South Asia Regional Integration

Pakistan Country Note

Promoting Greater Regional Integration in South Asia: Opportunities for and Role of the Private Sector in Pakistan

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The one premise on which there is universal consensus amongst economists is that international trade is good for socio-economic development of all countries. South Asian countries will benefit significantly from greater economic integration and trade liberalization by taking advantage of the benefits of regionalism and globalization. Optimum economic benefit of regionalism and globalization can be reaped through the dynamic vehicle of the private business sector.

Despite its potential benefits, socio-economic integration has been miserably slow in the South Asian region. The South Asian region is the least integrated economic region of the world in spite of having enormous physical resources and 22% of the global population. The regional trade of South Asia remains dismally low at 4% as compared to the regional trade of EU of 67%, NAFTA of 62%, ASEAN of 26%, COMESA of 22%, GCC of 8% and ECO of 6%. Regional trade between the seven SAARC countries in 2002 was $ 5 billion out of which the share of India was 76% ($3.8 billion) and Pakistan's share was 8% ($ 0.4 billion). The regional trade between the remaining five countries is limited to around 16% ($0.8 billion) of the total regional trade. Though the South Asian Regional Trade Block (SAARC) was formed in 1985, it has never taken off as a useful economic vehicle.

1. Opportunities for Greater Regional Integration

1.1. Potential for regional integration in South Asia

If positive regional economic development policies are implemented, duly supported by efficient operating systems, the optimum potential of regional integration can be achieved within five years. If Trade, Traffic and Transport (3 Ts) are allowed free operation, South Asian regional trade, which has stagnated around $ 5 billion per annum, can surpass $ 15 billion within five years. The private business sector is convinced that if the 3Ts are facilitated, the optimum potential of socio-economic integration can be realized within a short span. This realization is based on the conviction that regional integration will provide a large market for exportable surplus while considerable imports from around the world, when shifted to regional countries, will save considerable cost and delivery time. To realize this goal, strategic, policy and institutional initiatives are required at the highest political level, which should be implemented through an effective public-private mechanism with a definite implementation schedule.

The private sector is convinced that great bilateral and multilateral trade prospects exist if regional countries separate politics from trade and focus on each other's economic potential. Major economic and social factors favoring regional trade are, close proximity (leading to lower freight cost, short delivery time and low inventory cost) and no language barrier. Free trade would allow businessmen to take advantage of an enormous market of more than 1.34 billion people. The private business sector also believes that implementation of free trade in the region will also facilitate regional socio-economic integration and facilitate solution of long outstanding political problems.

1.2. Areas where private sector sees greatest opportunities for regional economic integration

Due to size of the economies, the potential for economic integration is greatest between India and Pakistan in the South Asian Region having a combined population of 1.15 billion.

Due to restrictions on bilateral trade between Pakistan and India, official bilateral trade is accounted for around $ 250 million. However, unofficial trade through third countries is estimated at $ 2.5 billion per annum. According to estimates of FPCCI, if free trade is allowed

between India and Pakistan, bilateral trade can cross $ 5 billion per annum within three years. If the existing unofficial trade is regularized the government can earn additional customs revenue of $ 450 million per annum which can go up to over $ 750 million per annum in three years.

There are several items manufactured in Pakistan and India that can be profitably traded between these two counties (see Box 1).

Box 1

Potential items of exports from Pakistan to India	***Potential items of export from India to Pakistan***
- Cotton yarn and fabrics	**- Iron and steel**
- Rock salt	**- Auto components & spares**
- Dry dates	**- Pharmaceuticals & raw materials**
- Fresh and dried fruits	**- Castings and forgings**
- Finished leather and leather goods	**- Tea**
	- Non-metallic mineral products
- Natural gas, electricity	**- By-products of refinery**
- Vegetables	**- Plastic materials**
- Fish (fresh and frozen)	**- Intermediaries for chemicals**
- Sugar and molasses	
- Limestone	**- Agro-based raw materials e.g. oilseeds**
- Fertilizer	**- Cement**
- Marbles (including Onyx)	**- I.T. related software**
- Precious & semi-precious stones	
- Articles of textiles and clothing Accessories	
- Knotted carpets	
- Scientific instruments, etc.	

1.2.1 Textiles

The textile sector, which contributes more than 67 percent to Pakistan's exports, is expected to do well even in the free trade regime. In the last four years, the Pakistani textile sector has invested $ 4 billion to bring its production at par with world quality. More value added items, namely bed wear, knitwear and ready made garments, have allowed Pakistan to join the elite club of major exporters of textile goods during 2002-2003. Pakistani bed wear products are considered superior to those of Indians. In fact, Pakistani home textile products are considered world leaders in terms of quality and cost. Similar situation prevails in knitwear and certain cotton fabrics. Indians have an edge in Georgette and some other silk products, but as far as cotton textiles are concerned, Pakistan is much more developed. However, in the case of blended textile products, made from a combination of manmade and natural fibers, which are preferred in clothing the world over, India has an advantage. Presently, Pakistan's blended cloth has a ratio of 27:73 against international ratio of 52 percent synthetic yarn in blended textiles, while in India and China the standard man-made fiber content is 35 percent in blended textiles. Some varieties of cotton produced in Pakistan are of better quality than those of India. Pakistan imports cotton from Egypt, USA and Central Asian States for production of fine count yarn. Pakistan's cotton is suitable for producing low to medium count yarn (used for towel, home textile products) due to its staple length and moisture absorption properties.

