

Report of the National Consultation in Karachi of the Project entitled ‘Regional Economic Cooperation in South Asia (RECSA)’

Venue: Hotel Pearl Continental, Karachi
Date: 23 – 25 September 2005
Theme: Regional Economic Cooperation in South Asia

Objective:

To engage stakeholder participation in regional trade initiatives and promote policy responses that would be inclusive of stakeholder preferences. The event was designed to involve business representatives, government, civil society representatives and academics, primarily from Pakistan, to create an awareness and momentum towards regional cooperation in a way that is expected to influence the future policy direction on trade and investment promotion within the country and amongst other South Asian countries.

Discussion:

The format followed was a multi-session round table format and involved discussions on the following issues:

- South Asian Preferential Trade Agreement (SAPTA) in the light of Bilateral free trade agreements (FTA's)
- Investment and finance
- Attaining the millennium development goals (MDG's)
- Trade facilitation measures
- Infrastructure
- Business to Business engagement - how and why
- Role of media in promoting regional trade

At the inaugural session, Ikram ul-Majeed Sehgal, Managing Director, SMS Pvt Ltd, Karachi introduced all the invitees. Prasad P. Ranade, Director (Research), CUTS-CITEE, India gave a brief introduction about the project and its methodology. Abid Qaiyum Suleri, Assistant Executive Director, SDPI, Islamabad talked about the necessity of regional cooperation. Akhtar Mahmood, Consultant, National Institute of World Laws explained the importance of trade in South Asia. Sadar M. Humayun Khan, representative of Pegasus International, Lahore expressed the need for a general consensus on regional cooperation. Khalid Amin, Secretary General, FPCCI, Karachi emphasised on the continuous efforts to be made in this direction. Subhoranjan Das Gupta, Professor, Institute of Development Studies, Kolkata and Kabir Seth, FES, India expressed their views on regional cooperation.

South Asian Preferential Trade Agreement (SAPTA) in the light of Bilateral FTA's:

Humayun Akhtar, Federal Commerce Minister, Pakistan, while speaking on the issue of regional cooperation mentioned that trade in this region is the lowest in the world and stressed the importance of improving the situation and opined that issues that affect the relations between the two countries should be addressed prominently, owing to the tremendous potential of bilateral trade. He explained that Pakistan has an active trade

agenda with India and is keen to have operational agreements bilaterally. He identified the need to analyse South Asian Free Trade Agreement (SAFTA) and felt that it was the strength of bilateral agreements to build a trade block. Lack of awareness among people and major issues related to trade were also addressed.

Mohammad Sulaiman, a consultant from Islamabad gave a brief on SAFTA in the light of existing FTA's. He said that FTA's within the region puts pressure to open up the trade between themselves. He viewed that SAFTA can help to find which non tariff barriers (NTB's) are imposed, as there are provisions of immediate notification and trade can move ahead faster, which is otherwise difficult. He also felt that procedures for getting visa are cumbersome and should be liberalised.

Huma Fakhra of Fakhra Law International, Lahore mentioned that there were two models of regional cooperation; ASEAN model- spoke-spoke type and the NAFTA model- hub-spoke type. She said that SAFTA should be the ASEAN model with all spokes speaking to each other. She viewed that SAFTA has no room for services and India is disengaging from SAFTA, as Europe is a huge market. She also explained the effect of NTB's on SAFTA. She strongly recommended that trade facilitation measures have to get moving.

Prasad P Ranade, CUTS, India presented his views and questioned the need for SAFTA. He was of the view that NTB's are not increasing cost of trade but it is institutional framework that is increasing transactional costs, recommending regulation and trade facilitation. He emphasised that the major issue is to take the trade ahead and that can be done by identification of different sectors. He explained that we may not be strong at cost effective production but we have the software and the hidden potential to make it happen, maybe within the framework of SAFTA or a larger multilateral agreement.

Ikram ul-Majeed Sehgal, felt that a joint study group was necessary to identify sectors.

Shafqat Munir, President, Journalists for Democracy and Human Rights, Islamabad was of the opinion that visa procedures were a hurdle to trade in the region.

Tahir Hasnain, Coordinator, WTO Watch Group, Islamabad felt that unless bilateral relations are improved, SAFTA would have same fate as SAPTA. He recommended the use of bottom-up approach for strengthening people and also production.

Akhtar Mahmood, Consultant, National Institute of World Laws explained that the world is now moving towards regionalism. He expressed that there was a need to work out how we can reconcile SAFTA with world trade organisation (WTO), because if WTO succeeds then SAFTA will cease to exist, as it will lose most of its preferential advantages. If WTO does not succeed and we are pushed back into regionalism we will have to review SAFTA as it is excessively obsessed with tariffs.

