

Economic Diplomacy and Pakistan's Quest for Economic Security

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Executive Summary

There is a growing recognition that economic diplomacy can play a significant role in achieving Pakistan's external economic interests. This study aims to describe how external economic interests are defined in Pakistan, it summarizes the key initiatives aimed to promote external economic interests and it links these two sets of information through systematic observations of selected policy measures both in practice and thought. The observations revealed a disconnect between national/policy goals and local implementation capacity. The paper concludes that the current efforts aimed at economic diplomacy do not significantly impact achieving Pakistan's external economic interests optimally. There are individual success stories that do not translate into institutional capacity and effectiveness. Therefore, a comprehensive reform of economic diplomacy is required to attain maximum impact from this tool of foreign policy.

Key Words: Economic Diplomacy, International Trade, Investment, Connectivity, Pakistan

Introduction

Globalization has led to an increased focus of countries on economics and trade in the backdrop of steeply increasing differences in technology and efficiency among economies. Similarly, national sovereignty and security are increasingly becoming a subset of economy. This has brought a shift in diplomacy with enhanced focus on economic diplomacy bilaterally and multilaterally¹.

The concept of economic diplomacy is defined by an understanding of economics, but also of geopolitics. It should not be confused with trade or investment promotion diplomacy, which are usually the purview of diplomats and rarely have an economic component. Economic diplomacy generally takes place at state level and involves government officials, such as ministers and ambassadors, in international negotiations, especially those surrounding global issues such as climate change, foreign aid, and technology transfer and resource development.²

A country that has weak economic fundamentals and political instabilities may struggle to take a leadership role in economic diplomacy. To revive growth, the best thing to do is to increase trade and investment stakes with neighboring countries. This can be a real test for the leaders, who need to maturely manage this transition from a security-led engagement to leveraging the regional economic potential for shared prosperity.

Diplomacy and the role of diplomats have been constantly evolving in view of shifts in the international politics, deeply penetrating globalization and advances in technology. Resultantly, the traditional bilateral political diplomacy has gradually evolved into catalytic and networking diplomacy where state and non-state actors are not only equally important but also inseparable from each other. In many instances, Prime Ministers, Presidents and NGOs are playing a major role in modern diplomacy, especially, at multilateral forums³.

Former Prime Minister of Pakistan, Imran Khan, constituted an 'Economic Outreach Apex Committee' in September 2020 to promote economic diplomacy. The first meeting of Economic Diplomacy Outreach Program in October 2020 laid out a detailed economic outreach roadmap for input and assessment of ministries concerned. However, the existing institutional

¹ Chohan, U. W. (2021). Economic Diplomacy: A Review.

² <https://www.dawn.com/news/1533152>

³ van Bergeijk, P. A., & Moons, S. J. (2018). Introduction to the Research Handbook on Economic Diplomacy. In *Research Handbook on Economic Diplomacy*. Edward Elgar Publishing.

arrangement in Pakistan for pursuing economic diplomacy is marked by isolated efforts such as lack of coordination, inefficient resources, political interference, limited participation of private sector and lack of capacity across ministries concerned and diplomatic missions abroad which undermine their ability to create a strong economic leverage for Pakistan in international relations⁴.

In view of Pakistan's increasingly deteriorating economic conditions and adversely affected national image as a result of regional and international conflicts at its borders, serious efforts are required such as trade negotiations through free trade agreements, investment opportunities and potential for tourism to not only improve Pakistan's image as a peaceful and progressive country but also to uplift its economy and living standards of its people. Effective economic diplomacy can help Pakistan achieve the both which makes it significant to analyze Pakistan's economic diplomacy strategy and make recommendations for more efficient outcomes. Pakistan highlights an economic diplomacy strategy that focuses on an in-depth partnership framework with regional players, a private sector-led model to undertake large commercial transactions and revamping ministries of foreign affairs, economic management and trade. Although the non-state actors involved transnationally in NGO diplomacy, corporate diplomacy, and business diplomacy are an integral and valuable part of economic diplomacy yet in view of the paucity space these are not covered in the scope of this paper. This paper will take into account only the activities of the state actors of Pakistan involved in executing key modes of economic diplomacy⁵.