1.2.2 Machinery, equipment & components

Though Pakistan is a major producer and exporter of textile products, it meets its requirements of textile machinery and spares through imports from Europe and Far East. Pakistan's industry can consider imports of textile and other machinery from India, which is of reasonable quality and comparatively cheaper in price. In India a large portion of the needs of textiles mills are met by indigenous machinery, which is a major advantage for the Indian textile industry when compared to Pakistan where textile machinery and spares are imported from Far East and Europe. Most of the textile manufacturers of India have collaborated with leading textile machinery manufacturers, such as Reiter (Swiss), Shubert and Sulzer (German) and have proved their ability to absorb and adapt new technology. A few of them are successfully exporting machinery and accessories. Some of the textile machinery imported by Pakistan from Switzerland and Germany is reportedly made under license in India at a much lower cost. The opening up of trade with India will help Pakistan acquire textile machinery directly at much lower prices. Seed crushing machines are cheap in India and they are being imported into Pakistan via Dubai. Machines from India are on Pakistan's negative list and therefore have to be ordered from Dubai. According to All Pakistan Textile Mills Association (APTMA), Pakistani companies import (approx.) US$ 3.5 million worth of spare parts and light machinery (e.g. needles for weaving and knitting machines etc. annually) from India via Dubai and Hong Kong.

There is also a vast scope for import of certain components from India that would facilitate emergence of technology-intensive industries in Pakistan such as auto components, bicycle components, components for machine tools industry, components of textile machinery, components of electrical and electronic machinery.

1.2.3 Automotive components and spares

The automobile industry of India has developed immensely in the last fifteen years due to deregulation of the Indian economy. Due to a good engineering base and a huge population whose purchasing power has considerably increased over the last decade, India is able to produce a wide range of passenger and commercial vehicles and their spares at 35% less cost than Pakistan. Annually, Pakistan imports around $ 775 million worth of automobile components and spare parts, 95% of which are from Japan. If India could also be used as a source of supply Pakistan could save around $ 155 per annum in cost of imported auto parts. Pakistan could benefit considerably from importing cheaper automotive components from India and thereby reduce its cost of locally produced vehicles and their spares. Simultaneously, India would earn substantial incremental export earnings.

1.2.4 Pharmaceuticals

Due to effective policies of the Indian government, the price of pharmaceutical products produced by local as well as MNCs are 3 to 7 times cheaper in India than those in Pakistan. Prices are also very low due to a very large market and huge consumption of pharmaceutical products without any requirement of prescription from a licensed medical practitioner. India also has a very substantial production of local herbal medicines and health products that have a good demand in Pakistan. Presently, many such products are entering the Pakistani market through illegal or third country sources.

1.2.5 Petroleum

Pakistan imports petroleum products of $ 1.72 billion annually, including 4,014,439 m. tons of diesel of $ 919 Million C&F value, mostly from Kuwait and Saudi Arabia, but disallows imports from India. India exports diesel of more than 5 million tons (annually), including to far off countries in Latin America. Due to proximity of location and the associated economics, diesel imports from India to Pakistan could only be a win-win situation for the two countries. Indian companies, like Reliance Petroleum and the state-owned Indian Oil Corporation, are well poised to meet this demand. India is the only country in the South Asian region, which has Naphtha Cracking facilities. Pakistan exports Naphtha and can put up a Naphtha Cracker plant in collaboration with the Indians, and thus, after meeting its own requirements of the end product, can export the surplus to other countries in the region. Pakistan is keen on the Iran-India gas pipeline, which can be laid via Pakistan. This will enable India to import gas from Iran through an offshore pipeline across Pakistan. If the 2,700 km pipeline plan translates into reality it could provide immense economic benefits to both countries.

1.2.6 Tea

Though Pakistan does not produce tea, it is one of the largest consumers and importers of tea in the world importing around $ 183 Million worth of tea annually. 60% of the tea is imported from Kenya ($ 116 million) and only 12% is imported from neighboring South Asian countries. There is great scope for promoting tea imports from India, Bangladesh and Sir Lanka into Pakistan for mutual benefit of the regional countries.

1.2.7 Cement

Indian surplus cement production can meet considerable cement demand in Pakistan and Afghanistan at a much cheaper rate. The current prices of Cement in Pakistan are around Rs 220 a bag (Pakistani rupee). In India, prices are approximately Rs 135 a bag (local currency). Pakistani rupee today stands at roughly 58 to a dollar and Indian currency 46 to a dollar. Thus, Pakistan would be able to buy Indian cement at about Pakistani Rs 167 a bag, thereby achieving a cost saving of Rs. 53 per bag.

Cement units in Gujarat and Rajasthan can supply to the market in Southern Pakistan. India exported about 6.5 million tones of cement during 2002-3 mainly to Bangladesh, Sri Lanka, Nepal, South Africa and West Asia besides exporting small volumes to North Africa. Present demand in Pakistan for imported cement is not very large but it could increase substantially as and when major construction projects get under way. It would not be feasible if it were through the Wagah border because in Punjab we do not have capacity to transport it from Rajasthan and Gujarat would be very expensive. Road link into Sindh from Rajasthan would be ideal for cement exports from India to Pakistan. About 75-85 per cent of cement exports from India are from the coastal units. These units might not be able to feed more export demand since they have long-term interest in the domestic market. Exports from other states would not be feasible since the in-land freight differential would be higher than the difference in international prices. The alternative available would be coastal shipping into the Karachi port. Cement would also need to be listed in the agreement if the two countries decide to accord the most favored nation status to each other.

