



WHY DOES OUR TRADE NOT GROW?

How Pakistan and Vietnam Diverged in Participation in Global Value Chains

Aadil Nakhoda

Export growth in Pakistan has always been a contentious topic among policymakers and economic experts, given the stagnant trend in the country's exports of goods and services. Uraan Pakistan, officially known as the National Economic Transformation Plan (2024-2029), provides a roadmap for achieving higher, sustainable economic growth, aiming to ensure Pakistan escapes the constant grip of a balance of payments crisis and the recurring debt trap. It views export-led growth as the ultimate savior of the economy, predicting that exports will double to \$60 billion and that the economy will grow to \$1 trillion within the next decade. It aims to achieve the target by not only identifying key sectors but also introducing greater competitiveness into the economy and recommending the monitoring and evaluation of the reforms proposed under the agenda.

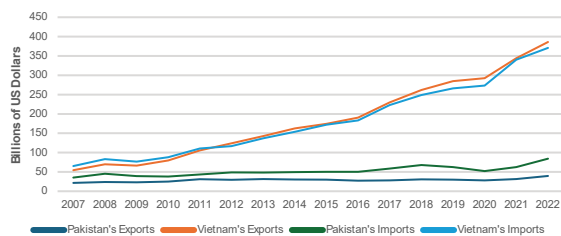
Although several Asian countries have reported phenomenal levels of export and economic growth in the last fifty years, Vietnam stands out as it not only has achieved high export growth rates in the last two decades but has developed itself into an alternative manufacturing hub despite significant competition from more established manufacturers in the region, such as China, Thailand, and South Korea. Exports of goods and services from Vietnam have increased from \$55 billion in 2007 to \$386 billion in 2022. It was able to double its exports between 2007 and 2012, doubling them again in 2017. Pakistan, on the other hand, reported exports of \$21 billion in 2007, which increased to \$31 billion in 2011. It remained stagnant at this level until 2021, as exports showed no significant growth. One key point is that imports into Vietnam kept pace with exports, as both increased simultaneously. Imports into

Pakistan have typically outpaced exports, rising from \$35 billion in 2007 to \$84 billion in 2022. This divergence between the two has often led to a balance-of-payments crisis fueled by Pakistan's trade deficit. Vietnam, without much of its own indigenous resources to produce exportable output, has relied on imports of key capital goods and unfinished goods to boost domestic production and, in turn, increase exports. This linkage has made it an important participant in regional and global value chains (GVCs).

Contrary to Pakistan, Vietnam has pursued trade policies that have allowed its businesses to import unfinished and capital goods, while ensuring they remain competitive in the global market by avoiding trade restrictions on consumer goods. Their policymakers have reduced import tariffs from 9 percent in 2007, which was much closer to the value of 12 percent reported by Pakistan in 2007, to almost 1 percent in 2022. This dynamism in their trade policy has been a major factor in increasing their participation in global value chains. Further, the share in value addition from the manufacturing sector in Vietnam was 25 percent in 2022, compared to 14 percent in Pakistan, indicating higher manufacturing capabilities in Vietnam. The following discussion will shed further light on the tariff policies adopted by Pakistan and Vietnam, whose trade patterns diverged over the last 20 years.

The data on trade values is extracted from the World Bank's World Development Indicators; the data on GVC participation is extracted from the Asian Development Bank's multiregional input-output database; and the data on tariffs is extracted from the World Bank's World Integrated Trade Solution (WITS). The products are classified into different stages of production using the reference list provided by WITS.

