Trade Reforms to Boost Pakistan's Industrial and Economic Growth

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Rationale for Trade and Tariff Reforms

Pakistan can unlock its actual industrial potential and sustainable development growth if it focuses on trade and tariff reforms 2025-2030. It took almost three decades for Pakistan to recognize the importance of effective reforms in its fiscal budget for 2025-2026. The country needs to shift from an import-oriented economy to an export-oriented economy. These reforms in trade policies were essential to achieve overall sustainability, economic development, and growth. An adverse balance of payments and low foreign exchange reserves have been the main factors affecting the economy. These factors have left Pakistan in a vulnerable state, increasing reliance on imports and loans from global financial institutions, the World Bank, and the IMF.

According to Delechat et al. (2024), rapid shifts in global trade and tariff mechanisms and policies have created the need for reforms in the current trade and tariff policies. Sudden modernization of industrial sectors and rapid economic diversification have made it increasingly difficult for economies to achieve their development goals. Although different economies are making flexible modifications in their policies to enhance economic development, Pakistan should implement similar reforms to improve the tariff system, increase overall transparency, and foster a more export-oriented environment *(Mufti & Ali, 2024)*. There is a clear need for a strategic change in trade and tariff policies to make them more sustainable and efficient for long-term industrial growth.

Historical Overview

In response to India's 1948 trade restrictions against Pakistan, the first industrial plan was introduced. Through protectionism, trade barriers, an overvalued exchange rate, and subsidized industrial loans, it focused on the development of fundamental industries. Pakistan adopted an import-substitution industrialization strategy in the 1960s.

This approach favored consumer product industries through relatively higher tariffs, while capital goods and intermediate goods sectors lagged behind. In the 1970s, Pakistan revised tariffs to upgrade its industrial base and enhance global economic connectivity *(Ur Rehman, 2023)*. As a result of liberalization, domestic industries faced increased competition. However, major industries such as food, textiles, leather, paper, and petroleum were shielded through tariff escalation. In the 2000s, Pakistan exempted the textile sector from sales tax and allowed the import of supplies free from both sales tax and tariffs. Historical evidence indicates that Pakistan has employed a wide range of trade policies and structures in pursuit of sustainable development growth.

Key Challenges in Trade and Tariff Reform

Reforming and implementing trade and tariff policies remain significant obstacles to the country's sustainable economic development. Current trade and tariff policies are not yet efficient enough to achieve long-term development goals, which hinders overall economic growth. Although Pakistan has modified its policies over the years, it has still struggled to achieve sustainable development growth. The country's heavy reliance on tariffs has contributed to a predominantly import-oriented economy. Another major challenge is limited global integration, with minimal participation in global value chains, restricting foreign exchange inflows.

Local industries are particularly affected by rapid surges in international competition and the loss of domestic market share, especially in the automobile and light industrial sectors. Widening trade deficits and revenue shortfalls further complicate tariff reform efforts. Financial data indicates that the government anticipates a Rs. 512 billion income shortfall in the coming year, which could strain the overall economy. Although increased import volumes may eventually offset the short-term budgetary gap, the immediate pressure on the budget remains substantial. A national tariff policy should aim to reduce manufacturing costs and enhance the competitiveness of local industries to support industrial growth *(Rosenfeld, 2017)*. The following are the key challenges that must be addressed to make trade and tariff policies sustainable.

1.1 Corruption and inefficiency

Pakistan faces severe issues of corruption and inefficiency in trade and tariff implementation at the state level. In some cases, organizations resort to unofficial methods to expedite tariff payments or seek exemptions, which reduces system efficiency and fairness *(Awasthi & Engelschalk, 2018)*. The Asian Development Bank (ADB) ranked Pakistan 122nd on the World Bank's Ease of Doing Business Index for cross-border trade in 2020. This ranking adversely affected companies, increased overall expenses, and hindered foreign investment.

1.2 High Tariffs on Consumer Goods and Imports

High consumer and critical import tariffs remain a major concern. Consumer costs in Pakistan have risen due to imports of food, petrol, and gadgets. For example, import tariffs increased wheat and pulse prices by 12% in 2020. Rising consumer prices negatively affect domestic demand and consumption, particularly for low-income households who spend a higher share of their income on essentials. According to PIDE, the lowest 20% of households spend up to 40% of their income on food and necessities, which import tariffs disproportionately affect.

