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Global Integration and Trade Diversification - Pakistan's Position in Global Value Chains

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ABSTRACT

Pakistan is not an isolated state with respect to the global economy, it actively trades, it is a recipient of foreign direct investment (FDI). It is integrated into world value chains yet at the low value end, most prominently, in the textile and agricultural industry (Asian Development Bank & Islamic Development Bank Institute, 2022; Batool and Taguchi, 2025).

Instead of using its textile base and rich agricultural resource endowment to climb towards higher value added activities, the country remains stuck in a pattern of exporting basic cotton products, rice and a few agriculture based goods, while importing a broad range of sophisticated intermediates and capital goods (Tayyab & Ruhulislam, 2025; Kowalski et al., 2015).

This paper focuses on three interlinked questions: (a) why export led sectors such as textiles and agriculture continue to underperform, (b) how and why FDI has become concentrated in infrastructure and energy, especially under the China Pakistan Economic Corridor (CPEC) and (c) what realistic opportunities exist to diversify exports and reduce the persistent trade deficit.

Key Words: Global Economy, FDI, Textile, Agriculture, CPEC, Pakistan, OECD, Trade Deficit, Value Addition, Energy, Productivity, Technology, Exports, Imports, Skill.

Conceptual and Empirical Background:

The global value chains are defined as the cross-border networks of production wherein the various phases of designing, manufacturing, and selling of goods/services are in various nations (Kowalski et al., 2015). The key question to developing countries, including Pakistan, is not whether they are a part of GVCs, but how are they stuck in low value tasks, such as raw material processing, or are they gradually evolving into more value addition, branding and more complex manufacturing (Kowalski et al., 2015). According to the structural gravity analysis based on the OECD Trade in Value Added Data, it is observed that the backward GVC is more likely to be involved through free trade agreements between Pakistan and its partners like China and Malaysia, as it has boosted the foreign value addition content in its exports, especially in the manufacturing sector (Batool and Taguchi, 2025). Meanwhile, there has been reason to believe that

Pakistan has not established a strong production sharing relationship with regional allies, like Bangladesh, even though such a relationship may help Pakistan to specialize in other parts of the garment value chain (Batool and Taguchi, 2025).

Pakistan's Export Structure and GVC Position:

The empirical research of the trade structure of Pakistan during the period between the year 2000 and the early 2020 reveals that there has been narrow and persistent export of cotton base textile, rice and few other agricultural and low-technological products and a widening of the trade deficit (Tayyab and Ruhulislam, 2025). Based on UNCTAD export diversification index, Pakistan export basket is discovered to be much more concentrated than most similar economies and that it is macroeconomic stability, an investment in productive capacity, and the quality of institutions which have a strong effect on diversification (Mubeen and Ahmad, 2016; Trade Horizons, 2023). The integration of Pakistan occurs in a slender product line range found at the global product space periphery and therefore is more difficult to naturally drift to more complicated, technology intensive exports, without concerted policy action (Asian Development Bank and Islamic Development Bank Institute, 2022; Trade Horizons, 2023).

Underperformance of Export Led Textiles:

Ideally, garments ought to be the flagship export success story of Pakistan. The industry is long-established, boasts a significant installed base and evidently displayed comparative advantage in various product lines (Hong Fu and Khan, 2024; Zulfiqar et al., 2024).

In practice, multiple studies now describe a sector that is struggling to keep pace with regional competitors because of energy supply bottlenecks, outdated machinery, weak quality control, untrained manpower and an inability to move into higher value addition niches such as technical textiles or branded apparel (Breaking Export Stagnation, 2025; Hong Fu & Khan, 2024).

Firm level work on export oriented textile manufacturers shows that internal capabilities matter a great deal; plants that invest in modern equipment, develop organizational ambidexterity (the ability to exploit existing strengths while exploring new products and markets) and professionalize export strategy tend to outperform those that continue to rely on low cost, commodity style production (Breaking Export Stagnation, 2025).

Comparative analysis of Pakistan and China in the United States market reveals that Pakistan continues to have revealed comparative advantage of fabrics and garments and loses competitive edge in terms of reliability in delivery, environmental standards and labor standards, and product innovation (Zulfiqar et al., 2024).

Performance of Agricultural Exports:

The same can be said about agriculture and its unachieved potential. The industry continues to absorb a significant portion of the labor force and sustains rural livelihoods but is performing poorly in exports compared to what the natural endowments would suggest in Pakistan (Zafar et al., 2023).

A detailed review of agriculture sector in a globalized market links underperformance to obsolete production technologies, weak rural infrastructure, climate impacts, land fragmentation and poor integration with modern value chains for fruits, vegetables, and livestock products (Zafar et al., 2023).

Sanitary and Phytosanitary barriers further show that Pakistani exporters often fail to meet increasingly stringent food safety and plant health requirements in high income

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markets because of gaps in analytical laboratories, inspection services and farm level guidance (Barriers to Agricultural Exports from Pakistan, n.d.).
Its alarming, when shipments of mangoes or vegetables are rejected in the European Union over residues or quarantine pests, the immediate financial loss is compounded by reputational damage that makes it harder to secure and retain buyers.
Nevertheless, there is great reason to believe that with market access and home capabilities, Pakistan can scale-up its agriculture-based exports very fast. A gravity model study reveals that the GSP+ scheme by European Union has brought substantial growth in agriculture-based exports in Pakistan after 2014, particularly increasing exports in cereals, animal products, sugar preparations and fish (Younis and Li, 2025).