1.2.8 Tourism

There is great scope for promoting tourism in the Region due to historic, social and cultural links of the peoples. Tourism is another potential area of interest for international donors who think it can promote integration in the region. Recently, the Asian Development Bank (ADB) provided

assistance for development of the SASEC Tourism, which includes India, Bangladesh, Bhutan and Nepal. ADB sees great advantages for India and Pakistan in the Tourism Industry. As a result of partition of India in 1947 a large number of families were divided and continue to remain apart. Besides meeting family and friends people of India and Pakistan are very keen to visit these countries for sight seeing and vacation. Both countries have a lot to offer the tourists in terms of social, cultural and historical interests. The present meager tourism trade of around $ 15 million per annum can be easily expanded to over $ 155 million per annum after liberalization of visas and improved provision of inter country transportation facilities.

1.2.9 Infrastructure projects

The ADB plans to finance sub-regional infrastructure projects to promote trade between India and Pakistan, including electricity and gas sales. The Bank is planning to pursue sub-regional cooperation between India and Pakistan by financing infrastructure projects to enhance linkages between the two countries. ADB has identified road projects, border facilitation, electricity exports, gas pipeline, tourism and trade of goods as some of the areas, where the Bank would like to provide financing. ADB is already considering plan for a political risk guarantee to India to pave the way for the Turkmenistan, Afghanistan and Pakistan gas pipeline project. The ADB believes that Pakistan can also export electricity to India, and is ready to finance the development of the required infrastructure in this regard.

1.2.10 Banking and capital markets

To facilitate payments for bilateral trade and commerce, banks of both countries should be allowed to open branches in major cities. Similarly the Stock Exchanges of the two countries should permit listing and trading of stocks of both countries which would provide financial depth and diversification to the investors and stockbrokers.

1.2.11 Financial and Corporate Regulations

As privatization of business and economic activities is promoted, the need for making the government's regulatory roles effective increases. Individual countries in the South Asia Region are making efforts to develop and institute a financial and corporate regulatory framework but due to limitations in indigenous expertise and experience the achievements is limited. Considerable developments in India and modest development in Pakistan has taken place in implementing regulatory framework for the operations of financial institutions, stock and commodity exchanges, telecommunication operators, media operators, trade bodies and resolution of trade disputes. Lately efforts have also being made in India and Pakistan to promote a professional framework for corporate governance. Collaboration amongst the regulators of South Asian countries could be very useful in cost and time effective development and implementation of regulatory framework in relevant financial and corporate sectors.

1.2.12 WTO Issues

Trade is being rapidly globalized under rules and regulations formulated by the WTO. There is an urgent need for South Asian countries to intelligently comprehend the requirements and implications of WTO rules and regulations. In the compliance areas where there are no serious reservations, the government and related businesses of South Asia region could jointly formulate and implement a closely monitored implementation schedule for actions required under WTO regime. In areas and economic sectors where modifications or deferment in implementation of

WTO requirements are critical, a joint stand and strategy by the South Asian countries could be effective in safeguarding the economic interest of the respective countries and regions.

1.2.13 Joint Ventures

Some of the areas in which very profitable business collaboration and Joint Ventures can be considered between entrepreneurs of India and Pakistan are Call Centers, process outsourcing in sectors such as auto-parts, pharmaceuticals, cosmetics, applied R&D, technical training, entertainment, hospitality and organized tourism.

1.2.14 Trade through MNC's

India and Pakistan have a number of common MNCs operating in their respective countries. These can act as meaningful conduits for trade if they source raw materials from each other. MNC's operating in the South Asian region can also greatly influence regional economic integration by building a supply chain for their requirements of raw materials and finished goods in the regional countries.[1] Vast opportunities exist in the area of consumer goods. This potential needs to be explored through sector-wise studies and research.

1.2.15 Technical Co-operation

The sectors where there is considerable interest in collaboration, transfer of technology and sharing of knowledge between India and Pakistan are:

- R & D for crop productivity
- Food processing, preservation, canning etc
- Auto components production
- Automation in Government and Private Sectors
- Seed development and processing
- Storage and Warehousing
- Mercantile Laws
- Harmonization of Systems (Trade, Customs & Taxation)

Interest of the two countries is also observed in co-operation for technical services and networking among the institutions for building indigenous capacities in the field of:

- Quality and productivity management
- Environment management
- Entrepreneurship development
- Energy conservation
- Technical education and training

1.3 Economic integration with other countries of South Asia

Besides India, Pakistan can also benefit from greater socio-economic integration with other countries of the South Asia Region. The private sector feels that FTA with all countries of the region would be economically beneficial for all countries in the long run. Some of the sectors in which South Asian countries could profitably trade with each other are, textiles, tea, leather

[1] Globalization is rapidly encompassing the entire world. Corporate entities, production, distribution and procurement systems are being globalized to take advantage of economic volumes and comparative and competitive advantage. Small and stand-alone business units will find it extremely difficult to survive and prosper against the gigantic economic strength of the multinational corporate conglomerates. From a global perspective the private business enterprises in the South Asian Countries are of small and medium size. Long-term survival and growth of such enterprises lies in becoming a link in the supply chain of multinational organizations. To qualify for the global value chain linkage, these private business units will have to full fill the WTO requirements for quantity, environment, human relations and ethics.

products, fruits and vegetables, automobiles and auto parts, steel, household appliances, software development, education and technical training, research & development, tourism and entertainment. Liberal policy for grant of visas will give an enormous boost to regional trade and tourism and will greatly facilitate socio-economic Integration. (Specific studies would be required for identifying complementarities and comparative advantages between other countries of South Asia).