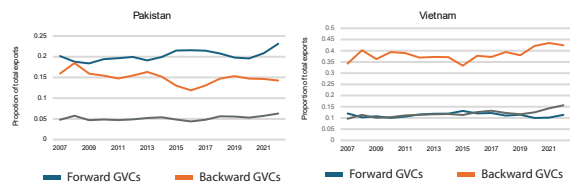
Figure 1: Exports and Imports of Pakistan and Vietnam



Source: Author's Compilation

The exports and imports of goods and services of Pakistan and Vietnam between 2007 and 2022 are reported in Figure 1. There is a clear divergence in trade volumes between Pakistan and Vietnam: Vietnam increased its exports and imports by more than six times, while Pakistan doubled its imports; its exports remained stagnant throughout the period. While Vietnam achieved its desired export-led growth, outpacing several regional competitors that also reported stellar performances, Pakistan remained a laggard, with its share of global trade shrinking over time.

Figure 2: Participation of Pakistan and Vietnam in global value chains



Source: Author's Compilation

The participation of Pakistan and Vietnam in GVCs is reported in Figure 2. There are two primary ways to measure participation in GVCs, where goods cross an international border more than once in their production process. Forward GVC participation is measured as the share of total gross exports incorporated into the exports of the importing partner to trading partners, while backward GVC participation is measured as the share of total gross exports to a trading partner produced with imported inputs from other source countries. Two-sided GVCs involve a combination of backward and forward linkages in international activities⁷⁹. While total participation in GVCs has typically been less than 40 percent in Pakistan, it has exceeded 50 percent in Vietnam. Pakistan's participation in GVCs is dominated by forward linkages, while Vietnam's is dominated by backward linkages. The forward GVCs constitute more than 20 percent of gross exports from Pakistan, while backward GVCs constitute more than 40 percent in recent years.

79. Examples of forward linkages are exports of yarn from Pakistan to China, which is then further processed into t-shirts and exported to the US. Examples of backward linkages are imports of integrated circuits into Vietnam from China that are further used in the production of mobile phones exported to the EU from Vietnam. Two-sided linkages are exports of cotton from US to Pakistan, which is exported to China as yarn and further transformed into a t-shirt in China for export to the EU.

This suggests that exports from Pakistan are more likely to be in the form of unfinished products and further processed into exportable output in the trading partners. In contrast, imports into Vietnam are further processed into exportable output domestically and exported as final goods to its trading partners. The manufacturing sector in Vietnam is likely to play a crucial role in developing backward linkages, whereas Pakistan's lack of manufacturing capabilities has led to the prominence of forward linkages in GVCs.

Figure 3: Participation in global value chains by Pakistan and Vietnam by the importance of exporting and importing sectors



Source: Author's Compilation

The participation in GVCs, disaggregated in terms of backward, forward and two-sided, in the leading export and import sectors of Pakistan and Vietnam, is reported in Figure 3. The top five sectors, classified according to the International Standard Industry Classification (ISIC) revision 3.1, in terms of recording the highest levels of exports and imports are reported in Table I below. Pakistan, which is more likely to export products that are further processed into exportable outputs in the trading partner, as reported earlier, exhibits higher levels of forward linkages as an exporter and higher levels of backward linkages as an importer than Vietnam. Further, Vietnam reports higher backward linkages as an exporter and higher forward linkages as an importer than Pakistan largely reversing the trend observed in Pakistan across sectors. While higher levels of forward linkages for an exporter suggest that more export processing activities are likely to occur in the exporter's trading partners, the prominence of backward linkages for an importer suggests that more value-added manufacturing processes are likely to occur in the exporting country, where imported inputs are transformed into exports. Further, the prominence of backward linkages as an exporter suggests that Vietnam is adding larger value to imported inputs from its trading partner and processing them into exports. In contrast, the prominence of forward linkages as an importer suggests that Vietnam is adding greater value to