Levels of Economic Diplomacy

Broadly the economic diplomacy can be divided into three levels. First is the bilateral level when two countries trade together such trade between China and Pakistan or USA and Pakistan. Second is the regional level when a group of country start trading on the basis of regions such as SAARC, NAFTA, SAFTA and many others. Third is the multilateral level which is trade beyond regions.

⁴ Jaffery, S. A. Z. Pakistan's Foreign Policy Under Imran Khan. In *Pakistan's Foreign Policy* (pp. 18-43). Routledge.

⁵ Taylor, P. (2019). *Nonstate actors in international politics: from transregional to substate organizations*. Routledge.

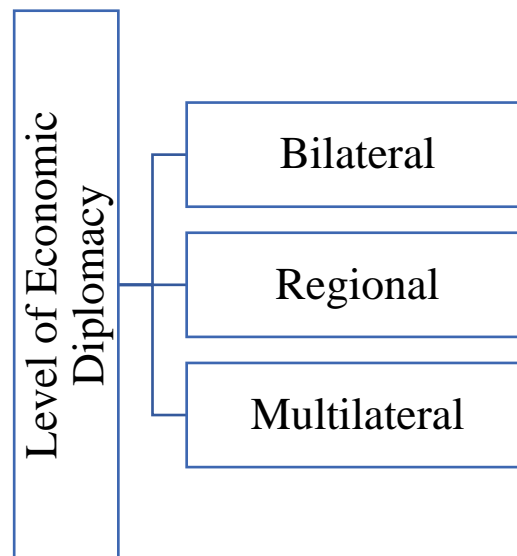


Figure 1: Levels of Economic Diplomacy

State Actors and Pakistan’s Strategy for Economic Diplomacy

Public and private sector stakeholders with economic interests are equally involved in economic diplomacy in modern times which is no more restricted to mere Ministry of Foreign Affairs and its overseas missions.

Although Ministry of Foreign Affairs still retains its traditional leading role in state-to-state exchanges, other ministries such as Ministry of Commerce, Economic Affairs Division of Finance Ministry and Ministry of Overseas Pakistanis and HRD regularly engage with counterparts in other countries. At various international forums, Ministry of Foreign Affairs merely plays the role of a facilitator whereas specialized ministries lead the policy dialogues e.g., Ministry of Commerce at WTO, Ministry of Overseas Pakistanis and HRD at the International Labour Organization and International Organization for Migration, and Economic Affairs Division at the World Bank, International Monetary Fund and other donors.

Economic Diplomacy Strategy in Pakistan

Economic Diplomacy in Pakistan comprise these four key modes: commercial diplomacy, trade diplomacy, finance diplomacy, and consular visa services in relation to increased migration flows as shown in Figure 1.

