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**THINK TANK**

**In search of a foreign economic policy**

**By Ishrat Husain**

There hasn’t been any attempt in Pakistan so far to articulate, coherently and comprehensively, the contours of Pakistan’s foreign economic policy. On the other hand, making sense of the bits and pieces of scattered statements and pronouncements can be a highly subjective exercise.

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 than giving aid to promote Pakistani goods in African 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. Globalisation, technology, demographics and demand patterns are important drivers of any country’s foreign economic policy. A fuller understanding or comprehension of these driving forces is extremely critical for formulating, adjusting and fine tuning of our own policies.

It is not obvious as to who is the custodian or champion of foreign economic policy in Pakistan: My own sense is that it is highly fragmented with nobody in charge. Foreign Office, Economic Affairs Division, Ministry of Finance, Planning Commission, Board of Investment, Ministry of Commerce, and Overseas Pakistani Division – all of them have a finger in the pie but the pie is never crusted nor ready.

A clearly defined institution or coordinating mechanism within the government with the mandate, authority and resources to bring the various parts of the government together in developing, steering and implementing foreign economic policy is the starting point.

What should be the objectives of such a policy?

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 objective is met. This is based on Pakistan’s own past record and empirical evidence from other countries. 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 a 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 combination of a smart government and a dynamic private sector working together.

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

Another country in which the number of inhabitants crosses the 1 billion mark, India, with often chaotic and messy democracy, has delivered an annual growth rate of 6 percent over last 15 years and reduced the poverty level down to 23 per cent despite the country’s multifarious problems. This period was marked by opening up of India, liberalisation of trade and foreign investment.

These examples of success are not limited to Asia. Eastern and Central European countries under the former Soviet Union have made transitions from centrally planned, state-owned, cradle-to-grave welfare societies to join the ranks of the enlarged European Union within a short span of 10-15 years. Had they stuck to their old ways of doing things do we seriously think they would have reached this stage?

Brazil under the its committed socialist leaders, President Cardoso and President Lula, became a vibrant player in the global economy by opening itself to both trade and investment flows.

What becomes quite obvious from the above survey of countries and regions over time is the fact that those countries which have made sensible use of opportunities offered by the globalised economy and participated in it actively have derived benefits for their people. Another new instrument of foreign economic policy is workers’ remittances. Official aid is on decline compared to trade, investment and remittances.

In 2005 at the time of phasing out of textile quotas, all studies indicated that China, India and Pakistan will be the major beneficiaries. Eight years later, these studies proved to be right in their predictions except that Pakistan’s place was taken over by Bangladesh. In absence of a coordinated pivotal mechanism, that would have ensured that the country would derive benefits, we lost out and Bangladesh, that does not grow one bale of cotton, has overtaken us in textile and clothing exports.

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:**

1. Increase the world market share in exports of merchandise goods and promote regional trade
2. Initiate participation in the exports of services
3. Act as the transit route for cross-border flows of goods, infrastructure and services
4. Take part in the global supply chain by providing components, parts etc

**Investment:**

1. Attract foreign direct investment particularly for exports and infrastructure
2. Encourage Pakistani companies to place equities abroad and acquire contracts and companies overseas
3. Set up joint venture companies with multinational companies

**Technology:**

1. Promote transfer of technology to Pakistani companies

**Labour and manpower:**

1. Supply unskilled and skilled workers to labour deficient countries and maximize workers’ remittances
2. Send skilled manpower to develop higher technical & financial skills.

How are these instruments going to be used? Each instrument has to be matched with the region where it will produce the highest impact. Thus from an across-the-board, generalised and uniform approach we have to move to a more differentiated, nuanced and focused approach if success is to be assured.

Who is going to implement the above strategy even if it is accepted by all the stakeholders and the government at the highest level? Here is an area of great unease. It is clear that the Ambassador of Pakistan in each country is the coordinator, integrator and monitor of all these ten instruments. But the problem arises at this end. Here we are stuck with a plethora of problem: overlapping, duplication, turf protection, passing-the-buck syndrome, undefined responsibilities, unclear accountabilities, high transaction costs in decision making, indifferent attitudes of bureaucrats and private sector players and comfort with the status quo. Managing the change process is a highly difficult proposition and everybody does not have the appetite, patience or the strength to go through this long drawn arduous process.

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