

# **Trade and Investment Officers Abroad:** **Changing Role and Functions**

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Key Theme:

**Understanding the journey from Mercantilist  
Economic Statecraft to Financial Statecraft,  
supported by Digital Statecraft: New realities of  
Globalization and the impacts thereof for the  
[Trade] Diplomacy**

# Fundamental Notions

- **Diplomacy focuses on facilitating interstate communications. The Objectives and Goals given to the Trade Diplomats emanate from the Statecraft, particularly the historically developed ‘Economic Statecraft’. Statecraft of a country embodies a broader scope of activities that occurs at the international level.**
- **Trade is a traditional tool of Economic Statecraft, its effectiveness proportionate to the ‘military and economic strength’ of a country. Its amplification by stronger countries forces smaller countries to adopt a defensive orientation in Trade Diplomacy with different tools.**
- **Enhancement of Trade could also be a goal of Economic Statecraft; [Traditional Foreign Commercial Policy at bilateral, multilateral, plurilateral levels]**

# Mission and Charter of Ministry of Commerce

## MISSION STATEMENT

Contributing to the national economy through trade liberalization and facilitation, improving export competitiveness and reducing cost of doing business. Aim to achieve higher market access for Pakistani products in existing markets as well as new markets with ultimate aim of improving quality of life of the people of Pakistan.

## CHARTER OF THE MINISTRY

Under the Rules of Business 1973, Commerce Division is assigned the following functions:

1. Imports and exports across custom frontiers.
2. Export promotion
3. Commercial intelligence and statistics
4. Tariff policy and its implementation
5. Anti-dumping duties, countervailing duties and safeguard laws.
6. Inter-Provincial trade
7. Domestic Commerce
8. Organization and control of Chambers and trade associations
9. Law of Insurance and regulation and control of Insurance companies
10. Administrative Control of Attached Departments/Organizations
11. Selection of Trade Officers for posting in Pakistan's Missions abroad

# Trade and Investment Diplomacy

## Infrastructure of MOC

Ministry of Commerce has developed a network of overseas Commercial Sections to protect Pakistan's trade interests abroad, to facilitate the business community and advance their commercial interests on sustainable basis on which the socio-economic wellbeing of the country largely depends. The network consists of fully functional 55 Commercial Sections in six continents equipped in men and material and headed by the highly professional civil servants skilled in the art of **negotiation and trade diplomacy**, thus advancing the **commercial interest** of the country in their respective post countries. Long Term Goals: Diversification of Products and Markets.

# Conceptualization of Trade Diplomacy in India

- **The long-term vision of the Department is to make India a major player in the world trade and assume a role of leadership in the international trade. [Department of Commerce website]**
- **“While introducing Economic Reforms in 1991, there was recognition that reforms were imperative if India wanted to become an economic power of consequence within and beyond the region. Official pronouncement reflected the concern that the balance of fiscal power as opposed to the military power was the key factor in determining a country’s international standing, calling for an integrated strategy to bring economic and foreign policies together.” [Sridharan 2002]**

# What is Statecraft?

In a world divided into sovereign nations, a country needs to practice Statecraft, broadly called Foreign Policy to pursue an International Political Economy. Statecraft is pursued through four primary instruments: information (words and propaganda), diplomacy (negotiations and deals), force (weapons and violence), and economics (goods and money)

[Lasswal, 1958]

# What is Economic Statecraft?

- Economic statecraft encompasses efforts by governments to influence other actors in the international system, relying primarily on resources that have “a reasonable semblance of a market price in terms of money.” [Baldwin 1986] [Reference to money prices is intended to distinguish economic statecraft from other types of statecraft, such as military statecraft, which utilize nonpecuniary means of persuasion or coercion, while at the same time accommodating the broadest possible range of measures that could usefully be called economic]
- American Use of ‘State/Economic’ and ‘Foreign Commercial’ Diplomacy in their Embassies