Cross Cutting Structural Constraints:
Across both textiles and agriculture, several cross cutting constraints keep resurfacing; unreliable and expensive energy, high transport and logistics costs and weak standards and certification infrastructure (Asian Development Bank & Islamic Development Bank Institute, 2022; Zafar et al., 2023).
According to the firm level analysis based on the enterprise survey data, it is observed that exporters and geographically diversified firms tend to reach a high level of productivity and sales, though they also report customs delays, unpredictable regulation and informal payments as the significant challenges (Zia et al., 2023).
Such results indicate that linguistic appeals to export more are not likely to work out successfully unless they are supported by credible enhancements in power provision, logistics and quality of the public institutions.

FDI Concentration and Infrastructure Led Integration:
Turning to FDI, sector level studies show that inflows are heavily skewed towards a few capital intensive sectors, most notably energy, telecommunications, finance and oil and gas exploration (Abdullah et al., 2021; Rafique et al., 2020).
A single line of research assumes that over the past few years, over a third of overall FDI has been in the energy industry alone, and another significant portion has been in the communication and financial services sector (Abdullah et al., 2021).
An econometric analysis of sectoral determinants of FDI finds that market size, infrastructure provision and agglomeration effects attract investors, whereas political instability and weak financial performance discourage them (Rafique et al., 2020).
From a trade diversification perspective, this pattern tends to favor large, capital intensive projects with limited spillovers to export oriented small and medium enterprises in manufacturing and services (Rafique et al., 2020; Voronin, 2024).
These trends have been fortified and speeded up by CPEC. In a single study, there is a strong positive correlation between Chinese investment under CPEC, primarily in power and transport, and the GDP growth of Pakistan, even though the concentration of projects is noted to be highly concentrated around energy generation and major transport corridors (Zhang et al., 2022).
The thrilled work on CPEC driven energy and infrastructure investments argues that new roads, ports and power plants can catalyze entrepreneurship and broader economic development, but only if they are complemented by reforms in manpower skills, the business climate, and regulatory frameworks (Abdullah et al., 2021; CPEC Driven Energy and Infrastructure Investments, 2025).
A detailed analysis of transport infrastructural development under CPEC similarly concludes that while connectivity along the main corridor has improved, benefits for

lagging regions and local producers remain uneven because of land acquisition disputes, delay and weak coordination between different levels of government (Zhang et al., 2023).

Prospects for Export Diversification:
In work based on diversification indices and autoregressive distributed lag models, the time series analysis of diversification indices and geographic concentration shows that both are high, and are not fixed; FDI, world income and the real effective exchange rate are all related to change in diversification with the combination with political stability and investment on productive capacity (Mubeen & Ahmad, 2016; Trade Horizons, 2023).
At the micro level, panel evidence from Pakistani firms shows that exporting and, especially, serving multiple foreign markets is associated with higher sales per employee, even after accounting for potential reverse causality (Zia et al., 2023).
These results align with the Learning by Exporting hypothesis; once firms cross the threshold into exporting, exposure to demanding buyers and competitive foreign markets feeds back into capabilities and productivity at home (Zia et al., 2023).
In the textile sector, research is always emphasized on the need to invest in quality control mechanisms, technological improvement, research and development as well as on environmental and labor compliance capacity in combination with relatively narrow, niche-based exporting strategies (Breaking Export Stagnation, 2025; Hong Fu and Khan, 2024; Zulfiqar et al., 2024).
In agriculture, research recommends a dual strategy, modernizing production and post harvest practices in established export crops while deliberately nurturing nontraditional, higher value products, supported by better logistics and cold chains (Zafar et al., 2023; Ditta, 2025; Younis & Li, 2025).

Policy Implications and Conclusion:
From a policy angle, three broad priorities emerge. **First,** Pakistan needs to rebalance FDI towards efficiency seeking investment in export enhancing sectors such as manufacturing and tradable services, including through well governed special economic zones that encourage joint ventures and local sourcing.
Second, the state must deal conclusively with the fundamentals of export competitiveness, reliable and cost competitive energy, modern transport and logistics, quality infrastructure system encompassing standards, testing and certification.
Third, trade policy itself needs to be better aligned with diversification goals. Empirical work on GSP+ and free trade agreements shows that preferential access and lower trade costs can deepen GVC participation and expand exports but only when domestic firms are able to meet standards and respond flexibly to demand.
Using high tariffs and para tariffs to shield low productivity incumbents in traditional sectors may provide short term relief, but the evidence suggests that it also locks in the very export concentration that policymakers now claim to oppose.
Overall, Pakistan as a country that is already integrated into global markets, but on terms that leave much of its potential untapped. Moving from a narrow, infrastructure and commodity driven integration to a more diversified, learning intensive engagement with global value chains will require not only more exports and more FDI, but a different composition of both.

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