Trading with America

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By Shahid Javed Burki

BY several measures, the 'nineties was a lost decade for Pakistan. The economy grew by a paltry 3.7 per cent a year and income per head of the population increased by 1.2 per cent. At such a low rate of growth, it was inevitable that the incidence of poverty would increase sharply. Pakistan ended the decade — and the century — by seeing an enormous increase in the number of people living in poverty. By 2000, some 50 million people were absolutely poor, earning less than a dollar a day. Their number was increasing at a very high rate — by 10 per cent a year.

What is equally worrying is Pakistan's export performance. The increase in value of exports in 1990-2000 declined to 4.3 per cent a year, from a very respectable rate of 8.1 per cent per annum achieved in the previous decade. This performance was especially disappointing since the 'nineties saw an enormous expansion in global trade. In 1990, global merchandise exports were valued at \$3.4 trillion. This increased to \$6.2 trillion by 2001, a growth rate of 5.7 per cent a year. In other words, Pakistan lost a tremendous opportunity to make gains from the remarkable and unprecedented growth in world trade.

Can the country catch up now with economic growth having possibly returned? How should Pakistan plan to take advantage from the next period of world economic growth and trade expansion which may be about to begin? Should Pakistan align itself with other developing countries or should it work towards bilateral trading arrangements with the countries in which it can expand its market share? How important should regional arrangements be in developing a new trade strategy for Pakistan?

These are all weighty questions. They cannot be answered in one article. Beginning with today's column, I will provide some

President Pervez Musharraf's recent visit to Washington, the US announced a \$3 billion aid package that, if approved by the Congress, will run for five years. However, to date the United States has done little to help Pakistan access its markets with a larger volume of exports.

Experience has shown that countries in which the West has strategic interests are able to get more financial assistance than trade access. Once upon a time the slogan "trade rather than aid" was raised by western policymakers as a better way of helping the developing world. Aid produces dependency, it was argued. Trade, on the other hand, produced economic efficiency. It also created jobs for the poor since it was in labour-intensive products that the developing countries generally had a greater comparative advantage. Economists came to believe — correctly, it turned out — that greater emphasis on international trade helped the developing countries to better address the problem of persistent poverty.

But economic theory does not always translate into good economic policies. This is particularly true in the way countries manage international trade. This is not only the case for the developed countries' trading relations with the developing world. Developing nations have been equally guilty in protecting their markets against foreign imports. One glaring example of this is the way India and Pakistan have conducted their trade policies ever since the two gained independence more than half a century ago.

If Washington is serious and if President George W. Bush wishes to use a small amount of his enormous political capital to help Pakistan he would have provided Pakistan's textile producers greater access into the US's large market. But he has been reluctant to come out so openly in support of a country he has repeatedly called one of his most important allies in the war against international terrorism.

fluctuated widely depending on how receptive some of the large retail chains were to the Pakistani products. The highest growth rate was in 1992 when the value of exports increased by 31 per cent. The years 1995, 1998, 1990, 1993 and 1989 were also stellar years with growth rates, in descending order, of 18.5, 17.5, 14.0, 14.0 and 12.5 per cent.

It would help Pakistan and its manufacturing and service industries enormously if the growth in trade with the United States was steady and did not have the upheavals which have marked it over the last dozen years. How to achieve this objective? There are two ways of doing it — to negotiate a bilateral trade agreement with Washington or to partner with other developing countries and obtain concessions not only from Washington but also from Brussels, Tokyo and Ottawa. Sensibly, Pakistan is focusing on the first alternative.

During his recent visit, Mr Humayun Khan set the stage for a Trade and Investment Framework Agreement that was signed later while General Pervez Musharraf was in Washington. A TIFA, the acronym for the agreement, does not cover preferences; it is only a promise for talks. "It is really a dialogue," said Richard Mills, a spokesman for Robert B. Zoellick, the US Trade Representative, after the agreement was signed. "Sometimes you can have a TIFA with a country, and it can just lapse. It is not in itself a demonstrator of further moves."

This does not sound like a warm endorsement of Washington's desire, if it exists at all, to develop a strong trading relationship with Pakistan. Given this, Pakistan should not set high hopes on concluding a robust bilateral trade agreement with Washington by taking only the TIFA route. As suggested by the US trade officials themselves, such a route serves the purpose of dragging on a conversation when the will does not exist in Washington to make some hard choices. The hard choice, in the case of Pakistan, is to allow greater access to that country's textile producers to do more business in the United States.