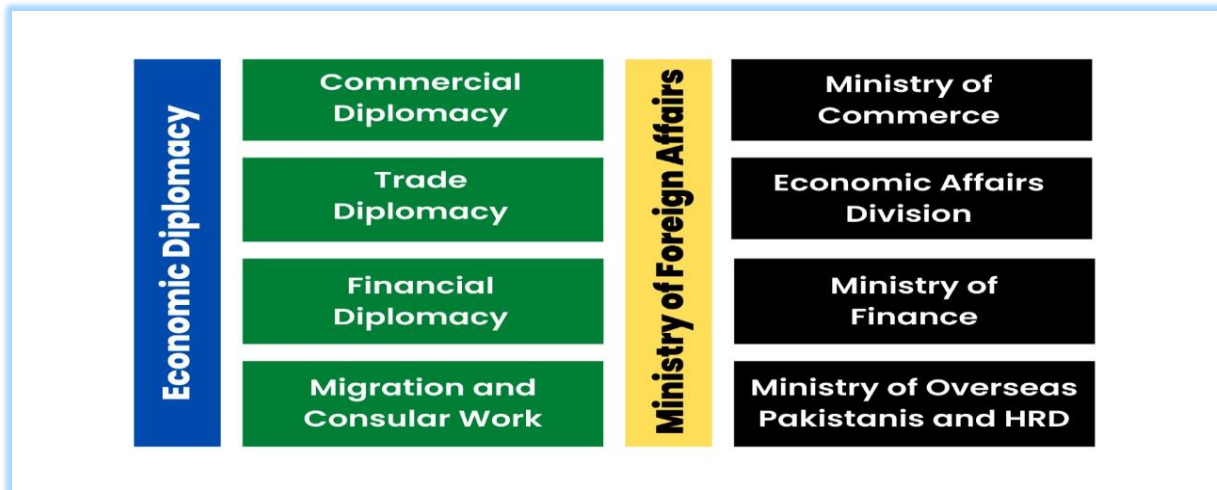


Figure 2: Key modes of Economic Diplomacy and State Actors in Pakistan

Commercial Diplomacy

Ministry of Commerce is responsible for commercial diplomacy and has established 62 trade Missions in countries of interest. It appoints commercial Attachés, Counselors and Trade Ministers through a competitive exam open to civil servants from all cadres except Police Service of Pakistan with experience of working in federal economic ministries and provincial departments as well as to private sector professionals and overseas Pakistanis with relevant qualification and work experience. Once selected, these commercial diplomats are trained for 2-4 weeks at Pakistan Institute of Trade and Development that includes field visits to various export industries of Pakistan. Once posted in the missions abroad, they work directly under the supervision of Ambassador. Thus, ambassador and these commercial diplomats work in close liaison for enhancement of exports, inward investment, conflict resolution between exporters and importers, and support for domestic business. Lately, tourism promotion has also been included as a primary commercial diplomacy activity. Commercial diplomats provide market intelligence, create business links and facilitate entry of businesses in the import market. They also assist Trade Development Authority of Pakistan and Pakistani exporters for participation in trade exhibitions and fairs in the host country⁶.

Trade Diplomacy

Trade diplomacy includes bilateral or multilateral negotiations for Free Trade Agreements/preferential access, trade talks at World Trade Organization etc. Ministry of

⁶ Kostecki, M., and O. Naray. "Commercial Diplomacy and International Business." Discussion Papers in Diplomacy No. 107. Netherlands Institute of International Relations, 2007.

Commerce has the leading role but involves a wide range of state and non-state actors in consultation process including relevant ministries, Chambers of Commerce and Industry, Trade Associations and leading domestic corporations etc.

Since 2003, Pakistan has concluded multiple agreements of preferential access. These include: South Asian Free Trade Area (SAFTA) signed in January 2004, Pakistan–Sri Lanka Free Trade Agreement (PSFTA) signed in August 2002 and operational since 2005, Pakistan-China Free Trade Agreement (CPFTA) signed in November 2006 and operational since July 2007, Pakistan-Malaysia Closer Economic Partnership Agreement (MPCEPA) signed in November 2007 and operational since January 2008, and recently Indonesia-Pakistan Preferential Trade Agreement (IP-PTA) signed in February 2012 and operational since February 2013⁷.

Although Ministry of Commerce is ministry in charge of Commerce and Trade group officers, trade negotiations are not necessarily led by officers of this specialized cadre. Mostly mid-career and senior officers serving in Ministry of Commerce at the time of negotiations lead the process of consultation with local stakeholders and negotiations with international counterparts. The negotiations with international counterparts are facilitated by the Ministry of Foreign Affairs and its relevant Embassies/Consulates.

Finance Diplomacy

Finance diplomacy helps governments to achieve economic stability. As a developing country, Pakistan has been dependent on foreign aid and loans since very early years of its creation for development and economic stability. Since 1958, Pakistan has availed 22 loans from the IMF amounting to more than US\$ 20 billion. Similarly, Pakistan has availed loans and aid from the World Bank, Asian Development Bank, Paris Club and other friendly countries such as China, and Middle Eastern Muslim countries⁸. These negotiations for loans and aid are led by Ministry of Finance and Economic Affairs Division which are manned by civil servants from various cadres including Pakistan Administrative Service, Office Management/Secretariat Group, Pakistan Audit and Accounts Service, Inland Revenue Service etc. These negotiations are led by civil servants and consultants working in Ministry of Finance and Economic Affairs

⁷ *Pakistan - Trade Agreements*. (n.d.). International Trade Administration | Trade.gov. <https://www.trade.gov/country-commercial-guides/pakistan-trade-agreements>

⁸ Salman, A. B. A. (2022, October 27). *The IMF Stabilization Program and Macroeconomic Analysis for Pakistan*. IPRI - Islamabad Policy Research Institute. <https://ipripak.org/the-imf-stabilization-program-and-macroeconomic-analysis-for-pakistan/>

Division, and are facilitated by Ministry of Foreign Affairs and its relevant Embassies/Consulates⁹.