# Evolution of Economic Statecraft since WW II

<b>Economic Statecraft</b>	<b>Financial Statecraft</b>
<ol style="list-style-type: none"><li data-bbox="428 572 1238 701">1. Trade, Privileges, Tariffs and Quotas</li><li data-bbox="428 801 1174 851">2. Trade Sanctions on States</li><li data-bbox="428 951 784 1008">3. Foreign Aid</li><li data-bbox="428 1179 1225 1236">4. Regional Trade Agreements</li></ol>	<ol style="list-style-type: none"><li data-bbox="1289 572 2109 701">1. Capital Flow Guarantees and Restrictions</li><li data-bbox="1289 722 2084 851">2. Financial Sanctions on Non-State Actors</li><li data-bbox="1289 951 2066 1079">3. Underwriting Foreign Debt in a currency crisis</li><li data-bbox="1289 1179 1793 1236">4. Currency Unions</li></ol>

# Financial Statecraft

**Trade is not the only way in which nations interact with each other economically. Whereas influencing international trade flows has long been and continues to be an important political objective and tool, another form of international economic exchange has risen to a level of much greater macroeconomic significance and political concern over the past two decades. This is the purchase and sale of financial assets—such as bonds, stocks, and derivative contracts—across borders, an activity whose growth has vastly outpaced that of traditional trade. Nearly \$2 trillion worth of currency now moves cross-border everyday, roughly 90 percent of which is accounted for by financial flows unrelated to trade in goods and services—a stunning inversion of the figures in 1970, when 90 percent of international transactions were accounted for by trade.**

*Financial statecraft comprises those aspects of economic statecraft that are directed at influencing capital flows. These efforts involve harnessing financial institutions to achieve certain foreign policy objectives.*

**[Steil & Litan, Financial Statecraft, 2008]**

# US Trade in Goods and Services vs Long Term Trade

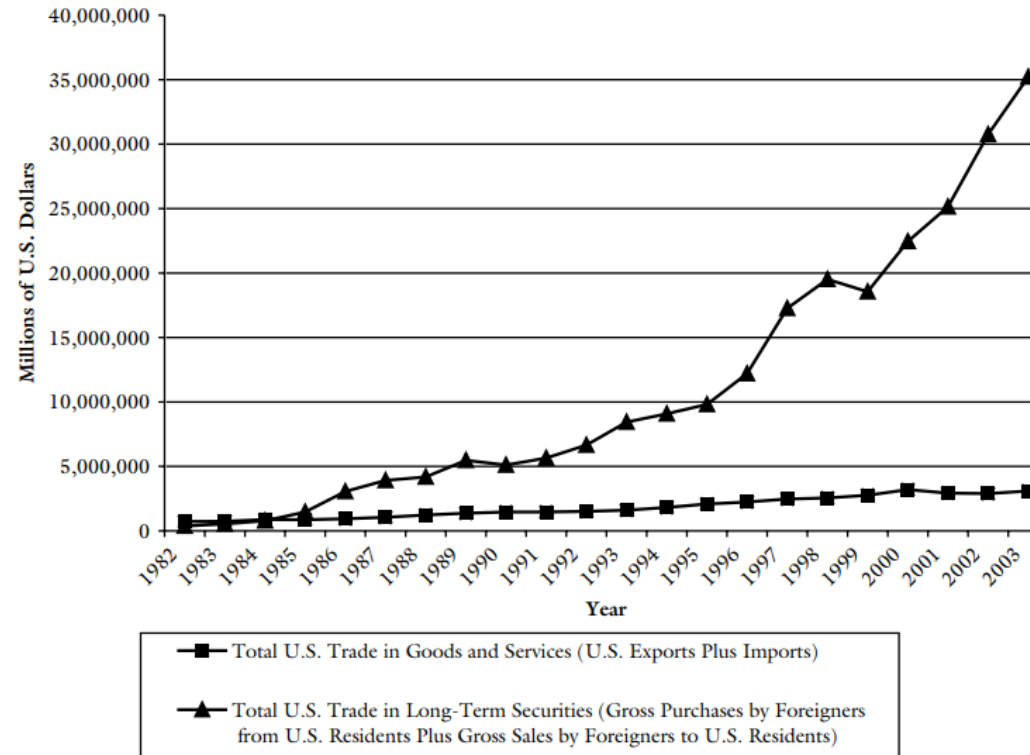


Figure 1. U.S. Total Trade in Goods and Services vs. Total Trade in Long-Term Securities. Source: Bureau of Economic Analysis; United States Department of the Treasury.

