

Impact of Pakistan's Seaborne Trade on Economy

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Abstract

After the disintegration of former Soviet Union, the world started prioritizing geo-economic considerations over geo-politics, which remained the epicenter of cold war, and gave birth to economic globalization. Today's economic globalization is the outcome of integration of global financial systems and markets along with emerging new sophisticated technologies which facilitated states and its corporations to reach the global market deeper, cheaper and even faster in the free market economy on an enormous scale never experienced in the history of mankind. The economic globalization and its dividends have driven world states to bring about an ideological shift to increase global seaborne trade through economic integration rather than protecting domestic financial markets. This research paper ascertains a constructive and indispensable relationship between seaborne trade and economic development. The paper also attempts to establish that seaborne trade plays an effective role in the economic growth of Pakistan.

Keywords: Globalization, Seaborne Trade, Ideological Shift, Free Market, Economy.

Introduction

Today, the world under economic globalization with integration of financial economic system, free market economy and sophisticated technology has enabled world states to access world faster and cheaper in a conducive environment (Friedman, 1999). The globalization from the perspective of economic integration means integration in all spheres of economy. The economic prospects of globalization have motivated countries to attain maintainable economic growth (Wright, 2000). Seaborne trade with liberalized global trade order has helped to decrease poverty and support economic growth in the country.

Dr. Rakesh Joshi (2009) is of the view that states' economic connectivity works beyond international borders in a unified and inter-dependent global order. In the economic system, states having strategic seaports in their geography serve as gateways of commerce and trade encourage countless long-term economic dividends. The Maritime industry is further categorized into different sort of sub-divisions including sea transportation, manufacturing, shipbuilding, marine engineering and terminal operation, port services, environmental marine services, marine construction, aquaculture, tourism, commercial fishing and recreational boating (Pomeroy & Muawanah, 2013). Indeed, proper management and regularization of laws and defined

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policies for maritime economic zones can bring positive impacts on socio-economic conditions of nations and can regulate the global economic order in a more organized direction.

Seaborne trade is ultimate source and resource for the growth of maritime economies and societies. Therefore, seaport is considered as a hub or platform for the maritime sector of a country's economy and channelizes the hinterlands for interchange of Merchandise. Seaport also plays an imperative part in bringing socio-economic dividends for the nation. Hence, larger the seaports, greater the shipbuilding industry and smaller the seaports, will result in restricted volume of shipping in the state. Olukoju argues that economic implications of seaport and its connected businesses in the vicinity of port are huge. Port's activities generate employment; promote industrialization and social change in the surrounding regions. In this context, historical evidences have showed that Maritime Industrial Development Areas (MIDAs) got momentum soon after Second World War in Europe (Ibid). Technological development and advancement in the modes of transport and shipping along with Economic globalization has considerably brought interdependence and cooperation between compatible world economies. This openness of states to cooperate with each other for the sack of socio-economic development has helped strengthen economic development for the participating states (Dollar & Kraay, 2004).

Corbett and Winebrake (2008) maintain that conversion of vessel propulsion from the coal-powered to low-cost petroleum energy has facilitated the transport of raw materials and other essential products between regions of the world where cost of the finishing product is ten times lesser than in the consuming market. The seaborne trade has also helped access to cheap labor markets in other regions and this supply chain encouraged trade between continents which further brought about lower costs of semi-furnished products. For example, agriculture goods of North America are transported to African Fabric Mills for processing due to low labor costs and then shipped to Asian apparel factories for final assemblage and finally supplied to European market for sale (International Transport Forum, 2008). In similar fashion, many products are produced in multilateral arrangements between states which are not possible to be developed in the local markets due to various seasonal constraints, high production cost and demand and supply factors.

Relationship between Economic Growth and Maritime Transport

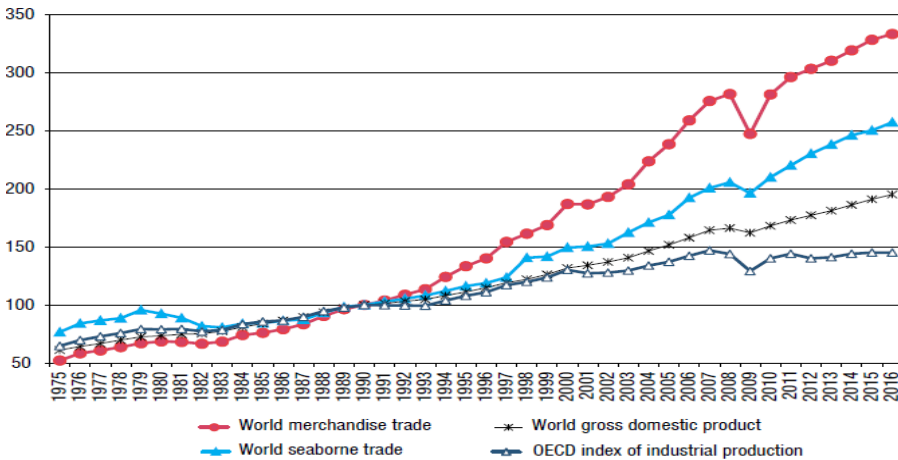
Maritime transportation is a dominant, productive, labor saving and cost effective link in the global supply chain and has helped developing economies of the world sustain

