

# *From Inward to Outward* Changing the orientation of our economy

**Dr. Reza Baqir**  
*Governor*  
State Bank of Pakistan

## **Firms and Growth Seminar**

January 13, 2020



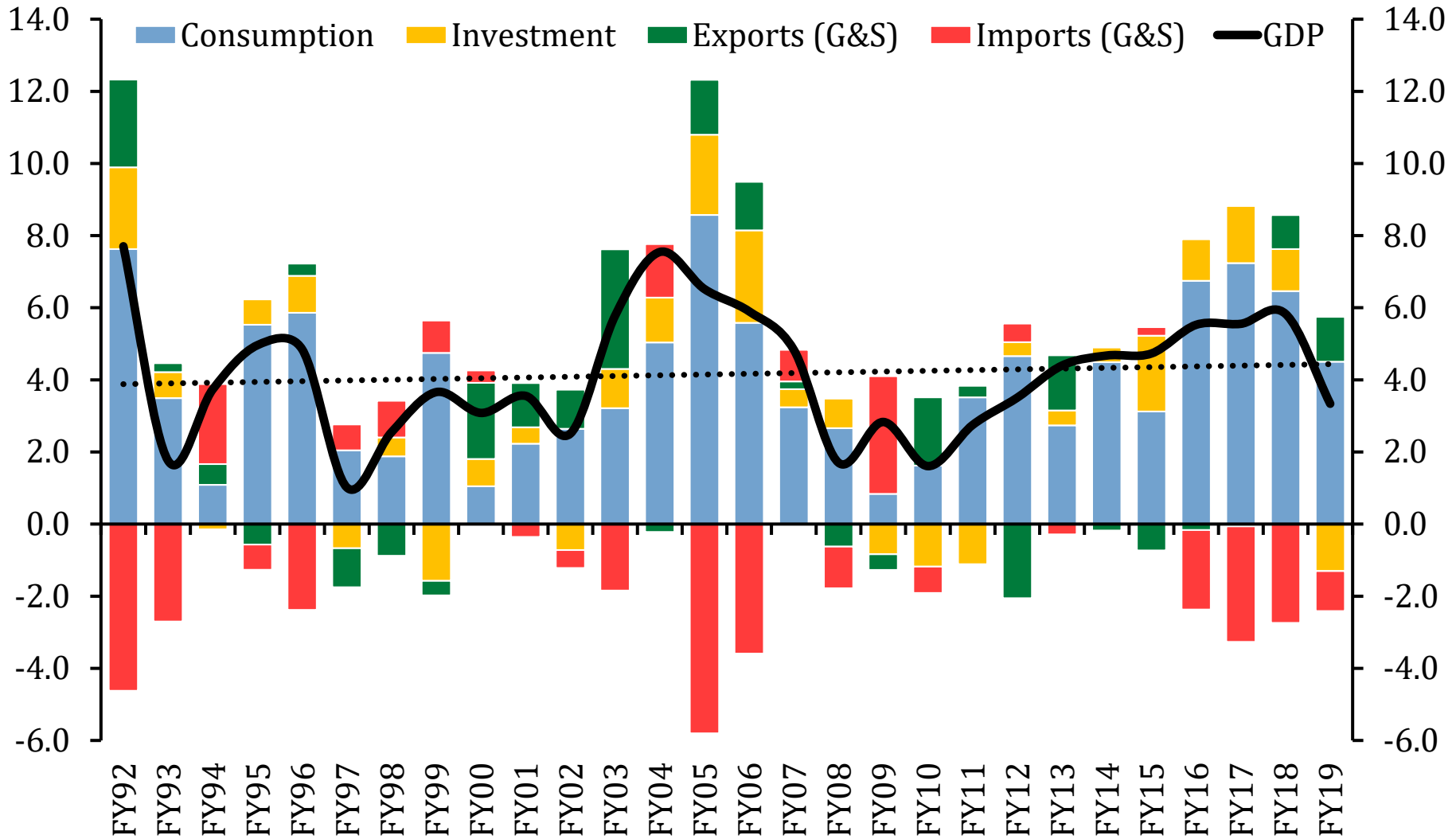
## Part I

**Why do we need a renewed emphasis on export-oriented growth?**

# Except for brief episodes (e.g. 2000-2006), Pakistan's growth has been driven by domestic consumption

## Pakistan: GDP Growth and its drivers

Growth in %, contribution in ppt.

