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|  | Strategic location and the economy |  |
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|  | **By Dr Ishrat Husain** |  |
|  | We Pakistanis never tire of emphasising our ‘strategic location’. However, the fact is that this strategic location, instead of helping the economic prospects of the country, has devastated it. Any other country in Pakistan’s place would have reaped huge dividends. But we have seen Foreign Direct Investment plunge by 50 percent and the drying up of official and private capital flows. Exports have remained well below target, international buyers are shirking Pakistan and the number of Pakistani students getting admission into western universities is on the decline.http://magazine.thenews.com.pk/upload_image/10/3056_7-23-2012_1.jpg  Take a look at what’s happening on the eastern border. The perpetual state of confrontation with a much larger neighbour has not only caused the separation of one wing of the country but has also resulted in the reduction of average incomes of Pakistanis because of disruptions to trade, higher spending on defence and substantial recourse to external and domestic borrowing. The extremist fringe organisations spawned in pursuit of this policy are wreaking havoc on peace and order; their violent acts are dividing society into sects and schisms and thus deterring new investment.  On the western frontier, the period since the Soviet withdrawal has proved to be disastrous for Pakistan. Besides hosting three to five million refugees and incurring huge expenditure on their sustenance, Pakistan has inherited a culture of Kalashnikovs, drugs and sectarian violence. The spillover of Taliban ideology and the integration of jihadist organisations into a loose alliance with the Al Qaeda have destabilised the economy, caused enormous financial loses and had a profound impact on the thinking of the majority of Pakistanis. Their worldview is now that the US, India, Israel and western powers are bent on denuclearising Pakistan and causing the disintegration of the country. This worldview, in turn, has led Pakistan to assume a confrontational posture with the rest of the world.  The result of this increasing belligerence is that the Pak-US relationship deteriorated to such an extent that there were moves in the US Congress to declare Pakistan an enemy state. The impact of these soured relations further reverberated through NATO countries. According to recent PEW polls, Pakistan is among the group of most disliked countries in the west.  However, two significant recent developments could help Pakistan start afresh. First, Pakistan and India have opened the doors for improving trade and economic cooperation. The direct positive effects of this normalisation of trade relations are well known but the indirect effects are even more significant. The rest of the world, anxious about the tensions and the rivalries between the two nuclear powers, has uttered a sigh of relief. Under this new prism, Pakistan could once again be looked at favourably as a destination for foreign investment. However, we barely recognise the innate value of improved relations between the two countries, which economists call positive externality.  Further, the normalisation of relations with India will also pave the way for South Asian regional integration, which has been eluding us so far. The South Asian Free Trade Agreement (SAFTA) can become a precursor for much stronger cooperation in the fields of water, food security, energy, education, health, tourism, science and technology etc. The inevitable fallout from climate change should alert us to use our water basins from the Himalayas as integrated entities and craft policies and investments keeping the larger regional context in view.  The other development that can be of good use is the resumption of NATO supplies to Afghanistan. Dialogue and conversation between Pakistan and the US are essential to bridging the trust gap between the two and allaying the concerns of each. Bilateral official economic assistance by the US has failed the crucial tests of winning the hearts and minds of Pakistanis and of nurturing domestic support in the US in favour of Pakistan. And continuous threats issued by the Congress, media, think-tanks, some influential members of the US administration to cut off suspend or withhold part of this aid, have alienated Pakistanis from the US. At the same time, US taxpayers are legitimately concerned over why, in difficult domestic economic circumstances, they should spare funds for people hostile to them.  The point worth emphasising is that the US is an important country with which Pakistan needs to maintain friendly and cordial relations in the interests of its economic development. The US remains the largest reservoir of science and technology, innovation and entrepreneurship in the world. The Pakistani economy has everything to gain from the US, the largest economy in the world with an open trading platform; a liberal immigration policy; a strong reserve currency and a large supplier of investment. There is every reason to build mutually beneficial ties with the US and other western countries.  That said, Pakistan has been quite consistent in so far as its policy towards China is concerned. A Free Trade Agreement with the largest exporting nation of the world makes perfect sense. But Pakistani businessmen have not taken full advantage of this opportunity. The growth in exports to China has been slower than expected; joint ventures for large infrastructure projects are almost nonexistent. Western China is closer to Pakistan than the coastal provinces and can be accessed if highways, railways, pipelines are built to link the two countries. But Pakistan has yet to fit itself into China’s huge supply chain as other Asian countries have done.  Iran – the other neighbour – has been distant and aloof in Pakistan’s economic development. The Pak-Iran gas pipeline is an excellent opening and should be constructed quickly to ease domestic energy shortages. Iran has almost completed laying the pipeline up to our border but we are still stuck in a state of paralysis. Several districts of Baluchistan can benefit from increased trade between the two countries. Iran can export electricity to these districts at cheaper rates and so promote productive economic activities.  Finally, Afghanistan, Pakistan’s gateway to the Central Asian Republics. Being energy deficient, we can import hydropower from Tajikistan and natural gas from Turkmenistan. Central Asian States, if they are provided access through rail and road links to Gwadar, will find it relatively cheaper to bring in and ship out their goods to the rest of the world. At present, these landlocked states have to pay exorbitant charges and incur huge expenses on international trade. A peaceful Afghanistan and friendly relations with Pakistan can open these routes.  The above survey shows that Pakistan’s strategic location has not so far been utilised to fight the war against poverty, illiteracy, disease and hunger – our foremost national priorities. On the contrary, this location has landed us in deep trouble on many occasions and the economic and social malaise which we are suffering at present can be traced to the wrong use of this location. It is quite apparent that the three main pillars of this paradigm shift are:  (a) removing elements that are perpetuating mistrust between the US and Pakistan,  (b) normalising economic and trade relations between India and Pakistan, and  (c) ensuring a peaceful and friendly Afghanistan.  By following this strategy, we will be able to pick up speed in the economic race we’ve been lagging behind in as compared to most countries in Asia.  The writer is a former SBP governor. |  |
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