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Climbing up the Export Ladder through Strategic Reductions in Tariffs on The Intermediate Goods: A Case of Pakistan's Textile Sector

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Introduction:

Pakistan has faced a persistent and worsening trade deficit. Dependence on low value added agricultural and manufacturing exports is an important cause. We propose that climbing up the export ladder for Pakistan would mean following India's footsteps, by making available the same low priced, high-quality intermediate inputs to local manufacturers as are available to the manufacturers in India. This can be achieved by reducing the tariffs on selected intermediate products imported from China. While the FTA with China is mainly bilateral, and hence tariffs have been lowered on both sides, Pakistan still needs to be very thoughtful about the products it lowers tariffs on, taking into account the long-term growth prospects.

To climb up the export ladder, we propose a conservative approach that includes strategic reductions in tariff rates on intermediate inputs across sectors. With the help of this methodology[1] a list of intermediate inputs can be generated on a scale from "extremely important" to "less important" for each HS-6 Digit category where the tariffs can be reduced. We extend this analysis to identify the product categories where the tariff rates can even be pushed *up*, such that they; first, protect the local manufacturers of (already) high-quality intermediate inputs and second, it may oppose any declines in fiscal revenues due to tariff reductions proposed earlier.

To start, we select the *textile sector* based on its relevance for Pakistan, to generate a list of intermediate inputs using the proposed methodology.

- First, we identify a list of intermediate inputs, which have played a strong role in boosting India's textile exports.
- Next, we propose that these low priced, high quality intermediate inputs imported from abroad should be made available to the local manufacturers, by reducing the tariffs on a selective range of products identified by following the proposed methodology.
- Finally, we compare the existing tariff rates of these categories to that of India and Sri Lanka to see where the potential for reducing the tariffs exist.

[1] The methodology can be made available on request.

Results:

- We identify a list of intermediate products at HS6 Digit that are extremely important for tariff reductions in the textile sector (based upon the methodology discussed in paper) in Pakistan.
- Next, we compare the respective tariff rates of each HS-6 Digit category to those of India's and Sri Lanka's tariff rates.

Table 2: Existing Tariff Rates in Pakistan, India and Sri Lanka for HS 6 Digit Product Categories, Classified as EXTREMELY IMPORTANT for tariff Reductions in Pakistan

HS 2 Digit Code	HS 6 Digit Code	Product Description	Pakistan's Tariff	India's Tariff	Sri Lanka's Tariff
50	500300	Silk waste (including cocoons unsuitable for reeling, yarn waste and garneted stock)	3	15	0
50	500400	Silk; yarn (other than yarn spun from silk waste), not put up for retail sale	3	10	0
51	510820	Yarn; of fine animal hair, combed, not put up for retail sale	3	10	0
51	511119****	Fabrics, woven; of carded wool or of carded fine animal hair, containing 85% or more by weight of wool or of fine animal hair, of a weight exceeding 300g/m2	16	0	0
54	540249*	Yarn, synthetic; filament, monofilament (less than 67 decitex), other than high tenacity or textured yarn, single, untwisted or twisted 50 turns or less per meter, n.e.c. in heading no. 5402, not for retail sale, not sewing thread	11	10	0
58	580810**	Braids; in the piece	20	10	0
58	580890**	Ornamental trimmings; tassels, pompons and similar articles; ornamental trimmings in the piece, without embroidery, other than knitted or crocheted	20	10	0
58	581091**	Embroidery; with visible ground, of cotton, in the piece, in strips or in motifs	20	10	0
59	590500**	Textile wall coverings of fabrics impregnated, coated, covered or laminated	20	10	0
59	591190	Textile products and articles for technical uses; n.e.c. in heading no. 5911	7	10	0

Source: Author's Own Calculations
*Indicates that Pakistan's Tariffs are higher than India by less or equal to 5%
** Indicates that Pakistan's Tariffs are higher than India by more than 5% but less than or equal to 10%
*** Indicate that Pakistan's Tariffs are higher than India by more than 10% but less than or equal to 15%
**** Indicate that Pakistan's Tariffs are higher than India's by more than 15%

Policy Recommendations:

- Pakistan is trapped in a BOP trap.
- There is a need to revisit the trade policy and propose a more strategic reduction in tariffs on imported intermediate goods that may encourage higher value added exports.
- We see Pakistan- China collaboration as a potential channel to achieve this goal.
- Where, tariff reductions on intermediate inputs can help boost Pakistan's Exports but can also potentially mean more competition for the local manufacturers of these intermediate goods.
- We propose a methodology through which we can identify the categories in the textile sector where the tariff cuts should be made significantly and where it should be reduced marginally.
- We identify the categories where the potential for tariff reduction exists and from the list proposed above we can identify specific products at HS-8 Digit category that require an urgent decrease in tariff rates.
- All the sectors where the export potential is high can benefit by listing the intermediate inputs that require urgent declines in tariff reductions, based upon the methodology recommended in the paper.