Source: Benn Steil, & Litan, R. E. (2008). Financial statecraft : role of financial markets in American foreign policy. New Haven, Conn. ; London: Yale University Press.

# Digital Diplomacy

**Digital diplomacy refers to the impact of digital technology on diplomacy in three realms:**

- **changing [digital geopolitical and geo-economic environment](#) for diplomatic activities (sovereignty, power redistribution, interdependence)**
- **emerging digital topics on diplomatic agenda (e.g. cybersecurity, e-commerce, privacy protection)**
- **[new TOOLS for Economic Statecraft](#) (e.g. social media, big data, AI)**

[<https://www.diplomacy.edu/topics/digital-diplomacy>]

# New Great-Power Dynamics/Geo-economics [Norloff 2021]

## Key Theater: Financial Statecraft

### Coercion

- Financial Sanctions
- Financial Crimes and Punishment
- Financial and Currency Deterrence

### Financial Inducement

- Subversive Inducement
- Inducement complementing financial coercion

### Defensive Counter-strategies

- Retaliation
- Financial Independence

### Legislative Pushback

### Financial and Currency Alternatives

### Security Motivated decoupling

# **Use of a Trade as a tool to advance Foreign Policy Goals: Actions and implications of Ukraine Conflict for the world at large**

- **Cyber is a stage for conflict**
- **Energy Policy rotating towards source diversification**
- **Severe Food Security**
- **Splintered set of tech standards and policies**
- **New Race for critical materials**
- **New Age Supply Chain: Friendshoring, Just in case, dual source**
- **Financial System effects**
- **Rising Defense spending**
- **Politicization of Corporates**

# Part 2

Nexus between Economic Structure and Economic Statecraft in a globalized world

# **Economic Statecraft of the British Colonialism in India and its impact on the Economic Structure, its orientation and vulnerabilities**

**Key features of the role of the state in economic change in colonial India (1757- 1947):**

- **Larger fiscal capacity [than the precolonial states] based on different foundations, such as centralization of finance and securitization of public debt**
- **Eclectic, limited modernization of the economy due to the separation of debt from revenue operations**
- **The colonial state however did not grow the fiscal capacity [by financing productive capacities of the economy, which they could tax], to enrich the Crown and in the process compromised public investment in infrastructure and social development. [Except raw material producing and transport investment in Canals]**
- **Private Enterprises were served better, financed by ‘local’ banks, with low tech consumer items production growing organically with agriculture and population but dependent on British finished goods and chronic trade deficit, financed by ‘foreign debt’, from the Crown, intermediated by Colonial India’s Central Bank, established in 1936**
- **Pakistan inherited Bazaars selling ‘Indian’-British products with little local production, [two local banks, no Central Bank], confounded by lack of cooperation from India, which developed its own Economic Statecraft against Pakistan very early. [Weaponizing Money share, military spares, spurning of currency]**

# **Statecraft and Economic Structure: The case of Pakistan [Post 1947]**

- **Peculiarity of Pakistan situation vis a vis India and China:**
  - **Little economic and financial foundations**
  - **Skeletal state structure and stretched state capacity**
  - **Depletion of assets and HR due to emigration of Hindus and Sikhs**
  - **Arrival of refugees, with entrepreneurship but little assets**
- **The challenge in early years after 1947 was to produce an Economic Structure which could absorb old or recently unemployed and enterprises without assets**
- **Choice was to go for a Free Market tilted mixed economy with import substitution as top priority vs socialist model of state led, autonomous industrialization**
- **Emergence of Economic Statecraft Institutions to protect and grow the Economic Structure of the nascent state with help from Free World & Korean War**
- **Discontent with Accumulation in late 1960s; greater role of state in industrialization of country; establishment of modern social security in 1970s**

# **Wavering between two extremes: 1965 to 1985**

**Allocation of resources from State to the private sector, with aid and loans from the US, resulted in expanding the industrial base in the country but concentrated in fewer hands. With socialist government, inspired by China and Indian experience and learning from 1965 and 1971 wars, decided to strengthen Pakistan's industrial base, establish social security institutions, expand mass education and health facilities and nationalized industry, banking and finance trusting the state to do a better job in terms of accumulation and distribution.**

