according to industry estimates. Formal imports will increase by 30-50% as the price gap between the formal and informal markets will reduce with the disciplining of duties toward regional averages of 15-25%. This would spur businesses to conduct business through legal trade channels, increase activity in the legitimate market, and significantly raise tax revenues while promoting local industries dependent on such inputs. Estimating these impacts in more numbers, even a 25% increase in formal trade of such commodities could yield an additional PKR 15-20 billion of annual government revenue while discouraging the parallel economy and supporting industrial growth.

All these issues indicate a paradigm shift in the way tariffs are perceived and utilised. Instead of being a source of revenue, tariffs must be repositioned as strategic tools for facilitating trade and attaining economic growth. Rationalisation of the tariff structure would facilitate cost reduction for the industry, enhancing efficiencies in supply chains and value addition. The reduction in tariffs on inputs and intermediates, with relatively higher tariffs maintained on finished goods, will provide incentives for local production and improvement in industrial competitiveness. Moreover, rationalised tariffs can also lead to the diversification of the export base of

Pakistan into value-added exports in medical instruments, optical goods, and processed agricultural products. This would help Pakistan move beyond low-value exports and, in turn, reduce its exposure to global price volatility while upgrading the complexity level of its economy. This change in tariff policy will also help it be more compatible with international standards for trade and attract FDI to reinforce its regional and international standing.

Building stronger institutional capacity for these reforms would also be relevant. Training government officials in contemporary trade practices, stakeholder participation in policy development, and technical assistance from international organisations add to building the framework for the implementation and monitoring of tariff Rationalisation measures. Increased institutional capacity ensures continuity and sustainability, apart from bringing uniformity in these reforms to the broader economic objectives of Pakistan.

Tariff Rationalisation is somewhat more than a mere technical adjustment; it is a strategic compulsion for Pakistan that will unleash its economic potential. A simple, transparent, and growth-oriented tariff structure can facilitate export competitiveness, promote industrial diversification, reduce smuggling, and engender economic resilience. By embracing this approach, Pakistan can establish itself as a competitive player in global trade, driving sustainable development and long-term prosperity.

## Policy Recommendations

Pakistan may adopt the following policy recommendations to implement effective tariff rationalisation measures

- Reduce critical input tariffs, such as textiles, agriculture, and manufacturing industries meant for export-oriented production to cut down production costs and improve competitiveness. It targets supply chain inefficiencies, allowing industries to go up the value chain to trigger export growth.
- A more transparent and predictable trade environment is also achieved through streamlining of tariffs by removal of hidden charges such as RD and ACD. The simplified structure reduces compliance costs, enhances ease of doing business, and increases the competitiveness of Pakistani exports in international markets.

- Provide selective and time-bound protections to industries with high growth potential or strategic significance, such as IT, renewable energy, and advanced manufacturing. These protections should be tied to performance metrics to ensure that industries become globally competitive without prolonged dependence on subsidies.
- Annual reviews of tariff policies may be commenced because they help determine their effectiveness in terms of enhancing trade competitiveness, revenue generation, and smuggling reduction. The annual reviews should rely on KPIs, including growth in exports of key sectors, greater participation in global value chains, and a decline in informal trade.
- A formal consultation mechanism would be instituted with inputs from trade associations, exporters, economists, and international organisations such as the WTO and the World Bank to make sure that domestic needs and international standards are well taken care of in the tariff reform process.
- A board dedicated to its cause should be formed, to include members from the Ministry of Commerce, FBR, the industry, and independent experts. The task will be on this board including publishing findings; policy adjustments recommended, and complete transparency in the implementation of the tariff reform.
- A dedicated task force comprising government officials, industry representatives, and trade experts should be established to oversee tariff reforms. This task force will monitor progress, address challenges, and provide recommendations for adaptive policy adjustments to ensure effective implementation and alignment with economic goals.

## Action Matrix

| Action Area | Pathways to Solution | How to Implement Each Solution | Actor Responsible | Timelines |
|---|---|---|---|---|
| Lower import duties on key raw materials and intermediate goods | Simplify the tariff structure for essential inputs while phasing out high duties on less competitive industries. | Identify raw materials and intermediate goods critical for export-oriented industries.<br>Develop sector-specific tariff reduction plans. Incentivise innovation and technology adoption through R&D grants and tax credits. | Ministry of Commerce,<br>FBR,<br>Trade Associations | 6–18 months |
| Introduce time-limited tax incentives | Support export-driven sectors with fiscal incentives to boost competitiveness. | Design tax rebate and duty exemption schemes tailored for key export industries. | Ministry of Finance, | 6–12 months |
| Set competitive tariffs | Rationalise tariffs on smuggling-prone goods and improve customs enforcement. | Conduct market analysis to align tariffs with regional averages. Strengthen border controls with advanced surveillance and risk assessment technologies. | FBR, Border Security Agencies | 12–24 months |
| Replace broad protectionist measures with targeted, time-bound | The transition from blanket protections to performance-based incentives for strategic industries. | Identify strategic and high-growth potential industries.<br>Set industry-specific timelines for tariff adjustments tied to productivity metrics. | Ministry of Commerce, Industry Stakeholders | 18–36 months |
| Introduce phased reductions in reliance on indirect taxes, | Shift the tax base to direct taxation for sustainable revenue. | Develop and implement reforms to broaden the direct tax base. Launch campaigns to improve compliance with income and corporate tax laws. | FBR, Ministry of Finance | 24–48 months |
| Offer lower or zero tariffs on goods imported for manufacturing within EPZs | Enhance the tariff environment within Export Processing Zones (EPZs) to attract investment. | Rationalise tariffs within EPZs to support raw material imports. Provide administrative and logistics support to streamline processes in EPZs. | EPZ Authorities, Ministry of Commerce | 12–24 months |
| Maximize the benefits of existing trade agreements, such as the CPFTA, | Fully leverage trade agreements by resolving compliance and market access issues. | Conduct sector-specific reviews to address non-tariff barriers. Train exporters to meet international product standards. | Ministry of Commerce, Industry Associations | 12–36 months |

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