



CRUX OF THE ARGUMENT

- **The tariff liberalisation is still to take place.** It has been argued that both the increase in imports and poor export performance during Fiscal Year 2026 reflect the failure of the tariff liberalization process. This view is misleading. A closer look at data shows that the tariff structure remains protectionist, with only a few tariff lines seeing a significant drop in tariffs during the first year of the National Tariff Policy 2025-2030, which itself is a five-year plan to reduce tariffs.
- **The mechanism is real, not a fairytale.** Lower tariffs raise exports through a productivity channel: competition forces out the weakest firms and reallocates resources to the strongest, lifting average industry productivity. The comic ridicules this chain without ever engaging it.
- **The comic's own panels concede our case.** Its "factory closed" list consists of energy, finance, infrastructure, policy uncertainty, low productivity, but contains no tariff problems at all. Every constraint it names is a domestic supply-side or governance failure that protection hides rather than fixes.
- **The boxer is weak because of protection, not despite it.** After decades of the region's highest auto tariffs, the industry still cannot compete. A fighter handed every round by a rigged referee never trains; guaranteed margins have kept the sector malnourished, import-dependent, and unable to do more than assemble parts from imported steel.
- **China's record refutes, not supports, the comic.** China protected its auto sector temporarily, then cut car tariffs from 100 to 25 percent on WTO accession and dismantled local-content rules and only then became the world's largest producer. Protection was scaffolding; liberalisation built the industry.
- **An uncompetitive sector that lacks scale should not hold the economy hostage.** Pakistan's auto industry is minor in scale yet asks every consumer and exporter to subsidise the auto industry's guaranteed margins. The PAAPAM advertisement is itself the clearest evidence that protection delivers profit, not competitiveness, and that the tariff wall should come down.

TARIFF LIBERALIZATION IS YET TO HAPPEN

It has been suggested that the tariff liberalization that was implemented in the Fiscal Year 2026 has failed since the changes have not led to an increase in exports. EAG argues that this view is misleading. The tariff structure continues to remain protectionist, with only few tariff lines seeing a significant decrease in overall tariffs.

Figure 1 plots data on tariffs for the 7,516 tariff lines. The horizontal axis represents total tariff for 2024 whereas the vertical axis represents total tariff for 2025. Almost all the tariff lines remain centered around the 45-degree line, showing that the change in tariffs has been small. Only few tariff lines at the 8-digit level, mostly in the auto sector, have seen tariffs fall significantly. However, even in these few cases, the total tariff continues to remain significantly higher. Moreover, there is almost no change in total tariffs for auto parts and accessories.

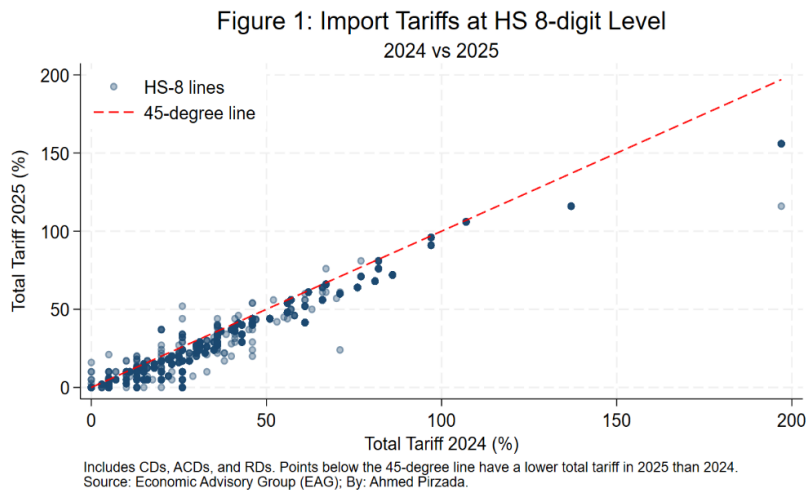
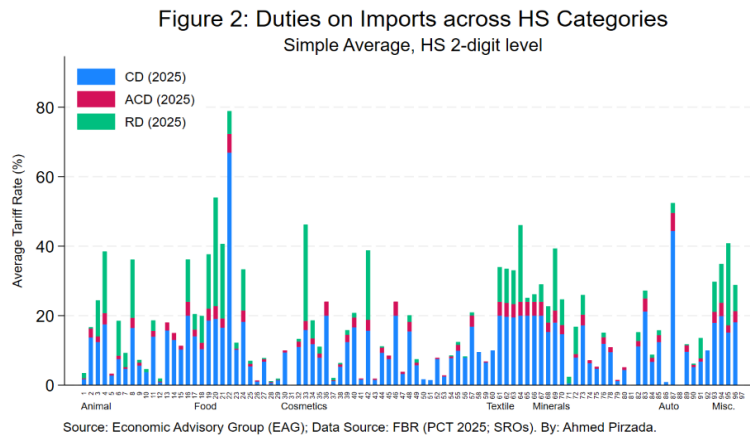


