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PAKISTAN'S "VISION EAST ASIA" POLICY: ECONOMIC AND SECURITY COOPERATION WITH SINGAPORE

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Introduction

In May 2005, the Pakistani Prime Minister, Shaukat Aziz, visited Singapore and several other Southeast Asian countries. The Singapore visit was to reciprocate a trip made by Senior Minister Goh Chok Tong, when he was Prime Minister in June 2004. Pakistan, like the other South Asian countries, wants to build close ties with the Southeast Asian region, in particular Singapore which, with its open economy, eagerness to invest in South Asia and its stance on terrorism, is an ideal ally to have in this part of the world.

In the wake of this recent visit of the Pakistani Prime Minister, this paper looks at the rationale and objectives for the visit, the key issues discussed and the benefits derived by Singapore and Pakistan, particularly in the areas of trade and investment, and security. It concludes by gazing into the future to look at the progression of the relationship between the two sides.

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Background

Singapore's interest in and its efforts to forge closer links with India is well documented. Regular visits have been made by senior members of the governments from both sides. And the two countries will sign the Comprehensive Economic Cooperation Agreement in June 2005. However, the other South Asian countries are not as clearly visible as India on the Singapore radar screen.

Moving beyond South Asia, Singapore is also keen on developing ties with the Middle East. In the last few months, Singapore ministers have visited no less than 10 countries in the Middle East with the aim of strengthening ties and exploring possible trade and investment collaborations. However, the Middle East still remains a relative new and unexplored terrain for Singapore.

Pakistan, on the other hand, knows the Middle East very well. It has a strong relationship with many of the Middle Eastern states. It is ideally located at the crossroads between South Asia, Southeast Asia and the Middle East and thus is well placed to be a strategic partner to bring the countries in the three regions closer to each other.

Pakistan has followed its look east policy, which it calls the "Vision East Asia" aimed at building partnerships with the countries of East Asia and ASEAN, in earnest. The look east policy envisages deepening relations in multiple fields and institutional linkage with ASEAN members individually and collectively. The Southeast Asian economies are growing at a fast pace and offer immense possibilities for increasing economic and trade cooperation.

The visit to Southeast Asia and Singapore by the Pakistan Prime Minister thus offered the potential for further enhancing ties as well as forging closer trade and investment linkages. Besides Singapore, Prime Minister Aziz also visited Malaysia, Brunei and Thailand.

Trade and Investment

Singapore's trade relations with Pakistan have been modest as compared to some of the other South Asian countries. Singapore's trade with Pakistan totaled US\$1.02 billion last year, making it Singapore's 45th largest trading partner.² Pakistan has been a small trading partner of Singapore and exports primarily cotton, textiles, sugar and rice to Singapore. On the other hand, it has a fairly good appetite for Singapore products and services.

Pakistan Trade with Singapore

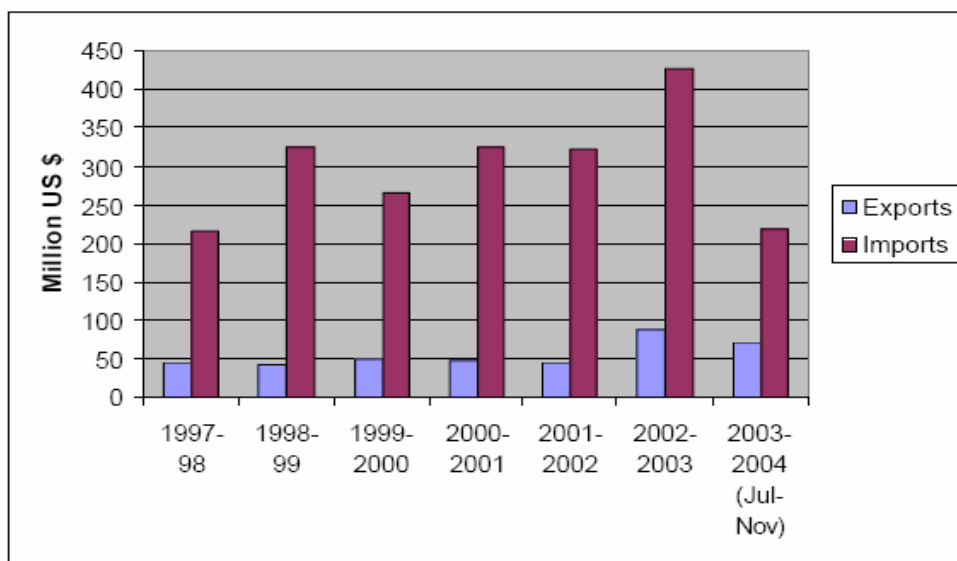


Figure A: Pakistan Trade with Singapore 1997-98 to 2003-04³

As we can see from the above figure Pakistan's trade with Singapore has increased significantly over the years. However, imports from Singapore form the major chunk of the trade, totaling more than US\$400 million in 2002-2003, as compared to the exports from Pakistan to Singapore, which amounted to less than US\$100 million in the same period.

