

Pakistan's Economy: Sectoral Linkages and Comparison with Developing Asia

Agriculture-Centric, Domestically Oriented

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30/06/2026

This note uses 2022 input-output data published by the Asian Development Bank (ADB) to study the sectoral linkages that characterise Pakistan's economy and how these compare with other developing countries in Asia. It asks how Pakistan's sectors support one another, how much of that value comes from domestic sources, and how much Pakistan relies on imported inputs of the kind that have helped other Asian economies progress into more advanced production. The key finding is that Pakistan's economy remains strongly agriculture-centric and domestically oriented. Food and textiles draw heavily on agriculture, while imported inputs and more complex production linkages play a smaller role than in the typical developing-Asian economy.

Input-output tables are useful for answering this question because they show how sectors buy from and sell to one another. An input-output table is simply a large grid that records how much each sector of the economy buys from every other sector, including itself. Since the ADB publishes these tables for most Asian economies, data allows me to compare Pakistan with its neighbours on a like-for-like basis.

I use these tables to trace how much value added each sector contributes, directly and indirectly, to the output of every other sector. When a sector sells something, only part of the price it gets reflects the income earned in that sector, namely the wages it pays and the profit it keeps. The rest pays for the goods and services it buys from other sectors, and those suppliers in turn have their own suppliers. So behind every rupee of bread, for example, there is a chain of activity: the bakery, the flour mill, the farmer who grew the wheat, the transporter who moved it, and so on. For each sector, I follow this chain all the way back and work out how much of the final value was created in each part of the economy. I also separate the part that is imported from abroad and the part that is product tax. For every sector these add up to the full value of what it sells.

Figure 1 shows the decomposition for Pakistan. Each column represents the output of one sector. Reading each column from top to bottom tells you where the value in that sector's output comes from: how much is created within the sector itself, how much comes from other sectors which supply inputs to it, how much comes from imported inputs, and how much reflects product taxes (net of subsidies). Darker cells indicate larger shares. Since each column gives a full breakdown of the value of that sector's output, the numbers in each column add up to 100.

