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Anti-Export Bias: The Case of Pakistan

Ali Ahmed Shah, Ravi Kumar, Muhammad Akmal, and Muhammad Ijlal Khan[*]

ABSTRACT

To investigate the cause of low export growth in Pakistan, this study estimates the anti-export bias for Pakistan's economy through a bias index (i.e., import exchange rate (1 + tariff rate) / export exchange rate (1 + subsidy rate)) from FY98 to FY21. The study finds an anti-export bias of around 7–10% from FY08 to FY21. The findings reinforce that tariffs, rather than export subsidies, warrant attention. Pakistan's trade policy framework also suggests that both the rate and structure of tariffs contribute to the anti-export bias in Pakistan. Literature suggests that low, uniform or minimally dispersed import tariffs could be a solution to this problem. However, tariff reforms are not successful in isolation and must be complemented with enabling structural reforms in other sectors of the economy. Recent policy steps to ameliorate this bias are welcome but require further action in crafting a unified macroeconomic framework, along with meaningful analysis on a suitable tariff structure in Pakistan.

Keywords: Trade Policy, Economic Impacts of Globalisation, Tariff Reforms, Anti-Export Bias, Macroeconomic Reforms

JEL Classification Codes: F13, F14 F62, H25, O24

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1. INTRODUCTION

Anti-export bias (the relative incentive to sell in the domestic market rather than to export) is considered one of the persistent structural barriers to Pakistan's export growth (IMF 2022b). The issue of anti-export bias in developing economies, particularly Pakistan, and its connection to tariffs and trade policies has been widely discussed in the literature. Research shows that protectionist measures increase input costs, creating a disincentive for exports and making domestic markets more attractive. This bias is exacerbated by complex and high tariff structures, including cascading tariffs, and non-tariff barriers. These policies have aggravated Pakistan's chronic trade deficits, leading to stagnant exports, and a narrow export base both in terms of products and markets.

Anti-export bias impacts exports through the input and output channels. The input channel increases costs for exporters due to tariffs on raw materials and intermediate goods, impacting their competitiveness in global markets. The output channel incentivises firms to focus on domestic markets, shielded by tariffs on finished goods, discouraging innovation and market efficiency. Protection creates artificial profit margins in the domestic market, stifling export potential.

Globally, trade liberalisation has enabled countries to integrate into global value chains, but Pakistan has bucked this trend by maintaining one of the highest weighted average tariffs among major exporters. The overuse of para-tariffs (e.g., regulatory duties and additional customs duties) for revenue generation and non-tariff barriers add layers of uncertainty. Therefore, Pakistan's approach has created significant obstacles to developing new export sectors and expanding existing ones. Current tariff reforms, which are planned to eliminate para-tariffs, are thus a welcome development in this regard.

This direction is consistent with recent cross-country evidence on tariff and revenue reform. Busse and Vogel (2024) find that IMF-supported programmes have historically played a significant role in driving tariff liberalisation in developing countries. This is often executed by bundling tariff conditionality with complementary revenue measures, underscoring a sequencing choice that helps explain why some reform episodes succeed while others stall in achieving intended objectives. Döbeling et al. (2025) find that the US trade deficit widens when the country refrains from trade liberalisation and implements protectionist policies, using CGE modelling on GTAP 11 data. Similarly, World Bank (2023) argues that customs reform in developing countries is overdue, given how far customs administration and tariff design have lagged the broader tax reform agenda.

On the revenue side, Benitez et al. (2023) estimate that low-income developing countries could raise substantial additional revenue through a combination of tax system reform and stronger institutions. This evidence supports the view that Pakistan's tariff simplification needs to be combined with domestic resource mobilisation rather than treating the two as separate reform tracks.

Empirical studies reinforce this understanding. Serra (2014) shows a negative correlation between import tariffs and exports in Mexico. Arnoletto et al. (2020) illustrate how protectionism in Argentina harmed agriculture and failed to boost industrialisation. Hossain and Karunaratne (2002) illustrate that trade liberalisation in Bangladesh reduced anti-export bias and spurred exports through increased imports of capital goods. Evidence from other developing countries further supports this finding by showing that tariffs are equivalent to a significant tax on exports.

More recent evidence from South Asia corroborates these earlier findings and points to the bias's persistence even after decades of fragmented liberalisation. In Bangladesh, Ginting et al. (2025) find that despite years of trade reform, excessive tariff protection continues to favour import-competing sectors over exporters. It is further argued that meaningful export diversification requires deliberate tariff rationalisation rather than reliance on export incentives alone. Estimates from Sattar and Musrat (n.d.) place Bangladesh's average nominal rate of protection at roughly 47%, against an average export subsidy rate of under 8%. The gap illustrates how far incentive structures in the region still tilt toward the domestic market. The literature also links anti-export bias to weaker revenue mobilisation and larger informal sectors in developing economies, pointing out that, similar to Bangladesh, the bias in Pakistan is also unlikely to correct itself without a parallel effort to broaden the tax base.

Pakistan's policy documents and empirical research echo these findings. The National Tariff Policy of 2019–24, the IMF (2022b), and the State Bank of Pakistan (2015; 2020) all point to the presence of an anti-export bias, linking it to high tariffs on imported inputs, low trade volumes and import substitution policies, respectively. The World Bank (2021) notes that Pakistan's tariff structure is particularly complex with marked cascading, further intensifying the anti-export bias. Haque and Siddiqui (2017) and Khan et al. (2017) confirm that a high effective rate of protection negatively impacts productivity, especially in the manufacturing sector, indicating that reducing EPR could increase productivity. In addition, the literature emphasises understanding and addressing anti-export bias, particularly through tariff reforms and trade liberalisation, which is crucial for fostering economic growth in developing countries like Pakistan.

With this background, this study estimates the anti-export bias in Pakistan through the ratio of the effective exchange rate for imports (EERm) and effective exchange rate for exports (EERx). This methodology is used to: (a) capture exchange rate dynamics; (b) utilise reliable data; and (c) observe the trend in anti-export bias over time unlike other methodologies that estimate bias at a given point of time. This analysis aims to show that tariffs served as a structural impediment to exports in trade policy in Pakistan. After establishing this fact, the paper attempts to explore potential solutions and key policy lessons to meaningfully reform the structural constraints to export growth.