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economic growth. Now-a-days, maritime transportation has been considered an integral part of global economic system (ITF, 2008). Its activities revolve around a network of ports, vessels and network of transport which accelerates shipping of products from industries to the distribution points. In the context of global trade, maritime transport is considered the most dependable, stable, cheap and steadfast source of transportation. It is a single source of carriage in comparison with air transportation which can transport only lightest consignment slightest in size and highest in value.

Over the years, the world has witnessed considerable expansion in seaborne trade as private sector has confidently participated in the seaborne trade to bring geopolitical transformation (UNCTAD, 2013). International logistic system is one of the main parts of maritime transportation accounting for 80 per cent of total world trade size (Ibid). Evolution and expansion in global trade is the encouragement of macro-economic factor which establishes a close link between world seaborne trade and world gross domestic product (WGDP) as exhibits in figure 1. In the figure, global merchandise trade and globalization of production expansion of supply chain has great impact on global GDP.

Figure 1 *Close Link between WGDP and Seaborne Trade from 1975-2016*



Source: (UNCTAD, 2017, P. 3).

As reported by UNCTAD “The Review of Maritime Transport” (2017) the world seaborne trade has grown from 2.6 percent in 2016 to 10.3 billion tons by 2017. About 90 per cent of the global trade by size is seaborne (Ibid). UNCTAD (2017) maintains that since 1970, world commerce has increased by 3 per cent per year to estimated

10.3 billion tons in 2017. Global Marine Trends (2030), in another research, global trade will touch 24 billion tons approximately by 2030. The report added that China would consume three times more oil from the present stand point along with consuming 60 percent of the global coal. The improvement in the world trade demands extraordinary actions from all those littoral countries whose economy and trade are entirely dependent on seaborne transportation. Although some states' ports have been improved structurally by enhancing capability of their ports yet they are still incapable to handle mother ships. Gwadar deep sea port's strategic location which is adjacent to the world oil supply lanes, huge diversified destinations of Persian Gulf and energy rich countries of Central Asia is poised to cater 5th generation mammoth ships and acts as a conduit to South Asia and China (Jehanzeb, 2007).

Role of Seaborne Trade in Economic Growth

A contrasting ideological shift has been observed in 21st century in worlds conventional economic system has taken shift towards seaborne trade through economic integration (Nawaz, 2004). The globalization has made access and seaborne trade very easy and economical (Tangredi, 2002). Consequently, by focusing on future outcomes, regional states have collectively sought partnership to accelerate trade through the process of free market economy (UNESCAP, 2003). After Second World War, high pace of enlargement of world seaborne trade is considered a great success in bringing economic integration. Pakistan's seaborne trade was 0.55 billion tons in 1950 and today it has been expanded to around 10.3 billion tons (Stopford, 1997) whereas today shipping industry also appears as one of rapid growing sectors in the globe (UNCTAD, 2017). UNESCAP (2003) the world trade's expansion and its role in the global economic development have significantly exceeded the growth of seaborne commerce as a whole. Accordingly, recurrent containers operations on the seaports have grown at an average rate of 9 percent (Ibid). Hill (1986) says that world seaborne trade has a great role in the economic advancement and is a catalyst for the socio-economic elevation of the country (1986). He promoted the view with strong opposition that majority of the industrialized states have started their seaborne trade with 10 percent of the national income.

Numerous aspects determine the opportunities and size of the state's trade. While economy of a state can be taken as one of the main elements that affects the size and volume of its trade. It is obvious that developed countries continuously produce large volume of trade as compared to developing countries. Meanwhile one can analyze that trade and its GNP is interlinked in nature. In this manner, trade has deep roots in economic development of the country (Stopford, 1997). Likewise other types of trade,

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seaborne trade has a noteworthy influence on the economic development of the state (Frankel & Romer, 1999). Enlargement in the volume of seaborne trade also brings fruitful impacts on increase rate of foreign and national investment in the country (Blattman, 2003). Srinivasan and Bhagwati carried out a research in 1999 had encouraged the view with evidence that trade sustains the advanced growth level. Another researcher Kipici (1996) had presented his view that increase in country's income level depicts its pace of trade expansion. The export of developing countries chiefly encompasses the range of products which state is producing abundantly and can meet the demand of foreign consumers that ultimately facilitates them to rally their economies (Broda & Tille, 2003).

