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ROLE OF MARITIME SECTOR IN PAKISTAN'S ECONOMIC AND SECURITY DEVELOPMENT

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Abstract

Change in priorities of the nations of the world is re-shaping their economies. In modern times sound and stable economies are indispensable for political stability. Pakistan's long coastal region i.e. 700 km and its ability to develop ports can improve its economy through regional and extra-regional trade. Such economic integration would definitely strengthen the economy and democracy in Pakistan. The increase in the Sea born trade in Pakistan would certainly build the shipping industry which is one aspect of economic development. As Pakistan is located at a crossroad of different regions which give strategic depth to it and a focus on the part of policy makers to farther enhance the maritime sector would attain its political, security and economic goals.

Keywords: Maritime, Trade, Transhipment, GDP, Shipping Industry, Port Gwader, Karachi

Introduction

As a maritime country, Pakistan is facing difficulties to exploit the sea resources effectively. Many years of less attention have hampered the maritime sector's development, which in turn has miffed both economic growth and the country's national security.

While sea trade is the backbone of Pakistan's economy, the domestic shipping and shipbuilding industries are in confusion in economic terms; the maritime sector can diversify the economic base and boost Pakistan's economic growth. The development of the Pakistan Navy both as conventional and strategic force is important for protection of growing economic seaborne interests against predation and coercion and also necessary to defend the strategic interests of the country. More than 95 percent of country's international trade is using sea routes,

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which in 2003-04 roughly amounted to 36.3 % of the Gross Domestic Product (GDP).[1]

The construction of a deep-sea port at Gwader, and introduction of business friendly policies for renewal of shipping industry and exploitation of offshore resources are a few examples in this respect first, reduction of national merchant marine in Pakistan has forced the country to depend on foreign shippers for international trade. In case of war or a state of high tension, dependence on foreign carriers can have contrary effects on the seaborne trade of the country. Foreign ships may refuse to play in a war prone zone or increase the freight and insurance charges unacceptably high. This concept is quite plausible considering the fact assurance charges for shipping bound to Pakistan rise steeply during the U.S. attack on Afghanistan in 2001 and next time during the second Gulf War in 2003.[2] Second, navies, as an essential element of military power at sea, are developed by maritime nations to protect their strategic and economic interests. The growth of the Pakistan Navy has not been proportionate with the growth of country's strategic and oceanic interests. In fact, the limited mindset of the stakeholder has not been able to appreciate a due role for the navy in the total defense of the country and, as a result, it is afforded the least priority. A long time of this neglect has created a conventional tilt in favor of the Indian Navy, which enjoys advantage 5:1 over the Pakistan Navy in terms of battle vessels, the air assets and manpower is very significant for development of the Pakistan Navy for two reasons. First, in case of any limited conventional war at sea between the two countries is more likely in future considering Indian Navy's conventional advantage; India continuously believed that it could effectively threaten the limited use of force, and that is very certain that availability of nuclear deterrence makes the possibility of limited conventional conflict at sea more likely[3] Second, mutual nuclear deterrence in the region is integrally unstable because both of the countries do not have credible second-strike competence, which leaves a chance of anticipation in face of an imminent threat. Moreover, India's search to gain Airborne Warning and Control System (AWACS), theater ballistic missile defense system, and sea-based second-strike ability would give India the qualitative advantage needed to uphold a credible attack competency, which can result in failure of mutual deterrence.[4]Gwader is predictable to provide sea access to land-locked Central Asian States via Afghanistan and also to Xinjiang, the western provinces of China. In the long term the most important scene is the ability of Gwader to be the main transshipment port in the region. Pakistan Navy will get a new base in the shape of the port in the west of Karachi.

International trade always plays an important role in stimulating economic growth. The world economies become interdepending with the trend of globalization and the modernization in the means of transportation. The economic growth is widely be accelerate by Openness to international trade. This up to some extent explains the new trend in international trade. Sea is the cheapest and the most efficient mean of transportation and more than 90 % of the international trade is routed through the sea.

