FJWU (Economics) Working Papers

Policy Brief

WP2026:4

From Cotton to Competitiveness - Repositioning Pakistan in Global Value Chains

Surayya Tanveer

Sumaira Bibi

Department of Economics

Fatima Jinnah Women University

FJWU (Economics) Working Papers
WP2026:4

From Cotton to Competitiveness - Repositioning Pakistan in Global Value Chains

Surayya Tanveer
Sumaira Bibi
Department of Economics
Fatima Jinnah Women University

Department of Economics
Fatima Jinnah Women University
2026

Recommended Citation :

Tanveer, S., & Bibi, S., (2026). From Cotton to Competitiveness - Repositioning Pakistan in Global Value Chains. FJWU Economics Working Paper Series (WP2026:4). Fatima Jinnah Women University. Rawalpindi.

Department of Economics, Fatima Jinnah Women University,

The Mall, Rawalpindi

Email: ecowps@fjwu.edu.pk

Website: http://fjwu.edu.pk

Contact: 051-9292900, Ext: 2072

From Cotton to Competitiveness - Repositioning Pakistan in Global Value Chains

Surayya Tanveer and Sumaira Bibi

Executive Summary

Pakistan has been following export-driven growth policies for many years. But in GVCs, Pakistan is still poorly connected. Foreign exports contribute to GDP only about 10% to 11% and the main focus is on industries like fabrics, cotton, thread, primary agricultural goods and low-value-added industries. This reveals that lack of production of high-value goods is due to inefficient product design, poor branding, ineffective production and low-tech output, which shows the failure of our system and also limits exports.

By comparing Pakistan's situation to other countries like Vietnam, China, Mexico and Bangladesh, the association of these countries with GVCs is proved successful, as they implement export-focused industrial strategies which results in the attraction of multinational corporations, liberalized imports of raw materials, heavy investments on logistics, infrastructure and formation of SEZs. These economies did not just implement their export policies blindly, but they strategically work within segmented international production systems.

According to this policy brief, there are three main obstacles that weakens the association between GVC and Pakistan which are listed below:

- Restrictive framework of tariffs leads to higher prices of foreign raw materials.
- High transaction costs and delays occurred due to ineffective logistics and trade support structures.
- Poor performance of SEZ joint with low export-oriented FDI.

By using similar country-based proof from Vietnam, China and Mexico, the report suggests a step-by-step plan of reform on improvements in tariffs system, upgrade logistics and advancement of industries through SEZs.

1. Pakistan's Weak Position in Global Value Chains

GVCs depict manufacturing structure among several nations where multiple phases of production are geographically dispersed. Instead of making whole products, local companies specialize in particular activities like product style, assembling or logistics. There is a need for countries to achieve stages of higher-productivity in the manufacturing sector. This is the way of successful involvement in GVCs. Generally, there are four main features for successful participation in GVCs.

- Cheap and consistent availability of foreign semi-finished inputs.
- Delays can be reduced by effective customs and logistic structures.
- Through multinational companies, high inflows of export-focused FDI.
- Systems of trade that are predictable, stable and make effective industrial policies.

In contrast, Pakistan has been unable to build or implement this type of supportive atmosphere. Hence, it stays stuck in low-value initial stages of production, mostly exporting low price cotton, poor quality fabrics, leather items and primary food products. This also shows the failure of the country in producing high-value-added production in different sectors like assembling of electronic goods, automobile parts or combined services of industrial production.

- Vietnam has turned into a strong exporting country of electronics and apparel products linked with GVCs of Samsung, Intel, and Nike providers.
- China has transformed from low-price assembling into a worldwide hub of industrial production by managing both early-stage and final-stage GVC stages.
- Mexico is strongly integrated into chains of North American manufacturing particularly in automobile and electronics sectors within the USMCA trade agreement.

2. Structural Obstacles of GVC Integration in Pakistan

2.1.Tariff Policy and High Cost of Imported Inputs

Weak association of Pakistan with GVC is due to the high-duty import system especially on semi-finished items and capital tools used in export manufacturing.

