

Sharif seeks transparent trade policies

THE Contemporary free market approach has led to the expansion of private enterprise. Its domination of the economy today is unprecedented. We can no longer underestimate the crucial role that the private sector can play not only in the socio-economic development of a country but in the promoting relations among nations. We must encourage entrepreneurship and provide a conducive environment for trade and investment to flourish. What is indeed required is a strong and mutual trust between the government and business in order to put society on the path of sustainable economic development.

South Asia represents one-fifth of mankind. It is both a unique asset and a major challenge. Our large population constitutes a huge reservoir of diverse but rich talent. This region has the Third World's biggest middle class, with demonstrated skills and a large base of educated manpower. It represents a huge consumer market. The effective utilisation and development of this abundant resource is the challenge before us. We have a long path to tread. The full potential of the genius of our people has yet to be realised. Herein lies the key to our future.

Today, South Asia is fast becoming attractive to foreign investment. They seek both our markets as well as relatively cheaper skills and resources. In the emerging international economic environment our hope of socio-economic prospect lies in our ability to attract foreign investment. We need to focus attention on creating an environment which would inspire the confidence of investors and businessmen.

The benefits of economic globalisation are not the prerogative of the developed countries alone. Through cooperative in-

democracy and ensured political stability in the country, in our view, democracy and development are the twin engines pushing Pakistan forward towards the 21st century.

We are engaged in removing redtapism and bottlenecks so that trade and industry is liberated from such shackles and policies are based on liberalisation, deregulation, privatisation and administrative restructuring. New economic packages have been announced for different sectors and reforms introduced in the system of taxation. My government attaches high priority to direct investment and is, therefore, determined to create an investment friendly regime which is both transparent and secure.

We are also accelerating the privatisation process through a time bound framework for disinvesting government corporations and utilities. Simultaneously, the macro economic policies are being structured in a way to ensure economic stability and growth.

I would like to invite entrepreneurs in Bangladesh to take a look at the vast potential of investment and joint ventures in Pakistan and participate in the emerging opportunities in Pakistan.

It is, however, not sufficient that we put our own house in order and enter into mutually beneficial economic arrangements. It is essential that developing nations are provided equitable access to the expanding global opportunities in trade, technology, investment and information. The fruits of the technological and informatic revolution must be evenly available if the present international economic disparities are not to widen further and weaken the foundations of global progress. We need to develop collective positions in international fora on issues of common concern with a view to making the maximum impact.

South Asia has a unique strategic and geo-economic location, astride the trade routes to the Indian Ocean and at the

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Pakistan is committed to the ideal of a friendly and cooperative South Asia engaged in mutually beneficial economic activities. Pakistan is a signatory to the South Asian Preferential Trading Arrangement (SAFTA) and is committed to the establishment, in the near future of South Asian Free Trade Area (SAFTA), which is expected to liberalise trade and open up new vistas for economic and commercial cooperation within the region.

The process of liberalisation should however move in a manner that the interests of all member states are safeguarded. As long as there is persistent diversity in the trade policies of the member countries the aim of promoting trade among themselves and with the rest of the world cannot be realised. The reduction and the elimination of tariffs have to be accompanied by parallel efforts to do away with non-tariff barriers that impede and distort trade. Our failure to do so will only accentuate the prevalent imbalances to the detriment of our region, it must be ensured that economic cooperation is on the basis of a level playing field, mutuality of interest and transparency.

Regional economic cooperation is an important component of our development strategy. We are of the firm belief that economic and technical cooperation among the countries of South Asia which have similar challenges and experiences needs to be fostered. In a move to further promote economic development through regional cooperation, my government has declared its intention to host a Regional Economic Summit this year. The Summit would highlight the vast potential of our region and open new avenues for cooperation and development among our traders and investors.

Recently a grave economic crisis has hit the economies of some Asian countries including even those regarded as Asian Tigers. The crisis has wiped out in a few weeks the economic gains achieved through years of painstaking efforts.

We cannot afford to remain oblivious to the disastrous impact of the intervention of such a specter in our relatively less developed economies. Perhaps during the summit we should consider the possibility of evolving a meaningful strategy which can serve as a bulwark against such sudden and unforeseen threats to our economic development.

Economic development is my government's agenda. By the grace of God recent events in Pakistan have strengthened

TELECOMMUNICATION

Falling transmission and switching costs, technological innovations (such as wireless services), and changing patterns of demand have increased the competitive potential of the telecommunications industry for most services.