Due to its geo-political situation and geography in the region, Pakistan is largely dependent on sea for its international trade, which in 2003-2004 roughly accounted for 36.3 % of the Gross Domestic Product (GDP). Over 95% of country's global trade is directed through the sea. At present day, the Pakistani merchant ships transport only 5% of the total maritime trade as against the 40% declared by the United Nations Commission on Trade and Development (UNCTAD) for national carriers.[5] In the result of which country is spending around $1.5 billion of foreign exchange annually on cargo charges, which is about 2.2 percent of the GDP[6]. The current state of shipping industry in Pakistan is because of various reasons such as; wrong economic policies, capital concentrated nature of shipping industry, wide spared public corruption, Continental mindset of the stake holders, and the predominant geo-political situation. The neglected shipping industry cause serious drawbacks to economic growth. First, is the incapability to fully exploit the income generation potential from a reluctant shipping industry. Second, and most important, is the negative impact where the government is required to spend hard earned resources as merchandise bills for foreign ships or to bail out inefficient and unmaintainable public owned enterprises.

The role of seaborne trade in economic growth

At present there is a growing consensus that the route to prosperity lies in integration with the global economy[7].From 1950 to 1990, the value of international trade grew 1.5 times as fast as the world economy, while in the previous years; world trade is now rising at around 2.2 times the rate of international economic growth[8].

According to Hill "maritime trade not only contributes considerably to economy but serves as a promoter for the domestic economy and an agent for development and modernization. As evidence, he notes that in many of the world's top thirty economies, maritime exports make up over 10% of the national income. In case of Pakistan; seaborne exports contribute 17% to the GDP[9].

From 1945 to 2002 the maritime trade grew from 0.55 billion tons to 5.88 billion tons.[10] The growth in the international vessel trade, which is ultimately driven by economic growth, has far exceeded the rate of growth of maritime trade as a whole.[11] For example, while total maritime trade volume grew at an average of 3.3 % per year from 1987 to 1999, the containerized cargoes grew at an annual average growth rate of 8.3 % during the same period, leading to an escalation of 160% in total maritime container transportation. Due to the increasing significance of transshipment transportation (the transfer of cargo from one ship to another) the number of containers deal in the world's ports grew at any even rapid rate—in excess of 9%[12].

Stopford says that the clearest explanation for the size of a country's maritime trade is the size of its economy. When the economies become bigger it greatly generates the trade. However, the GNP and trade relationship is not static

but dynamic. With the growth of countries, their economies and trade changed. Growth in trade different widely from country to country at different stages of economic development and the margin for growth for countries at the early stages of economic development is phenomenal[13]
As the maritime trade remains an economic concept, other variables such as area of the country and its population have a minor effect on it. The economic activity creates the demand and supply of imports and exports respectively, not the number of people.

Seaborne trade of Pakistan

Due to its geography and the geo-political location in the region, Pakistan is depending heavily on the sea for its existence. More than 95% of country's trade is routed through the sea[14]. The exports for financial year 2003-2004 have risen to $12.1 billion; while imports were remain at $12.8 billion for the same period. the total trade value of both amounts to $24.9 billion, which is nearly 36.3% of the GDP[15] in the light of the sea trade data of 1990-91, Pakistan is ranked 45th in the first 100 sea-trading countries with a total trade size of 25 million ton. The total trade size grew to 41.5 million tons in 2003, reporting an average annual increase of about 1.25 million tons or 5% per annum[16] In South Asia, Pakistan approximately doubled its output growth rate to 4.6 %[17]. Real GDP for 2002-2003 was 5.1 % and during the fiscal year (2003-04), it reported a growth of 6.4 percent[18]. Some economists are of the opinion that Pakistan is at the take-off stage.[19] The recent changes in the economic situation in Pakistan and the indicated growth of trade for the year 2004-2005 (export and import targets are $13.7 billion and $16.7 billion respectively) reflect this change[20]. This is also clarified by the fact that each of the country has its own unique Trade Development Cycle (TDC), which depends on the factors of its production, cultural and commercial considerations[21] the imports of Pakistan are highly concentrated in a few items: machinery, chemicals, petroleum and petroleum products, edible oil, transport equipment, iron and steel, tea and fertilizer. All these categories of imports contributed 75.2 percent to total imports during 2001-02. Among these categories, machinery, chemicals, petroleum and petroleum products cover almost 60.1% of total imports. Significant structural changes have taken place in some of the categories of imports over the Years. Pakistan presently imports two thirds of its total requirement of fuel oil, and at the projected consumption rate, is poised to become one of the largest importers of fuel oil in the Asia-Pacific region by 2005[22]