Syed Qasim Ali Shah, National Project Manager-TIHP (Trade Initiatives from Human Development Perspective), Islamabad opined that SAFTA will fail as most countries are competitive and with the narrow export base, it has to be seen that how can we trade.

Investment and finance:

Kazi Abdul Mukhtadir, Managing Director, National Institute of Banking and Finance State Bank of Pakistan, Islamabad stated that emergence of regional trade is a requirement but dependence on western trade and modern form of commerce is hampering Asian progress. He said that there are enough opportunities for high growth and prosperity but countries having competitive advantage in similar products tend to reduce trade potential. He opined that regional cooperation is vital and there is a need to look at volatility of capital flows and high transportation costs including high fuel costs that are becoming an important aspect of imports and exports and fragmentation of markets. Other levels of intra regional trade that are low and need to be enhanced. He also explained various policies and regulations related to imports, exports, licenses, registration of property, availing credit, protection of investors, trading across borders, enforcing contracts, hiring and firing of workers, working hours and closing of business and recommended various comprehensive regulatory reform across South Asia.

Abdul Rauf Sheikh, Director General, Board of Investment, Islamabad started his presentation with a film prepared by the Board of Investment and explained achievements of Pakistan in liberalisation and how it was necessary to have good environment for encouraging investors to come. He also talked about policies of Pakistan and said that there is a need to invite investors to invest in any sector of Pakistan.

Prasad P Ranade, CUTS, India said that it is startling that awareness in the people of South East Asia is lacking. He was of the view that language and common culture should be made the starting point for any cooperation and also commented that many events are held for investment but for Pakistan nothing is attempted in India and thus, needs to be highlighted.

Mohammad Sulaiman, a consultant from Islamabad expressed the view that restrictions on travel should be reduced and employment generation should be strengthened.

Attaining the Millennium Development Goals:

Abid Qaiyum Suleri, Assistant Executive Director, SDPI, Islamabad said that despite the fact that trade is increasing, the inequalities are widening and if the current trend continued then there would be a gap between the targets and outcomes of the MDG's. Public mobilisation can change all this. The United Nations Development Programme tries to approach it through the three pillars of aid, trade and security and there is a need to look at these in the regional framework. Trade, therefore, should not be an end in itself but a means to achieve the MDG's and this is often forgotten.

Sajjad Akhtar, Director, Center for Research in Poverty Reduction & Income Distribution (CRPRID), Islamabad presented an overview of the SAARC region and what the country reports have to say about each of the countries in the attainment of the MDG's and how regional cooperation can help in this. Any MDG based programme had to be backed by MDG based regional and global partnership. He also said that the crucial question was where does MDG attainment and regional cooperation come together and what were the

chances of attainment of the MDG's? He further commented that market access is also an indicator of MDG target in the SAFTA and the SAARC Social Charter was also an adoption of the MDG. Trade is one mechanism for transmission but how far it will succeed in reducing poverty and inequalities is questionable. He explained that instead of money changing hands, ideas changing minds was more important to achieve MDG's. He further explained the current status of the countries in the region on the attainment of these goals. This was indicative of the need to ensure visits from amongst the countries of the region to facilitate learning of best practices followed in different countries. He said that it helps where growth encourages trade and trade increases market access. Regional cooperation is also about this phenomenon. If trade is pro-poor and labour intensive then it can reduce poverty and increase trade and demand for regional goods. Reduction of inequality is sufficient condition for poverty reduction.

Shanadana Gulzar Khan, CEO, National Institute of World Trade Laws, Islamabad said that the MDG's focus on quality of life and income is no longer enough to understand poverty. There is increased GDP, increased export and yet poverty is worsening. Extending it to trade and whether regional trade helps in reduction of incidence of poverty is the real question. Further SAFTA is silent as to how the various bilaterals will be synchronised. How more bilaterals would help MDG's is difficult to understand. ASEAN has many sub-committees for MDG's and SAFTA is silent so there is little optimism about synergies between MDG's and regionalism.

Fayyaz Qadeer, Assistant Director, State Bank of Pakistan, Karachi said that Pakistan spent a lot of money to alleviate poverty and yet poverty increased by 8 percent. How do we reconcile this and the question is whether these policies impact the common man?

Akhtar Mahmood, Consultant, National Institute of World Laws was of the view that growth based on labour intensive policies helps in reducing poverty. Growth can be based on appropriate social expenditures. Both these are low and hence poverty cannot be reduced. Trade can lead to growth but this may not lead to reduction of poverty.