Licensing multiple providers seem to be the best way to accelerate the investment needed to create a broadly based national network. Additional services also increase user choice, lower costs, and bring capital and management skills into the sector. Market liberalisation, privatisation, puts pressure on existing service providers to be more efficient and more responsive to consumers.

The transition from state-owned monopoly to multiple operators requires building up a regulatory framework in order to prevent the dominant operator from abusing its market power (by restricting output and underpricing competitive services). This would require proper accounting and disclosure requirements, performance targets, and incentive-based price controls. Experience shows that new service suppliers will not be able to interconnect with the incumbent operator on reasonable terms without regulatory aid. Service providers, both public and private, should operate at arm's length from the government and be subject to commercial discipline and to oversight by an independent regulator.

POWER. The potential for competition in the power sector is

RESOURCES FOR INVESTMENT

Traditionally, investment in infrastructure has been done by the government. With the growing demand for such infrastructure, this has entailed huge fiscal burden. As discussed earlier, this has been one of the reasons for the governments to open up the infrastructure subsectors for private investment. However, these investments are huge and given the low rate of savings in the developing countries the private sector in these countries are not equipped to undertake the large infrastructure with their own resources. However, there is a welcome development. Major electric, telecommunication and water utilities in the developed countries face slowly growing demand and increased competition due to deregulation. Therefore they are energetically seeking highly profitable investment in the developing countries. In fact, many such organizations are already in the subcontinent. Many construction conglomerates are active in toll road construction and power projects. There are also companies who specialize in putting together financial packages and oversee project development and operation. As such Foreign Direct Investment is going to major source of financing of private investment in infrastructure in the subcontinent in future. In addition to above larger private utilities could have access to international debt and equity markets.

An instrument widely used to tap resources in the US capital market is the American Depository Receipt (ADR). ADRs are

INFRASTRUCTURE

Agenda from Bangladesh

greatest for thermal generation and distribution-activities that can be unbundled from existing vertically integrated power utilities and operated under concession. Alternatively, these activities can be privately provided.

Concessions can be given to the private sector in the generation of power which would in turn lead to an increase in sectoral efficiency. One important policy issue here is that private power producers must have access to the national grid and be coordinated by a network manager. For the foreseeable future, national power transmission will retain elements of natural monopoly and must be regulated when privatized.

However, there will remain dominant entities especially in power transmission. These will have to be reformed focusing on creating financial and managerial autonomy and on promoting commercial behaviour. In order to do so private participation in ownership has to be encouraged either — through joint ventures or divestiture — and private management for concession contracts.

Another important policy issue here is the economic tariffs which are necessary to promote the self-financing of investment, conservation of energy, and more efficient use of existing charges paid by power companies.

TRANSPORT

RAILWAYS: Railways in developing countries have typically been heavily regulated, structured as monolithic organizations, and saddled with uneconomic lines and over employment.

The essential element of reform for a railway is to give it autonomy to operate as a commercial activity — a commitment that can be strengthened through an infusion of private equity capital and private management. In some countries vertical separation is being made between track and facilities with the latter being operated by private sector. In order to improve efficiency of railway services price regulation has to be removed from rail services and the railways have to be granted structural flexibility to permit them to drop uneconomic lines.

ROADS: Periodic maintenance of roads can be done quite efficiently by private sector under contract. This is because performance standards can be more easily defined and monitored than for routine maintenance. Rural Agricultural feeder roads can be maintained by local organisations and communities with some funding by the government. The issue of routine maintenance of roads is more difficult and involves setting up institution comprising of representatives of users as well as government with the view to determine economic user charges linked to maintenance.

Finally, the study points out that Joint Ventures would facilitate private investment in infrastructure. Here a recommendation is in order. Joint ventures among countries in the Bangladesh-India-Pakistan subcontinent in the infrastructure sub sectors would be quite fruitful in efficient development of these subsectors in the region. However, *sic in qua non* for such joint ventures to work is that there has to be political stability in each of the countries in the region.



We mean business, dear prime ministers

—Star photo by AKM Mohsin

Gujral goes faster towards free trade

HIS is a truly historic occasion. For the first time, the leaders of Bangladesh, Pakistan and India have come together on a common platform. What is more, we have come together on a common platform with captains of trade and industry to see how we can jointly work together to usher in a new era of cooperation and prosperity for our peoples.