Main Structural Challenges:

- Heavy tariffs on foreign equipment and raw materials utilized in export-oriented industries.
- Imports of inputs are not completely tariff free which shows continuous export-disincentive bias.

- Regular shifts in policy reduce the confidence of investors and long-run strategies also disrupt.
- Exporters face heavy compliance costs that are due to difficult methods of customs.

Economic Mechanism:

Countries strongly depend on imported semi-finished raw inputs in the GVC manufacturing procedures. Export competitiveness is lowered and the actual expense of production increases because of the delays in raw materials. This restricts businesses from joining segmented global manufacturing chains in cost effective ways.

Comparative Evidence:

- Vietnam applied low tariffs on raw materials that are utilized in the zones of export production and tax-suspended warehouses ensures tax-free conditions completely.
- China experienced faster industrial growth by supporting full export refunds and by using SEZs like Shenzhen to enable tax-free exports.

2.2.Weak Logistics and Trade Facilitation Systems

GVC integration has an important factor like smooth logistics because international manufacturing chains depend on timely delivery and stable supply networks.

Major Constraints in Pakistan:

- With restricted automation, clearance procedures are based on traditional methods and paper-based customs are followed mostly.
- Customs, port agencies and logistic operators show weak collaboration.
- Weak coordination among production zones.

Economic Consequences:

These weaknesses push up the cost of transactions in trade, decrease reliability and discourage multinational corporations to add Pakistan into their production networks. Despite the fact that production cost is low, higher cost of logistics diminish returns and slow down deliveries.

Comparative Evidence:

- To promote foreign trade, China spent massively in top-level ports like Shanghai and Shenzhen and built connections between transport channels.
- To decrease clearance duration, Vietnam introduced an electronic one-step custom mechanism.
- Enabling rapid transfer of international production, Mexico gains smooth linkage of logistics with the United States under USMCA.

2.3.Weak SEZ Performance and Limited Export-Oriented FDI

Pakistan's Special Economic Zones operate poorly instead of working as a manufacturing hub for GVC inclusion.

Key Weaknesses:

- Insufficient infrastructure like electric power, natural gas, water services and transport networks.
- Under SEZ, fragile governance and instability in policies.
- Investment benefits are uncertain and temporary.
- Negligible participation in world-wide manufacturing systems.
- Instead of attracting multinational enterprises, too much focus is on local investors.

Outcome:

Pakistan's SEZ are not working at international level, they mostly copy local industrial framework means they manufacture for domestic markets instead of turning into foreign trade hubs and connect to worldwide production chains.

Comparative Evidence:

- Because of stable regulations and infrastructure, Vietnam’s industrial zones effectively attracted Samsung and Intel.
- By using institutional independence, correct capital allocation and effective export strategies, China's Special Economic Zone (Shenzhen) had evolved into a worldwide production hub.

- Mexico's maquiladoras are strongly integrated into US manufacturing networks particularly in automation and technological products.

3. The Specific Policy Choices That Allowed Other Counties To Integrate Into GVCs

3.1. Vietnam: Export-Led FDI Strategy

The success of Vietnam is based on the integration with East Asian production networks. The key policies are:

- An export oriented foreign direct investment in sectors like garments and electronics.
- Strong and investor friendly framework and network of special economic zones.
- Due to the strategic positioning, China served as an alternative to manufacturing bases.

Vietnam transformed from an agrarian based economy to an electronics exporter integrated with a global value supply chain.

3.2. China: SEZ-Led Industrial Transformation

The major GVC strategy of China is:

- China creates many special economic zones that serve as experimental zones.
- A huge investment in basic infrastructure like highways, roads and energy systems.
- Start gradual liberalization of trade with various incentives in export-oriented processing's.
- The state has a strong coordination with international and multinational firms.

China was integrated with low cost assembling goods and after that it relied on global manufacturing with production of intermediate goods.