Migration and Consular Work

More than 8.8 million Pakistanis live abroad. Among these around 5 million reside in the Middle East. Pakistan has been receiving on average US\$ 20 billion in remittances annually. Moreover, the overseas Pakistanis are a major source of enhancing people to people contacts, cultural promotion and country branding. Ministry of Overseas Pakistanis and HRD plays the leading role in host countries with high concentration of Pakistani workers such as the Middle Eastern countries (Saudi Arabia, UAE, Bahrain, Iraq, Oman, and Qatar), European countries (United Kingdom, France, Spain, Italy, and Greece), and East Asian countries (Japan, South Korea and Malaysia). Just like Ministry of Commerce, Ministry of Overseas Pakistanis and HRD posts Labor and Community Welfare Attaches in Pakistan's Missions in countries mentioned above through a competitive exam of federal and provincial government officers. These diplomats work in close liaison with the labor ministries, industries and employers in the host countries for promotion of Pakistani workforce, conflict resolution between workers and employers, promotion of culture, and welfare of the diaspora under the direct supervision of ambassador. Ministry of Foreign Affairs plays the leading role in host countries where there are no representatives of Ministry of Overseas Pakistanis and HRD¹⁰.

Impact of Economic Diplomacy

To see the impact of economic diplomacy on Pakistan's economic interests, this section analyzes performance of Pakistan in exports, utilization of FTAs, Foreign Direct Investment, and Remittances.

Export Performance

Since 2011, Pakistan's exports have stagnated, and declined occasionally. While world exports increased to US\$ 20 trillion in 2020 with an overall growth rate of 3.34%, Pakistan's share in the world exports from 2011 to 2020 has been stagnant at 0.1%. Pakistan's economy suffers from a chronic trade deficit. The trade deficit in Pakistan was 40% lower in October 2022

⁹ Idrees, M. (2020, December 31). *Pakistan and the FATF: Exploring the Role of Diplomacy in Getting off the Grey List* | Liberal Arts and Social Sciences International Journal (LASSIJ). <https://ideapublishers.org/index.php/lassij/article/view/245>

¹⁰ M., M. (n.d.). *ECONOMIC DIPLOMACY: actors, tools & processes in 2022*. Diplo. <https://www.diplomacy.edu/topics/economic-diplomacy/>

compared to the value in October 2021, as it declined from \$3.9 billion to \$2.3 billion. Exports dipped by 3.3%, while imports fell by 26%¹¹. Pakistan has strong trade relations with various countries and is also a member of WTO (World Trade Organization). Its major export partners are United States, China, United Kingdom and Afghanistan. USA, followed by China which is the Pakistan largest export partner in the world. Export basket of Pakistan as well as destinations of exports are limited for years now. Pakistan's top 10 export markets constitute more than 60% of its exports. This reflects that commercial diplomacy has not been able to achieve any significant advantages for Pakistan.