**Reaction by the International Political Economy was swift and decisive. Though selected state-led heavy industrialization continued throughout 1980s, yet the Companies Ordinance, 1984 and PERA 1992, adoption of structural adjustment reforms and accession to WTO marked a decisive shift.**

# Key Provisions of PERA 1992

- The said Act was promulgated to strengthen the market economy, deregulation and the liberalization process
- The Act allows all the natural and legal persons to deal in foreign exchange in any form without making a foreign currency declaration and shall also be exempted from requisite taxation (Section 4)
- Ensuring complete secrecy with respect to foreign currency transactions and bonafide banking transactions and no restrictions on deposits/withdrawals to be imposed (Section 5 and Section 9)
- Fiscal incentives to be given to the investors (Section 6)
- Section 7 and 8 bars the government from acquiring any privately owned entity putting a blanket bar on the nationalization process

# Contemporary Pakistan

**Economic Statecraft helps avert a Challenge becoming a crisis and helps find new Growth Vents for a globalized economy. We are facing the Challenge of severe macroeconomic instability. The State is to move ahead in the presence of two big constraints and a dilemma:**

- 1. Though the uncritical acceptance of 'global financial statecraft' driven structural reforms in Pakistan [PERA 1992 to SBP Act 2021], had pernicious impact on our Economic Structure, reversing it is not easy as it attracts ire from the sustainers of Global Financial System**
- 2. We have demonstrated poor State Capacity in managing the recent past [real, fake, complex] strategic Vents of Growth i.e., War on Terror, ROZs, Trade with India, GSP Plus and CPEC**
- 3. Ukraine war is testing the limits of the weaponization of economic [Sanctions, trade restriction], financial and cyber statecraft. This may create much needed additional policy space to protect our national interests in reforming our Economic Structure and allow our Trade Diplomats to help us find new Growth Vents in International trade of goods and services, in addition to their work on commercial diplomacy**

# Part III

- One half of the Trade Diplomacy is in Pakistan. Our new Trade and Investment Officers need to know their partners at home. One of the principles Role of our TIOs is to articulate the Challenges and Promises of Pakistan economy; be it an informal dinner gathering at home or a conversation on a national day reception or a explaining the economic developments to the foreign office colleagues in the embassy.
- A TIO should have a Vision of the future of Pakistan Economy and the reform needed. A TIO is a public intellectual, all the times. His value is derived from this role. In the coming slides, possible way forward is suggested on some Sticky Issues

# Way forward on some Sticky Issues :

## Using Capital Control to manage Forex Market Volatility

<b>Potential Gains</b>	<b>Obstacles/ Challenges/ Costs</b>
<ol style="list-style-type: none"> <li>1. Stem the capital flight</li> <li>2. Support selective import control</li> <li>3. Stem speculative forex trading</li> <li>4. Discourage accumulation in \$</li> <li>5. Discourage round tripping of locally accumulated monies back into the country as Remittances and FDI</li> </ol>	<ol style="list-style-type: none"> <li>1. IPE Sanctions to discipline our ‘bad behavior’;</li> <li>2. Costs of not complying with Bilateral Investment Treaties</li> <li>3. Resistance from local corporate sector with stakes in global finance e.g. Banks, ICT Sector</li> <li>4. Black market of forex</li> <li>5. Low support from academia and media due to Legacy Ideological positions, amplified by Adverse Digital Diplomacy</li> </ol>

## Way forward on some Sticky Issues :

### Using Import Controls to manage Forex Market Volatility

<b>Potential Gains</b>	<b>Obstacles</b>
<ol style="list-style-type: none"><li>1. Reduced Trade Balance</li><li>2. CAD</li><li>3. Less pressure on forex</li><li>4. Reduce misuse of subsidies</li><li>5. Better allocation of investment</li></ol>	<ol style="list-style-type: none"><li>1. <b>WTO Regulations</b></li><li>2. <b>Reciprocal restrictions</b></li><li>3. <b>Difficulties in demand control of life style linked imports</b></li><li>4. <b>Under-invoicing &amp; Transfer pricing</b></li><li>5. <b>Resistance from Importer lobbies</b></li></ol>

