Reconfiguring Institutional Framework for Economic Diplomacy in Pakistan

(Farrukh Iqbal Khan, FSP) 1

Abstract

For the past 72 years, some of the main pillars of Pakistan's economic diplomacy have been seeking IMF bailouts, World and Asian Development Banks projects, bilateral assistance, securing preferential access on grounds other than the quality and innovative character of Pakistani products and its export potential, grants from friendly countries, and foreign loans. Our economic diplomacy has become so lackluster that Pakistan, a nuclear power, even contemplated to get itself declared a least developed country, like Bangladesh. Much energy and reforms have focused on addressing external concerns, such a price and therefore, devaluing currency, providing incentives or unsustainable rebates to the exporters, creating new bureaucracies (authorities) to deal with the inertia in the existing bureaucracy and if nothing else paid off, let us reform the civil service over and over again.

Pakistan has done this for better part of its history and that too, over and over again, the results haven't been different. What we have not done is to look at how we operate institutionally. What ails our coordination, why one part of Pakistan's bureaucracy is hell bent on proving that it is better than the other part, why part of our institutional arrangements are breeding grounds for rent seekers, why are we siloed, do we have the right expertise, are we equipped to handle the challenges that the 21st century poses. Little or no discussion has been done from the perspective of institutional arrangements that underpin Pakistan's economic diplomacy. Are we organized to utilize the full spectrum of diplomatic tools available with the country to actually deliver on this critical aspect of the country's foreign policy?

This question becomes even more important when we witnessed the tectonic shifts happening around us. The world is metamorphosing into fourth industrial revolution. It stands on the brink of a technological upheaval that will change the way we live, work, and even manage our human and sovereign relationships. It is that 24/7 connected world where Pakistan needs to now fit and find the pivots for its economic growth.

Pakistan is spending more on imports than it receives on exports, with its current account deficit having risen from $2.7 billion in 2015 to $18.2 billion in 2018. Pakistan's rupee has shown its continued decline against dollar, which increased Pakistan debt by a whooping USD $7.9 billion. The massive depreciation in the rupee has had virtually no impact on its export which remain stagnant and in real terms decline.

This state of affair is not a result of short-term economic mismanagement but a

continuous long-term economic decline that Pakistan economic managers have failed to arrest. While, there is no dearth of economic analysis and the kind of structural reforms needed for macro-economic stabilization, the existing institutional arrangement, which are part of the rot that afflicts the country, has received scant attention.

This paper concludes that our institutions arrangements have failed to understand the market dynamics as well as find the right prescription to overcome the challenges. Our institutions lack the ability to create conditions where Pakistan could generate exportable surplus as well as diversify exports. Another glaring institutional failure has been the focus on a few markets due to our traditional bias and presence of financial and banking linkages. We have not really succeeded in penetrating new ones and our institutions even failed where they had an absolute advantage such as CPEC and China or improving our global competitiveness rankings. Indeed, there are other contributory factors including poor governance, corruption, dysfunctional legal system and unfair tax regime etc.

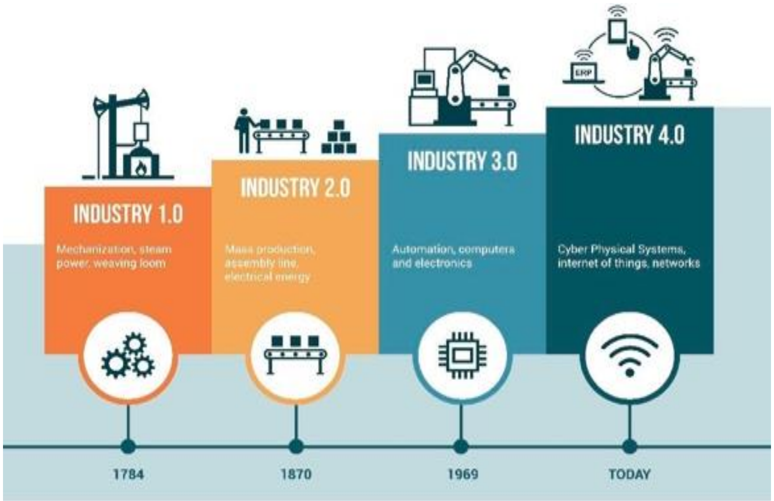
This paper proposes a two-step approach. First, re-energizing the existing arrangements by enhancing cohesion and coordination. An effective inter-ministerial mechanism will be central for economic diplomacy to succeed, we must also start utilizing the Ministry of Foreign Affairs as linchpin of our external relations. We should be mindful that Pakistan's resources are limited. We cannot afford large bureaucracies or institutions that China, the US, Malaysia or Indonesia may be following. We need to evolve an indigenous model. We need to utilize our diplomatic strength with our economic strength. In this spirit and in the second phase, this paper proposes to mainstream economic diplomacy into the foreign policy: by establishing a Ministry of Foreign Affairs, Trade and Investment.

Introduction:

Prophet Muhammad was a trader

The world is metamorphosing into fourth industrial revolution. It stands on the brink of a technological upheaval that will change the way we live, work, and even manage our human and sovereign relationships. It is that emerging world where Pakistan needs to fit and find the pivots for its economic growth.

Despite sizable international presence and diplomatic infrastructure across the globe, Pakistan's economic diplomacy has performed at a sub-par level. The overall current account balance has remained negative for the past decade and the flow of Foreign Direct Investment (FDI) has remained muted in comparison to many countries of comparable size due to the political, security, corruption and currency related risks. In recent months, there has been heightened external vulnerability risks due to balance of payment pressures . Pakistani passport ranks 104 on Hanley Passport Index posing significant challenge to the business community in seeking economic opportunities abroad.



Statement of Problem

Pakistan is spending more on imports than it receives on exports, with its current account deficit having risen from $2.7 billion in 2015 to $18.2 billion in 2018. The gross public debt, by the end of June 2018, stood at USD $179.8 billion, an increase of $25.2 billion within a year. Pakistan's rupee has shown its continued decline against dollar, which increased Pakistan debt by a whooping USD $7.9 billion. The massive depreciation in the rupee has had virtually no impact on its export which remain stagnant and in real terms decline. This state of affair is not a result of short-term economic mismanagement but a continuous long-term economic decline that Pakistan economic managers have failed to arrest.

While, there is no dearth of economic analysis and the kind of structural reforms needed for macro-economic stabilization, the existing institutional arrangement are part of the malaise that afflicts the country. How can Pakistan improve its economic diplomacy consistent with the national imperative to grow sustainable as well as the demands of the 21st century? Can there be an Action Plan that can help deliver the task during the next decade?

Significance of the Study

The study is aimed at answering two key questions regarding our economic diplomacy. One, how far the institutional arrangements in Pakistan have a role in our abysmal economic diplomacy and our inability to be competitive in the international markets, attract FDI and secure a better share in international tourism? Second, can reconfiguring the existing institutional setup deliver better results?

Structural reforms have, thus far, focus on policies. This study provides a new angle and one which has never been studied. We know there is no single thread that can explain what is wrong with Pakistan, a country of complex economic contradictions and a country which managed to achieve as complex a scientific feat as the atomic bomb. Yet it is the same country which is unable to build an international standard motor vehicle and export it; Pakistan proudly displays one of the world largest irrigation systems, yet the country imports agricultural products; It has some of the world's most breathtaking geography and highest mountains, yet the country is unable to attract tourists; its geo-strategic location makes it an ideal country to act as a trading hub for south, west and central Asia, yet the country is unable to translate this unparallel potential into a reality and so on and so forth.

The flawed institutional setup, if we began from this premise, is not the only and/or the main reason for our dismal economic diplomacy. However, through the theories of international relations, supported by both qualitative and qualitative analysis, this research offers a better understanding of the contradictions that underpin the sub-optimal economic outcomes of our economic diplomacy. This research should help policy makers to understand that reforming our institutional arrangements, is also central to delivering a different and better result.

Review of the Literature

There is neither a dearth of data on the state of Pakistan's economic diplomacy nor a dearth of international relations theories that explain why Pakistan is in throes of economic malaise and how its sub-optimal economic diplomacy is playing its role. Interestingly, though, there is no analysis on institutional arrangements and their impact. Consequently, every aspect of this research was a challenge by itself. Starting off with international relations theories and how economics tools were seen, and how the two main and traditional school of thoughts, realists and liberals, on international relations dealt with the economic aspects.

Article by Papadimitriou and Pistikou's "Economic Diplomacy and Security in Sovereign States", establishes that economic diplomacy contributes to national security policy only as a secondary factor. The armed forces are actually the major player. Paul Wilkinson, "International Relations: A Very Short Introduction" discusses how many disciplines, economics, politics, social and cultural come together in understanding relative power of a country. Top it all, the theory of complex interdependence as espoused by Robert Keohane and Joseph Nye underscore that states and their fortunes are inextricably tied together. It categorically asserts that an actual act of war between economically developed countries in particular and other developing countries in general is gradually being shaped more through economic content and strength than through war or raison d'etre. As opposed to these theories, the actual practice of diplomacy gives considerable credence to the economic aspects. In his seminal essay, Richard Cooper's, while writing for the Foreign Policy Magazine in 1972 asserted "Trade Policy Is Foreign Policy". Similarly, the "New Economic Diplomacy: Decision making and Negotiations in International Relations" by Nicholas Bayne and Stephen Woolcock provides extremely valuable insight into the interaction between domestic and external economic relations in the 21st century and how domestic decisions and processes help shape international negotiations and diplomacy.

Given absence of any critical analysis on institutional arrangements for economic diplomacy in Pakistan, telephonic interviews and conversation with several former and existing commercial officers as well as internal notes and papers from the Ministry of Foreign Affairs, Ministry of Commerce, EAD and Trade and Development Authority of Pakistan (TDAP), were used as primary source in understanding how Pakistan's commercial diplomacy is organized under the partially united model. Data from the Asian Development Bank, State Bank of Pakistan (SBP), Pakistan Bureau of Statistics (PBS), TDAP, the World Bank and the World Economic Forum provides further insights on the state of Pakistan's economic diplomacy under the current institutional arrangements.

Methodology

The research is based on both the quantitative and qualitative method in articulating why economic diplomacy and the institutional setup are inextricably linked to the results. To build this linkage, recourse was made to theoretical schools of thoughts within the framework of the international relations' Theory of Realism , Liberalism and the Theory of Complex Interdependence. It transpired that while theory may treat economic diplomacy as secondary to military power, the practice of economic diplomacy alongside the global rules and regulations presents a significant contrast. Primary sources included interviews and conversations conducted with senior officials of Ministry of Foreign Affairs, Economic Affairs Division, Trade and Development Authority as well as former and current commercial officers of Pakistan notably the Embassy of Pakistan in the United Kingdom, China, Washington and analysts on bilateral economic ties. The secondary sources were based on books, journals, research papers, reports and articles on Economic Diplomacy. The principal hypothesis of this research is "Institutional arrangements for the conduct of economic diplomacy have failed to translate Pakistan economic potential into a reality. It is time that we avoid seeking different results by relaying on this institutional setup".

Organization of the Paper

This study is first of its kind and aimed at exploring linkage between the suboptimal economic diplomacy and the inefficient institutional arrangements that supports that effort. The argument has been built by drawing a comparison between the theoretical platforms which treat economic diplomacy as secondary to the foreign policy of a country and the state practices where economic muscle of a country is central to its coercive ability at the global level. From this fundamental divergence, the research than traces different institutional arrangements employed by states including in particular by Pakistan, in conduct of their foreign economic relations.

A significant amount of data has been used to establish, albeit by inference, that institutional arrangements have a bearing on the economic diplomacy. A critical appraisal was done on the state of Pakistan's economic diplomacy and its standing in the South Asian region. Following the critical appraisal, the research establishes that current institutional arrangements focus alone on a limited set of countries and market guided largely by the need for political support that Pakistan needs to overcome from a hostile neighbor i.e. India. The next section looks at Pakistan's economic blind spots i.e. Africa and Latin America. The final section draws conclusion and makes a two-step recommendation to improve Pakistan's economic diplomacy: first, a strengthening of the existing institutional setup and second, an overall of these institutions with a view mainstreaming economic diplomacy into the foreign policy and establishing a Ministry of Foreign Affairs, Trade and Investment.

Economic Diplomacy: Definition, Actors And Elements

From Thucydides to Machiavelli , historians and practitioners of international relations have sought to create a link between international relations political theory and the practice of international relations i.e. a state, principality and/or a country's diplomacy. Many great theories emerged due to "debates, between idealists against realists, traditionalists against behavioralists and pluralists against structuralists" . Very broadly speaking two major schools of thoughts emerged i.e. Realists, and Liberals. In the post-cold war era, and the growing inter-connectivity of states and people, also gave rise to the theory of 'Complex Interdependence".

In the Realists view, "international politics was a constant struggle for power, not necessarily resulting in constant open warfare, but always necessitating a readiness to go to war. In this continual state of anarchy, the only prudent course for the prince was to accumulate as much power as possible and to use that power to defend and pursue their national interest. For this purpose, military power was the key requirement: wealth from commerce and industry were seen mainly as a means to acquiring the necessary military power".

As opposed to this, the Liberalists argued that the main concern of liberalism has been to construct (national and international) "institutions that protect individual freedom by limiting and checking political power" of a national. A liberal world order is organized around international law and agreement, the spread of free trade and capitalism and international norms such as human rights, democracy and the rule of law. In this way, the liberal school of thought contented that "war is not profitable but detrimental to the state"

The theory of Complex Interdependence highlighted the "emergence of transnational actors vis-à-vis the state. Focus was on the rise of international regimes and institutions that compensated traditional military capabilities and the new importance of welfare and trade in foreign policy matters compared to status and security issues."

Notwithstanding, the relative marginalization of economic diplomacy within these political school of thought, the global architecture has continued to shift and shift radically. Actual act of war between economically developed countries in particular and other developing countries in general is gradually being shaped more through economic content and strength than through war or raison d'etre. Economic diplomacy is, therefore, taking center stage as "a science of international economic relations and a tool of the foreign economic policy of a state, which is a set of nonmilitary practical measures, techniques and methods (with a predominance of economic over political ones) used taking into account the specific conditions and nature of tasks."

While economic diplomacy is conducted traditionally by the States, an effective economic diplomacy requires engagement of a host of actors. "The development of market relations and democracy has contributed to the emergence of new entities like entrepreneurship (business) and civil society". It covers a set of practices and involves a wide range of state and non-state actors, from diplomats and other government officials to businessmen and bankers, as well as non-governmental organizations. In economic diplomacy, interests of states and of private companies get involved in an intimate way.

Economic diplomacy stands at the interface between international economics and international politics. It is concerned with the relationships between two rather different spheres, the sphere of political diplomacy and foreign affairs, on the one hand, and the sphere of foreign trade and international business, on the other.

Consequently, the elements and the objectives of economic diplomacy, focuses on influence that a State can garner within the international economic order and international regional grouping, foreign (international) markets of goods and services, foreign investments (capital flows), international migration processes, international tax systems etc. The main objective in all areas for economic diplomacy is four-fold: are international trade, international investment and taxation, legal migration and tourism.

Economic Diplomacy Institutional Arrangements- Current Global Models

There are a number of institutional models that countries have been using to pursue economic diplomacy. For instance, for the United States trade policy has been central to its foreign policy . Since the end of the World War II, the United States led the effort to shape the global economic order, led by Bretton Woods Institutions and the GATT, and its diplomacy shaped the global economic institutional framework to date. The US State Department – the foreign policy arm of the United States, worked together with the US Department of Treasury and Commerce, to what might be called "a two-track system, with trade issues traveling along their own track, not interfering with traffic elsewhere. A similar development occurred in the monetary area, under the aegis of the International Monetary Fund (IMF), which by and large was also kept separate from general foreign relations" though a result of effective institutional coordination between various federal departments within the United States. A vast majority of countries follow such a two or three track approach while evolving internal institutional mechanisms for internal coordination and cooperation.

In such cases, the purpose and role of internal coordination becomes vital to secure an agreed view on the vision and purpose of economic diplomacy. "The first step in this process is for the lead department to decide its own strategy and resolve any internal differences. In economics ministries, for example, the division responsible for trade negotiations in the WTO may be keen to see trade barriers come down. But the division responsible for the textile industry may want to keep the barriers up, so that there is tension between international and domestic pressures".

Another model adopted by a number of significant countries include integration of foreign affairs and international trade within the same department, as in Brazil, Australia, Britain, New Zealand, Denmark, Hungary, Singapore and Mauritius, where a single ministry leads the effort and seeks to reconcile political and economic objectives of nearly all constituents and carries out economic relations and diplomacy with the rest of the world.

Economic Diplomacy Institutional Arrangements- Pakistan Models

The model of economic diplomacy currently followed by Pakistan's is called, "partially-united model". Under this model, the Ministries of Foreign Affairs (MOFA) and Commerce jointly organize their work on the development of trade and economic relations. The work priorities of the Trade and Economic Wings of the Missions are defined by the Ministries of Commerce and Finance respectively, whereas they report to the Head of Mission., who is from the Ministry of Foreign Affairs. Where there is no representation of the Ministries of Commerce or Finance, the work of economic diplomacy is assigned to the diplomatic Wing in totality. In both cases, the Head of Mission (HOM) representing the Pakistan and the MOFA, is the overall in charge. Under the current model, economic diplomacy is mainly focused on trade and that too in a very limited sense.

Key Pillars of Pakistan's Economic diplomacy are: (i) Promotion of trade; (ii) Attracting investment; (iii) Legal Migration (Remittances) and (iv) Tourism promotion

Stakeholders

There are a number of stakeholders in the implementation of economic diplomacy. Main stakeholders in terms of the implementation are:

- MOFA and its Missions abroad
- Ministry of Commerce and its attached Departments including TDAP
- Board of Investment (BOI)
- EAD,
- Ministry of Overseas Pakistanis
- Pakistan Tourism Development Cooperation (PTDC)
- FPCCI and other regional Chambers- Associations etc.
- Private Businesses.

Roles and Institutional Limitation of Pakistan's Economic Diplomacy under Partially United Model

According to the Rules of Business1971, Economic Diplomacy falls under the purview of Economic Affairs Division (EAD) and trade promotion falls under the purview of Commerce Ministry assisted by Trade and Development Authority of Pakistan (TDAP). Ministry of Foreign Affairs is only authorized a role in appointment of diplomatic, consular, trade and other representatives abroad. However, selection of commercial representatives is made through a special selection board.

This model ignores several aspects of economic exchanges including trade in services, investments, overseas employment and niche sectors of economy such as oil and gas.

In Missions abroad, the Heads of Missions (HOMs) are responsible to conduct economic diplomacy. In 51 Missions, the HOM is assisted by economic diplomats. In other Missions, the diplomatic wing assumes this responsibility. The HOM is, however, not fully in charge in the implementation, as he has to get instructions from the line Ministries. An Ambassador, even if proactive and works out on various initiatives, cannot implement unless authorized by the Ministry of Commerce, EAD, BOI or TDAP. These Ministries, often, are reluctant to accept the Ambassador's suggestions. None of these Ministries/Departments like to take lead from the Foreign Office.

A large number of other trade events, such as visits by trade delegations and exhibitions, happen to be poorly organized and less than effective due to mismatch in business culture of our exporters and businessmen in our traditional export markets (EU & US).

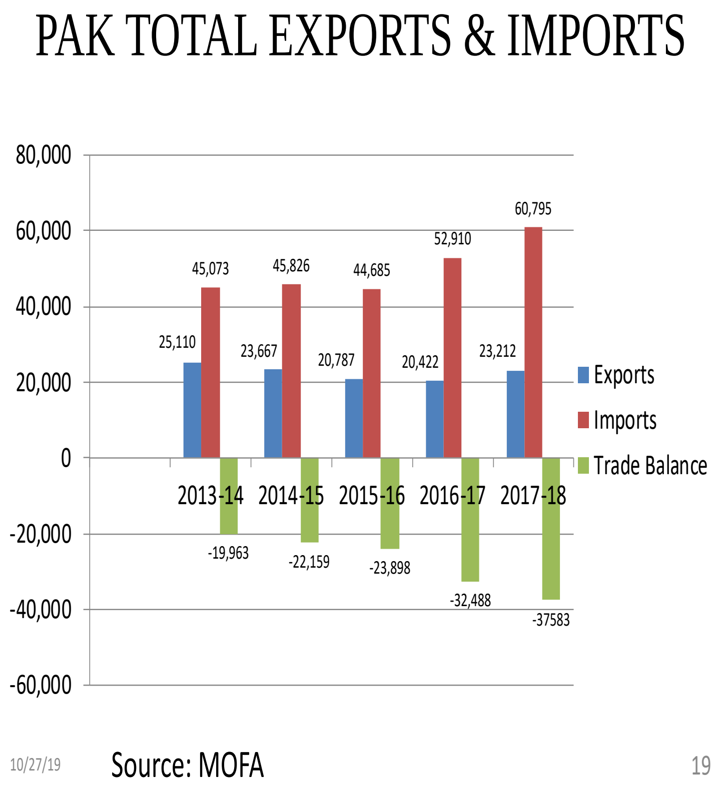
Even within Pakistan, the Ministry of Commerce, the BOI, the TDAP and some other ministries like Ministry of energy and communication etc. tend to pursue initiatives with foreign counterparts without keeping the Foreign office in loop.

Also, while a commercial officer is posted after qualifying exams conducted by prestigious business institutions of Pakistan. However, this often leads to posting of officers with no prior experience in the Ministry of Commerce, resulting in either a difficult learning curve or ineffectiveness of such officers on their new assignments. Similarly, officers from MOFA do not have exposure to workings of the Ministry of Commerce, hence a gap between their work and useful networks for their jobs abroad. Finally, most of the officers deployed as commercial officers, upon their return, do not work at the Ministry of Commerce. Given exigencies of their service such a promotion, they prefer to revert back to their parent group. Hence, the vital experienced gained by an officer is not applied in subsequent policy making at the Ministry of Commerce.

Pakistan's Limitations

It is hard not to be critical of Pakistan's failure to conduct a suitable economic diplomacy, especially for a country of the size and resources that it has and can command. While an analysis of the issues is given below, it is worth capturing the multiple and often interconnected causes that limit the country and its potential. Some of these include:

- Despite continued devaluation of the Pakistan rupee against the US Dollar, Pakistan's exports have remained stagnant. It suggests that for Pakistan is shipping more products abroad to maintain the same level of capital accumulation.
- Not being part of global value chain in existing and futuristic industries;
- Not part of any major trading block whether regional or global.



- Inability to explore new markets or emphasis on traditional markets alone;
- Stringent visa policies for Pakistanis around the globe;
- High Tariff Regime for our products;
- Cumbersome registration of foreign entities, SECP Policies
- Frequently changing tax policies
- Pegged Forex policy
- Limited Exportable surpluses
- Limited export destination
- Lack of value addition
- Low investment in export sector
- Lack of focus on fashion trends and market behavior (textile)

- High cost of production
- Law and order situation
- Energy crises
- Failure to comply with international standards
- Lack of favorable policy environment (monetary policy, tariff and tax regimes, inconsistent industrial and investment policies)
- Visa issues/travel advisories
- Cumbersome dispute settlement mechanisms
- Limited export basket - Cotton, textiles, sports and surgical goods and some food products.
- In spite of the China-Pakistan Economic Corridor (CPEC), Pakistan is also viewed as averse to more connectivity in its own region, given our longstanding issues with India.

Pakistan And Its Global Economic Standing

Over the course of Pakistan history, conduct of our international relations, if one were to find theoretical basis, have largely been driven from a realist perspective i.e. security centric and deriving economic support from the security lens. In fact, Pakistan existing diplomatic infrastructure was established in countries where Pakistan could get political support for its security. These contours of our international relations have come about due to our distinct regional and geographical context and conflicts/disputes.

Within the immediate neighborhood, Pakistan faces a serious threat from its eastern neighbor India, finds itself in a nearly adversarial relationship with western neighbors Afghanistan. Bilateral ties with another western neighbor, Iran, have remained significantly challenging. Beyond the immediate region, our relationship with the Islamic countries especially Saudi Arabia, though strategic in nature, has remained transactional in operation. In the case of United States, one of our largest trading partners, has been marred with mutual distrust, its visible tilt towards India and fraught with accusations and demands from the successive US Administration to do more. While, there is some mutual content in our relationship with the European Union, but Pakistan figures low on its agenda when compared to India. It is only our alliance with China, that remains solid and stable with economic content and friendships when compared with other relationships. Notwithstanding, our strong bilateral ties with China, the economic relations have remained strongly tilted towards China.

Pakistan is one of the most disconnected and protected economies of the world as we neither have sufficient Free Trade Agreements (FTAs) or Partial Trading Arrangements (PTAs) nor we are part of any international trading block. Country's competitiveness rating is 110 amongst the 141 economies. In South Asia region, Pakistan's ranking is on number fifth. India is at 68th position, followed by Sri Lanka (the most improved country in the region at 84th), Bangladesh (105th), Nepal (108th) and Pakistan. It is also one of the least travelled countries for tourism. Pakistan is ranked 121 out of 140 countries on the Global Tourism Index partly due to stringent visa requirements, which have recently been eased . Pakistani businessmen face heightened level of scrutiny and hurdles in seeking visas for business opportunities abroad. Overall and despite sizable international presence and infrastructure of Missions across the globe, Pakistan's external linkages and commercial performance limited and at sub-par level. Internally, the overall current account balance has remained negative for the past decade coupled with decreasing exports, increasing trade deficit and muted flow of FDI. Pakistan is seen as a market to often sell sub-standard goods (e.g. Auto Industry). While, Pakistan may be still grappling with internal and external security related challenges, the world around has continued to move at an unprecedented pace. The evidence of dramatic change is all around us and it's happening at exponential speed."

Overall, Pakistan's current account deficit, largely due to increasing imports and decreasing exports, has not only continued to widen during the past 5 years. This is visible from the Table 1.

Table 1: Pakistan's Trade Balance (2013-2018). All figures in Million US$.

Year	Exports	Imports	Trade Balance	Total Trade
2013-14	25,110	45,073	(19,963)	70,183
2014-15	23,667	45,826	(22,159)	69,493
2015-16	20,787	44,685	(23,898)	65472
2016-17	20,422	52,910	(32,488)	73332
2017-18	23,212	60,795	(37583)	84007

(Source: Pakistan Bureau of Statics)

The trade figures from the Pakistan's eight key trading partners from the last two years also indicated the same pattern. Pakistani exporters are concentrated towards 1st world market.

Table 2: Pakistan's External Trade in Million US $

Pakistan Missions	Exports		Imports		Trade Balance	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
China	1686.2	1896.4	15742.7	12763.6	-14056.5	-10876.1
Japan	194.3	197.4	2426.6	1825.0	-2232.3	-1627.6
Afghanistan	1504.3	1292.9	448.4	549.2	1055.8	743.7
UAE	936.6	917.5	8083.4	7538.1	-7146.8	-6620.5
Germany	1334.1	1272.1	1325.2	1052.6	8.8	219.4
UK	1698.2	1668.8	784.7	813.5	-29.4	855.3
USA	3641.7	3910.8	2868.9	2702.6	772.8	1208.1
Thailand	188.1	222.7	1379.8	1362.7	-1191.7	-1104.0

Foreign Direct Investment

FDI Flow to Pakistan has traditionally remained low, if we compare it with either country in the region or with countries of comparable size. India has attracted over US$ 79 billion; the Philippines has US$ 34 billion, Egypt US$ 29 billion and Mexico has received US$ 36 billion in 2018. In the case of Pakistan, these flows have not even crossed 10 billion mark throughout our history. Factors affecting FDI flow in Pakistan include risk profile especially policy and political, low credit rating (B3, Negative Outlook). Despite the fact that Pakistan has signed 48 Bilateral Investment Treaties (BITs), Table 3 indicates a fluctuating trend of FDI inflow. The main driving force in attracting FDI continues to be the political and economic determinants of the host countries.