Figure 2 uses 2025 data to document the tariff structure that defines Pakistan's economy. The protectionist policies aimed at limiting competition continue to persist. Some sectors such as food processing, textile, autos, remain protected under high tariff rates. The EAG documented a similar pattern using 2024 data before the implementation of the National Tariff Policy (NTP).



The data shared above refutes the notion that there has been significant tariff liberalization during the first year of the NTP and that the poor export performance reflects the failure of the liberalization policy. In fact, the EAG argues that the government must implement the NTP as planned and, additionally, complement these with institutional reforms aimed at shifting Pakistan's comparative advantage from low to high value-added production.



DETAILED RESPONSE

A Line-by-Line Rebuttal of “The Fairytale of Lower Tariffs = More Exports”

In response to the advertisement placed by the Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM), Business Recorder, 1 June 2026

Purpose. This article responds to the full-page advertisement in the form of a comic run by PAAPAM under the headline “Lower Tariffs = More Exports: A Simplistic Theory, A Damaging Policy.” The advertisement opposes the National Tariff Policy (NTP) 2025–30 and, more broadly, the case for trade liberalization. We take each of its claims in turn. Our central argument is straightforward: the comic does not refute the economics of trade; it confirms the diagnosis. A protected industry has produced a public defense of protection, and the very fact that it must run an advertisement to promote protection is the strongest available evidence that guaranteed tariff margins, not competitiveness, are what it seeks to preserve.

The Theoretical Frame the Comic Ignores

The comic caricatures the link between lower tariffs and higher exports as “basic economics” drawn on a blackboard, then declares it a fairytale. In fact, the mechanism is neither naive nor mechanical. Modern trade theory, Krugman on increasing returns and intra-industry trade (Krugman, 1979, 1980), Melitz on firm-level reallocation (Melitz, 2003), and the broader heterogeneous-firms literature, does not claim that cutting a tariff magically conjures exports overnight. It identifies a **transmission channel: productivity**.

In the Melitz framework, an industry is not a single block. It is a distribution of firms of widely differing efficiency. Behind a high tariff wall, even the least productive firms survive because protection guarantees them a domestic margin regardless of how badly they perform. When the economy opens, the least productive contract or exit, the most productive expand, and resources, capital, labour, managerial talent, land, reallocate from the weak to the strong. Average industry productivity rises not because every firm improves, but because output shifts toward the firms that were always capable of competing. Those firms then have both the cost structure and the incentive to export. Trade liberalization raises exports *through* this productivity-sorting channel. It is a disruption, and the disruption is the point.

A World Bank case study documents exactly this sequence in India’s own auto-parts and commercial-vehicle sectors. As nominal tariffs on auto parts fell from roughly 50 percent to 15 percent across the 1990s and 2000s, after they undertook a massive structural transformation program involving tariff liberalization, domestic production rose, exports climbed past 40 percent of output, firms linked into global value chains, and *employment grew*. The commercial-vehicle segment moved into trade surplus after its tariffs were cut from 85 percent to the low teens. Liberalization did not debilitate the industry; it was the catalyst for its global success. The comic asks Pakistanis to believe the opposite of what the most comparable real-world experiment actually showed.

More than half a century ago, Bela Balassa and his associates, in ‘The Structure of Protection in Developing Countries’ (Johns Hopkins University Press, 1971), a foundational World Bank study that examined Pakistan among other country cases, identified Pakistan's import-substituting industries, the auto sector prominent among them, as classic examples of high effective protection that raised costs, distorted resource allocation, and produced little genuine competitiveness. That diagnosis became part of the intellectual foundation on which East Asian and later South Asian economies built their move away from import substitution toward open, export-oriented markets. An uncomfortable fact for the authors of this advertisement may be that Pakistan was named in the seminal critique of this very model, yet remains, five decades later, one of the few economies still defending the protectionist arrangement that others long ago abandoned and outgrew (Balassa & Associates, 1971).

Line-by-Line Critique of the Comic

Panel 1 — “The Fairytale (in textbooks)”

The comic mocks the chain “lower tariffs → cheaper imports → lower costs → more competitive → more exports → growth” as too simple to be true. But it never engages the chain as it simply sneers at it. Each link is empirically grounded. Cheaper imported inputs demonstrably lower costs: this is why the same advertisement elsewhere admits Pakistani auto parts-makers depend on imported steel and rubber. Lower input costs do raise competitiveness. The only step the comic disputes is the last, and it disputes it by assertion. Ridicule is not a counter-argument.