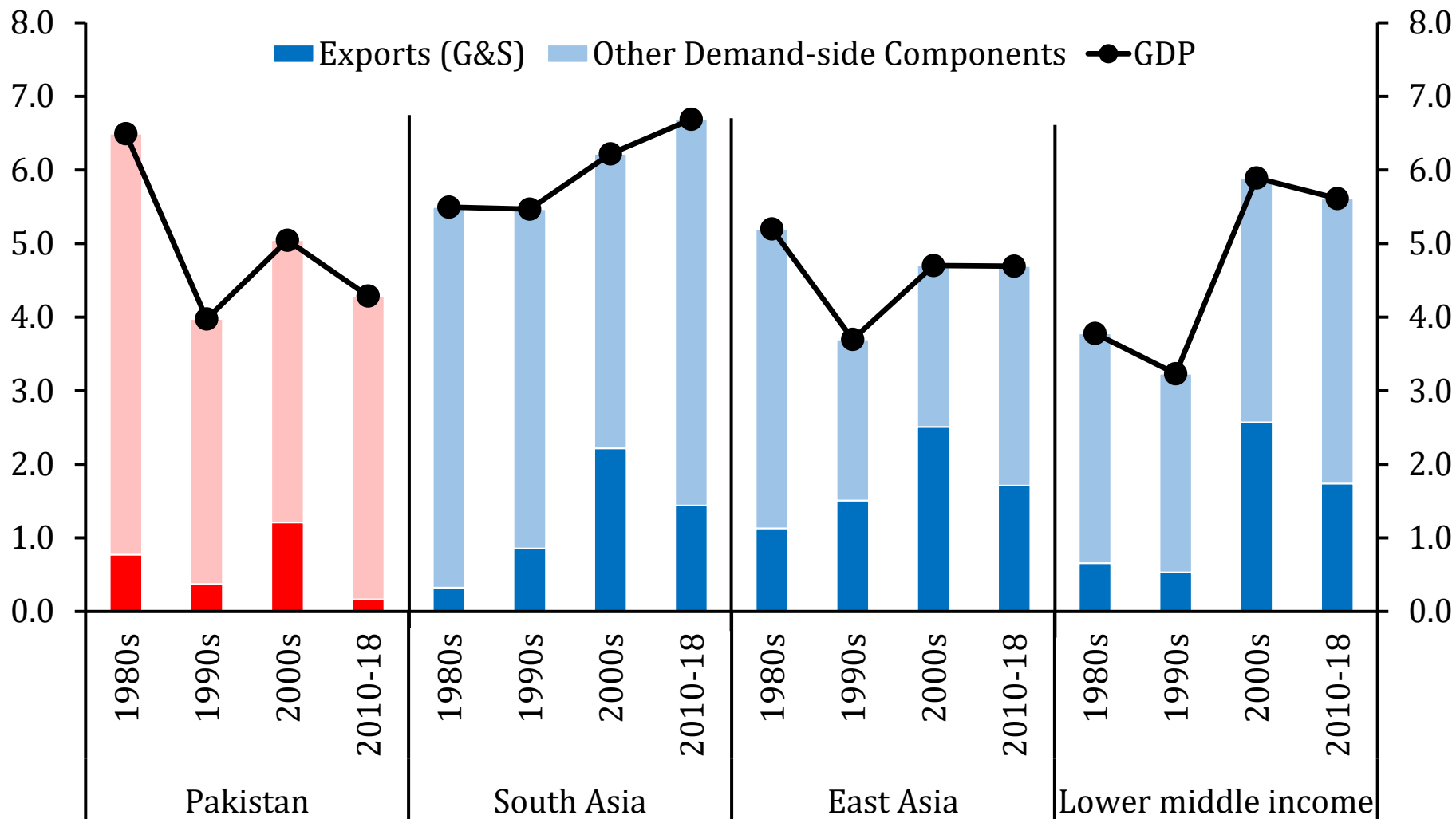


# Contribution of exports to growth has lagged comparator groups through 2018



## GDP Growth and its drivers

Average growth in %, contribution in ppt.



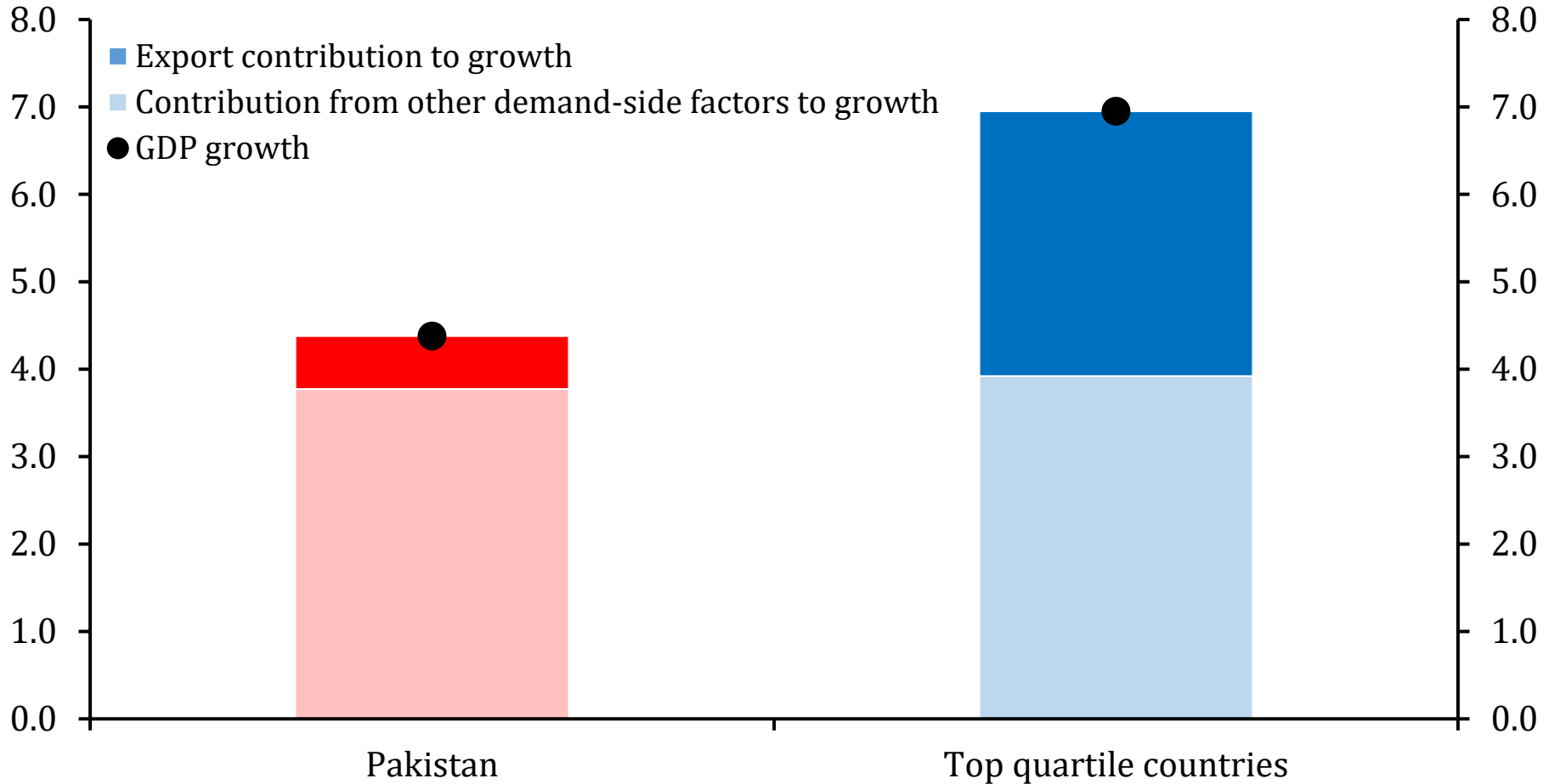
Note: Other demand-side components include public and private consumption/investment and imports (G&S).