The study's estimates show that the anti-export bias for Pakistan ranges from 7–10% since FY08, as Pakistan's trade policy framework continues to prioritise import substitution through its incentive structure, suggesting that the existing tariff structure contributes to an anti-export bias in Pakistan. Though the size of this anti-export bias has decreased over time, as a result of past liberalisation efforts, it still continues to exist. In fact, tariffs in Pakistan are still higher than those in EMDEs. On top of this, para-tariffs and non-tariff barriers have exacerbated this trend. In this regard, the latest National Tariff Policy which aims to reduce tariffs and phase out para-tariffs by 2030 is a welcome step in reducing this historical bias (Commerce Division, Ministry of Commerce and Textile 2025).

The findings of this study highlight the need to prioritise tariff reforms over export subsidies in policy discussions, as export subsidies can be distortive and ineffective in achieving economic objectives, especially if government spending is inefficient. Furthermore, with the implementation of a market-determined exchange rate regime, consideration must be given to Pakistan's tariff policy. Finally, tariff reforms should not be conducted in isolation and should be coordinated with measures in other sectors of the economy.

A key solution that emerges from the literature, and tested in the case of Chile, is the adoption of low, uniform or minimally dispersed tariffs, which will simplify tariff structures to reduce this bias. Amongst the benefits of uniform or minimally dispersed tariffs are: (a) reduced incentives for lobbying for protectionism; (b) a simplified trade regime; and (c) lower government distortions. Based on both literature and country experiences, this study argues that trade and tariff liberalisation alone, without complementary reforms, is unlikely to succeed. Instead, a comprehensive reform agenda is needed – one that aligns trade policy with sustainable revenue generation and prioritises integration into global markets. The findings suggest that coordinated reform efforts with synergy across multiple policy levers are needed to materialise trade and tariff reforms, in order to address the underlying anti-export bias in the economy, achieve sustainable growth and global integration.

Although some important steps have been taken in trade policy recently, there is yet to be an explicit and coherent macroeconomic framework for these reforms. Without creating synergy across different sectors and policies, trade liberalisation may not reap the envisioned dividends. Moreover, tariff policy still maintains a cascading structure, which this study shows is against the global best practices of uniform or minimally dispersed tariffs. The case for embedding tariff reform within a broader macroeconomic framework is reinforced by recent work on reform sequencing in developing and fragile economies. Boussard et al. (2024), across a sample of fragile and conflict-affected states, find that well-sequenced structural reforms such as spanning public finance management, institution-building, economic diversification, and financial inclusion ultimately translate liberalisation into improved macroeconomic outcomes, rather than any single policy change in isolation.

While Pakistan is not itself classified as fragile or conflict-affected, IMF (2024) emphasises that the underlying lesson is directly applicable: tariff and trade reform yields limited dividends when pursued without complementary fiscal, exchange rate, and institutional reforms moving in tandem. The IMF's broader emphasis, under its 2022 FCS strategy framework, on tailoring reform sequencing to country-specific constraints strengthens the case for a coherent macroeconomic framework (IMF 2022a). As a result, further discourse and analysis is still needed on the structure of tariffs and an expanded macroeconomic framework for a globally integrated economy.

The rest of the paper is organised as follows: Section 2 presents methodologies to estimate anti-export bias and estimation results of this paper. Section 3 states major causes of anti-export bias in Pakistan. Section 4 explores a solution to anti-export bias based on economic literature. The last section concludes the paper and offers policy recommendations based on the insights gathered from the analysis.

2. ANTI-EXPORT BIAS FOR PAKISTAN: DISCUSSION OF ESTIMATES

In light of a recent study commissioned by the National Tariff Commission, which uses three methods, i.e., Nominal Protection Rate (NPR), Effective Protection Rate (EPR) and Domestic Resource Cost (DRC), this section estimates the anti-export bias in Pakistan's economy through a bias index, which weighs whether the economy favours import substitution or export orientation. Details of these methodologies are as follows:

Nominal Protection Rate (NPR): This approach measures the direct impact of tariffs on output prices of export goods. Higher tariffs on intermediate inputs or export goods discourage firms from engaging in export activity, contributing to anti-export bias. It is calculated as:

$$NPR = \frac{(price\ of\ the\ final\ product - price\ of\ the\ imported\ product)}{price\ of\ the\ imported\ product}$$

In simple terms, NPR on any good is the proportional difference between its domestic and international price arising from the trade policies. The higher the NPR, the higher the extent of protection for domestic industries affecting the export prospects.

Effective Protection Rate (EPR): The EPR is a measure of the degree of protection afforded to domestic industries by trade policies, taking into account both tariffs on final goods and tariffs on imported intermediate goods. It is calculated as:

$$EPR = \frac{(value\ added\ in\ domestic\ production - value\ added\ without\ tariffs)}{value\ added\ without\ tariffs}$$

The EPR provides a more nuanced understanding of the overall protection afforded by the tariff structure to the industry. A higher EPR indicates a greater level of protection for the value added (profit) generated by the domestic industry, thus compromising the exports prospects of an economy.

Domestic Resource Cost (DRC): The DRC assesses the value of using local resources for foreign exchange through domestic production.

$$DRC = \frac{total\ resource\ costs\ (distortion\ free)}{domestic\ output\ (at\ world\ prices)}$$

where: total resource costs (distortion free) include all the costs associated with producing a specific quantity of a good or service*, encompassing both labour and capital costs, domestic output (at world prices) represents the quantity of the goods or service produced domestically.*

If the DRC is greater than 1, it implies that the domestic industry is inefficient, at a cost disadvantage and can be rendered as less competitive in global markets.