2. Why Economic Integration Has Not Flourished in the South Asian Region

Despite the apparent possibilities, economic integration has not flourished in the South Asian Region. The following are some of the major factors that have retarded economic integration of the region.

2.1 Lack of political commitment:

India and Pakistan, which are the major countries of the South Asian Region, continue to nurture their long-standing hostility over the Kashmir dispute. Serious political differences also exist between India and Sri Lanka (prolonged civil war between Indian backed Tamil Tigers and the Lankan government). The politicians and military leaders of these countries maintain rigid positions on these political issues claiming their solutions, as per their points of view, to be prerequisites for consideration of socio-economic integration. In particular, the military leaders, in order to perpetuate their leadership role and vested interests, maintain a hostile posture towards their neighboring countries.[2] Hence, political issues are perpetuated and not allowed to be resolved.

2.2. Limited role of private sector in influencing economic policy

The private sector is in favor of greater regional economic integration due to realization of the existence of economic complementarities and comparative advantages in a large number of economic sectors. Socio-economic insulation is considered unnatural and economically detrimental for the private business sector. The private business sector feels that if free trade is allowed in the region it will be able to sell the surplus produce to a larger market while imports of deficit products and services will be available from nearby countries presently being imported from around the world. This will increase economic profitability due to reduction in time and cost of transportation. However, in the South Asian countries, the private business sector has very limited role in the formulation and implementation of economic policy. Excessive authority and control over financial resources with the armed forces and bureaucracy have given them excessive power and involvement in socio-economic affairs at the cost of the private and business sectors. The federal budget, trade policy, taxation policy, monetary policy and other socio-economic policies are formulated by the bureaucracy quite independent of the proposals of the private business sector. Consequently, the private sector has to spend a lot of time and money for getting revisions in the unfavorable policies and procedures announced. Similarly, legislation on

[2] Key socio-economic decisions in South Asia region countries are made by the top officials of the bureaucracy and the armed forces, which are based on considerations of self-preservation and promotion rather than the considerations of national or regional economic development. For example in Pakistan less than 6% of the Annual Federal Budget is allocated to factors that contribute to economic development such as education, maintenance of law, order and security, research and development, communications and health. Moreover, 90% of this meager budgetary allocation is spent on administrative costs. On the other hand, over 22% is spent on the Armed Forces and 30% on debt servicing against 10% and 15% respectively by Malaysia resulting in marked economic development differences of the two Countries.

all important issues is formulated by the bureaucracy and tabled in the Parliament without due consultation with and consideration of the private sector.

2.3 Fear of Indian dominance

India is, by far, the largest country in the South Asian region accounting for 80% of the aggregate regional GDP. Due to its comparative size and historically dominating economic orientation in the region, other countries in the region are hesitant to allow a free bilateral trading arrangement. All regional countries consider trading with India as a last resort. Regional countries feel that if greater regional integration were allowed, India would soon dominate and control their economies because of its large size.

2.4 Inefficient local business environment

Any business has to first excel in the country of its origin before it can succeed in doing business abroad. The countries of South Asia suffer from unfriendly and inefficient business environment due to which risk and cost of setting up and operating business is comparatively less attractive.

2.5 Limited economic complementarily

The basis of bilateral and multilateral trade is economic comparative advantage in production and trading of goods and services. Most of the countries of South Asia produce and export similar goods and services that comprise basic food and textile items (for major items of trade by South Asian countries refer annex 1). Of late, India has expanded into the production of considerable volume of machinery, software and I.T. services, vehicles and jewelry with comparative advantage and marketability in the South Asia region.

2.6 Meagre economic surplus

The countries of South Asia have a very large human population of 1.34 billion, which continues to grow at an alarming rate of over 2% per annum. The huge population exerts tremendous pressure on demand for local consumption of most of the basic items of production leaving little surplus for export. The situation is not improving, as the annual increase in population is excessive while the increase in production is unsatisfactory.

2.7 Restricted awareness of possibilities of regional integration

Due to very limited exchange of goods, services, people and information, there is little awareness of the potential and possibilities of bilateral and multilateral trade between the countries of South Asia. Lack of adequate and relevant information and exposure also breeds undue fears, apprehensions and misunderstanding.

3. Measures to Promote Greater Regional Integration in South Asia

As mentioned above, the South Asia region has shown very poor progress in the last three decades in terms of regional integration and trade. The countries involved have wasted a lot of time and resources without any positive action and material socio-economic achievement. The 25th meeting of the Council of Ministers ended on 21st July 2004 at Islamabad after taking decisions, which seek to enlarge and strengthen cooperation among the members in several socio-

economic areas. The decisions are laudable but, unless a serious effort is made by the leaders of South Asian countries to professionalize and institutionalize an effective Strategic Plan for Economic Integration, which is implemented with utmost seriousness and sincerity, these recent SAARC deliberations and decisions, like those of the last two-decades, will soon become history and cause no significant change in the status quo of inertia of the South Asian region. It is high time the leaders of the South Asian countries decide to progress beyond meetings, signing of protocols and economic studies and get down to real action on achievement of specific economic targets.

