

### **Joining GVCs to put exports on path to growth: SBP**

KARACHI: The State Bank of Pakistan (SBP) Monday said that increasing participation in the Global Value Chains (GVCs) would not only align the country's product mix with trends in global demand, but also put the exports on a sustainable growth path.

The State Bank, in its first quarterly report "The State of Pakistan's Economy", has added a special session on GVCs and emphasized for taking benefits of emerging developments and opportunities of GVC to steer exports towards a sustainable growth trajectory. GVC had been the most prominent force behind globalization and world GDP growth during 1995-2008.

While countries like Vietnam and Bangladesh have reaped substantial returns in terms of export and economic growth over the past two decades via participation in the GVCs, Pakistan has been unable to establish a similar presence in the global production and supply networks, the report mentioned.

However, the some key developments pertaining to GVCs currently underway provide the country with an opportunity to realign its trade activities and improve integration within the existing and emerging global value chains.

First, the manufacturing activities around the world are becoming more services-oriented. Trade flows in value-added terms reveal that transport logistics, communication, and financial services play important roles in GVCs. Resultantly, the value created by services as intermediate inputs represent over one-third of total GVA of global manufacturing, and services exports figures in gross terms (43 percent) vastly understate the exports of services in value-added terms (21 percent).

Second, information technologies are undergoing a revolutionary transformation. Businesses and consumers alike are transitioning from the usage of social media, analytics, and cloud computing to areas such as distributed ledger technology, artificial intelligence, reality augmentation, and quantum computing. Together, these developments stand to facilitate and increase the transfer and accessibility of information exponentially, thereby enabling more processes and activities to be fragmented and/or outsourced.

Third, with consumption patterns changing and becoming more personalized, the GVCs are also undergoing a transformation, from mass production towards mass customization. This is resulting in the creation of multiple value chains for similar products, with input materials being sourced from various locations instead of relying on suppliers from a single geographical location. The wage increases in production countries such as China are also pushing firms to relocate to alternate destinations to keep their competitive edge intact.

Fourth, the gradual rise in demand in the emerging economies, particularly China and India, is increasing the attraction of such destinations not only as an outsourcing market but also as a selling one.

According to SBP, this rerouting of value chains is expected to continue over the next decade and beyond as emerging economies are expected to achieve 50 percent share in total global demand by 2030 fueled by consistently high retail market growth rates.

Keeping in view these developments, SBP has urged that Pakistan must utilize this opportunity and deepen the linkage of its manufacturing activities with the global value chains to steer its exports towards a sustainable growth trajectory, akin to Bangladesh's performance in the textile sector.