3.3. Mexico: North American Supply Chain Integration

The GVC of Mexico is driven by USA:

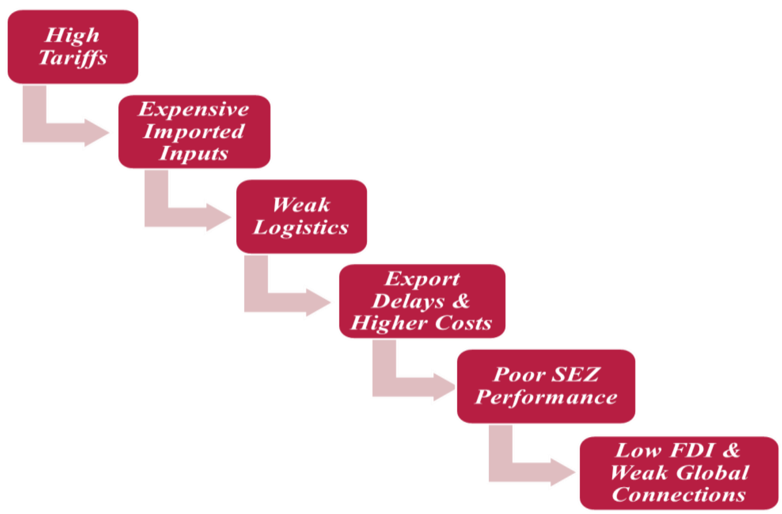
- Twin plants enable exports assembling that are duty free.
- Expansion of various automotive and electronics units.
- Geographic adjacency led to in time completion of manufacturing.
- Geographic proximity enables timely manufacturing.

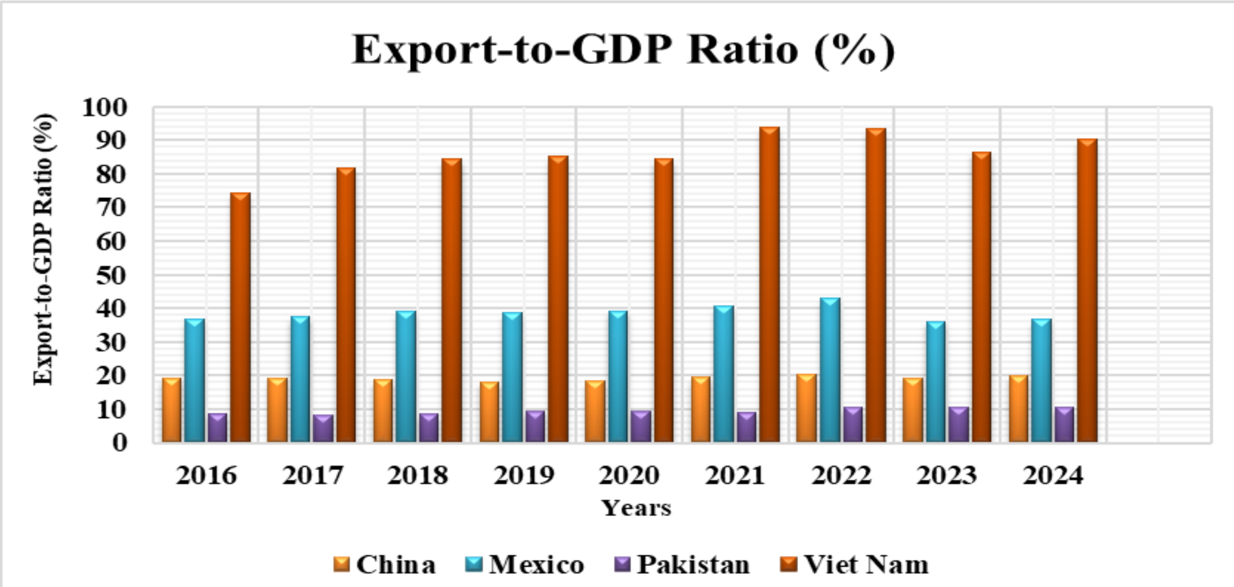
3.4. Why Pakistan Failed?