Source: World Bank

# Growing at the same rate as the top 25% of emerging markets will require much higher export growth

## Contribution of Exports and other factors in GDP growth

Averages over 2001-2018, real growth in %, contribution in ppt.



Notes:

1. Top quartile of countries selected w.r.t. GDP growth from 98 countries over the period of 2001-2018.
2. Beside others, these countries include Pakistan's textile competitors like India, Bangladesh, Vietnam, and Cambodia.
3. Other demand-side factors include public and private consumption/investment and imports (G&S).

Source: World Bank



## Part II

**What are the determinants of our export performance?**

# Literature on Determinants of Exports in Pakistan...(1)



Paper Title	Author(s)	Year	Journal	Data	Determinants	Technique
Pakistan's Trade Performance vis-à-vis Its Major Trading Partners	Sajjad Akhtar and Fauzia Malik (Cited by 53)	2000	The Pakistan Development Review	1982-1996	Income effect at destination countries and real devaluation of currency.  Concessionary export financing and customs rebates (only significant for some destinations)	Three-stage Least Square technique
The Long-run and Short-run Impact of Exchange Rate Devaluation on Pakistan's Trade Performance	Zehra Aftab and Aurangzeb (Cited by 37)	2002	The Pakistan Development Review	1980-2000	Real devaluation of currency (Only for long run)	Johansen's cointegration
The Supply and Demand for Exports of Pakistan: The Polynomial Distributed Lag Model (PDL) Approach	Zeshan Atique and Mohsin Hasnain Ahmad (Cited by 32)	2003	The Pakistan Development Review	1972-2000	world economic activity, business cycles of trade partners, level of domestic production, real effective exchange rate (only for short run), labor cost (long run).	Almon approach
Estimation of import and export demand functions using bilateral trade data: The case of Pakistan	Jahanzaib Haider, Muhammad Afzal, Farah Riaz (Cited by 26)	2011	Business and Economic Horizons	1973-2008	Income of trading partners, Exchange rate	OLS and Johnson co-integration
Pakistan's agricultural exports, determinants and its potential: an application of stochastic frontier gravity model	Rao muhammad Atif, Liu Haiyun and Haider Mehmood (Cited by 23)	2016	The Journal of International Trade & Economic Development	1995 to 2014	Bilateral Exchange rate, Bilateral tariffs, Bilateral trade agreements & lack of regional trade, cultural seminars between trading partners	Stochastic frontier gravity model

# Literature on Determinants of Exports in Pakistan...(2)



Paper Title	Author(s)	Year	Journal	Data	Determinants	Technique
Determinants of Exports of Pakistan: A Country-wise Disaggregated Analysis	Naseeb Zada, Malik Muhammad and Khan Bahadar (Cited by 22)	2011	The Pakistan Development Review	1975-2008	Quantity of Export demanded, Real Exchange Rate, GDP of Trading Partners, Dummy for Kuwait-Iraq war and US led Afghan war	GMM, Bayesian
Estimating Long-run Trade Elasticities in Pakistan: A Cointegration Approach	Mohammad Afzal and Imtiaz Ahmad (Cited by 18)	2004	The Pakistan Development Review	1960-2003	Exchange rate depreciation in a combination of rise in saving relative to investment	johanson co-integration
Export Barriers in Pakistan: Results of a Firm-Level Survey	Rashid Amjad, Ejaz Ghani, Musleh ud Din and Tariq Mahmood (Cited by 14)	2012	The Lahore Journal of Economics	2010 to 2012	Weaknesses in physical infrastructure, lack of modern technology, lack of human resource development, shortage of required skills, lack of quality certifications (as per international standards), Lack of FDI, High cost of doing business, lack of regional economic integrations, High domestic absorption leading to lack of exportable surplus	Purposive sampling approach for survey
Demand and Supply of Exports in Pakistan __ A Disequilibrium Model	Mohammad Afzal (Cited by 8)	2005	The Lahore Journal of Economics	1972 -2003	Relative prices (mainly for primary exports) & domestic production conditions represented by real GDP	Two Stage Least Square
Determinants of Export Growth at the Extensive and Intensive Margins: Evidence from Product and Firm-Level Data for Pakistan	Jose Guilherme Reis and Daria Taglioni (Cited by 7)	2016	World Bank		Governance, Business environment, high concentration of exports in the hands of a limited number of large exporters, Low rates of product innovation, low ability of the export sector to enter into new higher growth sectors	-
Pakistan's Exports Demand: A Disaggregated Analysis	Fayyaz Hussain (Cited by 7)	2010	SBP Research Bulletin	1988-2009	World Imports, Unit Value of Export, Competitors Price, ER Index, Weighted Average Index of for Competitors	GMM



