Pakistan's Tariff Reforms: A Defining Moment for Economic Transformation

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The National Tariff Policy 2025–30 marks a major shift in Pakistan's approach to trade and economic development. The Prime Minister has called it a "relief package for the people" that aims to make Pakistan "a preferred destination for investment and trade in the region." The Finance Minister has described it as Pakistan's "East Asia moment." These are not just slogans; they signal a strategic shift in policy. If implemented and sustained, tariff reform could reshape the country's economic future.

The optimism draws on global experience. High tariffs hurt the poor most by raising the cost of essential goods. Countries that maintained protectionist regimes have remained poor. Those that opened their economies reduced poverty, boosted exports, and grew faster. Tariffs are regressive, placing a heavier burden on lower-income households that spend a larger share on food and necessities. Lower tariffs reduce the cost of living, freeing up income for health, education, and other priorities.

Referring to Pakistan's "East Asia moment" reflects an ambition to follow the path of countries that transformed their economies through outward-oriented trade. Starting with Japan in the 1960s, and followed by South Korea, Singapore, Taiwan, Malaysia, China, and Vietnam, East Asia grew by gradually liberalizing trade. These countries focused on exports, joined global value chains, attracted investment, and achieved economies of scale. Competition spurred innovation and productivity. Reforms were sequenced alongside tax changes, human capital development, and infrastructure investment. The result was foreign exchange earnings, job creation, poverty reduction, and a rise as global manufacturing and technology hubs.

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Pakistan attempted a similar path in the 1990s. Import licensing was scrapped. Deregulation, privatization, and exchange liberalization followed. Tariffs fell from over 80 percent to a 25% cap by 2002. Supported by IMF and World Bank programs, this liberalization helped exports grow in double digits and GDP rise by over 5%.

But the 2007–08 commodity and oil price shocks, along with rising fiscal deficits, triggered a return to protectionism. Over the next 17 years, Pakistan's competitiveness declined, export growth stalled, and per capita income lagged behind regional peers.

This history makes one thing clear: starting reform is not enough. Staying the course is what matters. A key concern is the trade deficit. Almost every country that opened up saw imports rise first, then exports catch up. India is a prime example. In 1992, India's imports and exports were each about USD 23 billion, with stagnant growth. After liberalizing, imports outpaced exports and the deficit widened from USD 300 million to over USD 100 billion. However, India stayed the course, and today it is one of the fastest-growing economies.

Similarly, when China began its economic liberalization in 1980, it quickly moved into a trade deficit. That year, exports and imports were roughly equal at around $18 billion. Over the next five years, imports more than doubled to USD 42 billion, while exports grew by only about 50%, reaching USD 27 billion. Now, four decades later, China's total exports have grown to over USD 3,500 billion, and total imports have risen to over USD 2,500 billion, yielding a trade surplus of about USD 1,000 billion.

Another challenge is tax reliance on trade. Tariffs have become a revenue tool, but at a high cost. They stunt trade and limit growth. Pakistan currently has one of the lowest trade-to-GDP ratios globally. Successful economies widened their domestic tax base, allowing trade to drive competitiveness. Data shows that open economies raise more revenue in the long run. Reform takes time but pays off.

There is also a mindset issue. For decades, many Pakistani policymakers have believed the country is a special case that must rely on self-sufficiency. This view has not delivered. When local economies lack scale, importing efficient inputs is more practical. If component exports earn more than finished goods, policy should adapt. Pragmatic openness is more effective than rigid protectionism.

Reforms must also end the practice of shielding industries that cannot survive without permanent protection. Propping up inefficient sectors diverts scarce resources from productive areas and undermines competitiveness across the economy. It also hurts downstream businesses—for example, sustaining outdated plants forces manufacturers to rely on lower-quality inputs. Protection, where necessary, should be limited, strategic, and time-bound, aimed at enabling competitiveness rather than preserving inefficiency.

Energy costs remain a major hurdle. Heavy reliance on imported oil, LNG, and coal, combined with transmission losses and fixed contracts, drives up costs. This erodes export competitiveness. With the planned increase in hydropower's share from the current 24% to 33%, and the overall renewable energy share exceeding 60% within the next five years, Pakistan's energy mix could become significantly more sustainable, reducing reliance on fossil fuels and enhancing long-term energy security.

If sustained, these reforms could open up enormous opportunities. Pakistan could follow the path of Vietnam and other East Asian countries, growing faster, reducing poverty, and becoming more integrated into global trade. Access to capital goods would boost productivity and improve export quality. A stronger global economic role would match Pakistan's strategic importance.

Pakistan is now at a critical juncture. History shows that countries embracing openness and competition thrive. Those that retreat behind tariff walls fall behind. Pakistan has tried reform before but failed to sustain it. The National Tariff Policy 2025–30 offers a second chance. If the country commits to reform and manages short-term challenges, this moment could indeed become Pakistan's East Asia moment.

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