Shipping Industry and Economic Development

Shipping industry and economic development are closely linked. The growth of the shipping industry is therefore of great significance not only to the major shipping countries but to all nations[23]. Shipping services are important for international trade, because over 90% of all global trade measured in weight and volume, is routed by water[24]. In most developed nations there has been a vow to maritime policy as part of a stabile trade policy. A well-built merchant marine promotes fruitful exports, profitable trading ventures, and a national outreach to get the best available products and technology. In contrast, to rely mainly upon foreign containers, suppliers, traders, and manufactures leads to indifference in external relations and under-achievement. As economies become lethargic, restricted, they typically slowdown their savings and investment; they neglect their productivity potential and industry, and remove their competitive vitality in international markets.[25] That is true that shipping is a highly capital required industry, with a lot of jeopardy involved to considerable variations in demand and instability in freight rates.[26] The current share of developing nations in the total world tonnage is about 20.3 %, out of which Asian countries own 74.1%[27]. Most developing countries blame the uneven share of international maritime trade for the high freight rates charged to their trade.[28]

A. Positive aspects of investment in shipping sector by developing countries

The total investment in shipping industry, of developing countries based on five main reasons: to save foreign exchange, to reduce freight cost and to promote the country's foreign trade, to get the benefit from profitable shipping trade, providing added employment, to assure suitable and reliable shipping services. The capacity for avoiding considerable foreign exchange payments for maritime vessels is often given by the developing Nations as one important reason for investments in sea-borne shipping. Even the countries may get gross foreign exchange savings.

Although the present shipping provide slight employment opportunities but through spin-off factors and linkage effects with trade, it would have significant impact on trade. In case of war or other emergencies the availability of shipping service to meet with country's foreign trade has been a consideration for development of many national merchant marines.

B. Negative aspects of investment in shipping sector by developing countries

Due to the lack of capital, the developing countries look for less expensive alternative. Even in some cases it causes the use of second hand ships, or using chartered or leased vessels. However, day-to-day maintenance costs are higher for old vessels with old machinery requiring constant maintenance, a rusty body requiring consistent steel replacement and high fuel consumptions. In fact maintenance and operation costs of aged ships in developing country's merchant vessels outweigh often their margin of profit.

Stopford relate shipping to the game of poker, in which the players must know the rules. However, "winning at shipping game, like poker, also depends on strategy, probability, psychology and luck."[29] Some of the developed countries subsidize their shipping industries directly or indirectly, which cause lower freight rates, can have effect negatively on the shipping investment in developing countries, but at the same time it favors trade by lowering freight rates.

C. Shipping Industry in Pakistan

I. Historical Background

During initial years, Pakistan's merchant marine consist of four small sized ocean ships which increased to 14 in 1950 and in 1971 that number reached to 71 prior to separation of East Pakistan.[30] The Port of Karachi was considered as one of the best ports east of the Suez. Hundreds of foreign ships in a year come at the Port of Karachi for maintenance and repair. The government and the private sector earned reasonable foreign exchange and international goodwill. There were dozens of well-established marine repair workshops in Karachi shipyard which grant employment opportunities to hundreds of skilled labors and imparted apprentice trainings.[31]

After dismemberment of Pakistan in 1971, the coastal trade finished between the two wings and the national trading marine had to compete globally. The industry was not even rid of the first shock, the government nationalized most of the privately sector industries in 1974. It was big hindrance, which over a healthy competition between the private and public shipping sectors[32].