# Literature on Determinants of Exports in Pakistan...(3)



Paper Title	Author(s)	Year	Journal	Data	Determinants	Technique
Export Performance of Pakistan: Role of Structural Factors	Asif Mahmood and Waqas Ahmed (Cited by 5)	2017	SBP Staff Notes	1984-2016 (indicative)	Cost of Doing Business, Energy Availability, Women Participation in Labor Force, FDI and Technological Advancement, Education and Research, tariffs, Market and Product Diversification, Access to Finance	Non Empirical Study
Towards Measurement and Determinants of Export Diversification: An Empirical Analysis of Pakistan	Naima Mubeen (Cited by 4)	2016	Pakistan Journal of Commerce and Social Sciences	1980-2015	Geographic concentration of exports, FDI, REER, Trade Openness, World GDP	ARDL
An investigation into export supply determinants of selected South Asian economies	Aleena Sajjad and Zafar Mehmood (Cited by 3)	2014	NUST (working paper series)	1984-2012	Productive capacity, Relative export prices, trade openness, corruption & simplification of trade procedures, energy supplies and FDI	Panel Fully Modified Ordinary Least Square
Factors Affecting the Demand Side of Exports: Pakistan Evidence	Sajid Gul, Muhammad Faisal Siddiqui, Fakhra Malik and Nasir Razzaq (Cited by 2)	2013	Research Journal of Finance and Accounting	1990 to 2010	Real Exchange rate & World growth	Two Stage Least Square (2SLS) Method
An Assessment of Pakistan's Export Performance and the Way Forward	Afia Malik, Ejaz Ghani & Musleh ud Din (Cited by 1)	2017	PIDE	2003-2015	Regional economic integration, competency in more labour intensive components of complex products gradually advancing to more skill and technology intensive activities, technology upgradation, business climate and institutional quality	-
Pakistan's international trade;The potential for expansion towards East and West	Ehsan Choudhri, Antonio Marasco and Ijaz Nabi	2017	International growth centre	2004 to 2013	Policy barriers (leading to lower level of trades with regional countries), Lack of infrastructure for trade via roads, Private FDI to be a key determinant	Gravity model

# Literature on Determinants of Exports in Pakistan...(4)



Paper Title	Author(s)	Year	Journal	Data	Determinants	Technique
Pakistan: Rising Imports, Declining Exports & Premature Deindustrialization	Samir s. Amir and Salik Saeed	2017	Pakistan Business council	-	Poorly negotiated FTAs, declining share of manufacturing and excessive (nearly 79%) reliance of exports on agriculture (impacted by low productivity, harsh weather & international price fluctuation), high input (labor, energy) costs.  GDP growth driven by consumption with low level of investment.	-
Determinants of manufactured goods exported from Pakistan	Munazza Akhtar, Sarfraz Hassan, Khuda Bakhsh, Nazia Tabasam	2015	Pakistan business review	1990 to 2010	FDI, Agriculture value added, Techonology. REER got negative impact.	ARDL
Annual report	EPRD department	2015	State Bank of Pakistan	-	Declining share of exports in manufacturing GDP, High absorbtion of domestic value addition, Anti-Export Bias, lack in coherence of Export Enhancing Measures, Missing Export Culture of Multinationals, No Legal Cover for Product Innovation and Identification, Pakistan's Image as Supplier of Quality Products and costly quality certifications, Stuck with old-fashioned products, Lack of investment in human resources, inactivity at branding side and Snags in tax machinery.	-
The Supply and Demand for Exports of Pakistan: The Polynomial Distributed Lag Model (PDL) Approach	Zeshan Atique, Mohsin Hasnain Ahmad and Asad Zaman	2004	The Pakistan Development Review	1972-2000	Real Exchange Rate, World GDP, Domestic Production Capacity, Wage Rate per worker, IPI, CPI, ER of Trading Partners	Almon approach
Management in Pakistan : First Evidence from Punjab	Ali Choudhary, Nick Bloom, Renate Lemos, and John Vanreenen	2016	IGC Working Paper	2005-2010	Management scores and export status highly correlated.	OLS.



## **Part III**

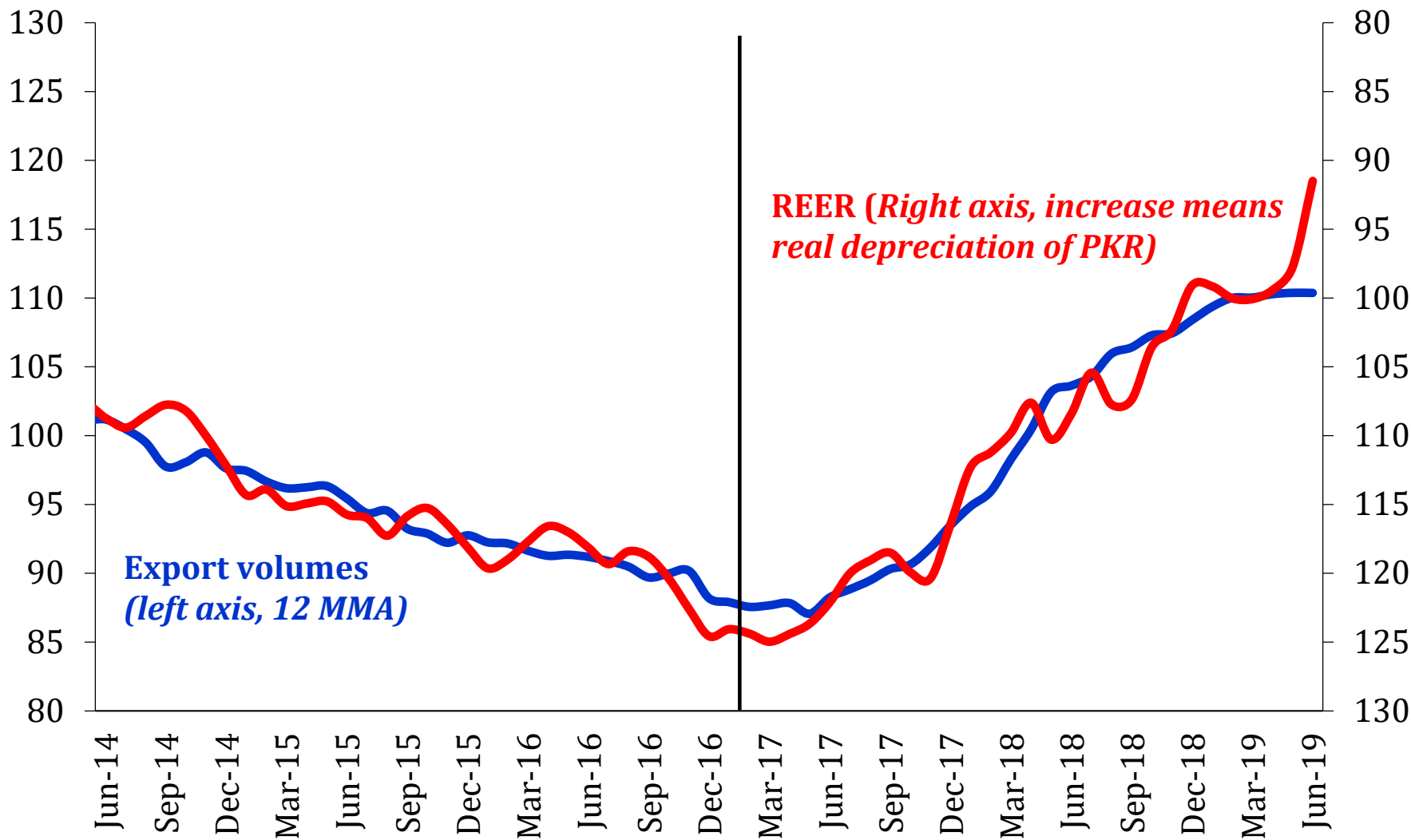
**Two considerations in determining the outlook for exports: exchange rate and export diversification**