Madam Prime Minister, I would like to express my deep appreciation for the bold and far-sighted initiative that you have taken in bringing us all here together today. Our presence here is a tribute to your statesmanship and the esteem and affection in which all of us hold you. I thank you for the excellent arrangements that your government has made for this meeting, and for the warm hospitality extended to me and members of my delegation.

Our countries are inheritors of an ancient and highly developed civilisation. From the sophisticated urban design of Mohenjo Daro and Harappa, and the technological wizardry of the Ashokan Pillars, to the amazing fitness of the Dhaka Muslims, our peoples have been known through much of human history for their creativity and productive skills. Our growth, however, was stunted by colonisation, which left us impoverished, even as Europe and North America were making the transition to industrialised societies. Today, we have a unique opportunity to work together to overcome poverty and accelerate economic growth for the shared benefit of our people.

In this age of globalisation, nations in different parts of the world have discovered the advantages of regional economic cooperation and the development of a common, regional economic space. At the end of World War II, who would have imagined that France and Germany, who had fought three bitter wars in the preceding 80 years, would come together to create the European Community which has now become the European Union. Nearer to us, the countries of South East Asia have been able to achieve commendable success in development with regional cooperation through ASEAN playing a key role. In America, both NAFTA and Mercosur reflect the same economic imperative.

The prospects of forging closer ties of economic cooperation in our own region have improved perceptibly. There is, today, an increasing convergence in our macro-economic policies, with an emphasis on deregulation and a greater role for the private sector. All of us are seeking to unleash the creative energies of our entrepreneurs and workers and being about improvements in efficiency so that we can compete more effectively in the new globalised economy. In the last few years, we have seen a quickening of growth in our individual economies with increases in GNP ranging from five to seven per cent. There is no reason why we cannot sustain and accelerate this pace of growth, given sound economic management and capitalising on regional synergies.

Economic Cooperation is now high on the SAARC Agenda. The goal of achieving a Free Trade Area in South Asia has been accepted, and the time-frame for achieving it advanced to the year 2001. Let us, today, reaffirm our commitment to work jointly to achieve this goal. This would involve progressive acceleration of trade liberalisation in the SAFTA negotiations in terms of the products covered, the depth of the tariff cuts and lifting of non-tariff barriers. In concrete terms, we would have to liberalise at least 25 per cent of trade each year to usher in a Free Trade Area in South Asia by the first year of the next century.

Under the first two rounds of SAFTA, India offered the maximum concessions covering around 1000 tariff lines. We also offered the deepest tariff cuts with special concessions for the Least Developed Countries. The impact of these openings will take some time to be assessed as they came into effect only between March and July last year. I understand that Pakistan is still to issue the Consolidated National Schedule giving effect to the Second SAFTA Agreement. I would suggest to them to do so, and to ensure that this is on a nondiscriminatory basis in conformity with the provisions of SAFTA. I would also ask them to trade with India in line with their international commitments and obligations.

The Third Round of SAFTA negotiations made a promising start in July last year, with all delegations agreeing to follow an across-the-board or sectoral approach to speed up trade liberalisation. There have, however, been delays in scheduling the next meeting. It is time that we collectively ensure that the momentum is maintained.

India remains committed to fast forward SAFTA liberalisation. I take this opportunity to offer that, as a special gesture, India will be prepared to lift quantitative restrictions on agreed items of interest for Bangladesh and other Least Developed SAARC Countries. Our negotiators will also have the requisite mandate to reduce tariffs significantly with deeper cuts for Bangladesh and the Least Developed SAARC Countries as part of the latest round of trade preference talks. This should impart the required momentum in the SAFTA liberalisation process. Our SAARC partners, particularly Bangladesh, will also have an added opportunity to access our market and enhance their exports to India.

The achievement of a Free Trade Area in South Asia will not only provide a stimulus to trade and investment within the region, but would also make the region a more attractive destination for foreign investors. With an enlarged regional market of more than one billion people, the SAARC partners would acquire a greater weight and significance in their global and regional strategies. I am glad that SAARC has recently commenced discussions on promoting investment in the region. We must move to quickly put into place a Regional Investment Treaty and evolve Regional Arrangements for Avoiding Double Taxation and for settlement of commercial disputes. This would significantly enhance investor confidence and create an enabling environment for greater investment flows. To encourage Indian entrepreneurs to invest in South Asia, I am glad to announce that the Indian government has decided to double the ceiling for overseas Indian Investment under the Fast Track in this region.