Nishat Fatima (2010) in her research explains the positive impacts of trade on economic development as experienced during surge in global commodity prices in which South Asian countries have beard the long phase of economic crisis. South Asia experienced colossal losses ranging from 8 percent for Bangladesh to 36 percent of GDP for Maldives. While India and Pakistan are self-sufficient countries in food sector while rest of the South Asian states suffered a substantial loss. Furthermore, the analysis of trade of G8 states reveals that these 8 industrialized states accounting for nearly 65 per cent of the GDP of world (Ibid). Currently, world seaborne trade has proved to be successful and industry of ship has significantly elevated itself to the global macroeconomic standards (UNCTAD, 2017). According to the published report 2017, world seaborne trade will be the dominating factor for containerized trade with dry cargo and raw materials. UNCTAD (2017) signifies that the emerging developing economies of Asia are contributing more in the world seaborne trade in terms of volume of container trade. Asia has appeared one of the important regions of the world with 55 percent unloading and 40 percent loading of total commodities. The accelerated economic growth rate of developing countries shows that these states are willing to improve their world seaborne trade. This propensity of trade enlargement has helped encourage export-led economic development in the developing economies to diversify their trade expansion.

Sea and its Impact in Economic Growth

The statistics of National Oceanic and Atmospheric Administration (NOAA) says that 71 per cent of the Earth's surface consists of oceans and sea that covers 97 percent of the water resources of the world (2013). The disciplines of Oceanography have comprehensively been acknowledged to get advantages from the sea. Due to its increasing fame in international economic world marine sciences has gotten attention of mining companies and research institutes as new resource are being considered as

long term profit making source for mankind. Marine resources are backing noticeably in several ways to elevate the economic graph of country. For instance, extraction and mining of minerals are significant for the processing of manufacturing industries whereas gas hydrate and energy is aiding industrial and domestic sectors. Polymetallic sulphide is worthy mineral which consist of large amount of copper, zinc, lead, iron, barium, manganese, silver and gold, located on the brinks of sea.

It is inevitable to neglect the value of maritime sector in contemporary societies. Due lack of understanding and knowledge, masses are unable to consider its worth and level of contribution in the economic development of a state. Currently, millions of individuals are associated with oceans and seas related productions and dealings. Over the centuries, shipping and fishing industry become prove to be the leading trade industries of state. Seafood itself is revenue generating source while shipping sector serves as a main communication connection between coastal states. It is estimated that 90 percent trade of current time on global level is based upon seaborne due to its efficacy and cost-effectiveness. State can exploit sea for its economic interests by utilizing it as its profit making machinery. While considering the sea food a separate industrial sector sea also provide number of other commodities that actually promote vital economic gains for the state. States under their continental shelf and Exclusive Economic Zones (EEZ) can aggravate their markets over trade and consumption of treasurable resources of oil and natural gas that can be extracted with the evolution of technology (United Nations Convention on the Law of the Sea, 1994). The increasing focus of world economic powers towards the seaborne trade has created the competitive environment to improve and expand the trade activities and outcomes. Therefore sea and oceans like the other natural resources compelling the great powers and rising economic power to gain access to sea and its routes. This is the reason that states have adopted different policies and inaugurated their marine policies towards sea resources to expand their economic achievements along with the strategic gains of their defense system. The strategic importance of sea both in term of civil or economic and military or defense have presented it as most crucial area for the states.

The maritime sector is assembled and unified with many other associated entities that steer several actions such as maritime transport, the cruise and recreational services, merchant Navy, Navy engineering, aquaculture industry, commercial fishing, commercial ports, shipbuilding, maritime training academies, marine energy sources and offshore oil sector. With all the aforementioned linked industries, maritime sector alone serves as a medium of competition and economic integration simultaneously. Today, it acts as key contributor in the economic development of modern economies.

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India, China and even the Eastern European states in the current world economic order are producing low-cost manufacturing products yet struggling hard to compete in the global trade markets. However the developed states are failed to meet the demands of competitive global market due to their expensive products because of high-cost manufacturing.