# Addressing exchange rate overvaluation has helped to re-grow exports



**Export Volumes and Real effective exchange rate (REER)**

2013=100



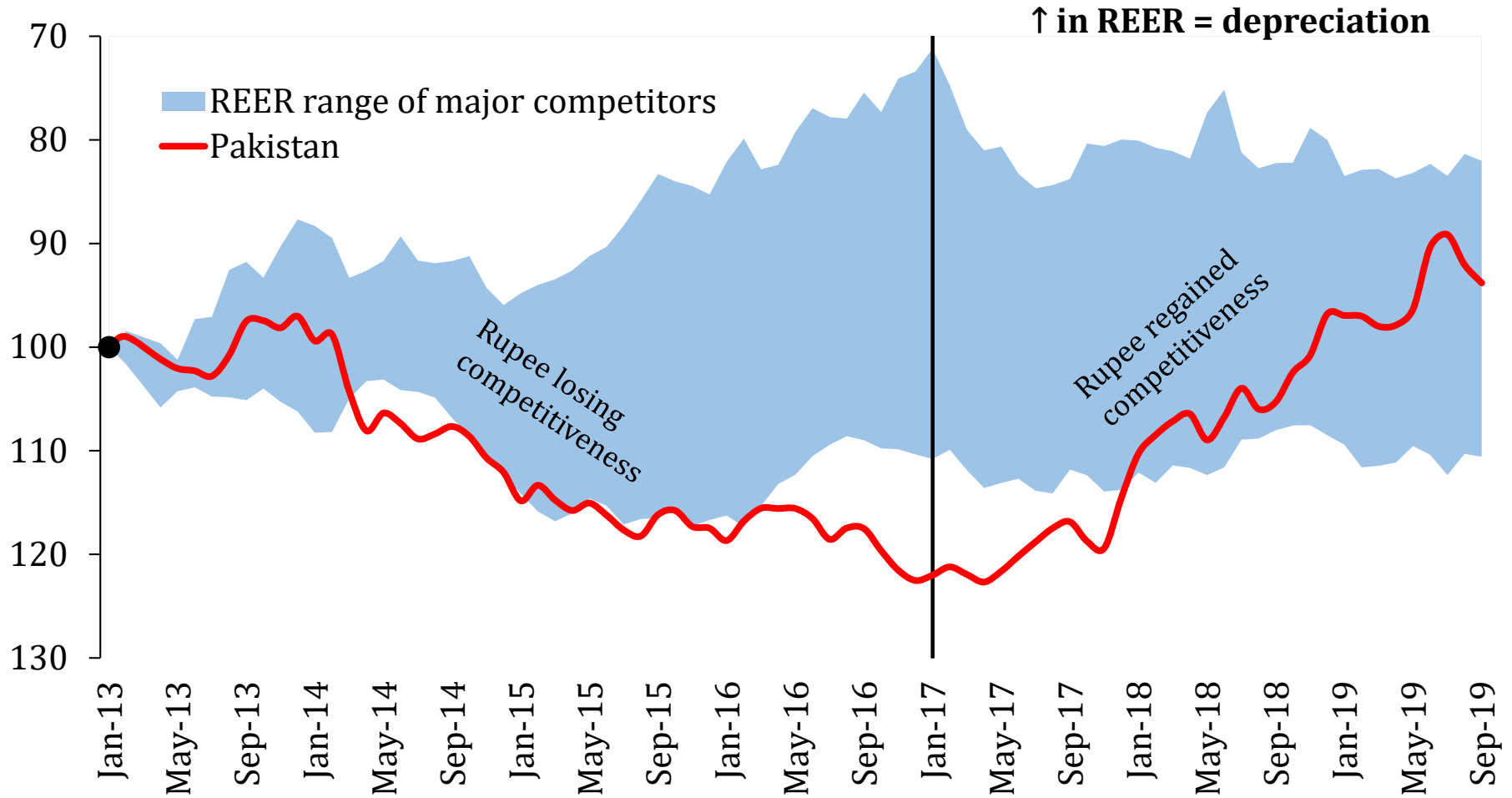


# After having lost ground to other export competitors, the Pakistan rupee has regained competitiveness

## Real effective exchange rate (REER)

2013=100

Index, inverted scale



Note: Competitors' include India, China, Malaysia, Thailand, Sri Lanka, Philippines, Indonesia, Mexico

