

The age of GVCs

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Pakistan stands at a crucial crossroads in its economic journey, seeking to transform into a globally competitive player. In this regard, international trade and firm productivity have emerged as key drivers of sustainable growth. Global value chains hold a lot of significance in international trade, and Pakistan has to tap on its unrealized potential and the opportunities that lie ahead.

Global value chains (GVCs) represent the interconnected network of activities performed by various firms across different countries to bring a product from conception to consumption. They

encompass every stage of production, including design, production, assembly, and distribution, with each country specializing in a specific segment of the value chain.

The total value of global trade facilitated by GVCs is approximately \$15 trillion. This indicates that roughly 70 per cent of global trade involves intermediate goods and services, which are utilized in the production of final goods and services.

Pakistan possesses unique advantages that position it favorably within the global value chain ecosystem. The country boasts a strategic geographical location, a young and dynamic workforce, and a diverse range of sectors, including textiles, agriculture, manufacturing and services.

However, Pakistan contributes only 0.5 per cent to the global value added in GVCs because of inadequate infrastructure, weak institutions and

shortage of skilled workers. A comprehensive policy framework is required to harness the advantages of GVCs.

Integration into global value chains has the potential to significantly enhance firm productivity in Pakistan. By participating in GVCs, domestic firms can access new markets, acquire advanced technologies and gain exposure to the best global practices. This integration spurs innovation, efficiency and competitiveness, resulting in improved productivity across industries. Research shows that a 10 per cent increase in the level of GVC participation improves average firm productivity by close to 1.7 per cent in Pakistan.

The inclusion of Pakistani firms in global value chains opens doors to export competitiveness. By specializing in specific stages of the value chain, firms can focus on areas where they have a

comparative advantage, maximizing efficiency and reducing costs. This specialization facilitates increased exports as Pakistani products become more competitive and attractive in international markets.

The textile sector has long been a cornerstone of Pakistan's economy, contributing significantly to employment and exports. By integrating into the textile value chain, Pakistani firms can move beyond raw material production and traditional manufacturing. They can now explore opportunities in design, branding, marketing, and distribution, thus adding value to the final product and commanding higher prices.

Pakistan's agriculture sector holds immense potential for value-chain integration. By adopting modern farming techniques, improving post-harvest infrastructure, and investing in processing and

packaging facilities, Pakistani agricultural products can meet international quality standards.

Integration into agricultural value chains would not only boost exports but also uplift rural communities by generating employment and reducing poverty.

Beyond textiles and agriculture, Pakistan's manufacturing and services sectors offer vast possibilities for value chain integration. By establishing linkages with global firms, Pakistani manufacturers can access new markets, upgrade technology and enhance product quality. Similarly, services such as IT, software development and business process outsourcing can benefit from global value chains, fostering economic growth and job creation.

To harness the potential of global value chains, the Pakistan government must adopt a proactive role.

Key policy imperatives include:

Creating a conducive business environment: Streamlined regulations, ease of doing business, and investor-friendly policies are crucial to attract foreign direct investment and encourage domestic firms to participate in global value chains.

Strengthening infrastructure: Robust infrastructure, including transportation, logistics, and energy, is vital for seamless connectivity and efficient movement of goods and services within and beyond Pakistan's borders.

Promoting skills development: Investing in human capital is essential to equip the workforce with the skills necessary to thrive in a value chain-driven economy. Continuous training programs, vocational education, and industry-academia collaborations are essential in this regard.

Facilitating technology transfer: Collaboration with international partners, technology transfers and

knowledge sharing agreements are vital for facilitating technology transfer. The government should actively promote partnerships between Pakistani firms and international counterparts to facilitate the exchange of technical know-how, research, and development.

Developing sector-specific policies: Tailored policies focusing on specific sectors can provide targeted support for value chain integration. This includes providing tax breaks and export promotion schemes to encourage firms to participate in global value chains.

Strengthening trade facilitation: Efficient customs procedures, streamlined trade documentation, and reduced trade barriers are essential for seamless trade flows within global value chains. The government should invest in modernizing trade infrastructure and implementing digital platforms to

facilitate trade and reduce transaction costs.

Promoting innovation and entrepreneurship:

Encouraging innovation and nurturing entrepreneurship will drive the development of new products, services, and business models. The government should establish incubation centers, funding mechanisms, and mentorship programs to support startups and small and medium-sized enterprises (SMEs).

Pakistan's journey towards economic prosperity relies on embracing the potential offered by global value chains. By integrating into these value chains, Pakistani firms can enhance productivity, boost export competitiveness and foster sustainable growth. However, achieving this requires a collaborative effort between the government, private sector, and academia.

Through strategic policies, investment in

infrastructure and human capital, and fostering international partnerships, Pakistan can position itself as a key player in global value chains. The time is ripe for Pakistan to unleash its potential and reap the benefits of international trade and firm productivity, transforming itself into a prosperous nation in the interconnected global economy.

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