THE NEWS Resetting foreign economic relations : Part - II

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China: there are several areas where the ongoing cooperation between Pakistan and China should be continued but at least three areas need to be focused for accelerated implementation.

These are: one, completion of ongoing projects under CPEC – addition of capacity to the national power grid by bringing the hydropower, renewable energy and coal projects to culmination. The ML1 Railway track has been pending approval and financing for several years and each year of delay adds to the logistical costs to the economy and fiscal deficit by absorbing the losses of Pakistan Railways operating an outdated system.

The Gwadar Port has to be made operational by commissioning water supply, electricity generation and other supporting infrastructure. The evacuation of goods from Gwadar to China and vice versa can start once the missing links in the KKH, western corridor, Khuzdar-Ratodero Road etc are filled in.

Two, despite the revised free trade agreement with China, the volume of Pakistani exports has not made any significant penetration in the Chinese markets. An actionable plan developed in conjunction with the private sector to be monitored by the cabinet regularly should aim to achieve at least one per cent of Chinese imports by 2030. This would require investment in expanding production of goods and services in which Pakistan has comparative advantage, performance linked incentives, a liberal tax and ease of doing business regulatory regime. Pakistani professionals and managers should be attached with the Chinese companies for some time to better understand their market conditions, standards and requirements.

Three, intensive efforts should be made at the highest level to attract Chinese companies that are becoming uncompetitive due to rising labour costs to relocate their ventures in Special Economic Zones. This exercise should begin by examining the factors that have impeded efforts in the past. These zones should be equipped fully with all the facilities, amenities and utilities and made free from all bureaucratic hassles and administrative hurdles.

The prospective benefits of this relocation would be training and development of skilled human resources, improved managerial practices which would lead to their wide-scale adoption and dissemination, transfer of technology thus helping raise the productivity of our industries.

Similarly, the Chinese experience and expertise in agriculture, livestock and fisheries in developing and diffusing new varieties that are resilient to climate change and conserving the use of water resources should be tapped to minimize the vulnerabilities and extreme weather shocks we are likely to face. For this purpose, Research-Training-Extension would have to be integrated in a continuous value chain.

Afghanistan and Central Asian Republics: the bilateral cooperative arrangements between Pakistan and Afghanistan are critically dependent upon the establishment of cordial and trusted political relations and the acceptance of the Taliban regime by the rest of the world. Assuming that this happens – and this is a big if – economic relations between the two countries are the easiest to design for maximizing benefits to both. Pakistan is one of the largest trading partners of Afghanistan and its exports of goods and services had touched $3 billion annually a few years ago and is also the main conduit of imports from elsewhere through the Karachi port. More recently, Afghan coal has substituted the supplies from South Africa and others.

To promote further trade, tariff rates should be reduced on essential commodities, non-tariff barriers lowered, new border crossings introduced, and trade facilitation eased to remove the obstacles faced by Afghan businesses. An Export Import Bank should provide concessionary export refinancing facilities to Pakistani exporters for incremental flows of goods to Afghanistan above the present threshold.

Pakistan provides Afghanistan with the shortest access to the sea, but rail and road freight services have not been fully developed to leverage this locational advantage. Liberalization of the transportation sector by allowing the entry of newcomers and promoting competition among the carriers, expanding the existing highways and rehauling the railway subsector would go a long way in facilitating both bilateral and transit trade.

Exports of the mining sector from Afghanistan would require that the transport corridors be functioning for evacuation to the ports. Connecting Kandahar with Gwadar through the western corridor can be a possible route that needs to be explored. Afghanistan can also earn substantial revenues from transit trade and energy to and from the Central Asian Republics.

The government of Pakistan should consider establishing industrial zones in Afghanistan for Pakistani investors. As Afghanistan enjoys an LDC status Pakistani private investors can set up export-oriented industries in these zones in joint ventures with Afghan partners attracting preferential lower tariffs in the advanced countries. These zones would bring foreign exchange earnings badly needed by Afghanistan substituting the volume of foreign aid that has since 2021 evaporated. To be successful, Pakistani investors would require better infrastructure in the form of highways, railways, integrated border crossings etc.

Afghanistan should also be included in CPEC and a tripartite agreement between China, Afghanistan and Pakistan should assign the responsibilities to the respective parties for development of infrastructure. China can take the lead in building the necessary infrastructure; Pakistani private investors can set up industries and bring skilled manpower and Afghanistan can set up a one-stop shop to facilitate investment flows and resolution of problems and create jobs for the youth and integrate itself in regional supply chains. Before 2021, the World Bank and ADB were also interested in building a modern motorway connecting Peshawar to the Central Asian Republics through Afghanistan. These projects need to be revived. A trans-shipment policy should be announced to guide the future transit trade to these republics.

In addition to industrial zones, Afghanistan offers investment opportunities in construction, food processing and retail. Pakistani investors should take first-mover advantage as their transportation costs would be low and they understand the consumer tastes and preferences better. The EXIM Bank will be the ideal vehicle for scrutinizing investment proposals and furnish a range of funding and non-funding instruments (for example, guarantees) to those whose proposals are found to be feasible.

In the area of trade in services, Pakistan has earned a good reputation in banking and insurance, telecommunications, IT-enabled services, engineering consultancy, architecture and accountancy. Afghanistan and the Central Asian Republics would need expertise in these areas both for current operations and 'on the job' training of their own young professionals. Well-reputed hospitals, medical laboratories, clinics, nursing training institutes, general and specialized universities and colleges, vocational and technical training institutes from Pakistan can enter into partnerships and agreements with their Afghan and CAR counterparts.

After all, the youth bulge has to be gainfully employed for which quality education is a prerequisite. Affordability to this kind of education would be a major consideration for which the Pakistani experience would come in handy. In the coming years, Pakistan should negotiate free trade and bilateral investment agreements with Afghanistan and Central Asian Republics. The recent PTA with Uzbekistan is a commendable step in the right direction. The trade agreement can have sensitive lists that protect vulnerable items which can be gradually phased out over a given period.

In the medium term, Afghanistan and Pakistan should form a common customs union with the external tariffs at ports of entry and thereafter the goods can move freely between the two countries. This will mitigate the curse of illegal imports into Pakistan through the diversion of the present Afghan transit trade, generate tax revenues to be shared by the two and reduce the transaction cost of doing business.

To be continued

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