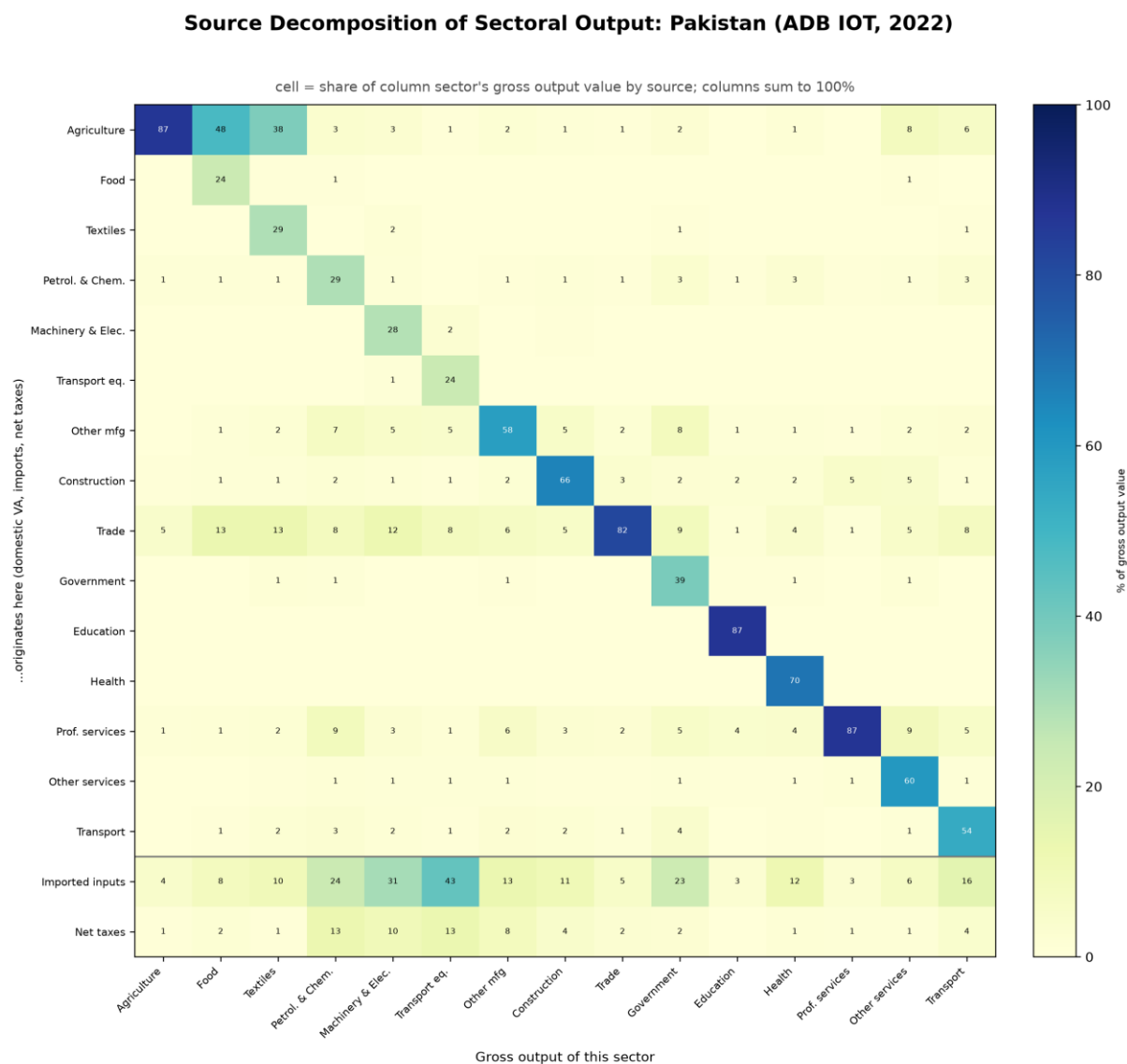


Figure 1: Where the value in each Pakistani sector's output comes from (share of output value, 2022).

Four things stand out. First, agriculture is the foundation of the economy. It is large on its own, but it is also the biggest single source of value in food and in textiles: about half of the value of processed food, and close to 40 percent of the value of textiles (mostly cotton), is really created on farms. In this sense food and textiles can be considered extensions of farming. Second, Construction appears to have weaker production linkages than commonly assumed: most of the value in construction is generated within the sector itself rather than through long domestic supply chains. Third, the retail and wholesale trade sector serves the broader economy: its value added share ranges from 5% to 14% across sectors, excluding itself. Fourth, most of the value in Pakistan's output is created at home: agriculture, food,

and textiles use very few imported inputs. This points to Pakistan's limited integration in global supply chains.