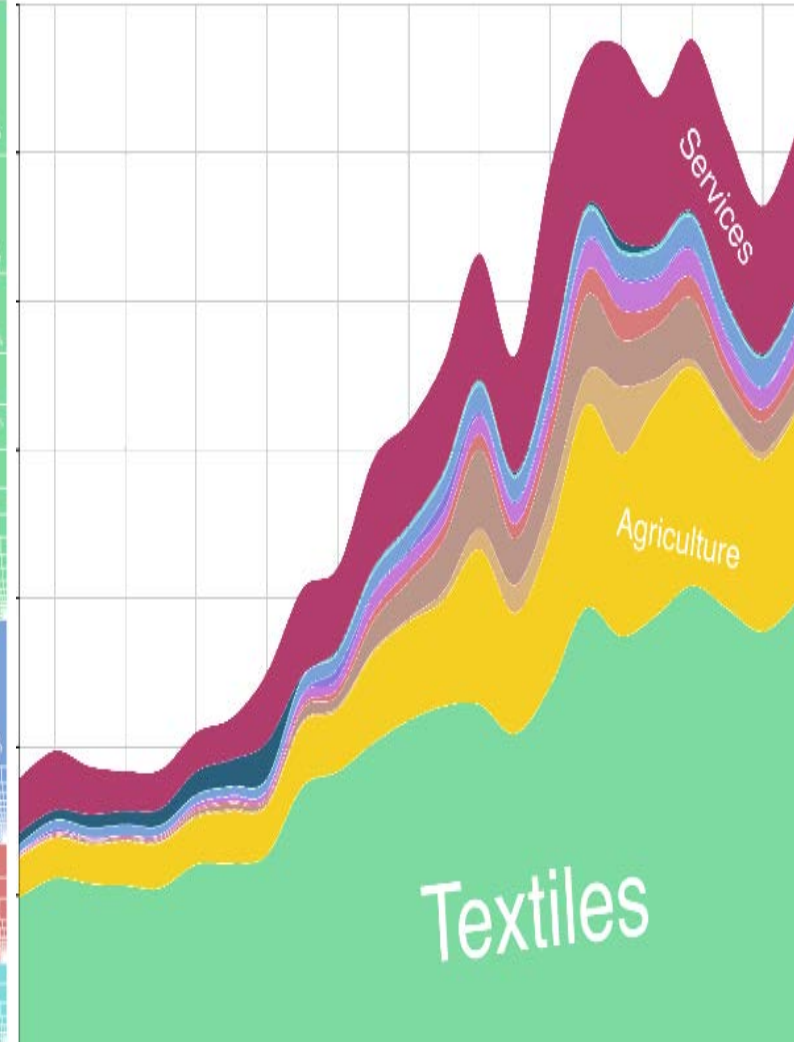
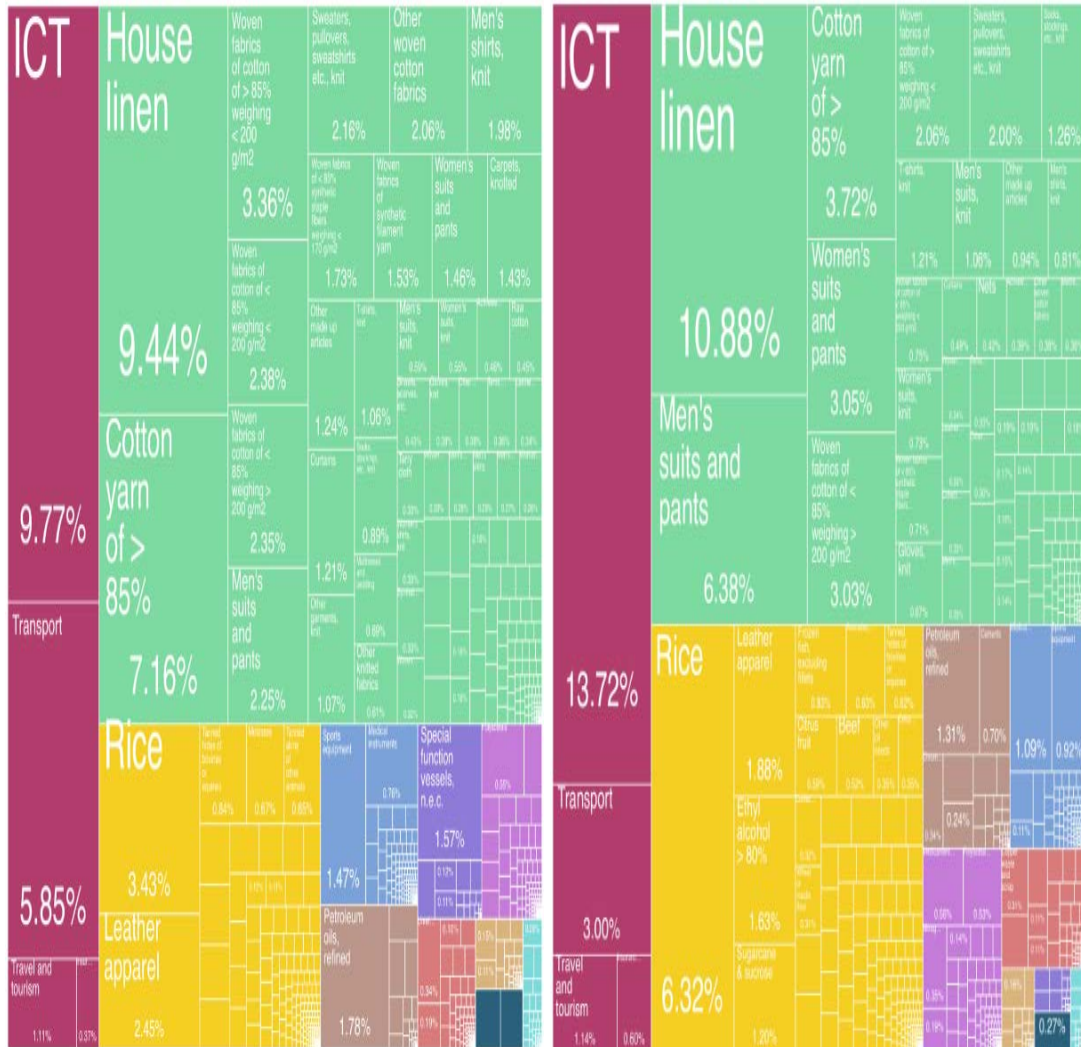
# Pakistan: Export growth slowed after 2012 and diversification has been limited through 2017

