Address by Riaz Riazuddin, Deputy Governor (Policy)

Seminar on "Creating Capabilities for Growth"
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Session Topic: Promoting Trade

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Distinguished Guests,
Ladies and Gentlemen,
Assalam-o-Alaikum and a very good afternoon.

It is an honour for me to be attending this seminar organised by the Consortium for Development Policy Research (CDPR) and the International Growth Center (IGC), and to be chairing this session on such a pertinent topic.

In fact, the need for promoting trade becomes all the more important when the voices against globalisation and free trade are reaching a crescendo; and when many countries are responding to declining exports by manipulating their currencies.

In such an environment, it is no easy task to talk about promoting trade. Yet, this is precisely the time to present new ideas to help figure out how to get our country counter these global headwinds. The past couple of years have been disappointing for Pakistan's exporting sectors. To be specific, Pakistan's exports have declined (on a yearly basis) for 10 straight quarters now. I would like to highlight a few constraints.

A major reason has been the sub-par economic recovery in our key export markets of the US and the EU, which have kept consumer demand in these countries from rising appreciably. Second, international prices of primary commodities that Pakistan exports – particularly cotton and rice – have been low for quite some time now. Together, these two factors have meant that not only our export volumes have been hurt, but that we are also earning less on what we are shipping abroad.

These adverse global conditions have not only affected our exports, but also those of our regional peers, like India, Indonesia and Malaysia, to name a few. Despite large depreciation in their currencies, these countries were unable to prevent their exports from falling. On the other hand, Bangladesh and Vietnam are two countries that have been able to maintain their export growths, without necessarily resorting to depreciation.

In fact, a recent research by World Bank staff shows that exchange rate elasticity of exports has decreased over time, and the formation of global value chains has further weakened this relationship. SBP staff has also found structural issues, including lack of product diversification, quality certification, branding, and incentives for innovation, more important for export sluggishness than the perceived overvaluation of exchange rate. Even the notion of exchange rate overvaluation is not straightforward; empirical results have not been consistent over time, and also across a number of techniques that are available to gauge the equilibrium exchange rate.

Ladies and gentlemen!

For its part, the government is cognizant of these challenges, and earlier this year approved its blue-print for improving Pakistan's trade performance through its Strategic Trade Policy Framework. State Bank of Pakistan, through its monetary policy, has kept the interest rates at record lows. SBP's export refinance rate is only 3 percent; and interest rate on its long term financing facility is 6 percent.

So, all in all, I believe that the policy push is there. Yet, much more needs to be done to improve our economy's competitiveness. We also need to ensure that firms with innovation and R&D in their DNA are appropriately encouraged and facilitated. There is also a need to look afresh at non-traditional exporting sectors, both in manufacturing and services, and searching new export destinations.

Here, the private sector needs to step-in and take a leading role. Brand development and aggressive marketing are crucial for expanding our export share in the cut-throat competitive global environment today. Besides, exporters need to keenly follow evolving consumer preferences in their key markets.

I hope that ideas and discussion generated from this seminar would help strengthen capabilities for promoting trade and growth in our country.

Thank you!