

Geo-Economics Urges Pakistan to Trade with its Neighbours

Outline

→ Introduction

Geo-economic compels Pakistan to increase trade with its neighbouring states. It carries benefits like economic stability, exports rise, industrial growth, and technological advancement for trading partners. While mitigating trade barriers, the country needs to explore geo-economics.

→ Geo-economics Policy and Pakistan

→ Geo-economics urges Pakistan to trade with neighbours because of

- Geographical Proximity
- Historical linkages
- Cultural Affinities

→ Trade with Neighbours brings

- Economic growth
- Exports rise

- Inflation Reduces
 - Technological Advancements
 - Purchasing Power capacity increases
 - Mutual conflicts at bay
 - Social benefits for
People-to-people contact
 - Trust between States
rises
 - Socio-economic issues are
solved
 - Discourage External powers
capacity to exploit
- Hurdles in Exploring Geo-Economic
Policy by Pakistan
- Politics outweighs
Economy
 - Historical Animosities
with Neighbours
 - Less Trade pacts and
Agreements
 - Mismanagement and
governance problems
 - External Powers Influence
 - Exploitation of Fault
lines by different Groups

→ Recommendations to Pursue Geo-economics Policy with Neighbours

→ Mutual increase of
Trust through different
Platforms

→ Increase people-to-people
contact

→ Separate Economy and
Business from popular political
ideas

→ Explore Regional
Frameworks

→ Increase Trade pacts
and complex interdependency

→ Respect Political independence
of each other.

→ Conclusion

Pakistan is blessed with geographical benefits; however, it finds itself in political tussles of big powers that restrict its capacity to explore its location at best.

Geo-economics is the exploitation of geography for economic gains. It carries dual benefits: trade with neighbours and economic growth.

Recently, Pakistan in its National Security Policy 2022-26 unveiled the policy preferences of geo-economics.

Trade with neighbours is easy due to geographical proximity, historical linkages and cultural affinities between nations. Pakistan has crippling economy which is facing numerous issues.

Pursuing geoeconomic policy would bring economic growth, exports rise, and social advantages. However, the country has been confronting with hurdles like historical animosities with neighbours, political popular policies and external powers' politics in the region. Pakistan along with its border states need to explore geo-economics

for economic and social advantages.

• Geo-economics policy is the exploitation of geographical location for economic gains. As per the World Bank report 2019, South Asia is the least integrated region in the world. Pakistan adopted geo-strategic policy during the Cold War which benefited it for a momentary period. However, such policy was too expensive for the country at the cost of long-term economic and social benefits. Pakistan is acquainted with warm waters in South, energy-rich countries in North West and West, rising powers in the East, and all types of weathers at home. Yet it is in distress. The country has been facing economic crisis due to untapping of geo-economics policy. National Security Policy of Pakistan 2022-26 focuses on geo-economics and human development. It puts stress on the exploitation

of natural resources and human capital for the benefits of the state. Currently, Pakistan has trade volume of \$19 billion with China, less than one billion dollar with India, \$768 million with Afghanistan, and \$500 million with Iran. (Source: State Bank of Pakistan). In recent shift in policy of Pakistan, it is yet to be seen if it can be materialised or not. 'The shift from geo-strategy to geo-economic is tremendous.' (UN Secretary General on Pakistan's visit/2022). According to the former national security adviser, the country would not become the part of camp politics. It would pursue national interests of the state based on principles laid down by founding fathers.

Geo-economics policy is beneficial for Pakistan for numerous reasons. For example, this strategy can be pursued because neighbouring states have geographical

proximity. As Pakistan shares border with China, India, Iran and Afghanistan. It has coastal line 1057 km. (Source: Survey of Pakistan).

Countries connecting through an land and sea routes with Pakistan have enormous potential in terms of economy, business, market and trade. This is not less than a blessing.

For example, Russia is a prisoner of its geography. (Source: Prisoners of Geography Book). While Pakistan has wonderful geographical location.

Geographical proximities between neighbouring countries bring historical linkages as well. As it is said that, 'one cannot change its neighbours'. Long historical linkages with neighbouring states are inevitable.

For example, in case of Pakistan and India, both states have same history since Indus Valley civilization to independence in 1947. Both states share cultural history as well. Religious history like Buddha

Hinduism, Muslims, etc is replenished on both sides. Although the ideological foundation of Pakistan and India is different based on two-nation theory, yet they share cultural affinities and historical linkages with each other. Almost all the empires since Aryan civilization in the sub-continent ruled over the land from the extreme west of Pakistan to extreme east of India. Similar historical and cultural linkages can be explored with Afghanistan and Iran where Muslim dynasties reigned. **Old Silk Route** which connects deep China mainland with far western region of Asia brings historical, cultural and geographical proximities between Pakistan and China.