## Pakistan

2004 (US\$ 16.1 billion)

2017 (US\$ 31.0 billion)

From 1995 to 2017





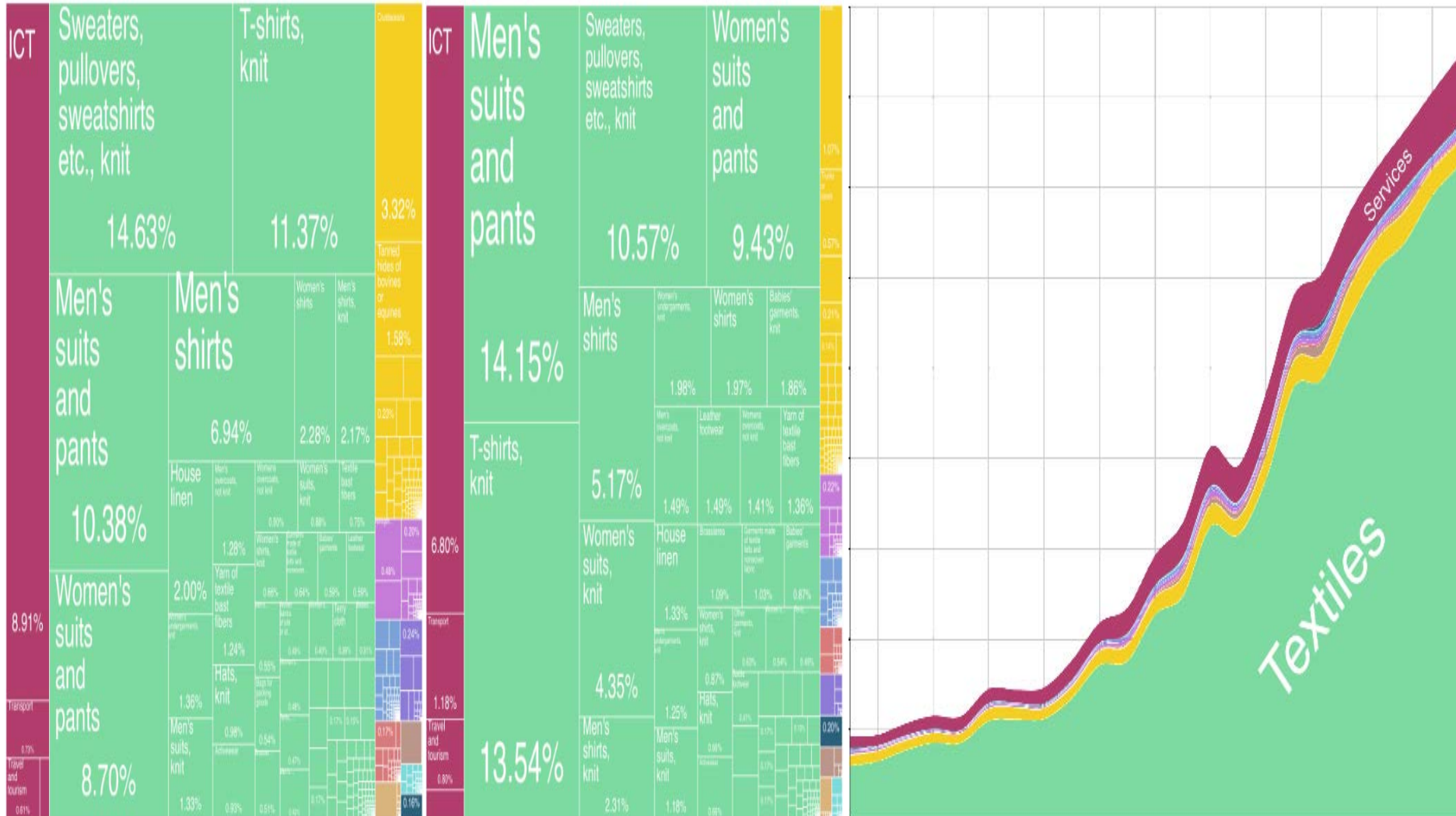
# Bangladesh: Exports have continued to grow strongly but growth is concentrated in textiles

## Bangladesh

2004 (US\$ 10.9 billion)

2017 (US\$ 42.2 billion)