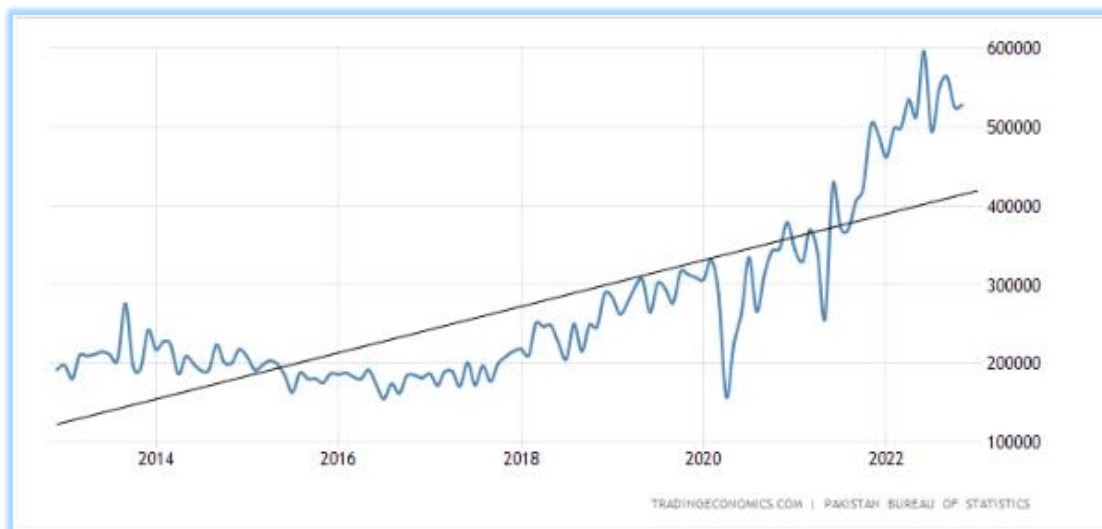


Figure 3: Export Performance of Pakistan

Source: Trading Economics

Foreign Direct Investment

The FDI has been declining each year while the volume of investment is also very thin compared to that of regional countries like India, Bangladesh and China. While the main investment is limited to a few sectors, the FDI inflows are limited to a few countries. The highest FDI of \$74.8 million came from China during the first four months of the current FY22 against \$99.5 million during the same period last year (2021). This was followed by the United Arab Emirates with an inflow of \$67.6 million, Switzerland with \$46.6 million and the Netherlands which invested \$37.7 million in this country during the last three months. But there has been a significant decline in FDI from other countries including Germany, France and

¹¹ Tribune. (2022, December 5). *No signs of economic relief*. The Express Tribune. <https://tribune.com.pk/story/2389503/no-signs-of-economic-relief>

Belgium as their investment in this country decreased to \$4.2m, \$4.2 million and \$0.3 million against \$19.1 million, \$7 million and \$4 million respectively last year¹².

Average Foreign Direct Investment in Pakistan has been as insignificant as US\$ 158.49 million between 1997-2021. The highest ever FDI during these 25 years was US\$ 1.26 billion in 2008 whereas the lowest was marked at US\$ -390.90 million in 2018. Pakistan's performance in attracting FDI has even been worse as compare to regional countries like Bangladesh.

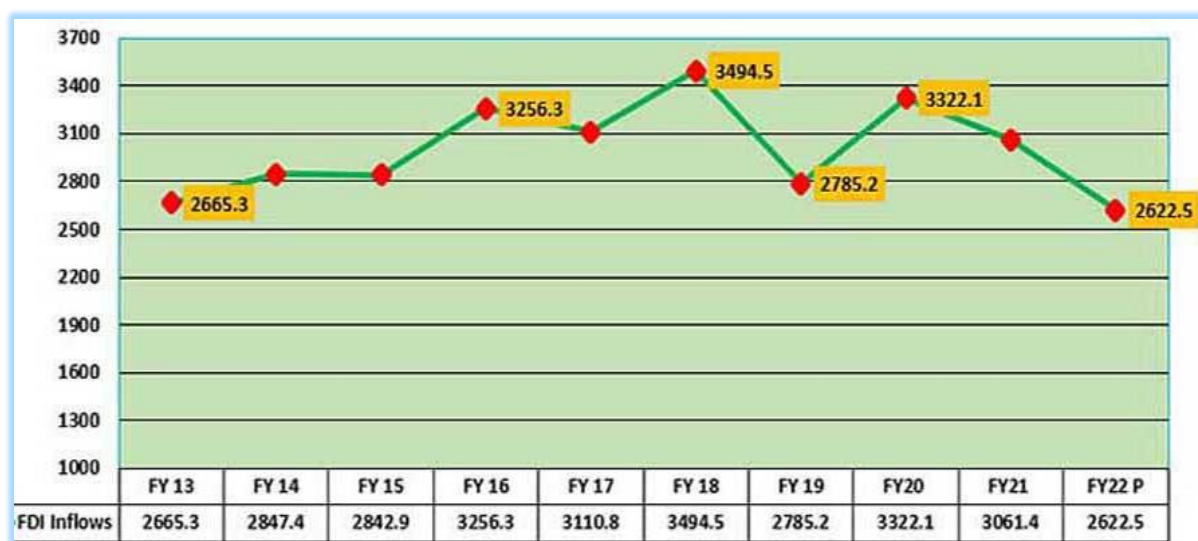


Figure 4: Foreign Direct Investment Inflow in Pakistan

Source: Board of Investment

Utilization of FTAs

Impact of Pakistan's trade diplomacy could be measured through the utilization of FTAs by Pakistani exporters. FTAs are meant to enhance market access through preferential concessions in tariff which makes exports competitive in comparison with other exporting countries which do not enjoy FTA concessions from the importing country. An overview of Pakistan's exports reveals that China is the only FTA partner that features among Pakistan's top 10 export destinations which reflects that these FTAs have not been able to create any deeper integration.