Kazi Abdul Muktedir, Managing Director, National Institute of Banking and Finance State Bank of Pakistan, Islamabad said that the World Bank is revisiting its figures regarding poverty computations.

Trade facilitation measures:

Khalid Amin, Secretary General, Federation of Pakistan Chambers of Commerce and Industry (FPCCI), Karachi said that there is no way that we can become great exporters globally or in South East Asian economies unless we produce goods and services which are surplus over our own requirements and second that we could produce them at international competitive advantage. He said that this is the predominant factor so far as the globalisation, regionalism and bilateral trade is concerned.

Javaid Mansoor, Executive Secretary, National Trade and Transport Facilitation Committee (NTTFC), Karachi in his presentation gave the indicators of competitiveness for the region and impact of trade facilitation measures relative to the competitiveness

status and pointed out that all countries that are competitive have started trade facilitation measures very early in their economic growth process. He explained that transaction costs are an important element of trade facilitation and greater benefits can be achieved through transaction costs reduction than through tariff reduction and for this international standards need to be adopted. Establishment of NTTFC to reduce transaction cost is an important step in this direction.

Ahad Ullah Akmal, Consultant, Government of Pakistan, Islamabad said that we should try to identify what needs to be done in the area of trade facilitation in South Asian region and particularly between two larger economies of the region, India and Pakistan. He suggested that it would make commercial sense to buy from next door instead of buying from distant countries. He said that trade facilitation requires freedom of correspondence between commercial parties and freedom to travel to places of commercial interest. He expressed a view that World Bank considers Indian tariff to be non transparent and International Monetary Fund and European Union considers that it is restrictive also. Trade facilitation thus demands that India address the following issues to ensure certainty and predictability of completion of transaction in interest of international trade because the ultimate aim of trade facilitation initiatives is to complete international trade transaction as a single stage operation and single door-to-door uninterrupted physical flow fully monitored but not interrupted by the administrative and financial proceedings.

Mr. Mohammad Sulaiman, a consultant from Islamabad pointed out that there is very little understanding of the term trade facilitation and it has been ignored for too long by the people. He further said that by adopting trade facilitation measures, the shipping cost is the maximum cost that can be saved along with other freight costs. He explained that SAFTA, SAPTA and WTO may not help our exports but this trade facilitation definitely will.

Sadar M. Humayun Khan, representative of Pegasus International, Lahore praised the efforts made by NTTFC and said that it should be strengthened and should be a ongoing process. He explained that in Pakistan there are not many institutions established, which can probably be the reason of things not moving fast unlike developed economies that have such institutions.

Syed Irtiqa Ahmed Zaidi, Economic Consultant, gave views on trade facilitation measure and NTTFC project.

Infrastructure:

Sadar M. Humayun Khan, made a presentation and provided a wide range of recommendations:

- following of collective approach by all countries;
- institutionalising Action Plan, outlining the step by step approach;
- simplifying Customs procedures and documents;
- handling Communication and Information electronically;
- strengthening the rail and road services;
- updating the legal regime governing the road and rail sectors; and

- trade facilitation.

Kazi Abdul Muktedir, Managing Director, National Institute of Banking and Finance State Bank of Pakistan, Islamabad explained how Sialkot was a completely private initiative undertaken by the traders and business community of that city to be able to enhance their exports and goods handling capability and commented that biggest cost is in clearance of goods.

Syed Irtiqa Ahmed Zaidi, Economic Consultant explained that NTTFC requires greater interaction with the private sector.

Syed Qasim Ali Shah, National Project Manager-TIHP, Islamabad explained the importance of information and data sharing and establishment of Research and Development laboratories as part of standardization.

Muhammad Badar Alam, Senior Editor-Political Economy, The News, Lahore discussed bus services between countries, South Asian Energy Grid, transit trade problem and Sethusamudram project.

Business to Business engagement - how and why:

A J Sayeed said that scope for business-to-business engagement is present amongst most countries even in the absence of Government facilitation and viewed that business-to-business should not replace but supplement efforts at regional engagement

Khalid Amin, Secretary General, Federation of Pakistan Chambers of Commerce and Industry, Karachi said that whenever we talk about globalisation we talk about business. South Asia has got lot of resources at its disposal. But if you look at the global map then it is startling. Export figures of most countries are startling. Japan, EU and US hold most of trade in the world. We need to focus on the basics and channelise the resources correctly for growth, development and upliftment of South Asia. He said that most of the time and resources are wasted and emphasis needs to be laid on the human aspect. Informal sector has grown and business-to-business engagement has helped this. He said that Federation of Indian Chambers Commerce and Industry (FICCI) President sits on the right side of the Prime Minister indicating the importance India gives to its industry

Mr. Mohammad Siddique Shah explained that the mindset in the region is that of competitors but there are small pockets where complementarities exist. There is a huge demand for medical and para-medical personnel. Services and human resources can be assets for reducing poverty.