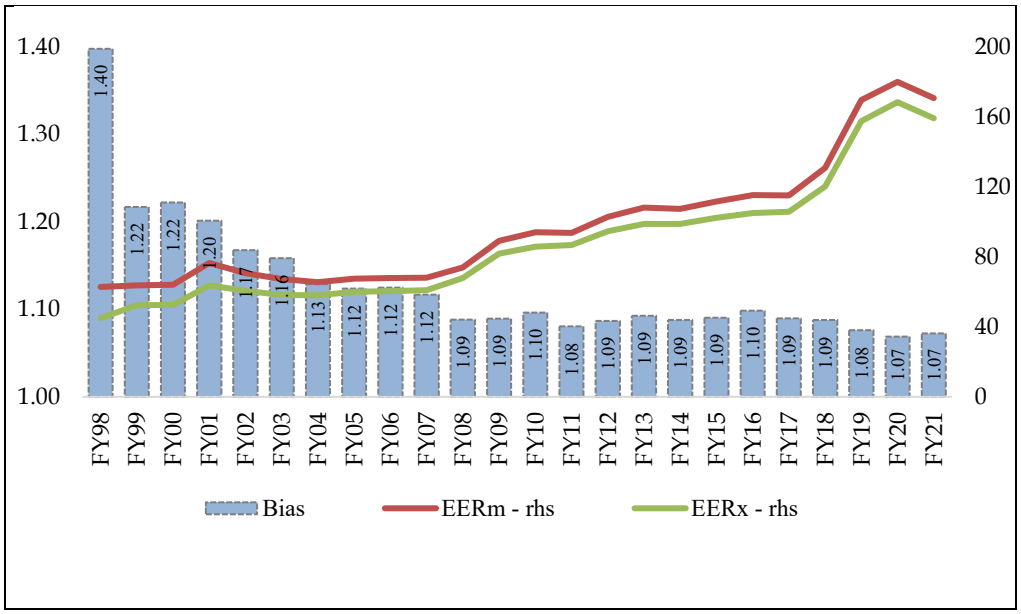
The National Tariff Commission (2023) estimates EPR at 77%, which suggests that trade policies, such as tariffs or other measures, contribute to a 77% increase in the value added in the domestic production process. In the case of DRC, a value greater than 1 implies that the domestic industry is inefficient, producing at a cost disadvantage, and thus can be deemed to be less competitive in global markets. The NTC (2023) finds a DRC of 1.44, which implies that the total cost incurred by the country to produce one unit of good is 1.44 units of resources – a relatively higher overall cost of production in terms of domestic resources. The NTC (2023), through its estimates of EPR and DRC, conclude that industries in Pakistan are reliant on protectionism and would struggle against foreign competition. NTC estimates take into account market orientation, size of industry and type of goods through these metrics. However, their estimates, like many studies, are at a single point in time.

It may be noted that the focus of this study is tariffs and export subsidies because both are regulated under World Trade Organization (WTO) rules. The WTO maintains a clear stance on export subsidies under the Agreement on Subsidies and Countervailing Measures (SCM Agreement). It views domestic subsidies as being distortive and inefficient for achieving internal economic objectives, whereas export subsidies can lead to adverse spillovers beyond national borders. In the case of Pakistan, findings on the impact of subsidies are mixed. Although some studies show a positive relationship with exports (Defever et al., 2020), others find a marginal or negative effect. For example, one study found that in the long-run, the export financing scheme had a negative effect on exports while the rebate/refund scheme affected exports insignificantly. Naqvi et al. (2019) showed that a 5% increase in export subsidies will increase exports by just 0.005%. These findings reinforce that tariffs, rather than export subsidies, warrant greater attention in policy discussion.

Keeping in view recent studies with updated estimates through methods such as NPR, EPR and DRC, we employ the EERm/EERx methodology used in the past for Pakistan (Khan and Ali 1998; World Bank 2006; Ahmed et al., 2010) and in other countries like Bangladesh (Ahmed 2024). This adds to trade policy discourse in Pakistan due to the dated nature of research in Pakistan using this methodology and the availability of a longer time series. The

EERm/ EERx method was first used in the 1970s to investigate if an economy favoured the import substitution model or export-led model, in light of diverse strategies such as multiple exchange rates, quantitative restrictions or a liberalised trade regime (Krueger 1978). This index thus examines the incentives inherent in the economy which suits the macro-based analysis in this study. Furthermore, it provides a long-term analysis of the factors that influence exports, accounting for an important element of pricing through the exchange rate.

Figure 1: Anti-Export Bias for Pakistan



Source: Calculations based on State Bank of Pakistan and Ministry of Finance.

The anti-export bias of trade policy can be estimated using the ratio of the exchange rate augmented by the tariff rate in the numerator, and the exchange rate augmented by the subsidy rate in the denominator.

$$\frac{EERm}{EERx} = \frac{exchange\ rate\ (1+\ tariff\ rate)}{exchange\ rate\ (1+\ subsidy\ rate)}$$

where the numerator reflects the effective exchange rate for imports (EERm) and the denominator represents the effective exchange rate for exports (EERx).

The ratio obtained from the above formula can be interpreted as:

- If the ratio is less than 1: trade policy favours exports over domestic production.
- If the ratio is equal to 1: trade policy is neutral, as it offers a similar set of incentives for exports and domestic production.

- If the ratio is greater than 1: trade policy is biased towards domestic production over exports (reflecting a stronger anti-export bias in trade policy).

For the purpose of analysis, the sstudy calculated the export subsidy rate from primary data sources such as SBP and MoF. For exports, EERx represents the exchange rate adjusted for existing export promotion schemes, such as subsidised export credits and any other forms of subsidy meant for export of goods (this includes subsidies provided for export of wheat, wheat flour, sugar, textiles; freight subsidies on exports of sugar; power and LNG subsidies for export-oriented industries, as per budget documents available online and physically). Thus, EERx represents a domestic currency equivalent of proceeds from exports worth one unit of foreign currency. For imports, as explained earlier, EERm refers to the nominal exchange rate adjusted for import tariffs and any scarcity premium that exchange controls may generate (weighted mean applied tariff has been used in calculation of EERm). As such, the EERm indicates the domestic currency cost of one unit of foreign currency (USD 1, in this case) worth of imports. The data, along with detailed calculations, is summarised below (Table 1). Given data limitations, this calculation was possible from FY98 to FY21.