The following are some proposals for promoting rapid Economic Integration in the South Asian Region.

3.1 Strategic initiatives

3.1.1 Separation of economic integration and free trade from politics

In order to sustain their vested interests, the decision makers in the armed forces, bureaucracy and politics in the South Asian countries (particularly Pakistan and India) insist on complete and absolute solution of political disputes as per their respective traditional and inflexible positions. Pakistani military leadership continues to insist that Kashmir is the "Core" issue and without its solution to the full satisfaction of these leaders, socio-economic relations with India cannot be normalized. Solution of Kashmir has also been made an essential pre-requisite for economic integration between the two countries. The two countries have fought three wars over the Kashmir issue and annually waste around 22% of their federal budget on the Armed Forces. As against this position, the general public, and particularly the private business sector in both countries, feels that politics should be kept separate from bilateral trade and socio-economic integration. The civilians and the business community are convinced that the Kashmir issue has nothing to do with the socio-economic welfare of their countries. In fact, the general feeling of the private business sector is that huge amount of financial resources have been wasted over the last 57 years on the pretext of 'Kashmir Issue' without any positive outcome to date. Businessmen feel that if political problems are separated from socio-economic integration and free trade promotion, a very substantial amount of financial resources could be diverted to socio-economic development. Socio-economic integration would also ease political rigidity and undue apprehensions and facilitate solution of pending political problems. Moreover, to resolve political issues, political leadership should be convinced to give up its 'positioned approach' to solving these issues and should, instead, adopt the most effective negotiating and problem solving technique of 'Best Alternative through negotiated approach' (BATNA). Under BATNA, the concerned parties do not take any preconceived 'position' but, instead, evaluate several alternate solutions and there from, choose the best alternate solution that meets their respective objectives. By using the "BATNA" technique to solution of problems, neither party looses but, instead, each party achieves satisfying and lasting 'best' solution.

3.1.2 Creating awareness that economic advantage is key to socio-economic prosperity

International organizations, such as the World Bank and private business institutions with economic clout, such as the Federation of Pakistan Chambers of Commerce and Industry, can re-orient the thinking of political leadership in countries of South Asia through meetings, presentations and seminars with leaders in politics, armed forces and bureaucracy, towards the reality that, in modern times, nations prosper on the basis of superior economic performance rather than possession of large territory or physical resources. USA, EU and Japan possess only 10% of the land and physical resources but own over 78% of the financial wealth of the world due to their economic superiority.

If South Asian countries genuinely desire to prosper as sovereign states their leaders must be refrained from wasting their human and financial resources on unproductive and futile pursuits such as securing more physical territory or expanding military might. Instead, they should re-channel their resources on socio-economic development of their countries. Sensible nations now seek economic power not territorial enlargement. China is a good example. It refuses to be provoked or distracted by Taiwan from its focused economic pursuit. South Asian countries too can become strong economic powers if they earnestly dedicate their optimum resources to development of their economic strengths. Limiting non-development and defense expenditure to a bare minimum should be made a pre-requisite for foreign assistance and cooperation.

3.1.3 Strategic Plan for Economic Integration

A Strategic Plan for Economic Integration (SPEI) South Asian Region should be formulated which should specify the areas of economic integration, regional trade and socio-economic development within a period of three years. This Plan should be formulated around a number of parameters (see Box 2), with a statement of existing status and quantified targets for achievement within specified time frame.

Box 2

Areas of Economic Integration	**Current** ($ value p.a.)	**Target** ($ value p.a.)	**Achievement** Schedule
Bilateral Trade ($ value) **Regional Trade ($ value)** **Socio-Economic Development (specific areas):** Free Trade Agreement Joint Ventures (Trade & Industrial) Promotion of Monetary Union Banking, Insurance Cooperation Education Cooperation Research & Development Cooperation Agricultural Development Health & Population Control Tourism Media, Entertainment & Information **Facilitation factors:** Harmonized tariff, subsidies & restrictive trade practices. Transportation (air, rail, water & road) Communications (air, rail, road, sea &			

telecommunication) Trade Delegations & Exhibitions (Number & sectors) Trade Exhibitions (Number & sectors) Development of infrastructure Visa liberalization (Number of visas issued)			

The SPEI should have quantified targets for achievement in the specified areas with pre-determined time schedule for achievement and responsibility for achievement of the targets. The SPEI of South Asia should be prepared by a Committee comprising the following from each of the South Asian countries:

- Chairman, Planning Commission
- Secretary, Ministry of Commerce
- Secretary, Ministry of Finance
- Secretary General, Federation of Chambers of Commerce & Industry
- Development Economist from the World Bank

The SPEI and its implementation schedule should be endorsed by the Heads of States of South Asian countries in a summit meeting. Thereafter, quarterly meetings should be held to review implementation of the Plan and actual achievements against agreed quantified targets. In case of negative deviations, urgent corrective action should be decided and implemented.