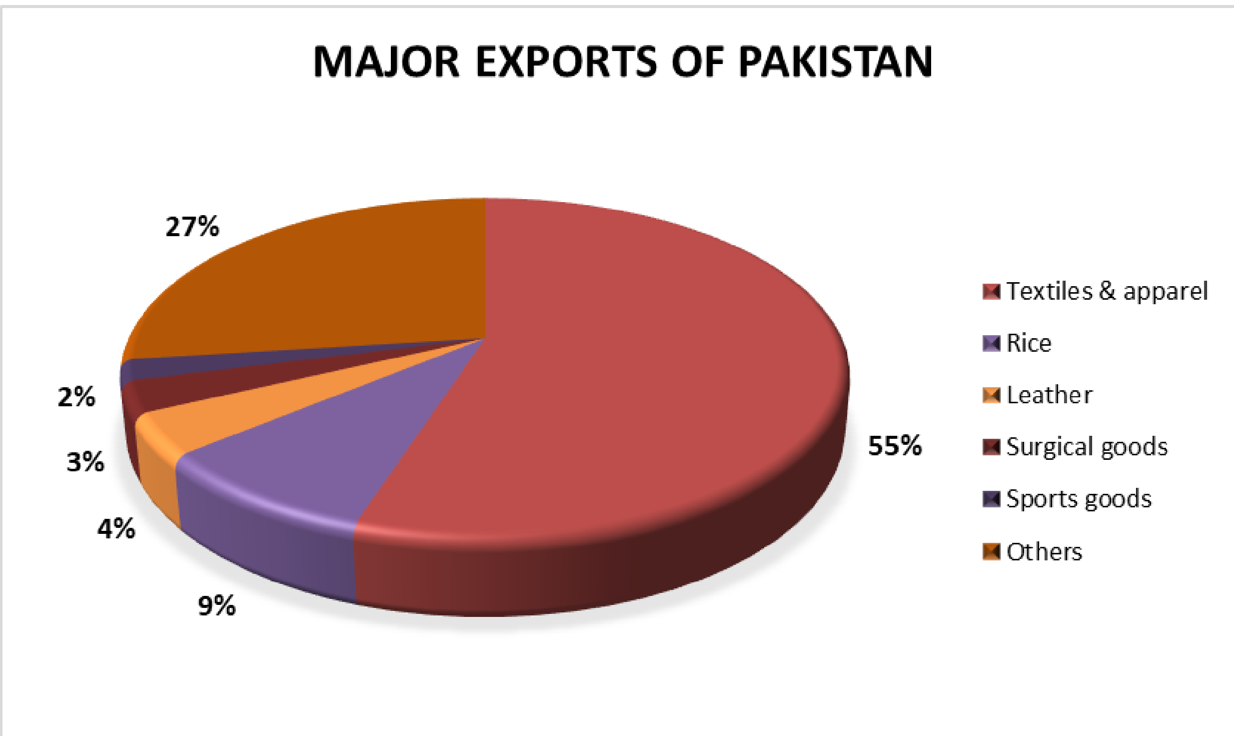
Pakistan failed due to 3 main structural distortions that are:

1. Pakistan adopts a protectionist strategy that will discourage the competitiveness of exports.
2. Various bottle-necks in infrastructure led to increased transaction costs. There are long delays in implementation of policy.
3. Due to the weak institutions of Pakistan, it limits the confidence of foreign investors and allows for little alignment with the global supply chain.

Pakistan did not adopt a FDI lead export strategy like Vietnam. It also did not combine industrial expansion with infrastructural investment like China. Unlikely, Pakistan did not align with the external manufacturing sectors.







This graph shows over-dependence on traditional sectors.

4. Analysis of Pakistan's Policies (2016–2026):

4.1. Strategic Trade Policy Framework (2015-2018):

Objectives:

- Increase exports
- Improve trade competitiveness
- Diversification in export commodities

Limitations:

- Focus remained on traditional sectors, especially textiles.
- Little emphasis on integrating into GVCs.

4.2. Pakistan Single Window (2021):

Objective:

- Digitize customs procedures
- Reduce paperwork
- Speed up trade processes

Limitations:

- Implementation is still incomplete.
- Logistics bottlenecks remain.