Table 1: Estimates of Anti-Export Bias

	Export Finance	EFS Markup	WALR	Incentive	Exports	Exchange Rate	EFS Subsidy		Other Subsidies*		Export Subsidy	EERx	Tariff	EERm	Bias
	Outstanding in bln PKR	rate in percent	rate in percent	difference in percent	in billion USD	average for FY	in billion PKR	in billion USD	in billion PKR	in billion USD	in percent		average in percent		
	A	B	C	D = C – B	E	F	G=A*D	H=G/F	I	J=I/F	K=(H+J)/E	L=F(1+K)	M	N=F(1+M)	N/L
FY98	53.6	11	15.6	4.6	8.6	44.6	2.47	0.06	0.01	0.00	0.65	44.89	40.69	62.75	1.40
FY99	81.0	9	14.8	5.8	7.8	51.7	4.70	0.09	0.00	0.00	1.17	52.30	23.13	63.66	1.22
FY00	75.1	9	13.5	4.5	8.6	52	3.38	0.06	0.00	0.00	0.76	52.39	23.12	64.02	1.22
FY01	75.5	10.5	13.7	3.2	9.2	63.4	2.42	0.04	0.00	0.00	0.41	63.66	20.62	76.47	1.20
FY02	59.3	8	12.1	4.1	9.1	60.1	2.43	0.04	0.54	0.01	0.54	60.43	17.39	70.55	1.17
FY03	56.7	3	7.6	4.6	11.2	57.7	2.61	0.05	2.32	0.04	0.76	58.14	16.71	67.34	1.16
FY04	88.3	4	5.1	1.1	12.3	57.9	0.97	0.02	0.00	0.00	0.14	57.98	13.02	65.44	1.13
FY05	109.4	5	8.2	3.2	14.4	59.7	3.50	0.06	1.30	0.02	0.56	60.03	13.00	67.46	1.12
FY06	108.0	9	9.9	0.9	16.5	60.2	0.97	0.02	0.96	0.02	0.19	60.32	12.71	67.85	1.12
FY07	134.4	7.5	10.3	2.8	17	60.6	3.76	0.06	0.12	0.00	0.38	60.83	12.11	67.94	1.12
FY08	142.8	7.5	12.8	5.3	19.1	67.4	7.57	0.11	0.60	0.01	0.63	67.83	9.50	73.80	1.09
FY09	177.4	7.5	14.3	6.8	17.7	81.1	12.06	0.15	0.29	0.00	0.86	81.80	9.88	89.11	1.09
FY10	185.5	9	13.2	4.2	19.3	85.4	7.79	0.09	0.60	0.01	0.51	85.83	10.20	94.11	1.10
FY11	190.5	11	14.9	3.9	24.8	85.9	7.43	0.09	12.00	0.14	0.91	86.68	9.02	93.65	1.08
FY12	164.8	9.5	13.6	4.1	23.6	94.3	6.76	0.07	0.22	0.00	0.31	94.60	9.02	102.81	1.09
FY13	177.8	9.4	11.1	1.7	24.5	98.7	3.02	0.03	0.00	0.00	0.12	98.82	9.41	107.99	1.09
FY14	160.5	9.4	11.5	2.1	25.1	98.6	3.37	0.03	0.00	0.00	0.14	98.73	8.92	107.40	1.09
FY15	199.1	6	9.1	3.1	23.7	101.8	6.17	0.06	6.10	0.06	0.51	102.32	9.58	111.55	1.09
FY16	222.4	6	7.7	1.7	20.8	104.7	3.78	0.04	1.33	0.01	0.23	104.95	10.09	115.26	1.10
FY17	249.9	3	7.5	4.5	20.4	104.9	11.25	0.11	4.55	0.04	0.74	105.67	9.77	115.15	1.09
FY18	300.5	3	7.8	4.8	23.2	119.4	14.42	0.12	2.50	0.02	0.61	120.13	9.45	130.68	1.09
FY19	382.6	3	11.5	8.5	23	156	32.52	0.21	3.50	0.02	1.00	157.57	8.69	169.56	1.08
FY20	496.3	3	10.1	7.1	21.4	165.6	35.24	0.21	24.00	0.14	1.67	168.37	8.67	179.96	1.07
FY21	587.4	3	8	5	25.3	156.5	29.37	0.19	36.98	0.24	1.68	159.12	9.03	170.63	1.07

***Note:** *includes subsidies provided for export of wheat, wheat flour, sugar, textiles; freight subsidies on exports of sugar; Power and LNG subsidies for export-oriented industries as per MoF budget documents. Data prior to FY09 is not publicly available.*

Source: Author's calculations based on SBP and MoF data.

The estimates show a decline in bias since the early 2000s (Figure 1). Both tariff and subsidy policies have seen some improvement: tariffs have fallen from a high of 41% in FY98 to 9% in FY21, while subsidies, as a percentage of exports, have increased from a low of 0.1% in FY13 to 1.7% in FY21. It may, therefore, be concluded that the decline in bias is largely due to the substantial trade liberalisation in Pakistan when customs duties

fell drastically. However, with the average bias of around 7–10% since FY08, it can be concluded that the structure of incentives created by trade policy still favours the production of import substitutes. It also constitutes a significant barrier to the emergence of new exports and to the expansion of existing exports.

As per Trade Barrier Index (Thompson 2025), Pakistan has a comparable level of NTBs to LMIC economies. As a result, NTBs may serve to strengthen the anti-export bias in Pakistan but may not be a significant enough factor on its own to skew the results. The imposition of para-tariffs serves as another key element which inhibits exports in Pakistan. The unavailability of consolidated data for additional customs duty and regulatory duty serves as a limitation to the estimates of this study, however it is likely to increase the quantum of the anti-export bias rather than reverse the direction of the findings. Therefore, the bias estimates of this study are likely conservative as the inclusion of additional customs duty and regulatory duty will increase the size of the anti-export bias. This may help to explain why Pakistan's export performance has been weaker than its peers. Moreover, the average bias masks the asymmetries in anti-export bias faced by different industries. For example, Haque and Siddiqui (2017) show that manufacturing receives more protection than agriculture and services, implying a higher anti-export bias in that sector.

Further, the results are in line with earlier studies relying on different methodologies, which suggest the existence of anti-export bias in Pakistan. Moreover, the calculations have been subjected to a robustness check through an alternate source for the subsidy rates, which is the variable without a dedicated dataset. The exchange rate is available with the State Bank of Pakistan and average tariff rate, taken from macro trends, corroborates different studies. We thus check the calculations with the average export subsidy rate taken from Naqvi et al. (2019). The results are summarised in Table 2.

Table 2: Robustness Check Using Alternative Subsidy Rates

Period	Avg. Exchange Rate	Avg. Tariff Rate	Avg. Subsidy Rate	EERm	EERx	Anti-export Bias
FY05	59.38	13.00	9.32	67.10	64.91	1.03
FY10	83.91	10.20	5.36	92.47	88.41	1.05
FY15	101.44	9.58	7.07	111.16	108.61	1.02
FY20	158.26	8.67	6.21	171.98	168.10	1.02

Sources: Calculations based on State Bank of Pakistan, Macro trends and Naqvi et al. (2019).