¹² The Newspaper's Staff Reporter. (2022, November 22). *Foreign direct investment plunges 52pc in four months*. DAWN.COM. <https://www.dawn.com/news/1722416>

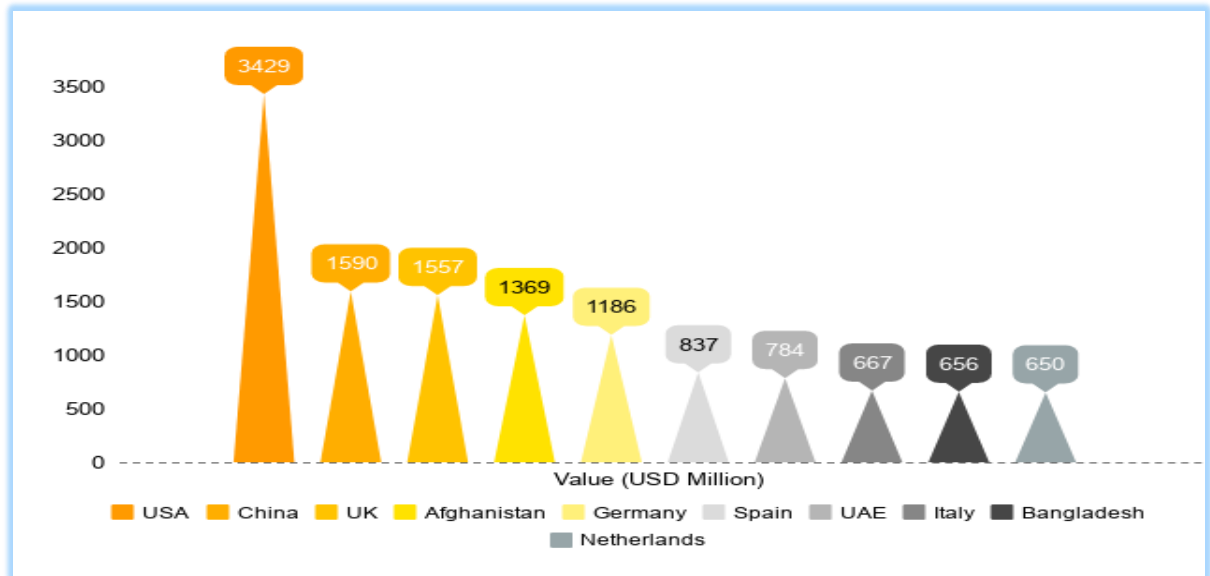


Figure 5: Top 10 Export Destinations of Pakistan

Source: *Export Genius*

Migration and Remittances

Demand for Pakistan’s unskilled workers abroad has been stable, especially, in Middle Eastern and East Asian countries. Remittances to Pakistan have hit a record high. Recent figures from the State Bank of Pakistan show that worker remittances in fiscal year 2020-21 reached nearly \$30 billion, representing about 10% of the country's GDP. This is a significant increase on the previous record set in 2014-15 when worker remittances totaled \$24.6 billion. An overview of the remittances since 2004, reflect that Pakistan has made a steady progress in this regard. There is a consistent increase in flow of remittances which reached over US\$ 30 billion in FY21-22¹³.