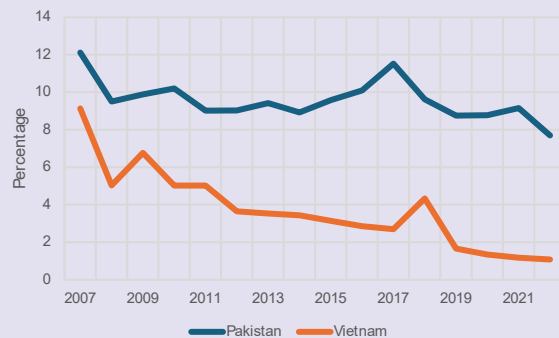
inputs from its trading partners and processing them for further exports. The two-sided GVCs are almost non-existent in Pakistan, whereas they are more prominent in Vietnam across sectors. This again clearly suggests that Vietnam's manufacturing sectors are likely adding value to trade relative to Pakistan's, as trading partners exporting to Vietnam rely on its manufacturing capabilities for further export-based production. This also signifies a critical link between exports and imports, which is likely supported through lower tariffs and trade restrictions.

Table I: Top five export and import sectors of Pakistan and Vietnam

Pakistan		Vietnam	
Top five export sectors	Top five import sectors	Top five export sectors	Top five import sectors
Food, beverages and tobacco	Food, beverages and tobacco	Food, beverages and tobacco	Coke, refined petroleum and nuclear fuel
Textiles and textile products	Coke, refined petroleum and nuclear fuel	Textiles and textile products	Chemicals and chemical products
Leather, leather products and footwear	Chemicals and chemical products	Leather, leather products and footwear	Basic metals and fabricated metals
Chemicals and chemical products	Basic metals and fabricated metals	Basic metals and fabricated metals	Machinery, not elsewhere classified
Manufacturing, not elsewhere classified; recycling	Manufacturing, not elsewhere classified; recycling	Electrical and optical equipment	Electrical and optical equipment

Source: Author's Compilation

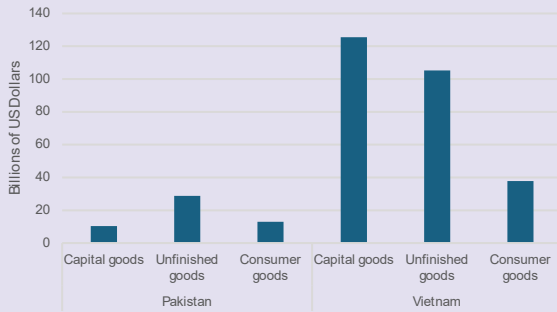
Figure 4: Weighted average tariff rates applied on imports into Pakistan and Vietnam



Source: Author's Compilation

The weighted average tariff rates applied on imports into Pakistan and Vietnam between 2007 and 2022 are reported in Figure 4. Vietnam has reduced its tariff rates from 9.1 percent in 2007 to 1.08 percent in 2022, clearly demonstrating the Vietnamese government's preference for eliminating import tariffs and duties. Although there is a decreasing trend in tariffs on imports into Pakistan between 2007 and 2022, the average tariff rate has decreased only from 12 percent in 2007 to 7.7 percent in 2022. Pakistan imposes relatively higher import tariffs than several of its Asian counterparts, particularly Vietnam. The next figures will delve deeper into tariff analysis by disaggregating imports at the product level.

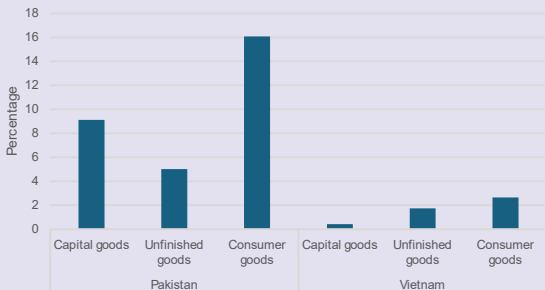
Figure 5: Total imports into Pakistan and Vietnam by stages of production of goods



Source: Author's Compilation

The imports into Pakistan and Vietnam classified according to the stages of production, namely capital goods, unfinished goods that require further processing before being sold as final goods, and consumer goods, into Pakistan and Vietnam, are reported in Figure 5. Pakistan mostly imports unfinished goods, which account for more than 50 percent of its total imports, followed by consumer and capital goods. Vietnam imports more capital goods than any other type of goods, followed by unfinished goods and consumer goods. The composition suggests that Vietnam's imports are likely building additional capacity in the country through infrastructure and business-related investments. In contrast, Pakistan's imports are more likely to meet the needs of existing investments than to support an increase in production capacity. It is also interesting to note that the sum of imports of capital goods and unfinished goods is approximately \$200 billion more than the import of consumer goods into Vietnam, highlighting the ability of the domestic manufacturing sector to produce and process industrial inputs into final goods. Pakistan lacks similar capabilities.