These robustness checks support the direction of the results, although with a smaller bias of around 2–5%, and also suggest the existence of anti-export bias in trade policy of Pakistan. Studies have also found that the tariff structure is skewed towards protecting domestic industries and generating revenue through levying more tariffs on imports. This

study thus supports the recent tariff policy which commits to reducing tariffs and plans to phase out para-tariffs altogether. Besides the tariff structure, there are other factors that cause anti-export bias, discussed in the next section.

3. CAUSES OF ANTI-EXPORT BIAS IN PAKISTAN

In Pakistan, several factors contribute towards an anti-export bias, including import-substitution policies and high tariff and non-tariff barriers, overvalued exchange rate, limited access to finance, inefficient tax system, limited value addition, and policy inconsistency. These structural inefficiencies have hindered Pakistan's ability to diversify its export base, impeded innovation, and increased the economy's exposure to external vulnerabilities.

3.1 Import Substitution

Pakistan's trade policies have traditionally focused on import substitution, prioritising the growth of domestic industries while overlooking the importance of sustaining export competitiveness. This contrasts with East Asian economies, which balanced import substitution with export incentive schemes such as duty exemptions and free-trade zones, leading to higher exports; Pakistan, on the other hand, had high input costs leading to a strong anti-export bias (Weiss 2005).

High tariffs have remained a hallmark of Pakistan's trade policy, significantly influencing economic growth, industrial development, and trade dynamics. In FY98, the country's average tariff rate stood at around 47% (Table 3). However, in line with global trade liberalisation trends, Pakistan gradually attempted to reduce tariffs. By 2003, these efforts led to a decrease in the average tariff rate to around 17.3% (Pursell 2011). These rates decreased to around 9% by FY21 (Table 3). Despite these past efforts, Pakistan's tariff structure has remained skewed towards import substitution (Nasir 2020). As shown in the following section, this is pronounced in the escalation tariff structure Pakistan adopted, with higher tariffs as the processing of goods increases.

Before the latest reforms, Pakistan's tariffs were high, complex, and marked by various changes, making trade policy uncertain. The complexity and unpredictability are pronounced due to various para-tariffs, imposed for revenue generation. For example, initially regulatory duties were narrower but over time their expansion affected the costs of various imported inputs, hindering export competitiveness (International Trade Administration 2022). The increase in input costs disadvantaged exporters, especially small and medium exporters who did not have access to duty exemption schemes. Furthermore, the removal of a 0% duty slab led to much higher costs eroding export competitiveness (Commerce Division, Ministry of Commerce & Textile 2019).

The Import Substitution Industrialisation strategy initially created to promote self-reliance and industrialisation by shielding nascent industries from foreign competition required high tariffs and non-tariff barriers. However, this policy failed to spur export growth and instead

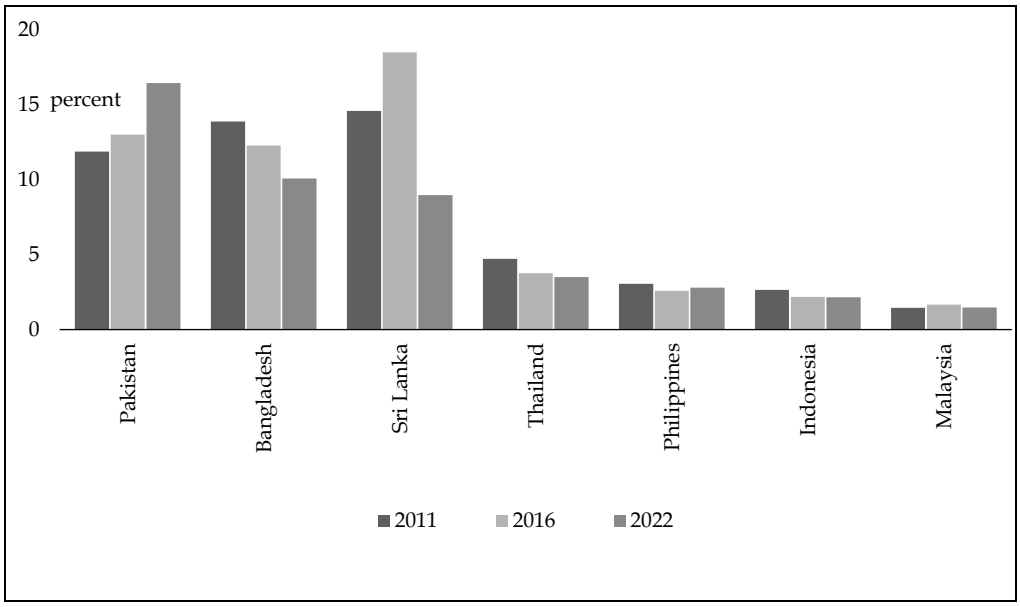
created structural inefficiencies and inward-seeking firms which failed to compete internationally (Zeshan 2023). Import substitution was thus a policy stream that cemented protectionism in Pakistan, without promoting export growth. The natural consequence of this policy was to promote domestic production and industrialisation. However, without introducing foreign competition, this became a policy which created an anti-export bias in Pakistan.

Table 3: Pakistan Tariff Rates

	FY90	FY98	FY01	FY06	FY16	FY21
All Products (%) (average)	64.8	47.1	24.8	14.4	14.8	9
Industrial Products (%)	66	n.a	24.3	10.4	13.2	15.3
Agricultural Products (%)	57.2	n.a	28	15.6	15.4	n.a
Normal Maximum (%)	125	65	45	25	20	n.a
Number of Slabs	17	14	6	4	5	n.a

Sources: National Tariff Commission and World Bank.

Figure 2: Customs Collection as a Percentage of Tax Revenue



Sources: Revenue Statistics Organisation for Economic Co-operation and Development and Federal Board of Revenue.

3.2 High Tariffs Used as a Revenue Generation Measure

Pakistan's tariff regime has become a complex system, motivated by revenue generation, rather than trade. Despite the mandate of the Commerce Division to set tariffs, due to revenue needs, the Federal Board of Revenue (FBR) was allowed to impose para-tariffs to meet targets. This has been a major source of distortion because tariffs were not used as a trade tool, rather they became a part of revenue policy. When compared to peer economies, Pakistan's reliance on custom duty revenue remained the highest in recent years (Figure 2). The previous National Tariff Policy also flagged this as a major concern for trade policy.