3.1.4 Enhancing the role of private business sector for regional economic integration

The private business sector is the vehicle for national economic development and regional socio-economic integration. The private sector in South Asian countries should be allowed a much greater role in economic policy formulation and implementation. Inspite of propagation of FTA with all South Asia region countries by the Federation of Pakistan Chambers of Commerce & Industry (FPCCI), the government has not made any progress in this direction. Even to have a single product included in the government's list of importable items from regional countries is a very tedious and long drawn process inspite of FPCCI's strong representation. This is primarily due to inadequate information and non-commercial orientation of government functionaries. The concerned government departments take months to grant permission for allowing trade delegations or trade exhibitions from the regional countries. In spite of being a major producer of textile products, Pakistan does not produce textile machinery and its spares, which have to be imported. India produces reasonable quality of textile machinery at competitive prices. The All Pakistan Textile Mills Association (APTMA) has been persistently demanding, for the last eight years, that the government should allow import of textile machinery and spares from India but to-date, textile machinery and spares have not been included in the list of items importable from India.

The government should allow additions in the list of importable items, permission for visit of trade delegations, holding trade fairs and business visits of business persons immediately on the recommendation of FPCCI.

The enormous economic benefit achieved from active participation of the private business sector is evident from the formulation and implementation of Textile Vision 2005. This five-year strategic plan for the up-gradation of the Textile Industry of Pakistan and its exports was initiated by Mr. Abdul Razak Dawood, a professionally qualified and dynamic, Commerce Minister of Pakistan (1999-2002) in 2002 to break the five-years' stagnation of total exports at $ 7.5 billion.

Due to this strategic plan, which was successfully implemented through the private textile sector, Pakistan's exports crossed $ 12 billion in 2004. Mr. Shaukat Aziz, who is an M.B.A. with a successful track record of private commercial sector, when appointed as the Finance Minister of Pakistan, successfully transformed the bankrupt national economy into a sound and vibrant economy. Similarly, PIA, which had become an almost bankrupt state enterprise, has been turned around after appointment of a Chief Executive from the private business sector.

Role of private sector can be enhanced by the following measures:

- Excepting a few strategic enterprises, all state enterprises should be privatized at the earliest. Seaports and Airports should be privatized for reducing distribution time and cost of foreign trade. Privatization of Railways, WAPDA, KESC, Pakistan Steel, Municipal Corporations, etc. will greatly reduce their cost of operations and enhance their efficiency and quality of service.

- Federal budget, trade policy and all other financial, monetary, fiscal and industrial development policies should be formulated on the basis of the recommendations of FPCCI.

- FPCCI, supported by its member trade bodies, should strongly propagate immediate signing of FTA with all South Asian countries at the earliest.

- Representative of the FPCCI should be a director on the board of all Government policy-making Organizations and Committees.

- President FPCCI should be granted official status equivalent to Minister of State for official protocol.

- Trade offices and bank branches should be allowed to be opened in all regional countries.

- Greater interaction and coordination should be promoted between the FPCCI and the various government departments.

- Heads of Export Promotion Bureau and all state enterprises (till these are not privatized) should be business professionals from the private business sector.

- Leading businessmen (based on annual exports, imports and investments) should be recognized through awards on the Country's National Day.

- Businessmen should take greater and active part in politics so that a larger number of businessmen are elected as Parliamentarians whereby they can influence legislation of business policy promoting local and regional trade and commerce.

- Federation of Chambers of Commerce & Industry of South Asian countries should form and actively use Business Councils for bilateral trade promotion between regional countries.

3.2 Institutional changes

3.2.1 Making the Regional Trade Organization effective:

The South Asian Association of Regional Cooperation (SAARC) has been around since 1985 without achieving any economic benefit for its member countries. Presently, SAARC is headed and manned by government servants representing the seven Member states. The few subsidiary organizations' of SAARC managed by the private sector, such as SAARC Chamber of Commerce & Industry, are also constrained in their operations as they can only operate within the limited parameters permitted by the SAARC Secretariat. It is high time SAARC is transformed into a vigorous instrument of regional integration and free trade through and effective plan for reorganization. The following steps should be taken to make SAARC effective and efficient for promoting regional socio-economic integration:

Professionalize SAARC organization and operations: SAARC should be headed by a professional Secretary General who should be qualified in business administration with a successful track record of developing and operating large business organizations. The Secretary General should reorganize the SAARC organization by having professionally qualified personnel supported by efficient operating systems. The Secretary General should be given quantified annual operating targets for achievement.

Reconstitute SAARC Board of Directors: The SAARC Board should be reconstituted to include proactive, dynamic and result oriented professionals. SAARC Board of Directors should comprise the Finance Ministers and representatives of the private business sector of the respective countries. The Board should meet regularly every quarter to discuss and decide on a specific Agenda. Decisions on the Agenda items should specify target areas for achievement, schedule for achievement and responsibility for achievement. Each subsequent meeting of SAARC Board of Directors should start with review of achievements against of the targets set in the last meeting.

Formulate strategic operating plan: A Five Year and an Annual Strategic Plan for SAARC should be formulated and after approval of the Board of Directors it should be implemented seriously and strictly by the Secretary General, SAARC. The Strategic Plan should specify the areas of economic integration and trade with quantified action targets and time targets for achievement of the targets. Progress on achievement of targets should be monitored by the Board of Directors through monthly, quarterly and annual MIS returns.

SAARC Website: The existing website of SAARC provides little useful information for promotion of regional trade and economic integration. A meaningful website should be launched which should become a ready reference mechanism for all pertinent aspects of trade, industry, regulatory procedures, trade and investment queries, travel facilitation etc.