Geo-economics policy urges Pakistan to explore the trade options with its neighboring countries because that would help the country to grow its

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economy. The country has been facing dire economic boom-bust growth cycle since independence. The fundamental reason is the country has import-led economic structure (Source: IMF). Recently, Pakistan is confronting with crippling economic condition where balance-of-payment crisis is bringing the state closer to sovereign default. (Source: State Bank of Pakistan). Trade deficit stands at \$50bn^m fiscal year (2023).

Exports are only \$31bn while the imports stand at \$79bn.

Trade with neighbour countries would change this equation.

Pakistan can easily explore what is needed in neighbouring states and starts producing it. It will rein in balance-of-payment crisis which is affecting economic growth. Due to import-led economic policy, every economic growth comes at the expense of trade deficits. Trade with countries would also be advantageous because

of easily accessible markets.

For example, Pakistan and Afghanistan can increase their trade volume by opening borders for mutual trade and for transit trade.

Pakistan can, as always provided amidst political tensions, give transit trade route to Afghanistan and can use the same route to access Central Asian Republics for economic and energy security.

In this way, economy will grow and exports will rise.

Trade capacity between Pakistan and India is more than \$40bn. (Source: The Economist). However, this potential has not been materialised yet.

Trading with states increases exports and reduces inflation in the country.

In case of Pakistan where inflation is on the rise - 28pc in 2022 (Source: Consumer Price Index)

Trade with neighbouring states would reduce their soaring price of commodities.

Due to recessionary waves in the World Economies, Russia-Ukraine war, China's zero-covid policy and supply chain constraints, Pakistan was hit hard as the prices of fuel and food increased. However, India could be able to mitigate the effects of imported-inflation through trade pacts especially oil and gas related. It comes in debate during havoc floods of 2022 in Pakistan that the country should explore the trading options with India so that it can bring down inflationary pressure on common citizens.

Inflation reduces with the rise of exports with neighboring states. Along with it, technological advancement can be possible with economic linkage that would further increase economic growth. For example, Belt and Road Initiative started connecting countries through land and sea routes. China Pakistan Economic Corridor (CPEC) has become

flagship project of BRI. Under CPEC, Pakistan would have nine special Economic Zones in overall country.

Such dedicated zones would become a hub of technology transfer and industrial growth. This will increase trading capacity of the state.

Currently, Pakistan has textile and apparel industry that takes largest share in export. With new trade pacts with border states, that would

change the equation. India is exporting information technology products at \$150bn volume. (Source: The Economist)

Pakistan is stepping in IT related export. Through geo-economic policy Pakistan can increase its export thus earns more forex reserves.

Economic benefits of trading with neighbouring states are not restricted to economy but

it would have an affect on politics as well. Trade volume

between Pakistan and China is \$20bn.

This is result where both states

try to stand in thick and thin.

China and Pakistan friendship is all-weather alignment. Both countries solve their issues with mutually agreed principles. Similar example can be implemented between Pakistan and Afghanistan and India.

Trade and mutual interdependency would reduce the conflicts and animosities. For example, European states especially France and Germany have solved their political issues through economic interdependency.

Now they have up unprecedented economic growth. Similarly, 'Asean Way' is another example where countries have solved their political conflicts with increasing economic interdependence. As with Iran, Pakistan can involve it in CPEC thus both states can grow mutually.

Trading with neighbouring countries with geo-economics prism would help Pakistan to tackle social issues like poverty, hunger,

illiteracy, health issues, climate change, gender inequity and food crisis.

These socioeconomic issues are hampering the economic growth and development of Pakistan. With geo-economic policy, the country could be able to explore markets of neighbouring states irrespective of its political linkages. Geo-economics would help in pursuing independent and national interest infused foreign policy. Currently, literacy rate is 62%, maternal mortality rate is 280/100,000, Infant Mortality Rate 56/100,000, 5th Climate Risk state, 145th out of 146 in gender parity, 99 out of 121 in Global Hunger. (Source: Reports in 2022 by national and international organisations).

Pakistan socioeconomic issues can only be tackled with geo-economics policy. With this strategy, country can be able to increase, industrial growth, agricultural yield, capacity to fight floods like calamities, power purchasing capacity, and social security network.