3.3 Role of Non-Tariff Barriers

Non-tariff barriers (NTBs) have played a silent role in exacerbating anti-export bias in Pakistan. NTBs in Pakistan include measures such as extensive documentation requirements, technical standards, and safety regulations. NTBs have created frictions in international trade for Pakistan, with various processes hindering trade or serving as a silent way to protect certain industries. NTBs are often associated with limited regional economic integration.

3.4 Overvalued Exchange Rate

Exchange rate policy has had a direct impact on Pakistan's export performance. As theory suggests, depreciation has made Pakistani goods price-competitive, as opposed to overvaluations, inconsistency and unpredictability in past policies, which have created uncertainty for exporters in pricing and contracts (Zubair 2014).

Various periods in Pakistan have seen an exchange rate regime with many interventions. This system provided short-term stability at the cost of sustainability and the flexibility to smooth over external shocks and benefit exporters. These past policies resulted in overvalued exchange rates leading to chronic trade imbalances and depleting foreign exchange reserves (Zaidi 2006). For example, between 2015 and 2018 the real effective exchange rate saw continuous increases, which saw a parallel decrease in exports as a percentage of GDP, showcasing the potential negative impact of exchange rate policy.

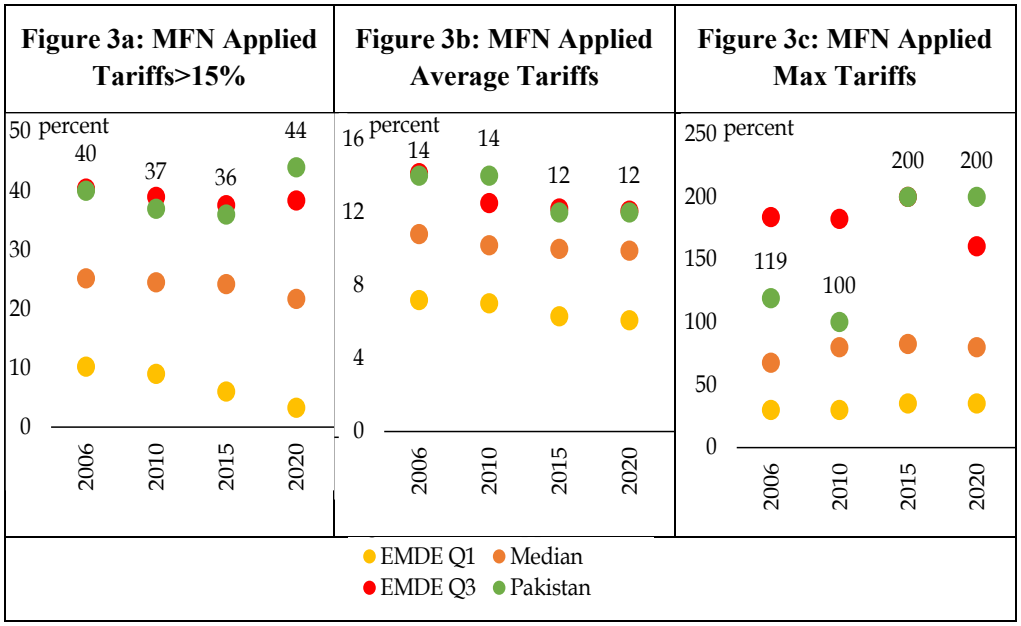
An overvalued exchange rate and inconsistent trade policies discouraged investment in export sectors. Inconsistent exchange rate policies with steep depreciations created uncertainty which dampened investment and capital expansion. As a result, Pakistan has had an export base with a higher share of low-value-added products (Brun 2020).

Rapid swings in the exchange rate often led to inflationary pressures, mitigating the immediate benefits of depreciations. This was felt during inflationary episodes during 2008–2013, where increased costs eroded the potential competitive gains for exports. Additionally, the absence of structural reforms, such as improvements in energy infrastructure and taxation, further undermined the effectiveness of currency adjustments. Thus, the exchange rate has also functioned as a source of anti-export bias in certain periods, with steep adjustments limiting the full benefits of depreciations.

4. ADDRESSING ANTI-EXPORT BIAS

Having established the anti-export bias in Pakistan's economy, the question that arises is what are the possible remedies to this problem? Given the commitment to maintaining a flexible exchange rate regime, focus should be on reforming tariff policy. Comparing Pakistan's tariffs with emerging and developing economies (EMDEs), it is evident that tariffs are still higher than the median EMDE economy (Figure 3). The share of Pakistan's tariffs above 15% and its maximum MFN tariffs do not fare well, as they fall in the third quartile of peer economies. The impact of these high tariffs is further exacerbated by non-tariff barriers and additional taxes imposed on top of customs duties.

Figure 3: Comparison of Pakistan's Tariffs with Emerging and Developing Economies



Note: Exclude outliers > 1000.

Source: World Trade Organization.

4.1. Literature on Pakistan Generally Proposes Low, Uniform or Minimally Dispersed Tariffs

Several studies suggest low, uniform or minimally dispersed tariffs as a central part of a broader trade and tariff reform agenda. For example, the IMF (2022b) recommends Pakistan 'rationalise tariffs in line with international practices… [and] aim for low tariffs at uniform rates.' Similarly, the SBP (2020) also notes that Pakistan should 'strive to streamline and rationalise trade tariffs by committing to a minimal and uniform structure…' Qadir (2020) in his critique of the National Tariff Policy (NTP) of 2019–24 also gives his expectation that the NTP should address existing issues to establish a 'tariff regime that is

uniform and low, and relatively free of distortions.' Pursell et al. (2011) in their analysis of Pakistan's trade policy find that a uniform tariff would create the least distortions in the economy and so tariffs should be as uniform as possible and as low as possible. The World Bank (2020) also notes that within 10 years Pakistan could rationalise tariffs by applying a low uniform rate to all items at the HS-8 level.