1.3 Effect on Small and Medium Enterprises

High raw material costs and inefficiencies in the tariff system hinder Pakistan's SMEs. Unlike large enterprises with economies of scale, SMEs often lack the resources to cover high tariffs, which limits their ability to compete in domestic and foreign markets. In 2021, 63% of Pakistani SMEs cited tariffs as a key constraint on growth, according to the ITC. Case studies from emerging economies demonstrate how tariffs can impede SME growth. For instance, projected tariff reductions for SMEs in Vietnam have enhanced their global trade opportunities. The USA and China, as major global economies, continuously adjust their trade and tariff policies, creating competition between SMEs in both countries due to differing tariffs on

raw materials and equipment *(Parnell et al., 2015)*. Pakistan should similarly support SMEs to expand and access international markets.

Opportunities for a Green and Efficient Trade and Tariff System

There are numerous key opportunities to develop a green and efficient trade and tariff system in Pakistan. Rationalizing the trade and tariff structure will be central to achieving long-term economic and industrial goals. Pakistan will be better positioned to capture new markets and attract foreign investment if it addresses trade and tariff obstacles and establishes a streamlined tariff system. By tackling these challenges, trade and tariff reforms will create opportunities for sustainable industrial growth. These reforms offer the following benefits:

- A strong rationale for joining the Regional Comprehensive Economic Partnership (RCEP), which aims to become the largest trade group globally and compete with other major Asia-Pacific economies.
- Enhanced opportunities for economic integration with global markets, allowing Pakistan to leverage regional developments effectively.
- Implementation of new reforms will boost Pakistan's participation in global trade and value chains.
- Stronger positioning to promote Pakistan as a "China+1" manufacturing destination, attracting international businesses seeking to diversify supply chains beyond China.

By expanding its focus beyond South Asia, Pakistan can secure a significant role in global supply networks. These reforms will support the transition to a more export-oriented economy, promoting economic diversification and resilience.

Recommendations and Future Directions

Pakistan needs to implement a few key recommendations to foster sustainable economic development. Pakistan can compete globally in the industrial sector by reforming tariffs on industrial components and materials *(Zeshan, 2025)*. The IMF and World Bank are also assisting Pakistan in reforming efficient trade and tariff policies for 2025–2030. Rationalization and facilitation of tariff structures and promotion of export-oriented growth are fundamental suggestions that should be considered. Moreover, institutional reforms and regional integration are also essential for improving tariff mechanisms in Pakistan. Industrial growth would play a critical role in achieving sustainable development goals.

Historical data and current scenarios clearly show that there is a need to implement rational policies of trade and tariffs after reforms, involving other major sectors of Pakistan. Green industrial policy, digitalization of trade platforms, global chain integration, and the involvement of public-private sectors are essential prospects to achieve the primary goal of the economy and sustainable industrial growth. Moreover, upgrading customs mechanisms and payment channels, along with establishing independent tariff monitoring authorities, would help tackle corruption and fraud, ultimately leading to overall economic growth.

Conclusion

Pakistan's economic development faces several hurdles on its path to sustainable growth. Numerous shortcomings need to be addressed or mitigated. The country has experienced a massive decline in its exports, foreign investments, and overall economic growth, resulting in the failure of trade and tariff policy implementations. Therefore, it was necessary to implement trade and tariff policy reforms in 2025–2026 to prevent further economic deterioration. In this process, organizations can also play a pivotal role in achieving this milestone, as they can rapidly adopt these policies and assist the state in their implementation. However, the primary focus of the government remains on trade and tariff reforms for 2025–2030. These reforms will enhance overall productivity, attract investments, and promote globalization.

On the other hand, the state should also consider short-term factors associated with policy implementation. It should focus on trade balances, state revenue, and competitiveness across different sectors of the economy. The state can analyze and determine the overall impact of implementing the trade and tariff policy 2025–2030 through foreign currency policy, rules and regulations, and the effectiveness of short-term measures. Pakistan's sustainable economic development will depend on the successful implementation of the policy. Therefore, Pakistan needs to revolutionize the industrial as well as service sectors to achieve sustainability, and these reforms have the potential to be crucial for long-term goals.

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