Impact of Seaborne Trade in the Economic Development of Pakistan

After the formation of Bangladesh in 1971, the economy of Pakistan was shaken badly. To lessen the challenging situation, various governments in a country had showed their dependency on foreign aid to run its economic matters. With the implementation of wrong economic policies, reliance on foreign funding had further sabotage the process of development in economic sector of country. After 9/11, Pakistan had served as front line state in war against terror that has drastically affects the economic development and the estimated loss the state had beard in its economy was ranging up to 67 billion US dollars (Khan, 2013). Irfan (2014) says that consistency in political instability and persistent scarcity of energy resources and escalation in insurgency; all this has categorized the country as a major debt receiver state in South Asia. Today, external debt of Pakistan is 33 per cent of its GDP. Pakistan's external debt is soared up to 91.8 billion US dollar as reported in May 2018 (Rana, 2018). The fluctuating internal risky security situation and deranged global financial dynamics had given strong blow to the country's macroeconomic position and severely affect its export sector. To accomplish a viable economic growth level, each state govern on proper debt management policy that works on equilibrium between exports and imports strategy in order to curtail the dependency on foreign aid to overcome fiscal deficit.

Scale of Pakistan's Economy Dependence on Seaborne Trade

With a shift in geopolitical dynamics in the region, the only way to get rid of state's expenses and sustain the economic activities in Pakistan is seaborne trade. Hali (2012) says Pakistan's 960 km extended coastal area extending 200 nautical miles of the EEZ emerges the backbone of the country's economy as 97 per cent of its commerce is seaborne and 100 per cent of its oil imports are transported through sea. In peaceful conditions within a state maritime economy expands on rapid pace as much as double that of GDP rate.

Figure 2 *Pakistan's Seaborne Trade and Its Associating with GDP*



Source: (Economic Survey of Pakistan, 2012-13)

Due to the incompetency of policy makers, the country is unable to utilize the sea and its resources for the natural interest and economic gains to stabilize its economy. The ignorance of governments towards the management of naval sector results in decline in domestic shipping and shipbuilding industries. The deteriorating economic policies towards marine side of country depict the inability to explore natural resources of offshore (Nawaz, 2004). However, current world economic powers consider the wide-ranging utilities of sea (Hill, 1995). The inability prevailing in the policy makers, government advisors and analysts towards acknowledging the new trends in trade especially the economic globalization has limited them to consider the function of sea for security purpose (Hassan, 2005).

To bring stability in the economy always appear as big challenge for economists of Pakistan. This is the need of hour that government should reconsider its policies towards the development and taking multiple benefits from sea and its resources for bringing financial stability. Presently, coastal economic activities of Pakistan are largely limited only to marine fisheries and fish is being exported in raw form due to absence of modern preservative technology and plants which does not earn heavy revenue for the country. Whereas country like Pakistan where lack of adequate technology and institutions, one can expect the inability of exploring the offshore energy and mineral resources that can act as game changer for the economic situation of the country.

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The products Pakistan mainly and heavily import from other foreign states to meet its nation's needs included machinery, petroleum, chemicals, transport equipment, edible oil, steel, iron, tea products and fertilizer. The mentioned products are extremely focused about 40 states in which main supplier to Pakistan are the USA, Germany, Malaysia, Japan, UK, Saudi Arabia, Qatar and Kuwait (Economic Survey of Pakistan, 2012-13). While key exporting products of Pakistan are ready-made garments, leather manufactures, surgical goods, Jewelry, footwear, rice and cotton products (Fatima, 2010). Pakistan Statistics reveals that over the years, the trade size of Pakistan's export has been expanded with a spillover effects (Economic Survey of Pakistan, 2017-18). During period of 2017-2018, United States and European Union are the most favorable markets for Pakistan's exports items and profit ratio has been reached up to 35-40 percent (Ibid). On the other hand Afghanistan, Turkey, UAE, Oman, Qatar and UK are considered the most favorable markets for the exporting products of Pakistan.

Conclusion

Seaborne trade paves the way for economic development and stability among countries which are determined to uplift socio-economic development through raising income and enhanced socio-economic conditions of the state. Aforementioned facts and figures present to establish the fact seaborne trade plays a vital role in the growth and providing support to GDP and economic development. Developing economies can be converted into developed economies if they strategically adopt and incorporate sophisticated technologies in their ports to upscale their operational mechanism. It is observable fact with the changing dynamics in economic development that those countries which attain greater seaborne trade comparative to the size of their GDP normally increase their productivity. The fluctuating and struggling economy of Pakistan is immensely dependent on seaborne trade which accounts for twice that of its GDP as shown above. Being a chief maritime state, Pakistan needs to develop practicable policies and introduced advanced infrastructure to administer Gwadar port for full utilization of its 960 km long coastline which is stretched to about 200 nautical miles of the EEZ. To take full benefits from its coastline, Pakistan's Gwadar port needs to be run as per international standards which will not only diversify new routes and avenues but will also help overcome fiscal deficit of the country by using it as a revenue generating engine to earn revenue and foreign exchange. To accommodate growing dependency on seaborne trade, Pakistan's Gwadar port appears to be a promising development to take a larger gamut of sea to strengthen economic development in order to attach sustainable economic growth.

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