3.2.2 Promotion and activation of business councils in FPCCI

In recent years, FPCCI has formed business councils for promotion of trade and commerce between Pakistan and important countries. The members of business councils of various countries are from the private business sector who exist or potential trade partners of entrepreneurs in those countries. The business councils have proved to be an effective platform for promotion of bilateral trade. This concept needs to be implemented and strengthened in all countries of South Asia.

3.2.3 Trade delegations and exhibitions

Frequent exchange of trade delegations promotes understanding and goodwill and helps remove misgivings and apprehensions. They provide opportunity for materializing contracts for trade and business joint ventures. During the last one year, FPCCI organized five trade delegations to and from India and as a result of personal meetings of businessmen of the two countries, trade of several products has been promoted. Two single country exhibitions organized by FPCCI in India successfully introduced Pakistani products to the prospective individual and corporate customers. Similarly, as a result of the visit of the Indian tea delegation to Pakistan last year, export of Indian tea to Pakistan has increased by 20%.

3.2.3 Ambassadors from private business sector

The present Ambassadors in South Asian countries are from the Foreign Service or the Armed Forces and are mostly appointed on recommendations rather than merit. These Ambassadors have no economic, commercial or managerial orientation or expertise. The Ambassadors and their staff hardly spend any time on promotion of bilateral or regional trade or promotion of regional economic integration. Except the few countries, which are politically sensitive, for all other countries, Ambassadors should be appointed from the private business sector with a successful track record of economic and commercial achievements. These Ambassadors should be given quantified annual targets for promotion of trade and economic integration and their performance should be evaluated accordingly.

3.3 Policy changes

3.3.1 Improving local business environment

Before any business can effectively enter the South Asian export market, it needs to be viable and competitive locally. This requires that the local business environment and cost of doing business is made viable and attractive. The governments of South Asian countries need to improve the local conditions of business risk, cost and time of setting up and operating business, infrastructure and communications. This will require allocation of greater resources to these sectors from the federal budget, which should be diverted from large allocation to unproductive expenditures.

3.3.2 Harmonization of tariff structure

Marked differences in the tariff structure of South Asian countries is a major obstacle in implementation of Free Trade Agreements between them. India and Bangladesh have the highest tariffs in the South Asia Region coupled with subsidy policy for certain sectors. If a uniform tariff structure is agreed and is simultaneously implemented equitably in all South Asian countries, in consultation with the private sector, a level playing field will be provided and no country will feel disadvantaged due to tariff disparity which can adversely affect cost competitiveness of traded goods and services.

3.3.3 FTA and MFN status be signed and implemented

All countries of South Asia should immediately sign FTA and grant Most Favored Nation (MFN) status to the member countries. In the short run, there could be some economic distortions but within three years all countries in the region would improve economically. After initial adjustment all countries would find a new economic equilibrium in which they would be producing and trading goods and services in which they have a comparative and competitive advantage.

3.3.4 Open all modes of transportation

Availability of efficient means of transportation is essential for efficient movement of goods and services. Presently all modes of transport i.e. air, rail, road and sea are not available between the countries of South Asia. All possible modes of direct transportation between the South Asian countries should be opened to facilitate efficient movement of goods and people. Easy availability of efficient and cost effective modes of transport will reduce time and cost of travel and transport within the South Asian region for goods and people.

3.3.5 Liberalization of visas

Restrictive visa policy and inefficient visa processing staff and system greatly retard movement of people between South Asian countries. A liberal visa policy should be implemented through efficient visa staff and assistants which allows five year multiple entry visa with no restriction on movement through out each South Asian country or requirement of police reporting. Businessmen and professionals recommended by their representative Chambers and Associations, students and tourist groups organized by authorized tour operators should be granted visa within 24 hours. Greater personal interaction between people of South Asian countries, particularly the private business sector, will promote positive understanding and goodwill, which is the basis for economic integration. Business visitors and recreational tourists will also generate significant revenue from tourism and provide opportunities for accelerated socio-economic integration and regional trade.

3.3.6 Avoidance of double taxation

Presently, agreement for avoidance of double taxation is limited between Pakistan, India, Sri Lanka and Bangladesh. Extension of this facility to the entire South Asian region will promote regional trade.

3.3.7 ATA Carnet facility

ATA Carnet ("Admission Temporaries / Temporary Admission") is an international customs arrangement that permits duty-free and tax-free temporary import of goods into countries, which are members of this chain. This arrangement greatly facilitates duty free entry (and exit) of goods in member countries, which are intended for trade fairs, transit trade, samples and professional activities. In South Asia, only India is a member of ATA Carnet chain. Through the endeavors of FPCCI, Pakistan will soon complete the membership formalities. To facilitate regional trade, all South Asian countries should become member of ATA Carnet.

3.3.8 Greater Investment in education and human resource development

In the 21st Century the essential condition for survival and growth of nations and corporate entities is possession of internationally superior technical knowledge and human resource. Unfortunately, in the South Asian countries the level and standard of education, especially technical and professional education, and expertise of human resource is dismally low due to which these countries are unable to produce and trade high-tech and high value products and services. As a consequence, the total value of products produced and traded remains very low. The South Asian countries need to urgently prioritize technical education and development of human resource by allocating at least 5% of their federal budget to this sector. The Governments in South Asian countries have failed to provide universal education or improve the standard of education offered. The private sector should be encouraged to enter the field of education in a big

way. Basic, higher level as well as professional and technical education should be provided by privately managed institutions for efficiency and effectiveness. Government should only provide and control the essential operating parameters of the private educational and training institutions and leave the operations to the private sector. Associations and Chambers of Commerce and Industry and large business groups should be required by the government to establish technical training institutions in their respective sectors of business.