Pakistan has also been actively pursuing the policy of opening up its economy to foreign investment. It has initiated a policy of disinvestment in some of the big state owned companies. With the guiding principles of deregulation, liberalisation and

² Singapore and Pakistan to Start FTA Talks Next Month, Channel NewsAsia, 11 May 2005.

³ Board of Investment, Government of Pakistan.

privatisation, Pakistan has adopted a liberal investment policy to attract maximum foreign investment. Foreign investors can hold up to 100 percent equity in several economic sectors. This move by the government reiterates its desire to reach out to international investors. It also reflects its emerging importance as an investment destination in South Asia. Singapore Telecommunications is one of the major contenders for a stake in the disinvestment of Pakistan's telecommunications sector.⁴ The total Singapore investments in Pakistan increased from a negative -2.1 to 3.5 because of portfolio investment increasing⁵ from -5.3 to 1.3 from 2004 to March 2005. Disinvestment in sectors like banking and telecommunications which are of prime interest to Singapore is also an added advantage for Singapore. Temasek Holdings bought a 25 percent stake in Pakistan's NIB Bank for US\$46 million (\$76 million) in March 2005.

The major items of export to Singapore include cotton fabrics, wheat, synthetic fibers, hides skins, fruit and vegetables (the famous mandarin orange) while the major items of import from Singapore include machinery and its parts, chemical elements and their compounds, crude rubber etc.

Singapore businessmen and investors have seen to be showing greater interest in the Pakistan economy in recent times and the potential for greater trade and investment remains a possibility. Besides telecommunications and banking, a few priority sectors have been identified for investment by Singapore in Pakistan. These include:-

- Agro-food industry
- Chemicals and petrochemicals
- Electrical goods, electronics and software
- Value added textiles and leather
- Infrastructure projects/construction industry
- Tourism, hotels and theme parks
- Sea food/fish processing industry.

⁴ In June 2005, SingTel lost the chance to have a 26 percent stake in Pakistan Telecommunication Company to Etisalat of the UAE. Etisalat offered the highest bid at \$1.96 dollars per share, with Chinese firm China Mobile the second highest bidder at \$1.06 per share while SingTel of Singapore offered \$0.88 per share.

⁵ Board of Investment, Government of Pakistan.

The recent visit of the Pakistani Prime Minister strengthened the commitment that Pakistan has towards building links with Singapore. He made Singapore his first stop to promote Pakistan sovereign bonds. There is potential for a growing Pakistan to act as a rich source of opportunities for Singapore companies while Singapore could be a centre for financing, services and expertise for Pakistan.

The leading Singapore-based companies in sectors such as infrastructure, real estate, finance and health care, which have till now provided their expertise in China and India, have shown the desire to do the same in Pakistan. The Singapore Business Federation announced that it shall use these capabilities and opportunities to forge links between the two countries.

Pakistani companies' forays into the Middle East have been going for a long time now. However, Southeast Asia and East Asia are relatively new to the Pakistan business community. Singapore can also serve as a springboard for Pakistani companies to the Southeast Asia, China and rest of the region. Pakistani companies seeking to export their goods and provide their services to the region can use Singapore as a base, to market their products and services, tap its infrastructure and find business partners here. With China and Pakistan pushing for greater bilateral strategic alliances, Singapore can play a useful role as springboard for Pakistan's businesses into China.

Similarly, Singapore can be the gateway for Pakistan to Southeast Asia. The region is a booming market of more than 500 million consumers. Southeast Asia's exports to Pakistan were about US\$3 billion, but Pakistan's exports to Southeast Asia were only a fraction of this, at US\$250 million in 2002-2003.⁶ There is a clear opportunity for Pakistani companies to sell more to Southeast Asia. Regions as far away as the state of Brandenburg in Germany have set up centres in Singapore to promote their products and help their companies reach out to the region. Pakistani companies could do likewise – they can tap on Singapore's strategic location and expertise to market their exports to Southeast Asia.

