Comments

Let me begin by complimenting the author on presenting a very lucid paper, which in my view, would certainly generate a great deal of stimulating discussion and debate regarding the choice of an appropriate exchange rate regime for Pakistan.

A notable contribution of this study pertains to identification of various economic and financial factors which can guide a country like Pakistan in adopting the appropriate exchange rate regime given its current macroeconomic and financial environment. In this context, a scorecard is constructed based on a template developed by Husain (2006). This paper uses the template to identify and quantify factors for a set of Asian countries including economic integration, financial integration, economic diversification, monetary independence, credibility, and fear of floating type effects.

Based on the constructed scores, it is argued that choice of a pegged regime is not viable for Pakistan. Furthermore, the study identifies few critical areas which need to be addressed by policy-makers: dollarization of Pakistani economy, low exchange rate pass-through, etc.

The paper has achieved a lot, but the presentation in my view would have gained more mileage, had it covered aspects like the following:

1. The author makes a case for adoption of a flexible exchange rate regime by Pakistan based on his assessment of current economic and financial environment. However, the paper does not address the economic and financial implication of such a choice on the economy.
2. The author takes an extreme position vis-à-vis the choice of exchange rate regime, whereas the literature on the topic seems to suggest remarkable durability of intermediate regimes as shown in. Rogoff et al. (2003). Therefore, the author’s recommendation needs to be reviewed in the light of the above cited study. Also, it would be worthwhile to undertake studies that evaluate the viability of adoption of intermediate regime for a country like Pakistan.
3. It is an accepted practice that the decision to adopt a certain exchange rate regime hinges on two crucial factors: vulnerability of the adopted exchange rate regime to volatility and serious misalignment. The paper does not take these factors into account while recommending a flexible exchange rate regime for Pakistan.
4. If one examines the adopted exchange rates regimes around the world, one notice that countries do not tend to bind themselves to their officially stated positions vis-à-vis exchange rate regime being followed. Such cases are

categorized as *de facto* exchange rate arrangements. This possibility for the case of Pakistan needs to be further explored. Besides, it is generally argued that institutional and legal infrastructure and its quality are few of the critical factors in context of choice of flexible exchange rate regime. This argument is based on the fact that countries with poor institutional set-up are rarely able to implement their officially announced policies. This paper needs to take into account the above-mentioned factors while recommending adoption of a specific exchange rate regime for Pakistan.

5. The bigger issues facing developing countries like Pakistan are the capital flows, competitiveness of exports, cost of imports (growing stage) and performance of overall macroeconomic indicators (economic growth, inflation, etc.). These become all the more relevant if a flexible regime is chosen. So there is a need to critically analyze these issues and one needs to assess how flexible Pakistan can be with regard to exchange rate policy.
6. In quantifying the economic integration factor the author has used different sets of data for measuring each sub-head; trade orientation (1999-2002), trade partner concentration (2001-03) and cyclical synchronicity with trade partners (1985-2003). All these sub-heads with different sample periods are not comparable. The same is the case with the rest of the key factors. Therefore, changing the time period would yield different results for the same set of variables.
7. The scorecard is subjective, as it is based on variables whose effectiveness is questionable in context of developing countries (e.g. economic integration, diversification, monetary independence, etc). In addition, the problem with applying template for cross-country comparison is that it tends to ignore cross-country difference in factors like size, level of development, regional & political considerations. Recommendation of flexible exchange rate regime for Pakistan on the basis of these quantifications, therefore, may not be robust.
8. India and Thailand are relatively developed and diversified economies. However, the author's scorecard seems to present a neutral case for these countries. The paper does not reconcile such contradictions.

I would like to conclude my comments with a quotation from Frankle (1999), that "an important consensus on the choice of exchange rate regimes is that no single exchange rate regime is best for all countries or at all times."

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References

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