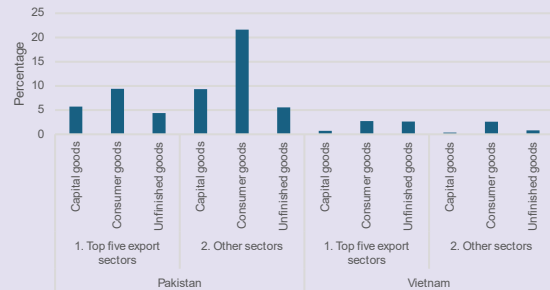
Figure 6: Average tariff rates applied by Pakistan and Vietnam on imports by stages of production of goods



Source: Author's Compilation

The weighted average tariff rates applied to imports classified by production stage are reported in Figure 6. The average tariffs on consumer goods imported into Pakistan are 16 percent, on capital goods 9 percent, and on unfinished goods 5 percent. The tariff rates on imports into Vietnam across all products are lower than those applied by Pakistan, with consumer goods at 2.7 percent and capital goods at 0.4 percent. Pakistan imposes higher tariffs on imports of capital goods than on unfinished goods, while Vietnam imposes the lowest tariffs on capital goods. Consumer goods face the highest tariff rates in both countries, but the intensity of those rates in Pakistan is significantly higher than in Vietnam. Although both countries have cascading tariff rates, the intensity of the differences in those rates is much lower in Vietnam than in Pakistan, likely creating significantly lower distortions in the former.

Figure 7: Average tariff rates on imports of goods into Pakistan and Vietnam by their stages of production and the importance of exporting sectors



Source: Author's Compilation

The weighted average tariff rates reported in Figure 7 are further disaggregated by the prominence of sector-wise exports, as listed in Table I. The average tariff rates applied by Pakistan to imports of products at the same stage of production in non-export-oriented sectors are higher than those for export-oriented sectors. The average tariff rates on imports of consumer goods in non-export-oriented sectors in Pakistan exceed 20 percent. High tariffs on consumer goods in such sectors are unlikely to protect export-oriented products; rather, they are more likely to be applied as a fiscal tool to generate tariff-based revenue in import-competing industries. Tariff rates remain low in Vietnam, regardless of whether the sectors are export oriented. Therefore, the policymakers in Vietnam are unlikely to impose tariff measures as either protectionist tools or instruments to generate tariff revenue. The imposition of high tariff rates

in Pakistan needs to be further evaluated in terms of their consequences for the capabilities of Pakistan's manufacturing sectors.

In essence, the higher participation rates in GVCs, particularly in backward GVCs, accompanied by low tariff rates in Vietnam, suggest that its policymakers not only encourage greater trade openness to promote regional and global integration, but they have also successfully developed a manufacturing sector that contributes to global and regional production chains. Unfortunately, Pakistan's lack of participation in GVCs and its high import tariffs have had significant implications for the domestic economy.

There is an urgent need to overhaul the business and investment climate in the country, with reforms aimed towards greater openness and integration into global and regional value chains. The National Tariff Policy 2025-2030 is a step in the right direction. Reversing the stagnation in exports is critical, and such a reversal will require a holistic approach to business and investment-related reforms that not only ensure a more competitive environment where businesses and investors have easier access to their markets but also enable them to access supply chains across regional and global networks more effectively and improve their participation in GVCs.

Aadil Nakhoda is an Assistant Professor at the Institute of Business Administration (IBA), Karachi, and Chair of the Economic Advisory Group.