¹³ Haq, R. (n.d.). *Pakistan’s Demographic Dividend: Record Remittances From Overseas Workers*. <http://www.riazhaq.com/2021/07/pakistans-demographic-dividend-record.html>

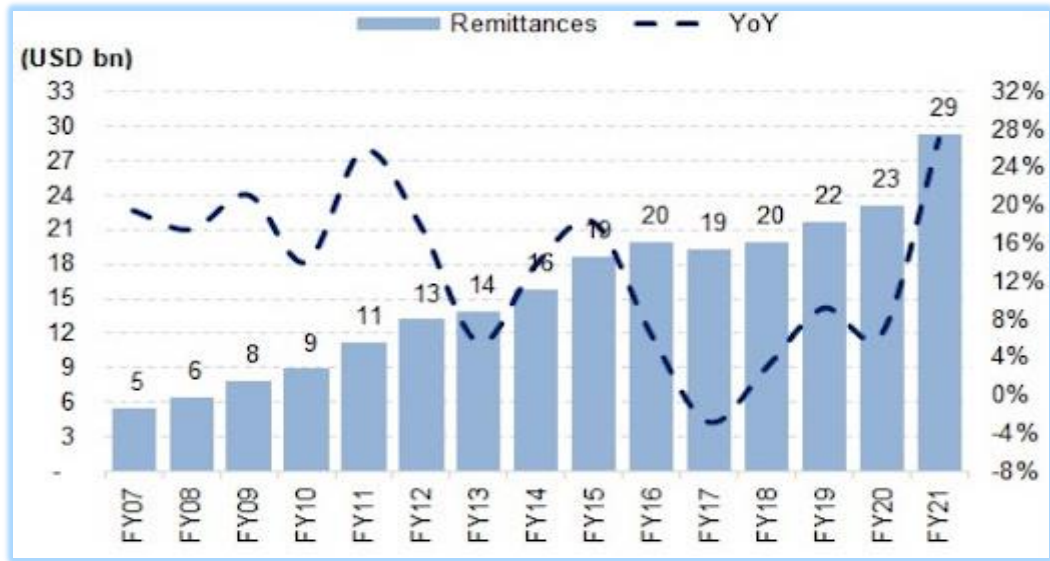


Figure 6: Pakistan Remittances (US\$ Billion)

Source: Arif Habib

Issues and Challenges

Pakistan faces several issues and challenges in achieving effective outcomes regarding external economic interests through effective economic diplomacy:

- Various modes of economic diplomacy are being managed haphazardly. There appears no serious effort on part of the government for creating pools of professionals who are specialized in commercial, trade, and finance and migration diplomacy. Ministry of Foreign Affairs does have a specialized cadre for political diplomacy, but it is neither their jurisdiction nor they are well equipped for conducting economic diplomacy. There are individual successful examples among ambassadors and commercial diplomats, but these do not reflect the institutional strengths.
- Since human resource conducting economic diplomacy is selected from the general pool for a short period, it lacks in formal training, expertise and specializations to do the jobs efficiently which results in sub optimal performance.
- Missions are not supported with sufficient required financial resources to carry out effective public and economic diplomacy for branding of country. Resultantly, economic diplomacy remains more of a lip service than translating into a national priority.
- Various ministries responsible for conducting economic diplomacy are either working in silos or the coordination among them is not effective. Moreover, Ministry of Foreign Affairs has expressed a desire for a more prominent role at international meetings, as they

believe it is important for representing the interests and viewpoints of our country. Resultantly, there is either an unhealthy competition among ministries or there is duplication of work.

- Ministries and Diplomatic Missions abroad lack rigor in conducting catalytic, network and multi-stakeholder diplomacy and do not co-opt non-state actors such as NGOs, corporations and businesses in diplomatic practice.
- Pakistan has been at the center of regional and international conflicts and has suffered a serious injury to its image as a peaceful country which has made diplomats' job quite difficult in branding Pakistan through public diplomacy and attract foreign direct investment. The country should review its policies on foreign direct investment to attract more domestic and foreign investors in various sectors of the economy.
- Much of our diplomacy is conducted in the field of foreign affairs. This can be seen in our excellent ability to build consensus and negotiate deals. However, Pakistan faces a new set of challenges at home and abroad. The Foreign Office needs to review incentive structures to send its best envoys to countries with a promise to engage on economic terms. Major investment will be required to groom the skills of diplomats specializing in economic diplomacy.
- Pakistan lacks a long-term approach to financial diplomacy. Generally, the focus is short term and on the economic effects of the policies of IMF and WB rather than winning an optimally useful deal through the diplomatic negotiations.

To sum-up figure 6 highlights the following issues in economic diplomacy.