When the bordering states agree to increase trade volume among themselves, external powers would find little room for exploitation. For example, during cold war, South Asian region remained hot bed for external power political politics that costly affected the states like Pakistan, Afghanistan, etc. When states are economically interdependent on each other, they would decrease the political conflicts. For instance, in European region, countries are mutually dependent on each other. This has squeezed the space for external power exploitation. The cost of political issues is much higher than economic gains. This geo-economic strategy restricts states to avoid conflicts.

Meanwhile, Pakistan is facing numerous hurdles in exploring the potential of geo-economic strategy. To begin with; politics

overtakes economy. It means that politically popular ideas are beneficial at polls. Sometimes, nefarious elements on both sides the governments to pursue geo-economics policy for the betterment of population. **BJP-led government** is engulfed in anti-Pakistan narrative that pays dividends at polls.

Even if both states go for trade agreements, extremist elements on both sides exploit that fault lines between the states.

For example, Lahore Declaration succeeded by Kargil war, Agra Summit succeeded by Operation Parakram, Musharraf-Manmohan Singh talks overtaken by Mumbai attacks, etc are a few instances where both states came closer to solve their issues; however, extremist elements on both sides of the border could not let them materialise it. Similarly, Pakistan-Afghanistan relations are contracted by fault lines which are exploited

terrorists and militants time and again. Historical animosities also play their role in restricting Pakistan and its neighbour states to come closer to each other for mutual benefits. Border issue between Pakistan and Afghanistan, Kashmir and cross border terrorism between India and Pakistan and political instability in Afghanistan restricts the country to go beyond its border for trade and agreements.

Adding fuel to the fuel, external powers time and again exploited South Asian region in order to fulfill their agendas.

US war in Afghanistan in 1979-1989 and in 2001-2021 devastated the trust between Afghanistan and Pakistan.

Due to these wars, Pakistan had paid the prices through blood and money. That created a perpetual animosity between both states.

Also, the relationship between the US and Iran restricts Pakistan

to explore trade relations with Tehran. As the US has imposed economic sanctions on Tehran over controversial treaty JCPOA-2015 between Western powers and Iran. For instance, Iran-Pakistan Gas pipeline could not be completed^{due} to these sanctions.

Nevertheless, geoeconomics is the solution to perennial issues of Pakistan. For this, the country has to take a few measures so that mutual trust can be built between states and extremist elements on both side could not be able to exploit their fault-lines. Pakistan must increase back-channel diplomacy and various platforms in order to start geo-economics policy in practical. It is good that Islamabad has shifted its policy preferences from geo-strategy to geo-economics. The country needs mutually beneficial trade pacts and agreements. Trade volume can only be increased when the governments could not

takeover policies politics over economy. Business-to-business contact must be encouraged. As France-Germany example is a living practical manifestation where historical foes have changed their national priorities for the betterment of population across the borders. There is also need to increase people-to-people contact so that they can explore business opportunities. Relax visa-policies, relax media-hypermess, etc are the necessary steps for the application of geo-economics policy. The country's civil and military leadership have espoused that the state would no longer be the part of camp politics. Hyper-nationalism must not carry away economic benefits of trading with bordering states.

Regional framework

like Shanghai cooperation organization (SCO), Economic cooperation organization (ECO), South Asian Association for Regional Cooperation (SAARC), etc must be

launching pads for geo-economic policy. These frameworks would allow states to explore business and trade opportunities. For example, Pakistan and Uzbekistan signed trade deals on the sideline of SCO summit 2022.

Geo-economics policy cannot be explored in the distress and mistrust environment. Recently, India has revoked the Kashmir Status illegally that hampered the trade relations between Islamabad and New Delhi. Such politically-motivated states actions create gulf between countries. Similarly, Pakistan and Afghanistan relations have been touched the lowest ebb due to spate of terrorism and militant attacks by Afghan security personnels across the border. In such environment, explosive elements exploit the situation. Therefore, countries need to respect political independency and sovereignty of each other so that enabling environment can be generated.

In a nutshell, geo-economics policy compels Pakistan to explore trading relations with its neighbouring states. This would help to solve the perennial economic issues of the country. Geo-g. Geo-economics will help in increasing exports, forex reserves, strengthening currency value, decreasing trade deficits and solving balance-of-payment crisis. Overall, gross domestic product of Islamabad would grow which will embolden state's capacity to deal with socio-economic issues like poverty, illiteracy, hunger, health issues, gender inequality, food shortage, and climate change. In order to materialise the geo-economics policy, Pakistan needs to remove impediments like politically-motivated policies, explosive elements within the state, bureaucratic hurdles, etc. According to Goldman Sachs Papers, Pakistan can become world 6th largest economy if it follows geo-economics policy in letter and spirit.

Dear Sir

For comments: