

Inaugural Address

OMAR AYUB KHAN

Distinguished Delegates, Honourable Guests, Ladies and Gentleman:

I would like to extend a very warm welcome to all of you assembled here this morning. It is a great honour for me to address this opening session of the Twentieth Annual General Meeting and Conference of the Pakistan Society of Development Economists.

Recent decades have witnessed a proliferation of regional integration schemes around the world involving both developed and developing countries alike. In the context of developing economies, the promotion of regional economic cooperation and integration is increasingly being viewed as an important instrument for expediting the process of economic development. It is widely believed that regional economic cooperation yields gains in production specialisation, efficiency and improved quality of exports, all of which benefit the countries participating in the regional cooperation effort.

Economists have long debated the merits of regional economic cooperation. According to the customs union theory, regional trading arrangements can promote new trade among members, but they can also divert trade from more efficient producers outside the region to less efficient producers within the region, thus resulting in welfare loss. While trade creation yields economic benefits in terms of increased competition, economies of scale and more rapid growth of productivity, these gains could be offset when a regional trading arrangement results in trade diversion. To maximise the benefits of regional trading arrangements, Pakistan is seeking agreements that can lead to trade creation and provide opportunities to our exporters. In particular, we are engaged in the process of negotiating agreements with our major trading partners like China and the United States.

Pakistan has an enduring, multi-dimensional, and comprehensive relationship with China based on mutual interest. The current volume of bilateral trade between Pakistan and China is around US\$ 2.5 billion. Presently, cotton yarn and cotton fabric constitute 70 percent of Pakistani exports to China. However, Pakistan is keen to promote its other products ranging from light engineering goods to fruits and vegetables. To further expand trade and economic cooperation between the two

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countries, Pakistan and China signed a protocol for the talks on the establishment of a Free Trade Area (FTA) during Pakistani Prime Minister Shaukat Aziz's recent visit to Beijing. Negotiations on the establishment of the FTA are beginning this month and I believe that both countries will be accommodating to each other in the FTA talks because of good relations between them. To promote bilateral commerce and trade relations with the United States, efforts are underway to turn the Trade and Investment Framework Agreement (TIFA), arrived at in 2003 with US, into a Free Trade Agreement (FTA) in the future.

Pakistan has always strived to promote economic cooperation with neighbouring countries in the region, as exemplified by its active role in strengthening economic ties with Central Asian States and South Asian countries. The case for promoting regional economic cooperation with these countries is particularly compelling, thanks to low transportation costs, and historical and cultural similarities. These countries have the potential to enhance their growth prospects through greater trade and investment linkages, access to larger markets and greater competition. I believe that greater economic cooperation within the region would go a long way in achieving the shared goal of a more prosperous future. To further strengthen economic cooperation within the region, the member countries need to adopt a coherent strategy to harmonise their trade regimes, focusing in particular on tariff regimes, transport and transit systems, and customs procedures.

Since the expansion of the ECO in November 1992 from three members to ten, the Organisation has initiated various programmes to harness the rich combined potential of nearly 300 million people for the mutual benefit and socio-economic growth of the Member States. Pakistan is actively involved in diverse regional cooperation projects under the ambit of ECO in the fields of Economic and Commercial Cooperation, Technical and Industrial Cooperation, Transport and Communications, Agriculture, Energy, Environment and Health, Narcotics Abuse Control, and Educational, Scientific and Cultural Matters. Since modern communications are a pre-requisite for achieving greater economic integration, the transport and communication sector is receiving high priority in the ECO agenda. In the coming years, the ECO region would be connected by roads, railways and airlines as well as by a telecommunications network.

Despite efforts to strengthen regional economic cooperation in South Asia, intra-regional trade in SAARC region continues to be minimal and on average accounts for only 4 percent of the total trade. Trade as a share of GDP remains smaller in South Asian region than in any other developing region. The weak trade linkages in the South Asian region can be attributed to several structural as well as policy-induced factors. Political differences have also undermined efforts to promote regional economic cooperation in South Asia. It is well known that India and Pakistan, the two largest economies of the region, have not been able to realise the full potential of their bilateral trade owing to various political compulsions. In

addition, the smaller South Asian countries have been generally reluctant to support regional economic cooperation initiatives, mainly because of their apprehension that a large trading partner may dominate the region economically thus placing their economies at a disadvantage. The political conflicts as well as differences in economic outlooks have been strong impediments to intra-regional trade in South Asia. Luckily with improving Pak-India relationships and signing of SAFTA, the prospects of trade cooperation have been enhanced.

In recent years, intra-industry trade has achieved greater significance. However, the intra-industry trade amongst the ECO and South Asian countries is negligible. It needs to be emphasised here that intra-industry trade can play a significant role in promoting regional integration, mainly because this type of trade can occur even in situations where the trade and production structures of the trading partners do not exhibit strong complementarities, as has been observed in the case of ECO and South Asian countries. In this scenario, the countries can strengthen their trade linkages by devising mechanisms to promote intra-industry trade within the region. Many regional trading blocs have put in place regional production sharing arrangements that involve the initiation of part of a manufacturing process for a specific good in one country and the transfer of the activity to another for further processing. The partner countries in our region can also achieve greater economic cooperation and integration by evolving a vertically integrated regional production structure in sectors that are of economic significance in the regional context. This would allow our economies to specialise in different lines of production within a particular industry and thus achieve benefits of specialisation and scale economies.

The signing of SAFTA promises greater trade and investment linkages in the SAARC region. The agreement would come into force on January 1, 2006 and would be fully implemented by 2015. SAFTA not only envisages trade liberalisation within the region but also calls for harmonisation of trade policies and procedures and for the adoption of various trade facilitation measures. In the SAARC conference in Islamabad in 2004, the leaders of the South Asian nations reiterated their commitment to make SAFTA a success. I believe that SAFTA has a great potential to boost productivity and living standards in the region. Our honourable Prime Minister, Shaukat Aziz *Sahib* also visited the SAARC member countries and stressed the need for regional cooperation and implementation of all the regional agreements.

The emerging multilateral trading system under the WTO is likely to have far-reaching implications for our region. Trade liberalisation across the globe is expected to drive future growth in incomes and jobs and to create new patterns of production and exchange. In this respect, it is imperative that the regional countries forge a strategic alliance in any future trade negotiations to safeguard their common interests. For example, the importance of the agricultural sector in developing economies cannot be overemphasised. However, despite having comparative advantage in agricultural products, the economies of this region are unable to realise

their agricultural export potential due mainly to heavy subsidies provided by rich countries including Japan, European Union, and the United States. We stand to gain by joining forces to fight for fair trade deals that provide a level playing field to the participants in the trading system. Pakistan is playing an important role in the WTO negotiations and is an active member of various groups working to safeguard the interests of the developing world and the region. Our present government is also well aware of the challenges posed by the globalisation and the importance of regional economic cooperation and is working hard to achieve the common goal of economic development and prosperity.

Distinguished Participants!

I am confident that the deliberations in this meeting and conference of the PSDE will be instrumental in helping the regional countries to tackle diverse challenges on global financial and economic fronts. I wish your meeting all success.