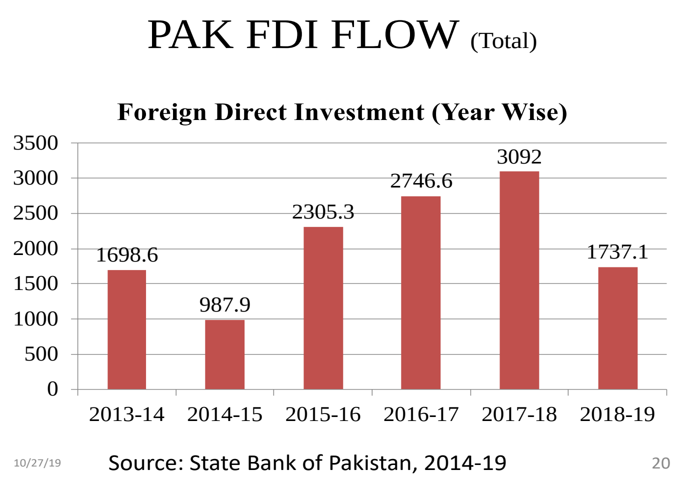


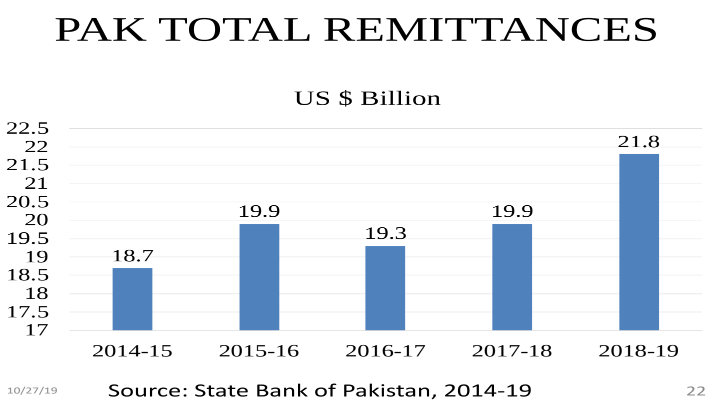
Table 3: FDI from Key Countries

FDI from Key Countries *(In Million US $)*						
Country	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
China	695.8	319.1	1,063.6	1,211.7	2003.9	462.2
UK	157.0	169.6	151.6	215.8	305.0	185.2
USA	212.1	223.9	13.2	44.6	160.9	88.1
Japan	30.1	71.1	35.4	57.7	59.8	117.3
UAE	-47.1	213.6	109.7	120.5	-3.3	103.7

Source: FDI Trends for the Last Ten Years, Board of Investment Pakistan

Remittances

Pakistan's foreign remittance have increased over last one decade, but the base of foreign remittances could not be increased. It remained confined to few countries i.e. United States, UAE, other GCC countries. Pakistan has huge number of overseas Pakistanis more than 10 million living abroad but the trend of foreign remittances remained traditional rather than progressive.



In the last 5 years, there has been a significant reduction in the demand of Pakistani manpower in the world. Highly skilled manpower has always been ignored while unskilled was initially given preference later on reduced due to availability of the low waged labor from Bangladesh as shown in Table 4 above. No specific policy framework was adopted by our Mission in key partner countries to increase legal migration.

Table 4: Pakistani Manpower in Different Categories (2010-2019)

Year	Highly qualified	Highly Skilled	Skilled	Semi Skilled	Un-Skilled	Total
2010	7081	31650	165726	5181	153266	362904
2011	6974	3018	171672	73247	201982	456893
2012	9298	4202	261531	104240	259316	638587
2013	12057	5032	263138	102963	239524	622714
2014	14647	6216	287649	120204	323750	752466
2015	17484	7853	397317	151636	372281	946571
2016	16510	8172	335671	152235	326765	839353
2017	16029	9886	188745	85686	195940	496286
2018	16105	9770	142486	56208	157870	382439
2019	11211	5758	164711	45533	146012	373225
Total	127396	91557	2378646	897133	2376706	5871438

(Source= Bureau of Immigration & Overseas Employment)

Official Development Assistance

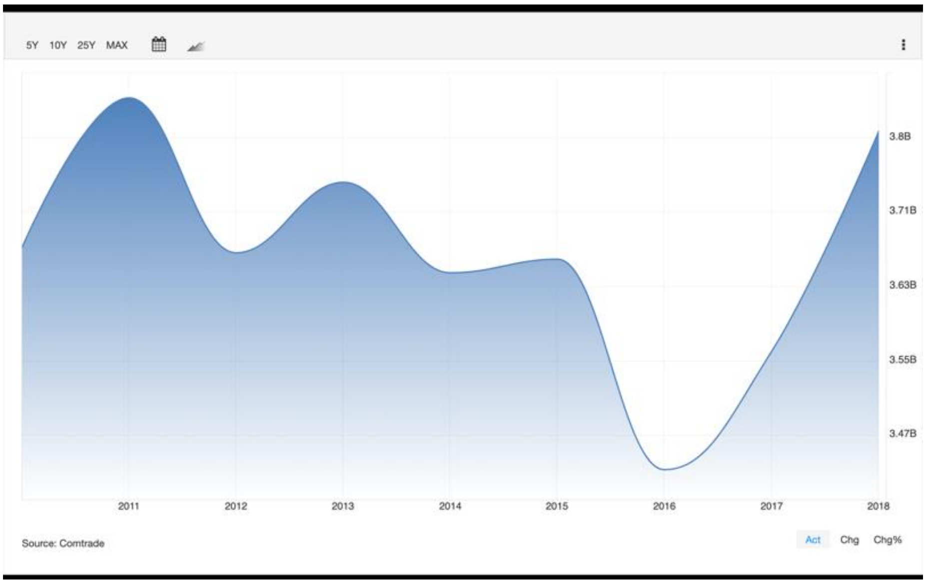
Despite close partnership with 5 major ODA contributors of the world i.e. China, USA, UK and Japan, ODA to Pakistan has neither been sustainable nor enhanced. In comparison, India managed to enhance ODA from US$ 1.3296 billion in 2007 to US$ 3.094 billion. Whereas, Pakistan's ODA has been reduced from US$ 3.754 billion during 2015 to US$ 2.283 billion in 2017 as shown in Table 7. The Deputy Head of Mission Pakistan High Commission London informed that ODA was mostly channeled through INGOs and development assistance agencies such as DFID in case of the UK.

State of Pakistan's Economic Diplomacy

The United States

The United States is Pakistan's largest trading partner. Pakistan, like many other jurisdictions, has failed to utilize the access to the US markets. The export base is narrow and relies mostly on textiles and apparels. More specifically, even in the case of textile and apparel, Pakistan share is roughly 3% of the US $ 99 Billion imports by the US and much smaller compared to 36% (China), 12% (Vietnam), 7% (India) and 5% (Bangladesh). Pakistan was the United States' 58th largest supplier of goods imports in 2018. The export to the U.S. were US $ $3.7 billion in 2018, up 3.9% ($138 million) from 2017. On the agricultural side, Pakistan exports were roughly US $126 million in 2018. Leading categories include rice ($31 million), sugars, sweeteners, bev bases ($30 million), spices ($19 million), processed fruit & vegetables ($9 million), and snack foods ($7 million).

The U.S. goods trade deficit with Pakistan was $783 million in 2018, a 2.2% increase ($17 million) over 2017. U.S. foreign direct investment (FDI) in Pakistan (stock) was $518 million in 2017, a 25.7% increase from 2016. Any increase in our export to the country necessitates greater value-addition in the product and diversification in our export base. "Reliance on better product designing, specialization and quality improvement can bring increased revenues from the US market as Pakistan still has comparative advantage in these items in terms of raw materials and labor costs"



In comparison, India is 10th largest supplier of exported worth $54.3 billion in 2018, up 11.9% ($5.8 billion) from 2017, and up 111.4% from 2008. U.S. imports from India account for 2.1% of overall U.S. imports in 2018. Indian exports of services to the US were an estimated $29.6 billion in 2018. The U.S. foreign direct investment (FDI) in India (stock) was $46.0 billion

European Union

While, the EU is Pakistan's one of the most important trading partner, accounting for 12.8% of Pakistan's total trade in 2015 and absorbing 23.7% of Pakistan's total exports. Our economic tied with the region, though exceedingly important, have not gone beyond defining a strategic framework focusing on poverty alleviation, investment in human capital, education, trade, and fight against corruption

Pakistan, EU agree to strategic partnership on trade, investment & more

News Desk - March 25, 2019

Pakistan had a trade surplus of $1.2 billion in 2018. Pakistan reported $6.92 billion worth of exports to the EU, making the EU Pakistan's largest export partner. Moreover, the EU is Pakistan's third largest import partner with Pakistan reporting imports from the EU worth $4.78 billion in 2016. Under GSP+ the EU's imports from Pakistan have risen from $6.90 billion in 2013 to $8.08 billion in 2016. However, this increase in EU imports from Pakistan have been concentrated on textiles. Textiles & leather in 2016 made up nearly 86% of EU imports from Pakistan. Despite GSP+, a political gesture by the EU for support of democracy and good governance in Pakistan, Pakistan is yet to fully exploit this facility due to structural issues of our economy.

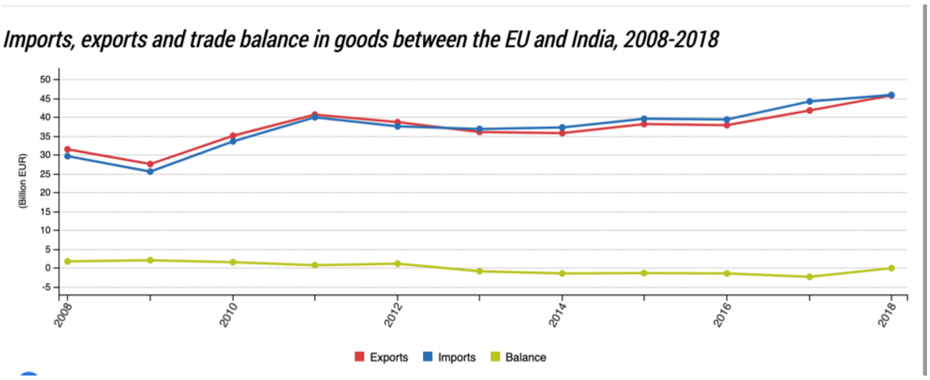


Figure 5: Imports, exports and trade balance in goods between the EU and India, 2008-2018

Compared to Pakistan, the EU is India’s largest trading partner with a trade accounting for €92 billion worth of trade in goods in 2018 or 12.9% of total Indian trade, ahead of China (10.9%) and the USA (10.1%). India is the EU’s 9th largest trading partner, accounting for 2.3% of EU’s total trade in goods in 2018 and increased by 72% in the last decade. Trade in services between the EU and India increased from €23 billion in 2010 to €29 billion in 2016. India is now the 4th largest service exporter to the EU and the 6th largest destination for EU services exports. The EU's share in foreign investment inflows to India more than doubled from 8% to 18% in the last decade, making the EU the first foreign investor in India. EU foreign direct investment stocks in India amounted to €73 billion in 2016, which is significant but way below EU foreign investment stocks in China (€178 billion). Some 6,000 EU companies are present in India, providing directly 1.7 million jobs and indirectly 5 million jobs in a broad range of sectors. Indian companies invested over €50 billion in Europe since 2000.