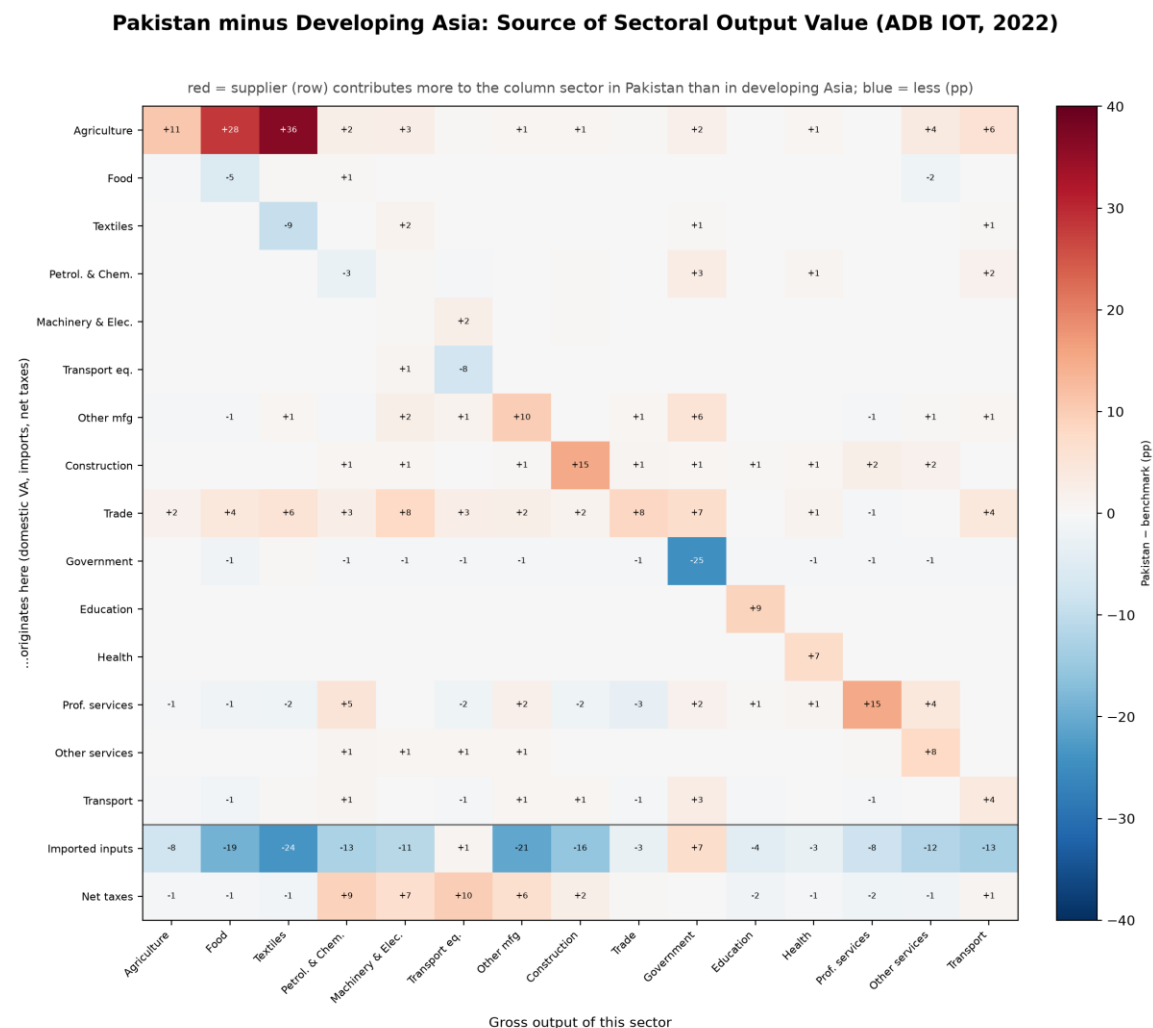


Figure 2: How Pakistan differs from the typical developing-Asian economy (percentage-point difference, 2022).

How do sectoral linkages in Pakistan compare with other developing countries in Asia? For this, I do a similar breakdown for each of the Asian economies included in the ADB dataset. I restrict the sample to developing countries and, therefore, exclude Japan, Hong Kong and Singapore. I also drop the two small economies: Brunei and Maldives. This leaves 18 countries excluding Pakistan. I take the median contribution each sector makes to every other sector and compare it with Pakistan. Figure 2 reports the difference between the value added contribution in Pakistan and the median contribution for developing Asia. For each cell, red means the value added contribution of the supplier sector (row) to the final

good sector (column) is greater for Pakistan relative to developing Asia. In contrast, blue means the opposite.

The comparison highlights key differences. First, food and textile sectors depend much more heavily on the agriculture sector in Pakistan than in developing Asia: about 28 percentage points more for food and about 36 points more for textiles. In contrast, developing Asia creates more value within these sectors and sources heavily from international markets. Second, across almost all sectors, Pakistan uses fewer imported inputs than its peers. Third, sectors in Pakistan also depend a little more on retail and wholesale trade.

Put simply, Pakistan's economy remains concentrated in relatively low-complexity production activities. Agriculture is not only important as a sector in itself; it is also the main source of value behind food and textiles. At the same time, Pakistan uses fewer imported inputs than other developing Asian economies, and sectors associated with more complex production — machinery, transport equipment, chemicals, modern services, and knowledge-intensive activities — play a more limited role in the economy's value structure.

These facts point to deeper challenges facing Pakistan economy. Economies usually climb the value chain by combining domestic capabilities with imported inputs, technology, skilled labour, reliable institutions, and access to larger markets. Pakistan's production structure suggests that these channels remain weak. Protectionist policies limit trade integration and prevent access to specialised inputs and learning opportunities; weak institutions and policy uncertainty reduce incentives for firms to invest and upgrade; low human capital limits movement into more sophisticated activities; and shallow domestic supply chains keep production concentrated in agriculture-linked and domestically oriented sectors. The result is an economy that generates value, but does so through relatively simple linkages rather than through the complex production networks that have driven upgrading elsewhere in Asia.

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