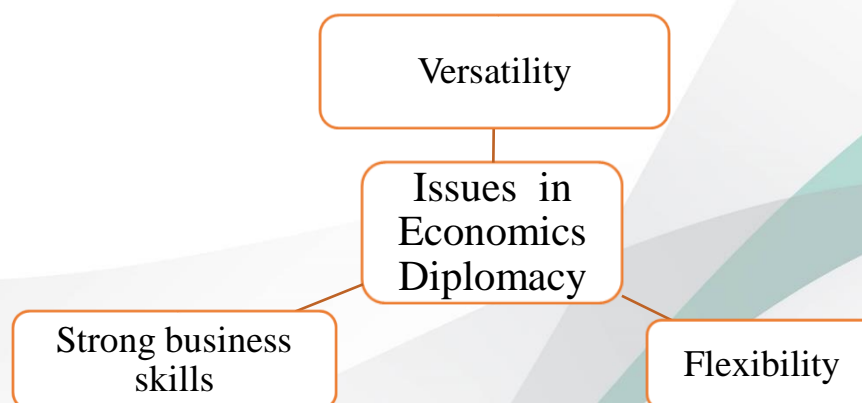


Figure 7: Issues in Economic Diplomacy

Conclusion

This paper concludes that the current efforts aimed at economic diplomacy do not have any significant impact on achieving Pakistan's external economic interests optimally. There are individual success stories which do not translate into institutional capacity and effectiveness. This can be seen in the deteriorating performance of exports, sub optimal utilization of FTAs, consistently low FDI, and erosion of country brand. Various efforts by government at strengthening economic diplomacy end up as merely a lip service without consistent follow up and progress. Ministries and economic diplomats work in isolation with non-state actors and stakeholders which undermines potential gains. Diplomatic missions are under financed and manned with generalists which end up merely maintaining diplomatic relationships with the stakeholders in host countries and are engaged in more reactive diplomacy than proactive. Government needs to revisit and overhaul the existing arrangements for conducting economic diplomacy efficiently and effectively. The study makes a case for a new economic diplomacy strategy that can allow Pakistan to gain greater access to markets, resources and technologies across the world, reduce its economic dependence on a few countries and unlock considerable value for its people through increased investment in critical areas like infrastructure, agriculture and climate change adaptation.

Recommendations

- The role of economic diplomacy is growing in achieving external economic and strategic interests which requires a complete re-orientation and overhauling of the way diplomacy is conducted by state actors of Pakistan. Such a reorientation and overhauling should focus on transforming Ministry of Foreign Affairs into a facilitator and overarching coordinator among specialized ministries for economic diplomacy instead of taking over the functions of the specialized ministries.
- Specialized economic and trade cadres should be created, comprising experts from the Commerce and Trade group and experienced professionals from renowned corporations. They should receive comprehensive training in international law, economics, finance, migration, treaty making, regional and country studies, media interaction, and negotiation skills. Commercial and trade diplomats should be trained in economic and trade analysis, support materials creation, networking, lobbying, delegation management, and branding Pakistan as an attractive investment destination. This will help Pakistan compete globally and become a rising economic powerhouse.

- To maximize national welfare, the diplomats should be trained and sensitized in catalytic, network and multi-stakeholder diplomacy so that they can effectively engage with non-state actors such as NGOs, corporations and businesses.
- Key Performance Indicators (KPIs) for Missions be developed and strictly monitored for performance and achievement of designated targets. This should be supported with providing sufficient required financial resources to carry out effective public diplomacy for branding of country.
- An umbrella Economic Diplomacy Council comprising senior professionals from leading businesses, corporations, NGOs and retired diplomats be created to guide the specialized ministries and forge synergies between state and non-state actors for optimal efficiency and effectiveness.
- In an era of rapid globalization, Pakistan should not just compete against India or any other country, but also with itself by focusing on investing in human capital, promoting entrepreneurship, R&D and governance.
- Economic diplomacy strategy must be coupled with a strong relationship with International Finance Institutions (IFIs) in order to make the most of opportunities. There are multiple pockets of regional resources that could be tapped. For example Pakistan can tap into regional resources such as development banks, trade blocs, multilateral agreements, energy resources (like solar and wind power), and natural resources (like minerals, oil and gas, and agriculture).
- The government should develop institutional strengths for economic diplomacy, including the establishment of specialized economic units and the appointment of economic attachés in key embassies.