4. Conclusion

In spite of enormous physical and human resources, the South Asian region has economically suffered too much for too long due to the negative orientation, ignorance and follies of the political leaders. During the last three decades, while other economic regional blocks have made tremendous progress in their socio-economic development, the South Asian countries have miserably lagged behind.

There is an urgent need for the political and trade leadership of South Asia to realize that war or confrontation is not an option and the only way to progress and prosper is through peaceful co-existence. If USA could allow MFN status to China whom it considered archenemy for five decades and Russia and USA having long standing conflicts in social, political and economic fields could become allies, what is restraining the countries of South Asia from economic integration? If the European nations, having a past full of tensions and conflicts can emerge as the most powerful economic block in the world why can't South Asia also become a vibrant and useful economic arrangement? For making the South Asian region economically integrated, India and Pakistan being the larger countries and nuclear powers have a major responsibility for taking the lead for transforming the region into an economic block worthy of its physical and human potential. Given the required political will and active support of the private sector, this expectation can soon be materialized.

Annexure-I

Major Items of Exports and Imports of SAARC Countries (2002)
(Items comprising 75% of trade value)

Country	Major Export Items	Major Import Item
Bangladesh	Jute & jute Products, Tea, Readymade Garments, Frozen Fish and Shrimps, Seafood, ($ 5 billion or 75%) Leather & Leather Goods, Fertilizer, Spices, Vegetables, Manpower.	Petroleum (Crude), Official Equipments, Plant & Machinery, Automobile, Construction Materials, Dyestuffs Chemicals, Ferrous & Non-ferrous Metals, Minerals, Iron and Steel ($ 6 billion or 75%)Textile, Edible Oil, Milk Products, Raw Cotton, Cement, etc.
Bhutan	Timber, Dolomite, Spices, Calcium Carbide, Gypsum, Electricity, Cement, Fresh & Canned Fruits & Juices, Alcoholic Beverage, ($80 million or 75%) Cardamom, Timber Products, Minerals.	Petroleum Products, Machinery, Iron & Steel, Automobile, Textiles, Agriculture equipments. Consumer Goods ($120 million or 75%), Sugar, Edible Oil, Rubber, Tyre, Wheat.
India	Software, Pearls, Jewellery & precious stones, Pharmaceuticals, Machinery, Vehicles, Metal Products, Tea Mate, Clothing, Iron Ore and Steel, Films $ 42 billion or 75%) Cotton Products, Petroleum, Handicrafts, Leather & Products.	Crude Petroleum Products, Machinery, Pearls, Precious and Semi-Precious Stones, Chemical Products, Edible Oils, Vegetables & Fruits, food stuff, ($43.5 billion, 75%) Vehicles, Fertilizers, Rock Salt, cotton, sugar, Ceramics & Melamine.
Maldives	Dried Skipjack, Canned Fish, Frozen Skipjack, Shark Liver Oil, Salted Dried Skipjack & Reef Fish, Apparel & Clothing Accessories ($ 67 million 0r 75%), Red Coral, Cowries Shells and Mica.	Consumer Goods, Petroleum & Food Items, Manufactured Goods, Machinery, Vehicles, Chemicals, Steel, Rice, Cement ($ 292 million or 75%) Wheat, Sugar, Tobacco, Beverages, Paper.
Nepal	Cotton Garments, Woolen Goods & Carpets, Oil Seeds, Pulses, Hides & Skin, Niger Seeds, Jute & Jute Products, Handicrafts, Tea, Leather Goods, Paper & Paper Products ($ 440 million or 75%), Silverware & Jewellery, Tooth Paste, Polyester Yarn, Toilet Soap, Pashmina Products, Vegetable Ghee.	Food & Live Animals, Chemicals & Drugs, Manufactured Articles, Construction Materials, Petroleum, Oil & Lubricants, Raw Wool, Automobiles & Transport Equipments, Machinery, Fertilizer, Textiles, Edible Oil ($ 1.07 billion or 75%) Cement, Electrical Goods, Industrial Raw Material.

Pakistan	Raw Cotton, Textiles, Cotton Cloth, Cotton Yarn, Synthetic Textiles, Garments, Hosiery Rice ($7.1 billion 75%) Carpets & Rugs, Leather, Leather Products including Leather Garments & Footwear, Ceramic, and Fish & Fish Products.	Petroleum & its Products, Chemicals, Non-Electrical Equipments, Machinery, Transport Equipments, Iron & Steel Products, ($7.6 billion or 75%) Edible Oils, Electrical Goods, Fertilizers, Tea.
Sri Lanka	Tea, Rubber, Gems, Marine Foods, Semi Precious Stones, Coconut Oil & Coconut Products ($ 3.6 billion or 75%). Readymade Garments.	Machinery, Petroleum, Chemicals, Pharmaceuticals, Iron & Steel, Vehicles, Textiles, Dairy Products, Fertilizers ($ 4.7 billion or 75%), Pulp & Paper Products, Sugar.

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