Panel 2 — “Reality Check: cheap imports flood in, factory closed”

The image shows a shuttered factory and traders “making money overnight.” Notice what the panel itself lists as the causes of the closure: high energy costs, expensive finance, weak infrastructure, policy uncertainty, low productivity. **Not one of these is a tariff problem.** The advertisement inadvertently concedes our case: Pakistani manufacturing struggles because of domestic cost and governance failures, not because consumers are allowed to buy affordable goods. Protection does not fix a single item on that list. It simply hides them behind a guaranteed margin and removes the pressure to address them.

Panel 3 — “The Boxer Analogy”

This is the centerpiece, and it defeats its own purpose. The comic shows a small, exhausted Pakistani boxer, “no nutrition, no training, no equipment”, told to fight “industrial empires,” and concludes that lowering tariffs “doesn’t change the weight class.”

But ask the obvious question the comic avoids: **why, after decades of one of the highest auto tariffs in the region, is the boxer still malnourished and untrained?** Protection was supposed to be the nutrition and the training. Instead, the Pakistani boxer is old and tired precisely because he has spent his entire career fighting with a rigged referee, the protectionist regime which blows the whistle whenever the more competitive and healthier counterpart makes their move, awarding him every round regardless of performance. A fighter who never has to win on merit never gets stronger. He atrophies. The leash of guaranteed margins has not protected him; it has kept him weak.



The “industrial empires” on the other side of the ring are not strong because their governments coddled them. They are strong because their governments respected their consumers, opened their markets to competition, and forced their firms to earn every sale. The comic’s own picture proves the opposite of its caption: lowering tariffs is exactly how you change the weight class, by ending the rigged refereeing and letting the fighter train against real opponents instead of being handed victories.

Panel 4 — “Traders vs. Manufacturers: different universes”

The comic compares a villainous “trader mindset” (“import cheap, sell expensive, repeat”) to a noble “manufacturer reality”. Yet the behaviour it describes, living off the spread between a protected domestic price and the world price, is precisely the behaviour that a 100 percent tariff rate on imported cars with several other tariff policy tools creates. When the state guarantees that a locally assembled vehicle can be priced far above its global cost, the rational firm stops investing in capability and starts working the margin. **The “trading mindset” the comic condemns is the direct product of the tariff regime it defends.** Pakistan’s assemblers are, in this sense, traders in disguise: dependent on import barriers for their profit, not on manufacturing excellence.

Panel 5 — “The Debt Spiral”

The comic blames lower tariffs for a chain ending in IMF dependency: “cheap imports rise → trade deficit widens → reserves fall → rupee devalues → inflation → IMF.” Research indicates that the real chain is different: high tariffs → uncompetitive exports → low exports → high trade deficits → macroeconomic vulnerability → IMF. Pakistan’s external crises have recurred under **high** tariffs, not low ones, the IPRI Review notes the FY26 trade deficit widening to USD 19.2 billion with exports falling 9 percent, all while 7,476 of 7,589 tariff lines still carry additional customs duties. The deficit is driven by an export base too uncompetitive to grow, which is itself the product of an anti-export bias built into cascading protection. The debt spiral is a spiral of *inefficiency*, and protection is what funds the inefficiency.

Panel 6 — “What China Did vs. What We Do”

The comic claims China succeeded through “high tariffs when needed” and forced localization. This is a selective reading. China’s auto sector grew through deep integration into global value chains via joint ventures, aggressive technology absorption, massive scale, and, more critically, trade liberalization on accession to the WTO, when car tariffs were cut from 90 percent to 25 percent and output grew roughly 25 percent a year while net car trade swung from USD 0.7 billion to USD 5.3 billion. China opened its producers to competition and built pure export capability. Pakistan, by contrast, forces every entrant to localize and produce for a captive local market, penalizes exporters through cascading tariffs on their own inputs, and then wonders why no export champions emerge. We have copied the protectionist vocabulary of East Asia while discarding the competitive discipline that made it work.