Ikram ul-Majeed Sehgal, Managing Director, SMS Pvt Ltd, Karachi said that there is no effort to make business-to-business contact even by the Embassies. Business is the driving engine and yet it is not treated well. He also attached importance to the military services.

Prasad P Ranade, CUTS, India expressed that army is the largest provider of employment and said that Joint Business Councils (JBC) are good in theory but remains only as an idea and quoted the example of India, Brazil and South Africa (IBSA) JBC.

Qasim Shah, Mr. Kabir Sheikh and Mr. Ahad Ullah Khan also expressed their views in this session.

Role of media in promoting regional trade:

Subhoranjan Das Gupta, Professor, Institute of Development Studies, Kolkata emphasised the role of media and its effective use. He also explained role of media in regional trade. He suggested that all economic dailies should devote one-page once a week to SAARC regional news and which should be only about trade and not be confused with other news. Both positives and negatives can be highlighted and media can play a constructive role. Journalists belonging to other countries should be made part of this forum and encouraged to report on this forum.

Muhammad Badar Alam, Senior Editor-Political Economy, The News, Lahore explained that lot of efforts are going on to promote trade through media and many newspapers have a separate commerce page. He also explained the link between circulation of the paper and traditions of newspaper.

Ayesha Kabir from Probe News Magazine, Dhaka said that Bangladesh newspapers devote a large space to regional issues but information is required quite strongly. Private sector does not divulge much to the media. Many channels on TV are blocked and therefore there is a feeling of deprivation.

Ikram ul-Majeed Sehgal, Managing Director, SMS Pvt Ltd, Karachi said that most newspapers have informal arrangements to exchange information but commercially this may not be possible. He also informed that two associations of journalists South Asia Editors Forum and South Asia Free Media Association were formed for regional papers in the region and both forums are associations of regional papers.

Comments were also made on the low literacy levels, limited circulation of local newspapers etc.

Outcome:

The principle outcome of the consultation was the list of recommendations made by various participants that need to be advised to the various stakeholders if one has to make the concept of Regional Cooperation in South Asia a success.

- a. Lack of awareness has to be removed by engaging larger sections of society.
- b. Public should pressurise politicians. Currently trade between the two countries is because of business pressures and public pressure should now become key to enhancing economic cooperation.
- c. There should be little left to the ministers, as they are an indecisive lot. Sufficient lobby groups and pressure groups need to be created to bring change.

- d. Regional country visits need to be encouraged to learn best practices from other countries.
- e. Bilateral investment treaties are recommended and these should include specific sector identification. Setting up a fund for increasing investments could be an option.
- f. If SAARC is not willing to undertake multilateral agreements then bilateral should be pursued.
- g. Intelligent tariff reduction has to take place. There should be no sensitive list but categories of tariff reduction.
- h. Mindset that India and Pakistan are enemies should be changed.
- i. Infrastructure should be increased and not merely engaged in tariff reductions.
- j. Creating sustainable institutions is necessary for economic growth.
- k. Institutions with a time frame are necessary.
- l. Tourism should be encouraged.
- m. SAFTA should have clear mention of investment and services sector as well as the focus on MDG attainment issues.
- n. SAFTA should not be excessively concerned about tariffs without addressing issues like infrastructure etc. Mere tariffs are not sufficient to increase trade.
- o. Need for a clear understanding on how the many bilateral agreements will be synchronised in the regional perspective for a workable SAFTA.
- p. A corridor across contiguous land, something that even Jinnah proposed, should be encouraged.
- q. Long term views need to be taken else investment will never come in.
- r. The board of investment should think outwardly rather than inwardly and attempt awareness creation in India.
- s. Merely signing conventions is not sufficient. These should be taken forward through other enabling changes in institutions etc.
- t. No institutional arrangement for business-to-business engagement currently present and needs to be put in place.
- u. Regional cooperatives should be experimented with.
- v. Need to make local business attractive for domestic entrepreneurs
- w. Need for commercial counselors from among the private sector.
- x. Requirement of comprehensive regulatory reform across South Asia.
- y. Need to address economic cooperation and not merely trade
- z. Sharing between media of all countries in South Asia needs to be enhanced. There should be a journalist's forum of South Asia and newspapers should come out with stories from across the region not merely on trade but on all constructive issues.