The National Shipping Corporation of Pakistan, which was constituted in 1979 when the National Shipping Corporation and Pakistan Shipping Corporation were merged, has mostly continued a financially troubled association despite enjoying absolute domination in the shipping sector.[33] First, public sector corporations are inherently inefficient. Secondly and most significant is the absence of competition from the private sector, it had no need to be efficient. There had been a steady deterioration since the last two decades from 54 vessels (518,000 deadweight tonnage) in 1982 to 13 ships with deadweight tonnage of 229,579 tons in 2002-2003.[34] The latest number stands at 14 ships with deadweight tonnage of 470,326 tons[35]during the period from July 2003 to March 2004, the shipping corporation earned income of Rs4.602 billion.[36] According to the United Nations Conference on Trade and Development (UNCTAD) country report on Pakistan published in 2002, the national flag vessels of Pakistan (PNSC) handles only 5% of maritime cargo which is far below than the minimum required number of 40 percent.[37]

II. Pakistan's Economic Compulsions

The annual maritime bill to foreign shipping organization was estimated to be around $1.3 billion in 2002, which is an important drain on the country's foreign reserves considering the size of Pakistan economy.[38] At present, less than 5% of Pakistan's total trade, carried by the nation own mercantile marine, which is too low than the 40% share allowed for transportation on national merchant vessels outlined by the UNCTAD convention on code of conduct for liner conference.[39] The paralyzed state of national mercantile marine is mentioned as one cause for decreasing activity of Karachi Shipyard and Engineering Works, which was a growing industry during 1970s when it received repair and maintenance and orders of new shipbuilding from the indigenes shipping industry.[40] Furthermore, investment in shipping industry is linked to development of some other services industries like marine insurance, ship finance organization, marine telecommunication services, marine training institutes, ship classification services and ship provisioning services. The private sector of Pakistan ship owners were badly disheartened by nationalization policy of the government and absolute dominancy of public sector in shipping industry till early 1990s. Most of them invest elsewhere in the world. This is obvious from the fact that 63 open-registry ships in 1984 with total tonnage above 1.75 million tons were own by the Pakistani businessmen.

The development of deep sea port at Gwader is yet a reason for investment in national shipping industry for two reasons. First its potential to boost transit trade coming from Central Asia and Afghanistan, and second it can present some kind of potential for coastal shipping between Karachi and Gwader. In the long term, Pakistan plans to make Gwader Port as a major transshipment port of the region. In spite from other advantages that such a plan brings along, it would boost the need of position or feeder shipping services to serve subordinate ports in the region. Pakistan can benefit from such a vision by strengthening its own shipping industry to engulf this market in future.

Conclusion

Pakistan has a lot of economic potentials in maritime sector. Its strategically important sea waters give a unique position in world geo-politics. The continental waters as emerging routes of trade provide strong economic basis to some of the countries located on important sea trade routes. Pakistan due to its location is in a position to serve two most important regions of the world, South Asia the world biggest consumer market and Central Asia famous for its riches. Economic integration of these regions will start a new era of economic prosperity in Pakistan and ultimately the goals of Political stability and national security will be achieved.

Trade activities in Pakistan's continental waters will enhance the workload of shipping and shipbuilding industries. Both of industries as flourish would not only put the economy of Pakistan on strong footing but also lead to economic independence. Contribution of this industry to economy of Pakistan will improve its GDP. Currently Pakistan dependence on external freight causes consumption of foreign exchange. Development of ship and shipbuilding industry will be brought self-sufficiency which will save reasonable amount of foreign exchange.

Dependency of different regional and extra-regional players on Pakistan's sea trade routes will highlight its political position in world community. The integration of economy of region will create such a political scenario where Pakistan will be in a position to achieve it political goals. To meet with the demands of maritime sector policy makers will focus on ports and naval development which will boost national security as well.

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