Today, trade liberalisation alone is not sufficient for expansion of trade and investment. We have to speed up our arrangements for trade facilitation. I am glad that meaningful initiatives have been taken by SAARC in this direction. Given our common administrative background, it should be possible to quickly work our conformance and harmonisation arrangements in areas such as Customs procedures, Standards and Quality, and Electronic Data Exchange leading to paperless trade. This will help reduce transaction costs and make intra-SAARC trade more efficient and prosperous for our business.

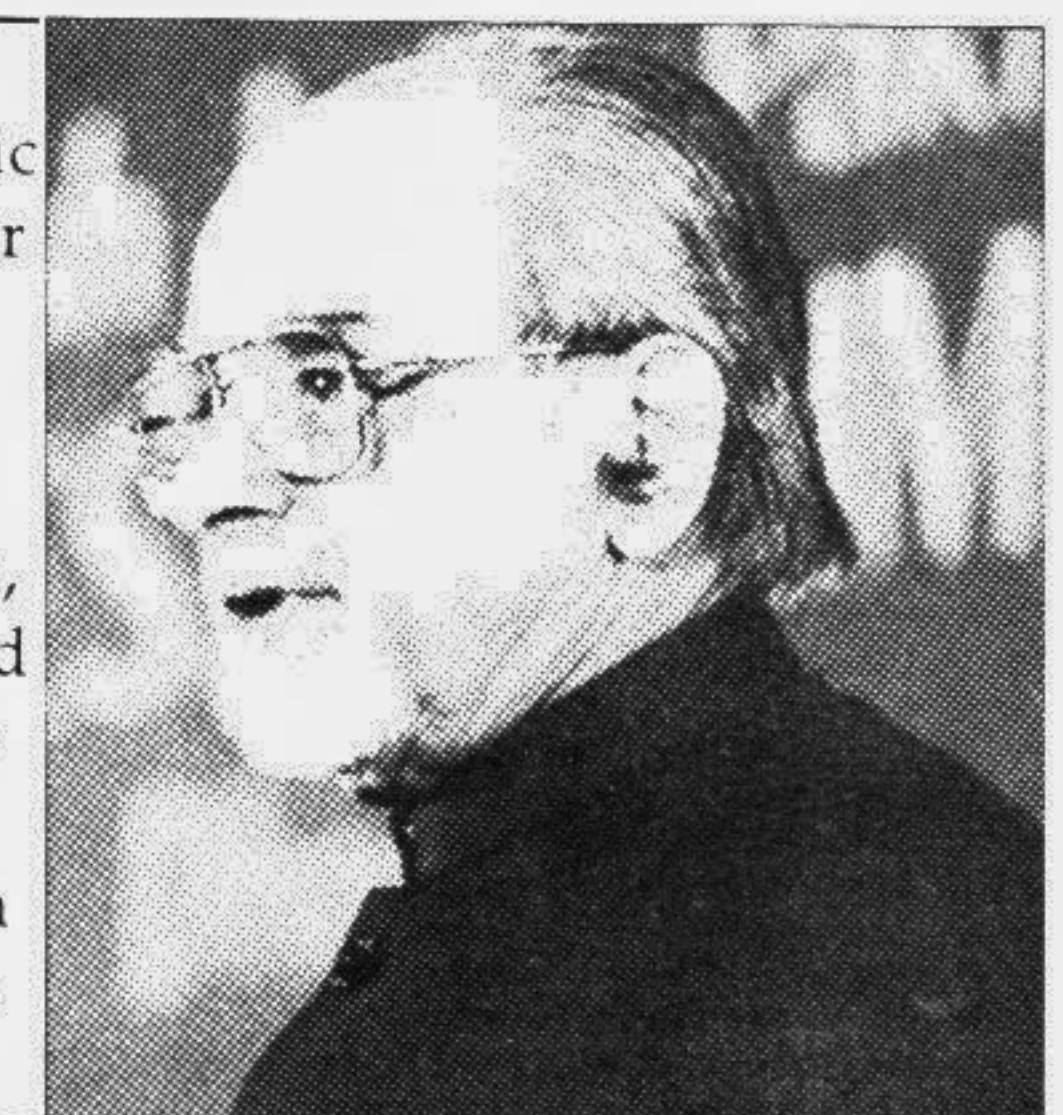
Limitations in physical infrastructure also act as a brake on the growth of trade. Intra-Regional Transportation and Communication links remain weak. Improvements in these sectors are critical if we are to derive the full benefits of geographical proximity. + Port Infrastructure also needs upgrading and development. India is prepared to work with its neighbours in identifying and undertaking joint projects, both short-term and long-term, to improve and upgrade transport facilities. We must develop the capacity to not only handle the anticipated expansion of trade within the region but also connect to the proposed trans-Asian transport networks. Our region is strategically situated at the crossroads of Asia, between the oil rich countries in West and Central Asia and the dynamic economies