Russian Federation

Russia, the largest country terms of landmass and the 11th-largest economy in the world, has a nominal GDP of US $1.63 trillion. Russian ranks 6th in terms of purchasing power parity (PPP), with a $4.21 trillion GDP. Russia and Pakistan’s economic relationship have remained dormant for the better part of our history except a few spikes during 1960-1970. We failed to make any major economic inroads despite focus on institutional arrangements. The strong tilt towards India by the then Soviet Union and Pakistan’s cooperation with the United States, made Pakistan a not so looked for destination for the Russian economic support and diplomacy.

In 1956, the former USSR and Pakistan formally agreed to establish trade relations, which provided for Pakistan to export cotton, jute and leather to Russia. Since 1980, when Pakistan-USSR bilateral trade amounted to $95 million, we barely reached the volume of US $732 million in 2017-18. In comparison, Indo-Russian bilateral trade has reached over US $ 10 Billion and the Russian investment in India in 2017 has reached US $ 18 Billion and India's total investment in Russia so far is 13 bn USD. The overall investment target of 30 bn USD, that was set for 2025, has been already crossed.

Pakistan's Economic Standing in the Region

South Asia

Figure 1: South Asian inflation 2019 forecast

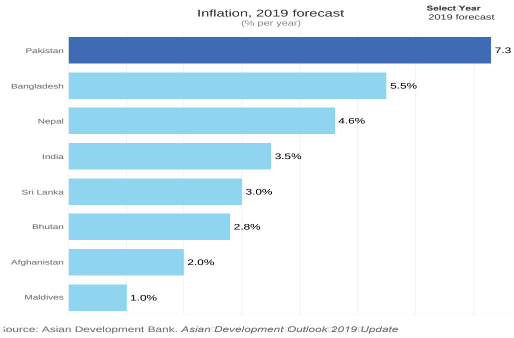


Figure 2: South Asian per capita GDP growth 2019 forecast

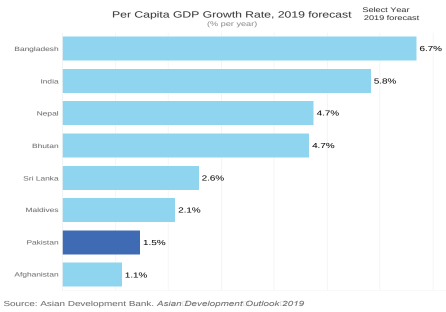
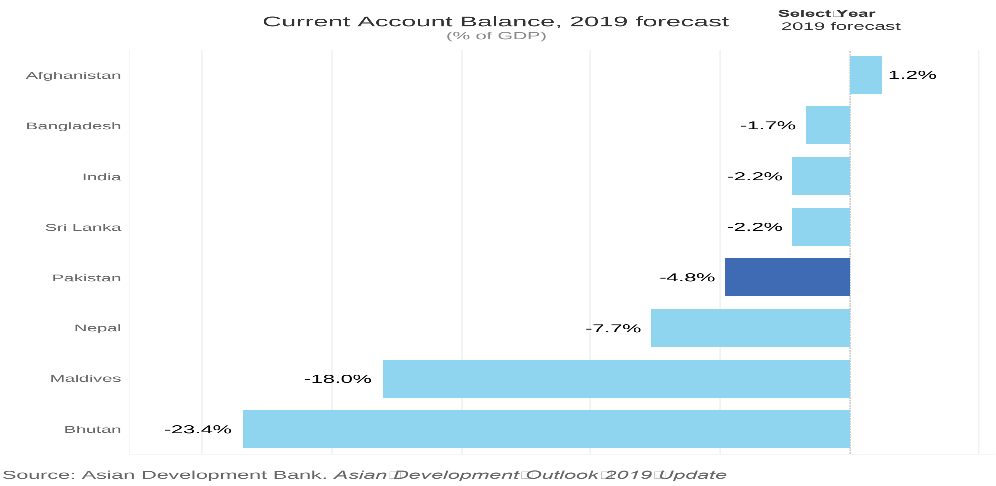


Figure 8: South Asian Current Account Balance 2019 Forecast

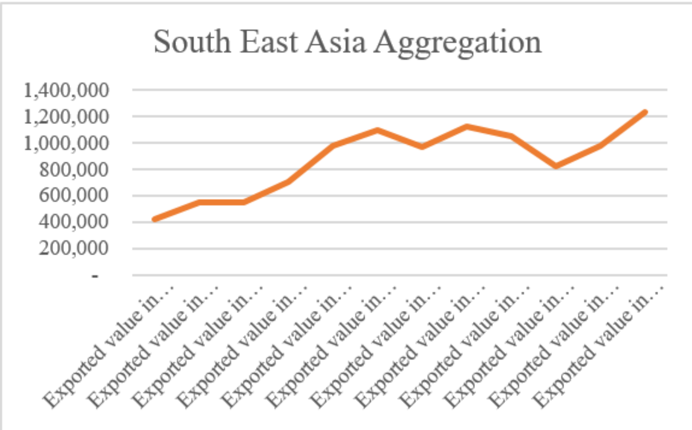


Within South Asia, Pakistan's economic indicators for 2019 present a dismal picture. GDP growth rate is just above Afghanistan and Sri Lanka, GDP per capita is just above Afghanistan, inflation is highest in Pakistan and barring aside Bhutan, Maldives and Nepal, the current account deficit is significantly higher than India, Bangladesh and Sri Lanka. The 2020 forecast do not evoke much confidence either. On the exports side, Sri Lanka exported goods worth US $ 952 million in September

2019. Bangladesh's export earnings rose by 5.8% to US $36.66 billion in the last fiscal year, while the country earned US$34.65 billion from exports in FY17. The Bangladesh government is going to set the export target at $39 billion for FY19, amounting to 6.36% growth for the current fiscal year. India's exports are projected to reach an all-time high of US$ 325-330 billion in 2018-19.

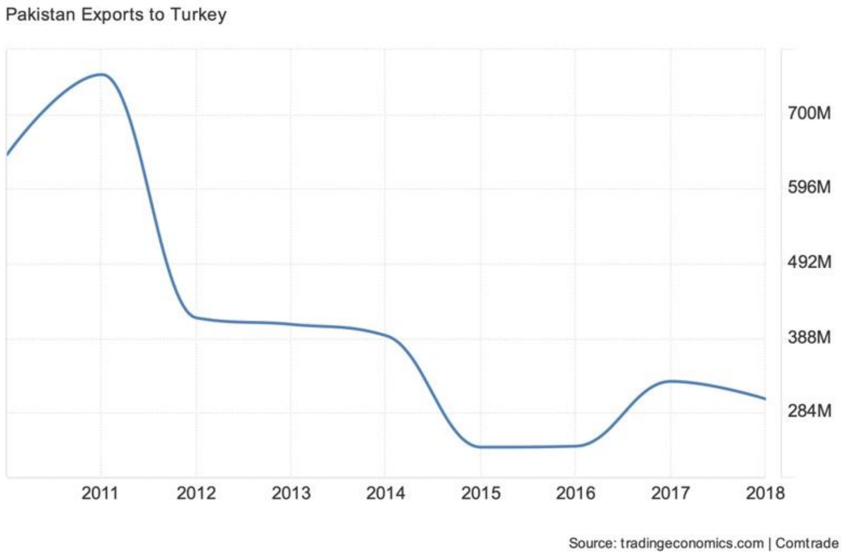
South East Asian/ASEAN

The ASEAN countries have a collective population of about 600 million people accounting for 8.8 percent of the global population. This region had a combined GDP of US$2.3 trillion. The ASEAN countries are considered a single entity and ranked as the seventh largest economy of the world after China, US, Japan, France, Germany and UK. Since early 2000, Pakistan's has been pursuing trade liberalization with the ASEAN. Pakistan has signed an FTA with Malaysia in 2007, and a PTA with Indonesia in 2005. The exports of Pakistan to this region are far less than potential. Singapore is leading (with US$ 2.3 Billion), followed by Malaysia (US$ 1.6 Billion) and Indonesia (US$ 1.2 Billion), approximately, during last 12 years. Surprisingly export to Brunei (US$ 22 Million) is very less than potential, given the higher income economy. Overall and during the past decade, Pakistan's export to the region – in aggregate terms have barely crossed US $ 1.2 Billion. In comparison, India's current export are more than US $ 25 Billion. India has set a target to send good worth US $ 280 Billion by 2024.