Where uniform tariffs are not explicitly analysed, uniformity is indirectly referenced through the criticism of cascading tariff structures, which implies that reduced cascading is positive for trade. Therefore, this implicitly accepts the principle of reduced dispersion. The World Bank (2021) in its Pakistan Development Update recommends 'gradually reducing import duties and tariff cascading.' Similarly, Varela et al. (2020) recommends that the 'the National Tariff Board [should] … commit to a simple and transparent tariff structure, with low average tariffs and minimum dispersion.' There is broad consensus in this characteristic of tariff reform in Pakistan, i.e., there should be a low, uniform or minimally dispersed tariff structure. A detailed discussion is thus merited to understand the applicability of this solution in Pakistan.

4.2. Global Literature and Adoption of Low, Uniform or Minimally Dispersed Tariffs

Some of the key arguments against this policy, often cited in Pakistan, are protection of infant industries and/or sectors undergoing restructuring, using tariffs as revenue generation tools and compressing imports for BoP constraints. Other arguments also include the use of tariffs to exploit a monopsony position or a strategic use of tariffs as a negotiating or bargaining tool (Tarr 2000). On the other hand, proponents of uniform tariffs cite the political economy as a major reason to implement this policy. Differentiated tariffs encourage interest groups to lobby to capture the rents of a higher tariff. These rents are extracted by an 'iron triangle of interest groups' which contain firms, labour and government officials (Krugman 1993). Uniform tariffs reduce incentives to lobby and instead signal to the market that efficiency is a determinant of success, rather than political manoeuvring.

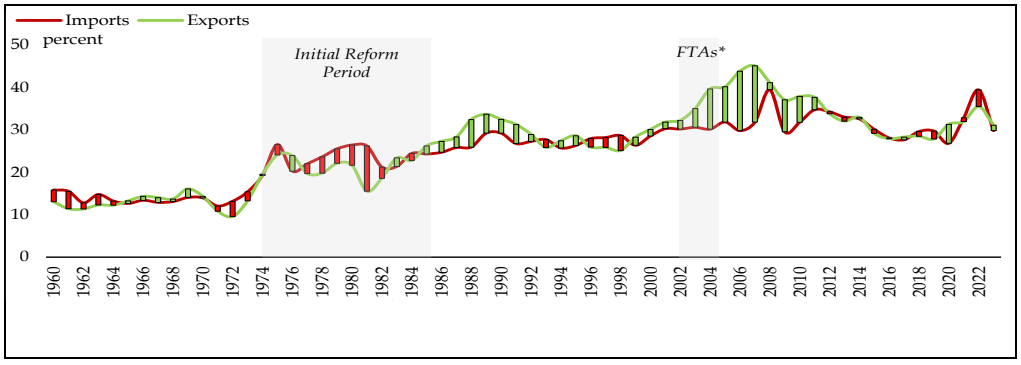
Additionally, uniformity also reduces distortions created by governments, as the state is no longer involved in selecting winners and losers (Subramanian 1994; Tarr 2000). Finally, it creates administrative ease and reduces the incentive for smuggling and mis-declaration of goods – this is due to the simplicity of the trade regime and a lower reward for escaping tariffs and duties (Subramanian 1994; Tarr 2000). It is interesting to note that protection of final goods through escalating tariffs is not necessarily the best choice for various economies. In fact, a study has found that escalating tariffs can be the worst choice when compared to deescalating and uniform tariffs (Amiti 2004). This reinforces the need for tariff reform in Pakistan away from its current policy of differentiated and escalated tariffs.

4.2.1. Uniform Tariffs in Practice: The Case of Chile

Having analysed the theoretical arguments for a uniform tariff, it is worthwhile to explore the real-world policy experience of Chile, one of the forerunners of this type of reform. Chile is a regularly cited case study for tariff reforms in the literature, because it successfully implemented uniform tariffs to reduce anti-export bias in its economy. Its reforms are also instructive from the standpoint of the political economy, which is especially relevant for the case of Pakistan. The reform efforts were possible due to the takeover of the Pinochet administration in 1973, which was insulated from past vested interest groups (Corbo 1997). The reforms, which took place in the 1970s and 1980s, transformed the country's trade policy, from one that was largely protectionist, marked by government intervention and anti-export bias (Corbo 1990), to a largely liberal and free market regime. The reforms aimed to reduce tariff rates, which ranged from 0 to 750%, to a uniform and low rate of 10% (Corbo 1990).

The uniform tariff was officially announced in 1979; this was followed by some backsliding on reform efforts between 1982–1984 (Stallings 2009). However, the liberalisation process was renewed from 1985 onwards, and the uniform tariff was re-established in 1988 at 15%, with further reductions to 11% in 1991 (Stallings 2009). As a result of these measures, Chile saw an increase in exports and an improvement in its external balance (Figure 4 and 5). This culminated in stronger economic and productivity growth in the Chilean economy.

Figure 4: Imports and Exports of Chile (% of GDP)



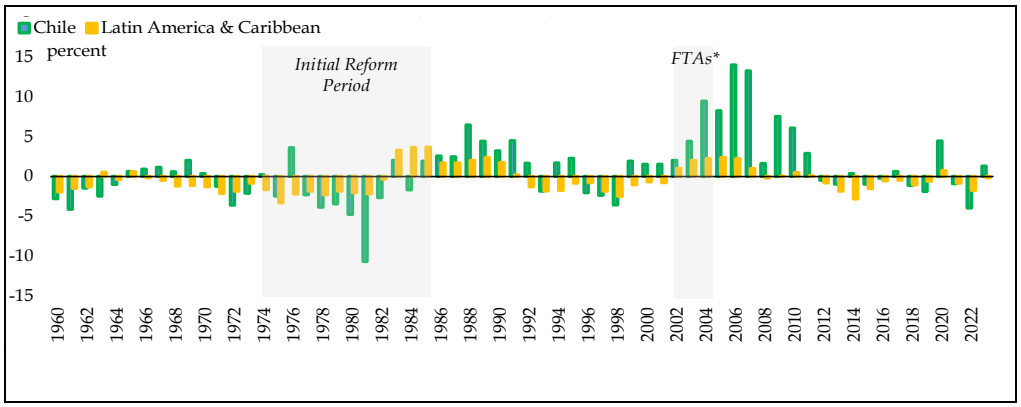
Note: Green / red bars represent higher exports/imports as a percentage of GDP; *FTAs signed with EU, USA and South Korea.

Source: World Bank.