of South East Asia. We should derive full benefit from this advantage.

As an immediate measure, India is prepared to double the number of freight trains from India to Pakistan from the existing level of 10-15 trains a month to one every day. We also offer to increase the frequency of the Samjhauta Express, which presently runs twice a week from India to Pakistan, to six times a week. This would not only be in keeping with our commitment to make travel easy within the region and promote greater contact between our peoples, but would also signal our resolve to move forward in practical ways.

Regional cooperation, today, is no longer driven only by exchange of commodities and manufactures. We should, there-

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fore, establish tradability of some key resources that our region is richly endowed with, so that true complementarities are brought into play. Only then will South Asian economic cooperation have a significant trade creating and growth generating impact. This is a rich seam that has remained unexploited to our collective loss. Let us, at this Summit, pledge that we will make up for lost time and opportunity and work to establish arrangements on a bilateral or trilateral basis to enable and facilitate such exchanges in key resources like electricity, natural gas, etc. We will find that our private sectors will be very interested as will be international funding agencies and foreign investors. India, for one, provides a large and virtually inexhaustible market for many of these resources. I offer to optimally harness these resources through concrete projects involving Joint Ventures, both at Government and Private sector levels, and buy these from our neighbours for mutual benefit.

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- ★ We must move to quickly put into place a Regional Investment Treaty and evolve Regional Arrangements for Avoiding Double Taxation and for settlement of commercial disputes.
- ★ We need to identify additional routes by road and rail, augment air links and look at ways to reduce freight cost by sea.
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- ★ As a first step towards regional cooperation in the field of energy, I propose that SAARC undertake a study on the possibility of a regional Electricity Grid.

This too will augment the exports of our SAARC neighbours to India. As a first step towards regional cooperation in the field of energy, I propose that SAARC undertake a study on the possibility of a regional Electricity Grid.

On international trade issues, there is so much that our countries can do together, because we have common concerns and expectations from the existing WTO regime. Even on new issues, there is a striking convergence in our views and approaches. Let us use the SAARC mechanism to become an interesting group within the group of developing countries, pressing for a development friendly orientation to the International Trading System. Trade and industry should also coordinate their thinking and provide inputs to help us evolve a South Asian view on the WTO.

The private sector has played an important role in the common endeavour to expand trade and commercial links and accelerate economic growth in our region. We commend the work done by the SAARC Chamber of Commerce and Industry in throwing up ideas, posing ambitious targets and forging a consensus. It is heartening that we can count on the full support of our business communities in building the framework for economic cooperation in our region. Indeed, they must take the lead in evolving concrete proposals for mutually beneficial business cooperation, looking beyond a Free Trade Area towards a South Asian Economic Community with the free movement of capital, goods and services within the region.

We stand at the threshold of a new century. This century has seen us attain political independence, an epoch-making event that triggered the end of the colonial era across the world. I am confident that, in the next century, our region will successfully overcome poverty and usher in an era of prosperity. Our products will once again be recognised for their excellence, even as our workers will be prized for their skill and ingenuity. We require statesmanship, vision and perseverance in fully harnessing their synergies that would flow from regional economic cooperation if we are to fulfil this promise.

I am reminded here of a verse from the Rig Veda, one of the oldest treatises of the Indian subcontinent. It says, and I quote:

"May you walk in step together,
May you speak in one voice,
May your minds unite in knowledge."
Unquote.

I hope we can keep these simple words in the backs of our minds, even as we strive together for a brighter tomorrow for our peoples."

(This is an abridged version of the speech of the Indian prime minister delivered at the opening ceremony of the three-nation Business Summit yesterday)