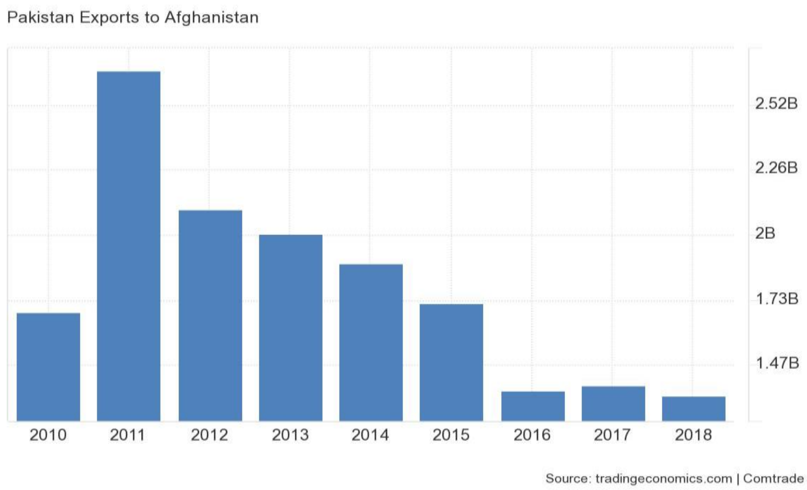
Turkey

Turkey is a major trading partner of Pakistan. In comparison with other countries, the trade between the two countries, has been stagnant with some change in the year 2014 and 2015. The trade volume between the two countries increased in 2017 to all-time high $596 million. However, the Exports to Turkey has recorded a cumulative annual decline of 0.05 per cent over the period of 2013-18, and in the same period. Last year, the exports stood at US $ 3030 Million. Imports from Turkey continued to record an increase. Pakistan imports have substantially increase whereas its exports have gone down.

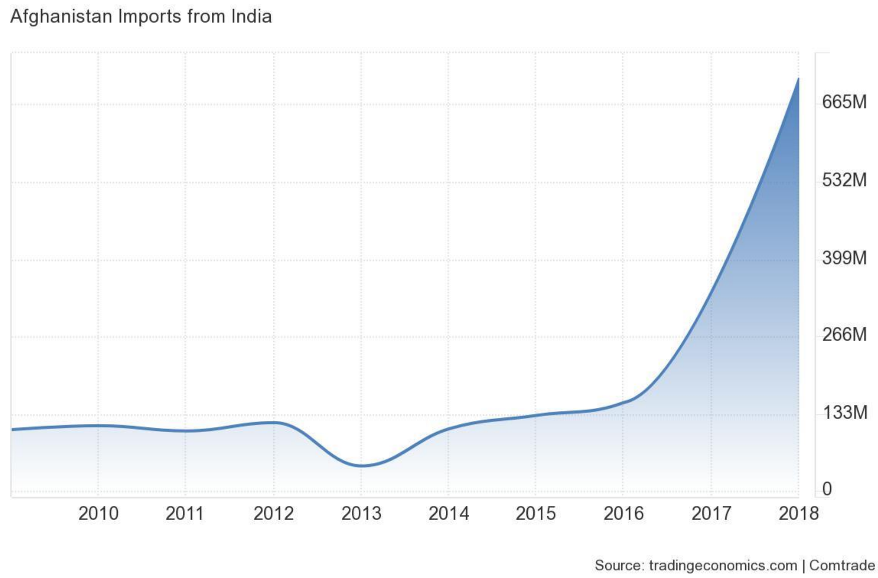


Afghanistan

Pakistan's total imports in 2018 amounted to $5.67 billion while exports were worth $1.08 billion leading to a trade deficit of $4.59 billion. This makes Afghanistan our most important partners. The trade between the two countries have been on a decline since 2011 and largely due "to the entrance of Iran and India. Primary reasons for declining exports include dispute on Afghan-Pakistan Transit Trade Agreement, trade controls at borders, deterrence of Indian imports in Afghanistan via Pakistan, and closure of borders" .

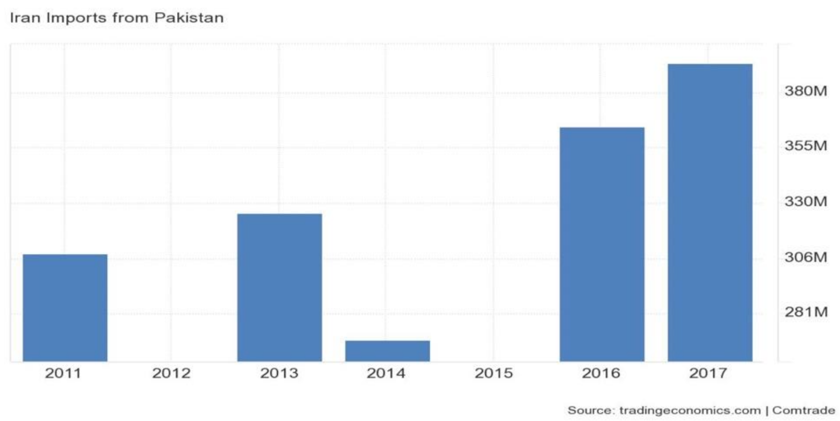


In comparison, as Pakistan's exports to Afghanistan are declining, Indian exports to that country are increasing. Last year, the exports for the first time came close to US $ 700 after Afghanistan-India and Iran agreed to use Chabbar port as an alternate trading route for trade between India and Afghanistan.



Iran

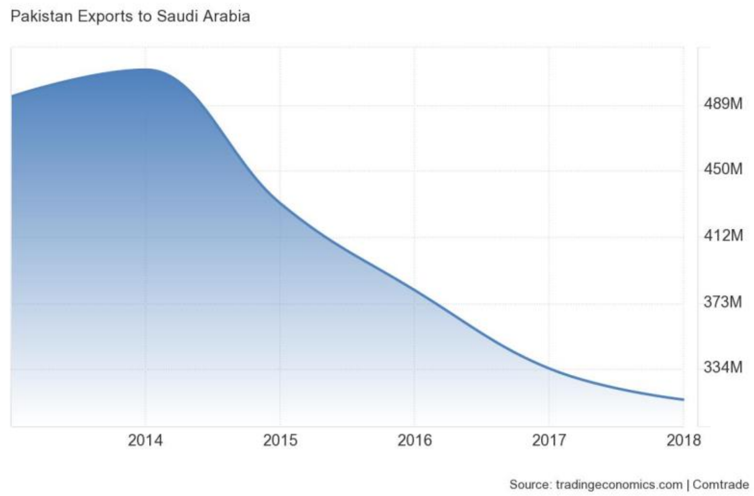
Trade between Pakistan and Iran is very limited. Pakistan exports paper and paperboard, rice and stationary products to Iran while it imports LPG, other mineral fuels and electrical energy from Iran. The potential for trade between the two countries is immense with the top 20 high potential export items for Pakistan having a potential of $1.9 billion. On the import side, the top 20 items had an import potential of $7.2 billion.



In comparison, India's exports to the Iran in 2017-18 were worth USD 2.65 billion, while imports were valued at USD 11.11 billion.

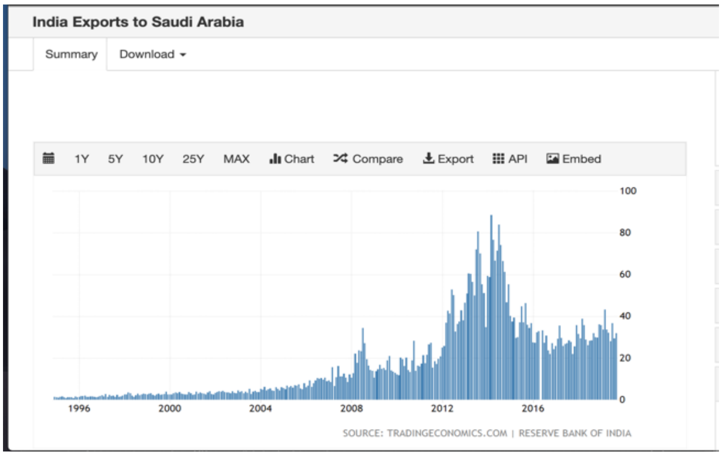
Saudi Arabia

For a country hosting a Pakistani diaspora of nearly 2.6 million, Pakistan’s performance in boosting its economic ties with Saudi Arabia, can at best be termed perplexing. The highly tilted trade balance in favor of the kingdom comes from a trade of worth $3,520 million, where Pakistan exports to the country hover around US $ 304 million. In comparison, Pakistan imports worth $3,215 million of which a large portion is oil and petroleum products. Trade deficit of Pakistan was $2,910 million for 2018. Pakistan’s reliance on cotton, textile and some agricultural products for export represents a colossal lack of innovation. The situation becomes lamentable when political ties between Pakistan and Saudi Arabia are strong and could be translated into sound trade ties .



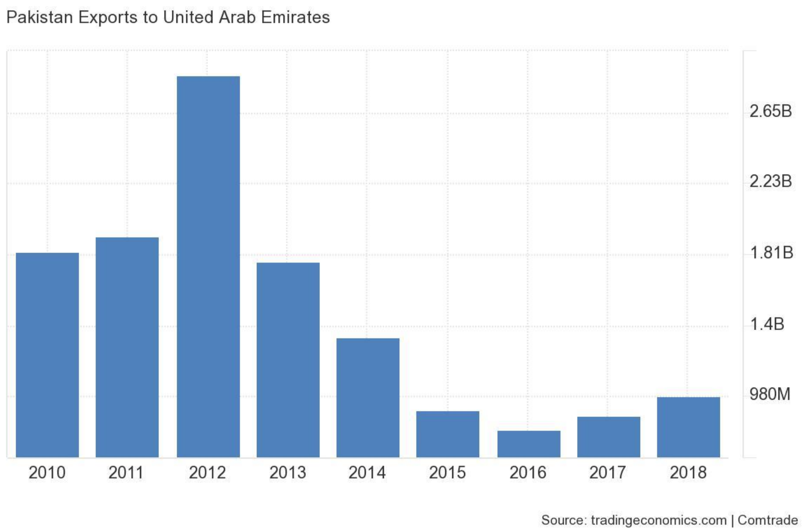
In comparison, Saudi Arabia is India’s fourth largest trade partner (after China, USA and Japan). The bilateral trade between the two has increased by 23.83 % to US $ 34.03 billion. While India imported goods and services worth US$ 28.47 billion, it exported goods and services worth US$ 5.55 billion.