4.3. Special Economic Zones under CPEC (2017-Present):

Objectives:

- Attract foreign investment
- Develop export industries

Limitations:

- Slow progress.
- Limited foreign investors.
- Most industries remain domestically oriented.

4.4. Strategic Trade Development Framework (2020-25):

Objectives:

- Promote value-added exports
- Improve competitiveness

Limitations:

- Weak implementation capacity.
- Policy inconsistency reduced investor confidence.

4.5. National Tariff Policy (2019-2024):

Objectives:

- Simplify tariff structures
- Reduce protectionism

Limitations:

- Intermediate goods still face barriers.
- Frequent policy changes discourage investors.

Overall, Pakistan's policies during 2016-2026 have acknowledged the importance of export competitiveness, but implementation has remained fragmented. Unlike Vietnam and China, Pakistan has not adopted a consistent export-led industrialization strategy. Frequent policy changes, weak institutional coordination, underperforming SEZs and inadequate logistics continue to prevent meaningful integration into Global Value Chains (GVCs). Future reforms should prioritize policy stability, export-oriented FDI, trade facilitation and industrial upgrading.

5. Proposed Reform Package for Pakistan

For a successful transformation, Pakistan requires an integrated reform strategy for implementation.

Reform 1: Tariff Rationalization and Export Input Liberalization

Policy actions are:

- Elimination of tariffs and quotas on the capital and intermediate goods that were used in exports-oriented production.

- Automation and digitalization of the duty drawback systems.
- Expansion of ware houses and export processing across the nation.

Justification:
For Pakistan, while linking with Vietnam and Mexico's export-oriented processing models, it is necessary to reduce the input cost for the increase in GVC participation and competitiveness.

Expected Impact:

- A major 15% reduction in the cost of export production.
- Increase in efficiency and competitiveness across textile, apparel and electronics manufacturing.
- Increase in export variety and also give rise to GVC participation.

Reform 2: Logistics and Trade Facilitation Modernization

Policy actions are:

- Implementation of digital centralized administration custom system.
- Automation of Karachi port and Qasim port.
- Creation of various export freight corridors that will link SEZs with ports.
- Advancement of railway freight system for export-oriented industries.

Justification:
Efficient logistics shows that firms can participate in GVC's that are time sensitive.

Expected Impact:

- There will be a 40% reduction in the time required for export clearance.
- The logistic cost will decrease the overall share in the total exports.
- It attracts specifically key electronics, garments and apparel industries.

Reform 3: SEZ Reorientation toward Export-Oriented Clusters

Policy actions are:

- Transformation of SEZs to the export zones with the main focus on performance and quality.
- There would be tax stability guarantee for 12 to 15 years covering a long span.
- Alignment with different multinational firms across the world in respective sectors.
- Establish a supportive and centralized administration.

Justification

Special economic zones must work as a node of global production not as a local enclave.

Expected Impact

- There will be a major rise in export oriented foreign direct investment.
- Foreign technology transfer and productivity increases.
- Alignment with multinational supply chains during 5 years.

Sequencing Strategy

- Phase 1: Tariff Rationalization and Export Input Liberalization.
- Phase 2: Logistics and Trade Facilitation Modernization.
- Phase 3: SEZ Reorientation toward Export-Oriented Clusters.

Expected Overall Impact:

If the above policies are implemented then:

- Export to GDP ratio might increase from 10% to 22%.
- There will be diversification across multiple sectors of the economy.

- A strong and supportive system to show resistance to the external shocks and vulnerabilities.
- A major shift towards the GVC integration in the middle-income population.

5. Conclusion

The main reason for Pakistan's failure in GVC integration is its structural policy that is misaligned rather than lack of export orientation. Evidence from China, Mexico, Bangladesh and Vietnam shows that successful participation in GVC requires a stable and coherent ecosystem that combines logistic modernization, trade liberalization and industrial policies with exports. Pakistan should adopt a form of strategy that focuses on rationalization of logistic transformation and restructuring of SEZs to achieve long term export growth and sustainability.