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These are all weighty questions. They cannot be answered in one article. Beginning with today's column, I will provide some thoughts on how Pakistan could gain for itself a larger place in international trade. In this series of articles, which will appear off and on over the next several months, I will explore the possibility of increasing trade with the United States, China, Europe and, possibly, also India. I will explore the advantages for Pakistan in regional trade pacts with the countries of South and Central Asia, and, finally, I will examine the role Pakistan could play in the on-going Doha round of trade negotiations.

Pakistan has 2.7 per cent of the world's population. Measured in terms of purchasing power parity (PPP), it has a gross domestic product of $263 billion, or a bit less than 0.6 per cent of the world's total of $45 trillion. With $11 billion of exports in the year ending June 30, it accounts for less than 0.2 per cent of world trade of $6.2 trillion. Given both the insignificance of its contribution to world output and world trade, Pakistan does not have much leverage on international economic and trade policies.

What has provided the country with some clout is the role the administration of General Pervez Musharraf is playing in the US-led war against international terrorism. How much economic benefit can Pakistan draw from this role and how much of it should it try to get in terms of a better access for its products in the markets of the developed world?

Pakistan has been reasonably well rewarded by the administration of President George W. Bush for the role it has played to date in chasing Al Qaeda. The US provided a grant of $600 million in 2002 and followed it up with a debt write-off of $1 billion. It also helped Islamabad get additional funding from the International Monetary Fund, the World Bank and the Asian Development Bank.

Washington's support was also important in getting Islamabad a reasonably good deal from the Paris Club, the group that provides debt relief on bilateral obligations to the countries in economic distress. During

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More to the point, however, is Pakistan's current trade policies with respect to international trade in general and to trade with the United States in particular. Razaak Dawood, President Pervez Musharraf's first Commerce Minister, made a valiant effort to translate into greater market access the goodwill that suddenly appeared for Pakistan in the post-9/11 Washington. He made several trips to the US capital; at one point he brought with him a delegation of Pakistani textile entrepreneurs. Represented in that group were both garment manufacturers and those who make purchases from Pakistan for several large retail outlets. The delegation went to North Carolina to convince that state's beleaguered textile industry that more trade with Pakistan would not do it a great deal of harm. Dawood hoped to increase Pakistan's access to the US markets by as much as $1 billion.

Not much came of these efforts, but not for the want of trying. In February 2002, Washington gave Islamabad a three-year package of trade preferences including relaxation of quotas on some textile imports. This was not a particularly generous offer since many of the items included in the list were not produced in Pakistan in any significant volume.

In early July, Mr Humayun Akhtar Khan, the new commerce minister, revealed during a visit to the United States that Pakistan had benefited little from the concessions offered to his predecessor. Of the estimated additional exports of $143 million only about $20 million was achieved in the first year. Consequently, the total value of Pakistani exports to the United States in 2002 increased by only 2.5 per cent compared to the year before. This was much below Islamabad's expectations and much below the historical average.

At this point it will be useful to look at some of the trends in the US-Pakistan trade. Pakistan's exports to the United States have grown at a rate of 13.2 per cent a year since 1989. But the growth has not been steady; it

States.

Textiles is by far the largest industry in Pakistan. It was the only industry that saw a steady increase in its output even in the 1990s. Textile and apparel industries increased the value added of their products by 5.6 per cent a year. In 2000, with output valued at $2.9 billion, this was by far the largest industry in the country. Besides, the industry employs hundreds of thousands of people around the country and has the potential of becoming an even more prominent player in the economy if its products could get a better access to the western markets.

If Washington was serious and if President George W. Bush wishes to use a small amount of his enormous political capital to help Pakistan he would have provided Pakistan's textile producers greater access into the US's large market. To do so would have meant overcoming the resistance of the legislators from the two Carolinas, North and South, that have large textile industries of their own. According to David Lowry, a professor of political science at the University of North Carolina at Chapel Hill, the US president's "support in North Carolina, and I'm sure it's even more in South Carolina, is so rock solid that he could do anything to textiles and would have no impact on it." But the American president has been reluctant to come out so openly in support of a country he has repeatedly called one of his most important allies in the war against international terrorism.

What should Pakistan do in these circumstances? While working with Washington within the TIFA context, it should continue to press very hard for gaining larger access for its textile products in the US market. In making a case for itself in this area, Islamabad should emphasize that by giving a slightly higher share to Pakistan in the US's very large market for textile products, the impact on Pakistan would be enormous. It would create great goodwill for America in the country's large cities, home to the country's textile industry. America needs this goodwill in a Muslim country as important as Pakistan.