To be clear, the comic is not wrong that China protected and localized its industry but it is wrong about what that protection was for. China’s high tariffs and joint-venture rules were temporary scaffolding, deployed to force scale and technology absorption, and then deliberately



dismantled. On WTO accession the government cut car tariffs from roughly 100 percent to 25 percent over a five-year transition, and its content-based duties on imported parts were challenged by the United States, the European Union, and Canada and struck down, after which China removed them in 2009. The phase the comic celebrates was the runway, not the destination; China became the world's largest producer and exporter only after it opened to competition. Pakistan, by contrast, has imported the protectionist vocabulary without the sunset clause as it has several years of guaranteed margins with no enforced performance, no scale, and no subsequent liberalization. "China did protection too" is therefore not a defense of Pakistan's regime, but an indictment of it: China protected in order to compete, while Pakistan protects in order not to.

Panels 7 & 8 — “Actual Conditions” and “The Hollow Economy”

Here the comic lists Pakistan's real constraints: expensive energy, high interest rates, policy uncertainty, weak infrastructure, a tiny R&D base, a low-skill workforce, a small market, an unstable currency. We agree with this list entirely, and it is absolutely fatal to the comic's own argument. **Every one of these is a supply-side or governance failure that tariffs cannot cure.** A tariff does not build a road, train an engineer, lower the policy rate, or fund a laboratory. It only raises the price the consumer pays so that the firm need not confront any of these problems. The “hollow economy”, “we consume what we don't make”, is the predictable result of an industry that was never required to make anything well.

Panels 9 & 10 — “Nationalisation 2.0,” “Real Choice,” and the export-barrier list

The advertisement lists the “real reasons” for weak exports: security and visa problems, a lack of free-trade agreements, and high utility, interest, and tax costs. Again, we accept these are genuine barriers, and again, none is an argument for tariffs. If anything, they reinforce our position: with so many real obstacles, the last thing the economy can afford is to also burden its exporters with expensive, protected, low-quality domestic inputs. The comic's closing choice, “protect industry” or “decline”, is a false binary. The genuine choice is between a protected industry that has declined *for fifty years* and a competitive one that has never been allowed to develop.

What the Comic Reveals About the Industry

Strip away the artwork and the advertisement is a confession. It is paid for by the parts-and-accessories manufacturers, the firms most exposed to tariff rationalization, and it appears precisely as the NTP 2025–30 threatens their guaranteed margins. The reform has cornered the industry, and its response is not a credible plan to become competitive, but a full-page plea to keep the protective wall in place.

- **The industry in its present form is the obstacle to reform, not the victim of it.** The same actors who list “policy uncertainty” and “low productivity” as their afflictions are the ones lobbying to retain the protection that removes any incentive to fix those afflictions. Tariff protection shields them from the very inefficiencies they complain about.



- **Capability has not materialised after decades of protection.** On the industry's own telling, what it can make competitively amounts to screwdrivers, nuts, and bolts, and even those rely on imported steel. A fan-belt maker depends on imported rubber; an assembler depends on imported kits. Meanwhile the firms it fears are innovating against one another at the technological frontier. Fifty years of guaranteed margins bought no design capability, no R&D, no scale, and no exports of consequence.
- **Profit guarantees, not competitiveness, are the real subject.** A 100 percent tariff on imported cars is a profit guarantee. It lets firms earn on the protected spread rather than on productivity. The advertisement is, in effect, an argument that this guarantee should continue, which is the clearest possible demonstration that the guarantee is what protection delivers.

The Decisive Question of Proportion

Pakistan's auto sector lacks scale and is uncompetitive. Car assembly runs at well under half of installed capacity across only a handful of platforms; the segment is a minor share of manufacturing. Yet the comic asks the entire economy, every consumer paying inflated vehicle and parts prices, every downstream industry paying more for inputs, every would-be exporter penalized by cascading duties, to remain hostage to this non-innovating sector's fear of competition. **No principle of economic policy justifies holding a nation's consumers and its export future ransom to protect the margins of one uncompetitive industry.**

Conclusion and Position

The Economic Advisory Group supports the National Tariff Policy 2025–30's direction: fewer slabs, capped duties, the phase-out of additional and regulatory duties, and the withdrawal of discretionary concessions. A manufacturing-focused policy is desirable, but it must be **innovation-driven and competition-tested**, not profit margin-guaranteed. The best is drawn out of producers by a contestable market, not by a rigged referee.

The PAAPAM advertisement, far from discrediting liberalization, is its most persuasive case study. It shows an industry that, after decades of the highest protection in the region, remains too weak to fight, too dependent on imported inputs to be self-sufficient, and too invested in its guaranteed margins to reform. The comic was meant to defend tariffs. It is, in truth, the single best piece of evidence we have that tariff protection guarantees profit while corroding capability. The leash should be removed. The industry should be treated with the fairness of genuine competition rather than spoiled with protection. Pakistan's consumers, its exporters, and ultimately all its manufacturers deserve nothing less.



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