

GVCs – a fillip for exports

Sync with Global Value Chains (GVCs) is imperative for Pakistan to grow its struggling exports. In 1990, the ratio of GVCs to traditional share in exports was 40:60. Today it's almost at 50:50. Pakistan has lagged behind. Emphasizing on catching up, SBP has published a special section on GVCs in its recent quarterly economic update.

GVC in modern world can be explained by the iPhone example. Designed in US; assembled in China and Vietnam; components to assemble are supplied by South Korea and Japan; and sold across the globe. The GVCs have made the economies think beyond domestically available resource based value added exports. For example, Bangladesh has become the second biggest world supplier of garments without any cotton production. Vietnam has created its niche in outer structure and final assembling of mobile phones by importing high tech components; it's the world third biggest mobile phone manufacturer including 40 percent of Samsung mobiles.

Meanwhile, Pakistan has continued concentrate on traditional exports within its low base in developed markets. The share in global demand of developed world shrunk from 81 percent in 1995 to 62 percent. The share of emerging economies is expected to increase further to 51 percent by 2030. Pakistan should look for new markets in a non-traditional way.

In 1995, foreign value added components of Pakistan's exports was 4.8 percent. In 2015, the ratio inched up to 5.6 percent. Consistently, 95 percent of country's exports are on value addition on domestic components such as cotton, rice, animal hides etc. Our foreign value addition in textile products is in the form of chemicals and dyes, high quality cotton, manmade fiber etc. Such process is termed as backward participation.

Pakistan's share in GVCs is mostly in forward participation i.e. some other country adds value in Pakistan's exports to re-export. For example, yarn and fabric are exported to China, Bangladesh and Turkey, which produce and export value added products to stores like Zara, Marks & Spencer and H&M.

Pakistan needs to create linkages with original brand manufacturers, and original brand designers. The textile sector lacks diversification in higher unit value manmade fibers. A good example within the country is of denim trousers (jeans) where exporters are contributing in the supply chain of brands like Target, Gap, Levi's etc.

There are two other sectors where we have footprints in GVCs – Medical Devices and ICT services. In the former, the skill set is clustered in Sialkot and 98 percent participation is in precision metal instruments. The low value addition does not lure multifetal enterprises (MNEs) to invest in Pakistan. These have production facilities in Malaysia, Mexico and Dominican Republic. Upcoming SEZs and EPZs should focus on bringing MNEs to become part of GVCs.

The way forward is to enhance Pakistan's share in GVCs within sections of existing exports – positioning for brands by improving quality standards in forward participation. Find new avenues to develop backward participation. World top five exporting sectors are electrical and machinery, petro chemical and non-metal minerals, transport equipment, metal products, and financial intermediaries and business activities. Pakistan's share ranges from 0.00 to 0.03 percent in global exports of these sectors.

The foremost important factor for enhancing footprint in GVCs is to liberalize trade (tariff) policy. For details read “National Tariff Policy – the long haul”. SBP noticed that the tariff liberalization started in 2000s is non-uniform, “Some industries such as automobile and steel, have continued to enjoy higher protection, which fueled an anti-export bias”. Government should end the protection to redirect the flow of productive capital in export oriented sectors.

The other stumbling block to become part of GVCs is high friction in goods and capital to flow. The focus should be on trade logistics and facilitation. There are shortcomings in customs infrastructure, international shipment and logistic competence. Timeliness is the key.

Last but not the least, geopolitical tension in the region is a reason for South Asia to not become part of GVCs in a true sense. GVCs function best when the supply chain network is in a geographic proximity. South Asian economies' share in GVCs is mere 0.8 percent. On the flip, Intra-regional trade in Europe and Central Asia accounts for 43 percent of the total worldwide GVCs.

Not much can be done to boost South Asian in current dynamics. CPEC is opening up the gateway for Pakistan to connect with Central Asian and other RBI countries. Pakistan can become part of Central Asia Regional Cooperation Programme (CAREC) along with CPEC (roadblock is peace in Afghanistan). But to attain any potential, domestic infrastructure is to be built and policies are to be implemented in letter and spirit.