

# THE NEWS Resetting foreign economic relations : Part I

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The 2021 National Security Policy has made geo-economics its main pivot. It is therefore essential to look in a coherent and comprehensive manner how Pakistan's economic relations with other nations should evolve to meet this objective.

In designing foreign economic policy we should always keep in mind that such a policy would be a by-product of the country's larger foreign and domestic economic policies. For example, if foreign policy with one particular country or group of countries is silent, ambivalent or agnostic then a foreign economic policy cannot be built upon strong economic cooperation with that country or group. Similarly, if the domestic economic policy is constrained by fiscal problems then giving aid to promote Pakistani goods in international markets would be an exercise in futility.

In the domain of foreign policy, ambiguity, diplomatic language, courtesies and sensitivities mask a lot and reveal very little. But foreign economic policy must be more direct, focused, target oriented if it has to meet its goals. Globalization, technology, demographics and demand patterns are important drivers of any country's foreign economic policy. At the same time, we are also at a severe risk because of the onslaught of climate change that has already hit us badly. We are also confronted with change in the geopolitical power balance. A fuller understanding or comprehension of these driving forces and risks is extremely critical for formulating, adjusting and fine tuning our policies.

What should be the goals for setting future relationships?

The primary objective should be to maximize the opportunities offered by globalization and financial integration for the benefit of the majority of Pakistanis and to manage threats to the Pakistani economy. The country could

double its per capita income and reduce poverty levels within the next 10-12 years if this goal is met.

Disparate countries in East Asia such as Philippines, Indonesia, Malaysia, Thailand and Vietnam were able to demonstrate that international trade and foreign direct investment (FDI) can bring about miraculous change in the living standards of hundreds of millions of impoverished people. Poverty levels in East Asia are now among the lowest in the world. The success of East Asia was a combination of smart governments and dynamic private sectors working together.

China did even better than the newly industrialized countries (NICs) and East Asia, raising the real per capita incomes of 1.2 billion people four times during the last 25 years and bringing down poverty from 50 per cent to 10 per cent.

Another country in which the number of inhabitants crosses the one billion mark, India, with its often chaotic and messy democracy, has delivered an annual growth rate of six per cent over the last 15 years and reduced poverty levels down to 23 per cent despite the country's multifarious problems. This period was marked by opening up of India, liberalization of trade and foreign investment.

This requires that we very carefully choose those instruments that benefit our economy and avoid those which create volatility and adversity. What instruments are available to achieve this objective? In my view, there are at least ten possible instruments which can be used in varying degrees and with varying intensities. These instruments are:

Trade: we need to increase the world market share in exports of merchandise goods and promote regional trade. Further, we should initiate participation in the exports of services particularly ICT and professional services. We also need to act as the transit route for cross-border flows of goods, infrastructure and services, and also take part in the global supply chain by providing components, parts etc.

Investment: Pakistan should attract foreign direct investment, particularly for exports and infrastructure; encourage Pakistani companies to place equities

abroad and acquire contracts and companies overseas; and set up joint venture companies with MNCs.

Technology: We need to promote transfer of technology to Pakistani companies and facilitate Pakistani companies in acquiring international presence.

Labour and manpower: the country should train and supply the type of workers required by deficient countries and maximize workers' remittances; and maximize the emigration of skilled manpower possessing higher technical and financial skills.

Using the above framework there is a specific way the nature of bilateral relationships with the US, China, the Gulf States, other South Asian countries, and Afghanistan needs to be approached. Relations with the Central Asian Republics are very contingent upon the happenings in Afghanistan and with Iran on the fate of the agreement with the Western powers.

United States: the US has been a major provider of economic, military and humanitarian assistance. Since 2014 this aid has been substantially cut which is a welcome move both for the US as well as Pakistan as it had become a highly contentious issue due to the widely differing perceptions held in the two countries. US assistance has proved to be more effective and responsive to natural disasters such as earthquake and floods and has won kudos from the affectees. The recent timely support for the 2022 floods is an example of this effectiveness.

The Biden Administration has rightly moved its focus away from Security, AfPak, and India-Pakistan to Trade, Investment and Technology Transfer. This is a highly desirable shift, provided this strategy is executed with full force because past attempts have not been successful. The US Chamber of Commerce has been rightly calling for easing access for the country's textiles to American markets.

American tariffs on Pakistan's leading exports average approximately 10 per cent, about four times the average US tariff rates on imports from other countries. A reduction in tariff rates would not confer any favour on Pakistani

exporters but provide them with a level playing field. For a country that so strongly believes in marketplace competition, this is a correction not a concession.

Pakistan needs foreign direct investment in energy transmission and distribution, gas pipelines, oil and LNG terminals, refining capacity, petrochemical complex among others. US investors should be encouraged through Export-Import Bank loans and Overseas Private Investment Corporation guarantees to participate in Pakistan's energy development plans.

The 21st century is going to be marked by a dramatic shift from an industrial economy to one that is knowledge-based. How far this can practically be achieved in the next decade will depend upon the foundations on which this economy is set up — the quantity and quality of scientific and technological resources. We lag behind other peer countries and have a lot of catching up to do.

The US leads the world in higher education and scientific and technological research. We should approach them to resume their assistance in training our teachers and scientists in the leading US institutions, forging links and exchanges of scholars between Pakistani and American universities and strengthening the capacity of our research organizations in agriculture, water resources, renewable energy and low-cost building materials.

Among the world's top 40 universities, two-thirds are in the US. Technology companies founded less than two decades ago feature among the top 10 companies of the world. Of Nobel Prize winners, 356 out of 870 have been Americans (the highest of any nation) — but 70 per cent of all Nobel Prize winners work in the US. Forty per cent of the world's total spending on science and research is accounted for by the US. All cutting edge research and application development in the areas of artificial intelligence, robotics, lasers, sensors, avionics, biotechnology and genetics is being carried out in this country. MIT and Stanford alumni companies generate annual revenues of \$4.9 trillion and have created 8.4 million jobs since 1930. The National Science Foundation reported that in 2010, 45 per cent of US engineering students in MSc and PhD programmes were from overseas.

Asian countries are taking full advantage of training their scientific manpower, but it is highly disturbing to observe the declining proportion of Pakistani students enrolled in US universities.

From 1989-90, Pakistani students in the US numbered 7,070 compared to those from India at 26,240 — one Pakistani for every four Indians. By 1999-2000, the disparity increased to a ratio of 1:7, but an even greater precipitous fall has taken place since then. In 2014-15, Indian students had reached 132,888 while Pakistani students were only 5,354 — yielding a ratio of 1:25.

A cursory glance at the Fulbright Scholar Programme for Pakistan — the largest US programme in the world — shows that the majority do not go for STEM subjects or attend top universities, and very few go for PhD degrees.

To be continued..

The writer is the author of 'Governing the ungovernable'.