As compared to Pakistan, India is exporting good worth US $ 3-5 billion India every month. If we look at the 25 years’ trajectory, Indian export to the Kingdom were not different from Pakistan during the 1990s and early 2000s.



UAE

Besides strong bilateral ties, Pakistan and UAE have strategic alliance due to an estimated at 1.6 million strong Pakistani community, one of the biggest in the region and beyond. Even though, there is a huge demand for skilled labor of Pakistan in the UAE, Pakistan has not been able to fully exploit these opportunities. Notwithstanding, the remittances from UAE amount to $433.42 million annually. In addition, many in Pakistan's private sector have invested in Dubai's real estate sector. It is estimated that UAE investments in Pakistan stand at $3 billion. In 2018, Pakistan exported good worth US $ 983.35 Million to the UAE, and imported goods worth $8.67 billion in return. Pakistan's exports to UAE include mainly rice, textiles and leather. As usual, there is a huge unexploitable potential to enhance trade between the two countries.



The UAE is India's third largest trading partner with bilateral trade reaching US$ 60 billion during 2018-19. Exports from India to UAE totaled US$ 30.2 billion while exports from the UAE to India reached $29.8 billion. Bilateral trade between the UAE and India had grown from $52 billion in 2017 to $57 billion in late 2018. The two have set $100 billion trade target by 2020.

Pakistan's Economic Blind Spots

Pakistan's approach to Africa and South America has been one of benign neglect or deliberate ignorance.

Africa

Pakistan enjoys good relations with almost all African countries. Africa is the second largest continent with 54 diverse and traditionally rich countries has a collective Nominal GDP of US$ 2.2 trillion. Africa is fast converting into the future market of the world with population of 1.75 billion people. Market potential of African continent is expected to reach to US$ 2.1 trillion. During the past 70 years, Pakistan has established diplomatic presence in 14 countries. (Libya, Algeria, Tunisia, Morocco, Senegal, Nigeria, Niger, South Africa, Mauritius, Zimbabwe, Tanzania, Kenya, Sudan and Ethiopia. The rest of the forty African countries have concurrent accreditation with these Missions. Yet, Pakistan has a US$ 3.6 billion trade with whole African continent.

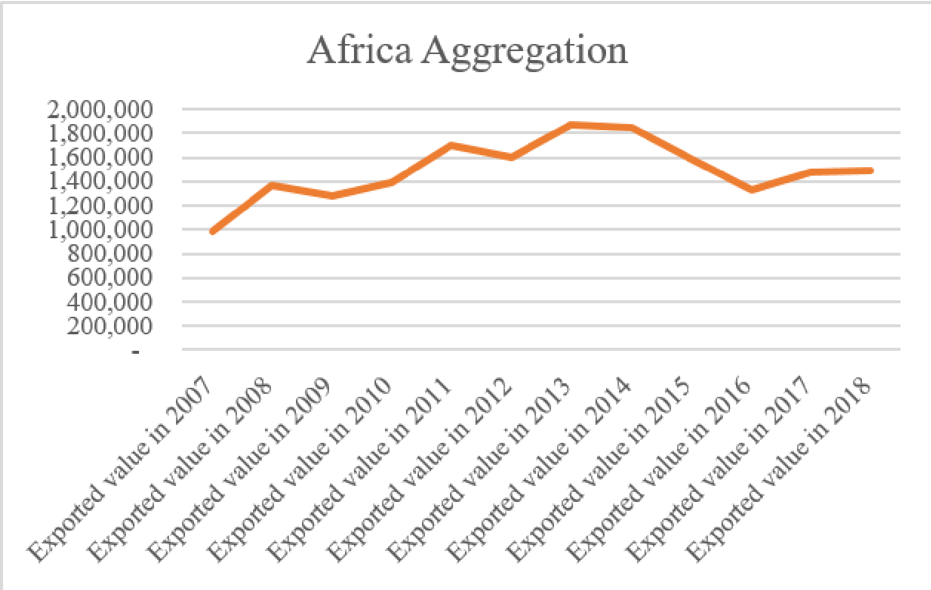


Figure 3: Pakistan's Exports to African Continents

With around 60 percent of the world's unused cropland, Africa has great potential in becoming the world's breadbasket in the next two decades . With the high GDP growth rates of economies like Ethiopia (8.5%), Rwanda (7.2%), Djibouti (6.7%), Ghana (6.3%) and Senegal (7%) etc. Africa is being increasingly seen as the continent of the future.

In the economic diplomacy arena; Russia, China, US, Germany, India, Malaysia, Israel, EU and many other countries have established effective mechanisms including Africa Summits. The African leadership actively participates in these summit meetings and discuss ways to further deepen bilateral relationships with African States.

Pakistan played a key role during the decolonization of important African countries and hence the leadership of Algeria, Tunisia, Morocco, South Africa, Eritrea, Kenya, Zimbabwe and Libya acknowledge Pakistan's contribution in their independence struggles. Similarly, African countries commend Pakistan for being the highest contributor of troops at UN peace keeping missions within Africa. Despite these factors, the frequency of high-level engagements with Africa is scanty.

Pakistan's economic diplomacy though remains an Achilles heel in our ties with the countries of that region. Realistically, unlike European and other established markets, the behavior and demand of African consumers differ invariably between the countries. Besides contemporary obstacles, including legal, financial and infrastructural limitations of some African countries, a lack of awareness within Pakistan's business community regarding the African market size is one of the major problems.

In comparison, "Trade between Africa and India has increased more than eight-fold from US$7.2 billion in 2001 to US$59.9 billion in 2017, making India Africa's fourth-largest national trading partner, accounting for more than 6.4 percent of total African trade in 2017, up from 2.7 percent in 2001" .

South and Latin America

The South America is another neglected region with 417.5million people and collective nominal GDP of US$5.87 trillion. Overall Mercosur, a trading bloc of the region, is the fifth largest economy in the world. Two leading countries Argentina and Brazil of South America have more than 50% population of the region with nominal GDP of US$2.7 trillion. There is a huge potential for trade with the region. Pakistan's annual bilateral trade with Argentina is US$ 200 million which has a potential to increase to US$ 800 million. Pakistan has trade relations with these two countries but Pakistan's trade with them during 2017-18 had been US$703.8 million only. The Foreign direct investment from South America has also been on the lowest side. Over the years, Pakistan's trade with Mercosur region has been low i.e. US$600 million (2014-15) and US $769.725 million (2015-16). Recent trade figures suggest that the trade reached US$ 1 billion.

Pakistan and Mercosur signed a framework agreement on trade with Mercosur on

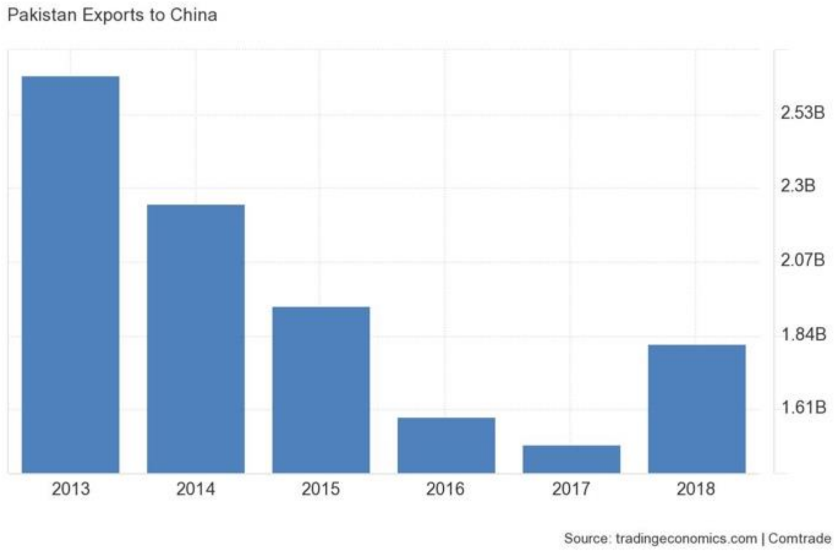
July 20, 2006. Unfortunately, progress since then has remained stalled due to absence of interest and consistent follow-up from Pakistan's side. Ideally, this should have led to a preferential trade agreement (PTA) and perhaps FTA. "South American markets restrict market access of textile products to protect the domestic industry and as such perceive textile products of Pakistan a threat to their domestic industry."

Pakistan's diplomatic presence in the region is extremely weak. As stated, securitization of foreign policy and emphasis on countries who could balance out India, have led to narrow approach in our foreign policy. We have only nurture ties with countries who could give us political support against India. Consequently, as of today, we only have three working embassies i.e. Brasilia, Buenos Aires and Havana. We have not established any JMCs or Joint Economic Commission (JEC) with any of the Latin American countries. There are neither any exchange of students, defense officials and/or culture.

As compared to Pakistan, and according to the figures by the Indian Ministry of Commerce, India's exports to Latin America increased by 9.6% in 2018-19 (April to March) reaching $13.16 billion from $12 billion in 2017-18. Total trade with the region has gone up by 6.7% to $38.89 billion from $36.45 billion last year.

The Case of China-Pakistan Economic Corridor

China is, by and far, Pakistan's most important political and economic relationship and one which has continued to receive unmitigated attention from the political, economic and bureaucratic standpoint. Pakistan's first Free Trade Agreement is with China, which kicked in its second phase early this month. Although, there is huge trade imbalance between Pakistan and China, considerable institutional innovation has gone into Pakistan-China economic diplomacy especially since the formalization of the China-Pakistan Economic Corridor (CPEC). Pakistan's exports have continued to show decline from its peak in 2012-13 reaching around US $ 3 Billion, whereas imports have shown continued upwards trajectory crossing over US $ 5 Billion last year.