Tariff uniformity led business groups to lobby for lower tariffs because of the reduced benefit of higher tariffs to any party (Tarr 2000). In this way, trade started to be viewed as a 'public good' which was for the benefit of all, rather than a particular set of vested interest groups (Schiff 2002). This increased the transparency and simplicity for trade, realigning incentives towards efficiency. Empirical evidence showed that there were productivity

gains due to the tariff cuts for both exporters and indirect exporters in the Chilean economy (Schiff 2002).

Figure 5: External Balance: Goods and Services (% of GDP)



Note: FTAs signed with EU, USA and South Korea.

Source: World Bank.

The case of Chile is demonstrative of the fact that liberalisation can improve external positions, especially when taken in lockstep with other complementary policies. For example, the reforms also featured an accommodative exchange rate, fiscal austerity and efforts to control high inflation (Corbo 1990). Moreover, these reforms were taken forward in the 1990s and 2000s through many FTAs and PTAs, which further boosted exports and external balances (Linarello 2018). Therefore, the liberalisation effort must be viewed holistically, with synergy across different policy levers. This is further supported by diverse country experiences, such as those in Vietnam, India and Thailand, where tariff reductions were a part of a larger reform agenda with compatible policies. The interlinkages between trade distortions and other policy imperatives, such as revenue generation and employment, thus require a coordinated and systematic approach.

Having analysed uniform tariffs through global literature, it is worth exploring how this solution fits in the context of Pakistan:

4.3. Tariffs: Second Best Policy Tool for Revenue Generation and Addressing BoP Constraints

The issues of revenue generation and BoP constraints are major concerns regarding the adoption of trade liberalisation in Pakistan. However, tariffs are the second-best policy measure to address fiscal and BoP constraints. For the former, the role of tax policy is the primary method to sustainably grow revenue, whilst for the latter, it is exchange rate policy. Raising revenue through higher tariffs can depress import demand, which reduces revenue. Higher tariff rates can thus potentially fetch lower revenue for government coffers (Kowalski 2005). Additionally, tariffs only impact on one side of the BoP, i.e., imports. On

the other hand, the best policy measure for addressing trade imbalances is the exchange rate, which has a direct impact on both imports and exports (Tarr 2000). Thus, in the context of fiscal consolidation and policy measures to increase tax compliance, tariffs can be systematically graduated towards uniformity/minimal dispersion. Moreover, the flexible exchange rate policy could play a central role in addressing BoP issues in Pakistan, creating room for continued tariff liberalisation.

4.4. Strong Political Economy Considerations in Pakistan

Research shows the strong presence of elite capture and vested interests in dictating Pakistan's trade paradigms (Malik and Duncan 2022). The use of protection has created a strong business-political nexus, which influences policy not to grow trade but to preserve rents, consistent across different governments and administrations (Malik and Duncan 2022). The political implications of uniform tariffs can serve to move the country away from lobbying and trade distortions. Given that entrenched groups also become a hindrance to the implementation of such policy reforms, political willingness and consensus are required. Moreover, the benefits of simplified administration, reduced incentive to smuggle/mis-declare and lower government distortions also serve as relevant considerations in Pakistan.

4.5. Tariff Uniformity will Reduce Government Distortions

An argument to continue policies in the status quo are state directed models, such as those in East Asia, which grew exports alongside protectionist policies. A key pre-requisite for such policies is the state's ability to repel vested interest groups, mitigate market distortions and create a delicately balanced system of incentives to minimise anti-export biases and instead enhance export orientation. Such a model requires strong government, policy and administrative capacity, failing which there is a risk of skewing the market towards inefficiencies. Given the past problems of the Pakistani state to subject trade policy to rigorous, research backed and long-term considerations, it is perhaps better to roll back government overreach from trade policy to mitigate distortions. Uniform or minimally dispersed tariffs, reduce government distortions and free the market to reward producers purely on efficiency. Moreover, such a trade policy will create a business-friendly environment. The government can instead direct efforts towards facilitation and governance e.g. market intelligence, policy making and research.

5. CONCLUSION AND POLICY RECOMMENDATIONS

Inward-oriented trade policies have reduced export competitiveness and perpetuated entrenched structural inefficiencies. High and cascading tariffs have led to anti-export biases which incentivised domestic markets over exports. Input tariffs increase costs for producers, while output tariffs shield industries from foreign competition, leading to rent-seeking behaviour. The latest National Tariff Policy 2025–2030, which commits to rationalising import tariffs to foster export-led growth, is a step in the right direction. Yet,

there is still much to be done: the policy does not reform the cascading structure of Pakistan's tariffs, which literature shows can be inefficient for certain country contexts. Moreover, it does not create a whole-of-government approach, as tariff reforms alone cannot drive this transformation. It must be accompanied by complementary reforms across the economy to enhance economic competitiveness and provide an enabling environment.

The evidence from empirical analyses, including NPR), EPR, DRC and other ratios, finds an anti-export bias and underscores the inefficiencies bred by Pakistan's tariff regime. Study estimations also strengthen these findings, with evidence consistent with an anti-export bias in Pakistan. The size of this bias has decreased over time; however, this trend has stagnated in recent times (due to non-availability of time series data on para-tariffs, estimates of anti-export bias only accounts for customs duty). The recent commitment to phase out para-tariffs and reduce tariff rates is thus a key step to eliminating this bias.

Export facilitation schemes, while mitigating input costs for existing exporters, fail to address systemic issues such as informality, limited SME participation, and upstream productivity losses. The findings reinforce that tariffs, rather than export subsidies, warrant greater attention in policy discussion as export subsidies are generally considered distortive and inefficient. Moreover, with the adoption of a market determined exchange rate regime, attention must be paid to tariff policy in Pakistan. In this backdrop, the literature advocates for low, uniform or minimally dispersed tariffs to dismantle anti-export biases. While challenges such as revenue dependency and political resistance remain, Chile's experience demonstrates that trade and tariff liberalisation, coupled with complementary reforms in exchange rates and fiscal policy, can realign incentives toward efficiency and global integration.

Moving forward, Pakistan must adopt a holistic strategy and implement committed reforms, such as rationalising tariffs, phasing out para-tariffs, and leveraging flexible exchange rates to enhance export competitiveness. Concurrently, addressing structural bottlenecks and minimising tariff dispersion will further amplify the benefits of trade liberalisation.

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