From 1995 to 2017



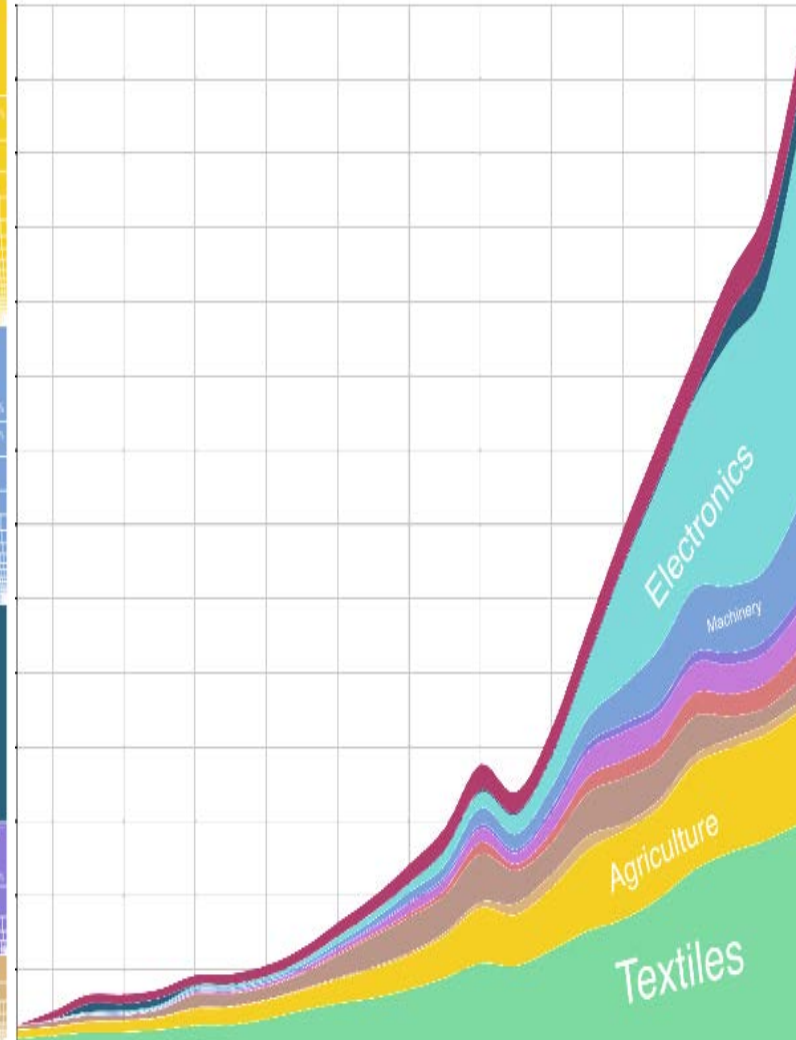
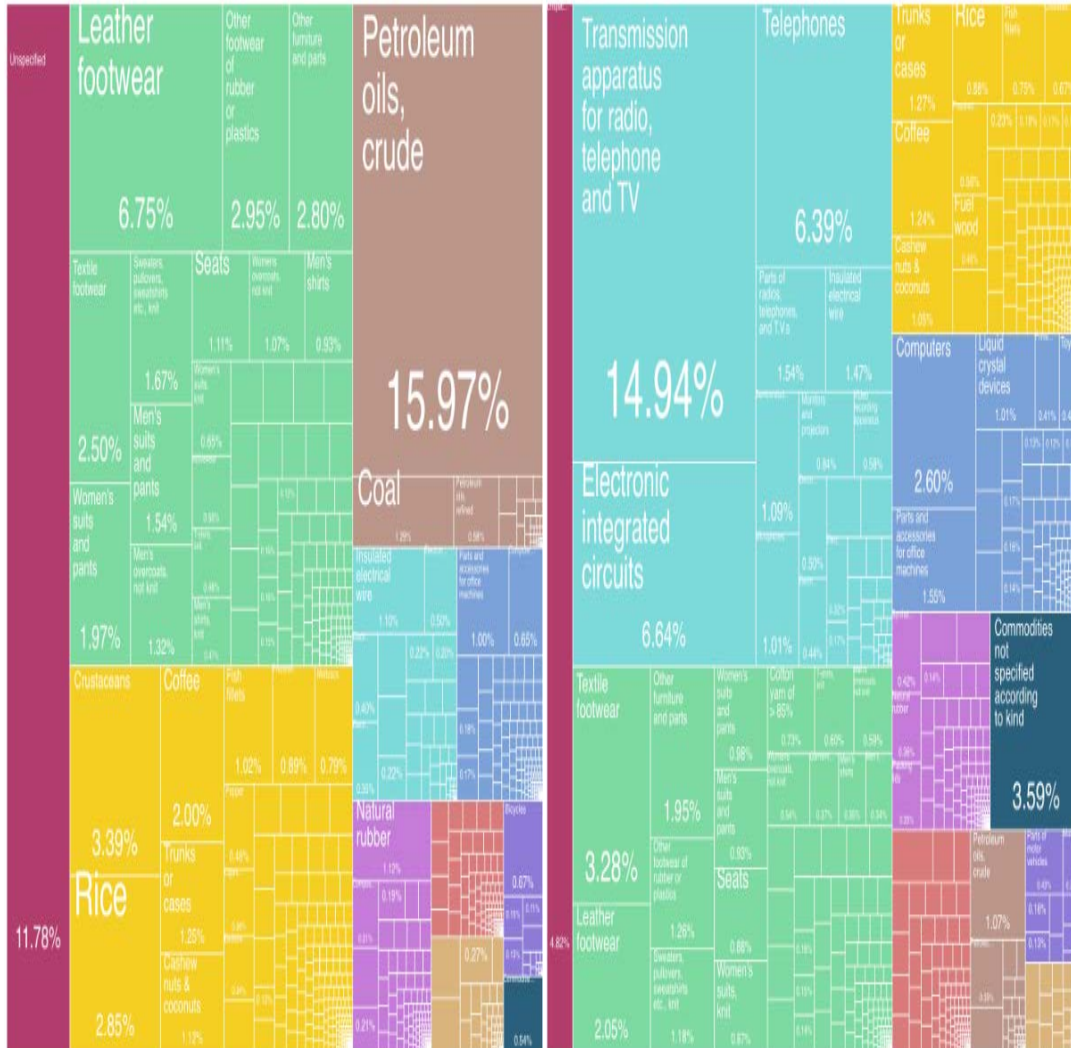
# Vietnam: Strong exports growth *and* diversification

## Vietnam

2004 (US\$ 32.8 billion)

2017 (US\$ 272.0 billion)

From 1995 to 2017





# Thank You

Questions: [investor.relations@sbp.org.pk](mailto:investor.relations@sbp.org.pk)