# Way forward on some Sticky Issues :

## Foreign Debt Waiver to manage Forex Market Volatility

<b>Potential Gains</b>	<b>Obstacles and threat of penalties</b>
Macroeconomic stability Better allocation of resources	<ol style="list-style-type: none"><li data-bbox="1235 486 2079 672">1. <b>Despite threat of Debt Default in many countries, little appetite of debt waiver among creditors</b></li><li data-bbox="1235 715 2097 825">2. <b>Weaponization of Financial Statecraft by the US and EU in Ukraine crisis</b></li><li data-bbox="1235 868 2048 978">3. <b>Changed power equation between Bretton Woods and private Financial Markets</b></li><li data-bbox="1235 1021 1793 1058">4. <b>Changing Chinese priorities</b></li><li data-bbox="1235 1100 2099 1282">5. <b>Diminished policy space due to weak alliance building in the South on Debt Repudiation and Default</b></li></ol>

# Way forward on some Sticky Issues :

## Domestic Debt Write Off to manage Budget Deficit

<b>Potential Gains</b>	<b>Obstacles and costs of blowback</b>
Macroeconomic stability Better allocation of resources	<ol style="list-style-type: none"><li data-bbox="1161 482 2160 615"><b>1. Agreement of international and local capital to continue with the model of public financing</b></li><li data-bbox="1161 651 2160 783"><b>2. Further reduction of policy space by forbidding government to create money</b></li><li data-bbox="1161 819 2160 952"><b>3. Poor appreciation of ills of fractional reserve banking</b></li><li data-bbox="1161 988 2160 1039"><b>4. Weak Q Block</b></li><li data-bbox="1161 1075 2160 1208"><b>5. Little political consensus on major overhaul of the system</b></li></ol>

# Way forward on some Sticky Issues :

## Need of a bigger effort to enhance exports

<b>Potential Gains</b>	<b>Obstacles and Costs</b>
<p>Contribution to growth, jobs, technological development Reduction of trade deficit Improved forex reserve</p>	<ol style="list-style-type: none"><li data-bbox="1289 476 1997 776"><b>1. Few solutions to enhance export competitiveness quickly, particularly in Subsidy-hooked sectors</b></li><li data-bbox="1289 819 1956 953"><b>2. Little Technology acquisition, delayed digital manufacturing</b></li><li data-bbox="1289 991 1939 1033"><b>3. Inefficient Domestic Markets</b></li><li data-bbox="1289 1076 1811 1119"><b>4. Weak Services Exports</b></li><li data-bbox="1289 1162 1931 1205"><b>5. Poor Commercial Diplomacy</b></li></ol>

# **Problematic Growth Vents: [1] Dividends of Pakistan's participation in War on Terror**

- **Debt Readjustment**
- **ROZs**
- **Kerry Luggar Bill**
- **Changed Banking Structure**
- **Expansion of cyber as a vector of globalization with no Communication Borders**
- **GSP Plus**
- **IMF bailouts**

# **Problematic Growth Vents: [2] CPEC**

- **Fairly successful Early Harvest Projects in Energy**
- **Suboptimal results from Infrastructure and Gwadar**
- **Little gains from Industry Cooperation**
- **Some socioeconomic funding**
- **Continued traditional cooperation**
- **Help in regaining macroeconomic stability**
- **Largely unmet trade and growth increase Targets of CPEC of the CPEC Long Term Plan [2016-2030]**

# **Conclusion: Need of a different Economic Statecraft and Trade Diplomacy Practice**

**1. Defensive Economic Statecraft, aimed at minimizing the adverse reaction from local as well as international capital in the short term and from the neo-liberal ideological forces in the long term, as we seek to restore a genuine mixed economy and a Developmental State, with the State able to invest in social development and Banks able or forced to develop an in-depth engagement with the society and local businesses.**

**2. Reduce our participation in geoeconomics plays: Better arbitrage between Intention vs Capacity**

**3. Energise foreign commercial diplomacy by:**

- **Helping genuinely competitive sectors, particularly in services trade**
- **Addressing behind the border [TDAP in particular] and at the border [Customs in particular] issues**
- **Transform the Trade and Investments Officers abroad as an institution, working closely with Q Block, BOI and EAD**
- **Reform the training of newly selected Trade and Investment officers**