CPEC is a strategic economic project with a huge potential to enhance regional connectivity alongside the economic development of Pakistan and China. Economic corridor will connect Pakistan's Gwadar port with China's northwestern region between 2014 and 2030. Its positive spillover effects to other neighboring countries by enhancing geographical connectivity of Pakistan with landlocked central Asian states. More than US$46 billion will be invested in Pakistan's power, infrastructure, industrial and agriculture sectors under the CPEC. The institutional arrangements to manage CPEC are two-fold: one, Joint Commission Committee (JCC), where all the major decisions related to CPEC are finalized. JCC is further divided into five-level hierarchy which are Economic zone, Gwadar, Planning, Energy, transport.

Pakistan is yet to utilize the actual potential, the political and economic goodwill to its advantage. Apart from absence of adjustments in the rules to promote ease of doing business, Pakistan has little capacity to absorb concessionary loans and grants. The situation has been worsened by our economic planners' inability to manage multiplicity of project designs under CPEC, both in the government and the private sector. In addition to turf wars, it is evident that the Planning Commission, which houses CPEC, is both under-resourced and under-powered.

Consequently, the current Government has been obliged to yet again create a separate institutional arrangement i.e. CPEC Authority aimed at "accelerating the pace of CPEC projects, remove bottlenecks, find new drivers of growth and unlock the potential of interlinked production network and global value chains through the regional, and global connectivity"

Conclusion

Pakistan suffers from institutional failure . Institutions are central to the political and economic progress. A well-functioning government, a productive economy and an effective economy diplomacy presupposes an efficient set of institutional to deliver results. The above discussion and review lead to some important conclusions regarding the institutional failures and the consequent state of Pakistan's economic diplomacy.

First, our institutions arrangements have failed to understand the market dynamics as well as find the right prescription to overcome the challenges. For instance, we have continued to opt for devaluation of our currency to enhance exports. The trends shown from our exports to the limited destination shows that Pakistan's export performance has remained stagnant if not declined in the real terms. In 2017-18 our exports amounted to $23.212 billion. Historically speaking the highest level of exports was achieved in 2013-14 when total export proceeds amounted to $ 25.110 billion. Over the years we have had some relief in the form of foreign remittances from overseas Pakistanis, but as a result we have had declining terms of trade and the frequent bail outs from the IMF as well as bilateral donors.

Second, another institutional failure is its inability to create conditions where Pakistan could generate exportable surplus as well as diversify exports. Pakistani products need to have access to foreign country markets. Unlike many countries, part of one trading block or economic partnerships, Pakistan only managed enhanced market access, China, European Union, Malaysia, and Indonesia but not necessarily due to our trade potential or economic diplomacy but rather on the back of our bilateral relations. In the case of European Union, this came about on the ground of implementing 27 core human rights treaties. Notwithstanding, the reasons for this market access, Pakistan has failed to strengthen its market position despite preferential access because we do not have a significant exportable surplus or export worthy products. Similarly, our export portfolio lacks diversification both in terms of products as well as markets. We are overly dependent on textiles and have not really made progress in developing other export products. Over the years, competition in textiles especially from India, China, Turkey, Egypt and Bangladesh has squeezed our margins. This sector also tends to be the most highly protected in a lot of countries. Resultantly we have been facing resistance even in developed countries like the US, when it comes to getting preferential market access in the textile sector.

Fourth, another glaring institutional failure has been focus on a few markets due to our traditional bias and presence of financial and banking linkages. We have not really succeeded in penetrating new ones. Despite having a global outreach and significant political capital in many parts of the world, Pakistan has failed to attract investment, tourist and/enhance our exports. The result is that there is little room for further growth in the sector in where we are trying to enhance exports. Even within the textile sector we continue to operate at the bottom end instead of going up the value chain . Resultantly our export growth rates are bound to remain low irrespective of whatever support the government is able to provide to the private sector for this purpose.

Fifth, even where we can secure a larger market share such as China by overcoming political bickering's over the establishment of Special Economic Zones (SEZs), our institutions have operated at less than sub-optimal levels in realizing the immense potential. The failure of our institutional arrangements could not have been more evident than in the case of China where it became an imperative to create another authority to deal with the CPEC.

Sixth, despite consistent reporting from the Global Institutions such as the World Economic Forum on the exorbitant financial and non-financial cost of doing business and the resultant impact of this on the total cost of our production for the international market, our economic planners could not manage to arrest and reverse the situation. Contributory factors in this regard are poor governance, corruption, dysfunctional legal system and unfair tax regime. Economic diplomacy efforts and commercial gains will remain elusive, unless these issues are effectively addressed.

Seventh, our current institutional arrangements have failed to create a pool of specialized officers who can serve in the Ministry of Commerce, BOI, TDAP or the Pakistan Mission abroad. While best officers are recruited through a competitive exam and they are posted abroad for three years, a vast majority of the returning officer than head back to their respective groups or Ministries. The expertise created with three years of investment is not utilized directly for the promotion of Pakistan's economic diplomacy

Eighth, While, it is difficult to draw a direct and single causality on the state of our economic diplomacy with the institutional arrangements and/or partially united model, the fact that we have continued to opt for no change in the institutional role of institutions in managing and solving the multiple challenges and barriers and did only opt to utilize only policy related prescriptions such as incentives, rebates and industry specific policies, exhibits out inability to undertake comprehensive reform that is needed. Essentially, what Einstein would say "doing the same thing over and over again but expecting a different result".

Ninth, while economic diplomacy is conducted abroad, its roots are within the country's borders, and it can only be effective if supported from the capital. This requires a number of government agencies to be on the same page and wellcoordinated in their actions. At present this is not the case. Let alone effective institutions, Pakistan does not even have an effective coordination mechanism. If at all, inter-ministerial consultations are transaction specific, striven by rivalry and turf wars, whereas what is needed is a mechanism that enables required coordination to take place routinely in a sustained manner.

Tenth, Pakistan's economic diplomacy can neither be business as usual and cannot be conducted through existing siloed processes and institutional arrangements. As a first step, we should focus on establishing and enhancing a supportive inter-ministerial coordination mechanism that looks beyond silos and turf. In the second, phase and building on the success of the first step, we may move from coordination mechanism to overhauling the institutional framework that can actually respond to the existing and emerging challenges especially that of the 4th Industrial revolution.

Recommendations

It is about Institutions, stupid

First Step: Re-energizing the existing arrangements by enhancing cohesion and coordination:

It is proposed that a National Economic Diplomacy Coordination Committee be created under the aegis of the Cabinet Secretary as the Chairperson. Its membership should include the Secretaries of Foreign Affairs, Commerce, Textiles, Investment, Finance, Industries, Economic Affairs, IT and Telecom, Science and Technology, Planning & Development and Overseas Pakistanis. This Committee should have an annual work plan based on Government policies of Trade and Investment, with specific objectives and its progress should be monitored at every meeting. This Committee should be required to meet at least once every two months. Further this committee should be obliged to send periodical reports to the ECC or to the Cabinet so that this forum remains active.

This Committee should be a working level body which should therefore be able to meet on a regular basis. The advantage of the Cabinet Secretary chairing this body is that s/he is best placed to coordinate within the Federal government and also with the Provincial Governments. Secondly, he has access to all cabinet members.

While, it is true that an effective inter-ministerial mechanism will be central for economic diplomacy to succeed, we must also start utilizing the Ministry of Foreign Affairs takes actions that can support the coordination mechanism alongside that other stakeholders. These include:

Strengthening the Economic Coordination Division of the Foreign Ministry as a main driver of the economic diplomacy agenda. Following steps would be vital:

Rename and dedicate the wing for economic diplomacy division and its officers should not be engaged in any political work.

Ministry HR policies should find ways to incentivize officers from the Commerce, BOI, SBP, SECP and the private sector to consider working in this wing so that it is perceived to be in the mainstream, thereby attracting more talented and motivated officers. This will facilitate coordination with other ministries and agencies besides creating an in-house diverse expertise

The TORs/goals of this wing need to be laid down, in close consultation with the National Committee.

Strengthen the Africa Wing and the South America Wing and reconfigure their mandates and roles (Annex A and B)

Additional officers, coordinating between the mission and the federal government covering exports, migration, investment, and ODA – as listed in the Foreign Ministers speech, be assigned to the Division on a full-time basis. ECD should:

Creating a pool of officers trained to manage, the challenges of economic diplomacy. To this end, it shall arrange training courses on economic and commercial diplomacy for its own officers and beyond.

Setting up a Business Advisory Committee consisting of representatives from the private sector. Meetings of this Committee should be held at short intervals as a means of consultation with the private sector so that ECD can stay abreast with the latest situation on the ground and accordingly guide missions abroad. Interaction should not be restricted to meetings at the Ministry and ECD officers should also go and visit Trade associations and selected chambers as per current requirements.

Providing backup support to the Missions, especially those without the full-time presence of the commercial officers and provide them with updated and relevant information on economic and commercial matters.

Formulating economic and commercial KPIs for individual missions.

Developing an applied research agenda with a view to getting a more informed view on policy options in the economic diplomacy area. The ECD in this context can use the infrastructure of organizations such as ISSI, IPRI and FSTI. If need be it could reach out to the larger academic community.

Second Step: Mainstream economic diplomacy into the foreign policy: Establish Ministry of Foreign Affairs, Trade and Investment

The overarching goal should be to mainstream economic diplomacy into our Foreign Policy. That is a much bigger challenge and faces a far bigger institutional resistance and interests of federal service groups. A more productive and cleaner way could be to move towards an integrative platform along the lines of Australia, Brazil, Canada, and Singapore. This institutional reconfiguration should mean the following:

Merge the Commerce and Trade Group, and the External Publicity Wing into the Foreign Ministry;

Reconfigure the mandates of the Board of Investment and Economic Affairs Division to ensure that the new institutional arrangements bifurcate and clearly allocate the national and international responsibilities in a manner that enhances efficiency and removes overlapping mandates that barrage the overall economic diplomacy.

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