⁶ Speech by Dr. Balaji Sadasivan, then Singapore Minister of State for Health, to the Lahore Chambers of Commerce & Industry, Lahore, 23 April 2004.

Pakistan is also keenly interested in becoming a full dialogue partner of ASEAN. It has Singapore's support, along with Brunei, Thailand and Malaysia. It thus makes sense for Pakistan to be interested in the Southeast Asian region and to forge deeper alliances with the countries here.

The recent visit to Singapore by President Aziz also saw the conclusion of the exploratory discussions on a Free Trade Agreement (FTA), that started in Islamabad in February this year, paving the way for the two nations to commence the first full round of FTA negotiations in June 2005. Both governments have promised that the FTA would be of a high standard. It is hoped that the FTA would remove trade barriers and create investment opportunities for both countries.

Pakistan is keen on Singapore investment in its banking, bio-technology, tourism and info-technology sectors. Pakistan companies will be encouraged to list in Singapore to deepen business ties between the two countries, which are due to start talks in June 2005 on a possible FTA.

Security Cooperation

Another area of cooperation and mutual interest between Singapore and Pakistan is security and promotion of a safe and peaceful environment. Post-September 11 Southeast Asia has become the centre stage in the fight against terrorism. This is compounded by fears of a spillover of the terrorism from the Middle East into the region. Therefore, an important criterion for promoting a strong relationship with both India and Pakistan, by Singapore, has been to ensure security cooperation in the region. Even though Singapore is not directly involved in the Kashmir issue, it acknowledges that a stabilised India-Pakistan relationship is good for the wider Asian region.

Singapore is high on the list of targets for terrorist action. The extremist regional network Jemaah Islamiyah (JI), which is intent on subverting governments in the region, has targeted Singapore before. Singapore will continue to be vulnerable because of the very strong stand it has taken against terrorism, the arrests it has made to crack down on JI in Singapore, the assistance it has extended to regional efforts

against terrorist groups, and the support it has given to the American reconstruction efforts in Afghanistan and Iraq.

During his visit to Singapore, the Pakistani Prime Minister spoke at a lecture organised by the Institute of South Asian Studies where he acknowledged that Pakistan has had a troubled neighbourhood with Afghanistan on one side and India on the other side. The situation has improved recently with the election of a new President in Afghanistan and the opening up of communication between India and Pakistan.

According to the Prime Minister, a viable architecture of security and cooperation in South Asia rests on four pillars:⁷

- | | |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| First | Dialogue for peaceful settlement of existing disputes and mechanisms to address issues in the future on a bilateral and multilateral basis. |
| Second | Strategic restraints and avoidance of an arm race in South Asia. |
| Third | Strengthening of cooperation especially in trade, investments, people-to-people contacts and cultural fields in a peaceful environment on bilateral basis and within the framework of SAARC. |
| Fourth | Inter-regional cooperation between South Asia and other sub regions of the Asian continent for enhancing security and mutually beneficial economic cooperation. |

Pakistan's sincerity to work with Singapore to counter terrorism and strengthen security ties was reflected in the signing of the Memorandum of Understanding

⁷ Speech by Prime Minister H.E. Shaukat Aziz at the Second ISAS Distinguished Visitor Lecture. For more details, see www.isas.nus.edu.sg.

(MoU) on “Combating Terrorism and Other Trans-national Crimes” during Prime Minister Aziz’s visit to Singapore. Pakistan is already a member of the Asian Regional Forum, giving it some access to the bloc’s discussion on security issues.

With this background, the prime ministers of both the countries reaffirmed their commitment to the principles of the United Nations charter and belief in the equality, respect and sovereignty, territorial integrity, non interference in internal affairs and peaceful settlement of disputes as the fundamental principles of friendly relations among states. The two ministers condemned terrorism in all its manifestations and agreed to continue their endeavors in this regard. Pakistan signed the treaty of Amity and Cooperation with ASEAN and is also ready to sign an agreement on counter terrorism.

The India Factor

In assessing the relationship between India and Pakistan, it is not unfair to state that the actions taken of one neighbour are the direct result or consequence of actions taken by the other neighbour. This is perhaps applicable to the efforts undertaken by the two countries in forging ties with Southeast Asia.

Like Pakistan, India too sees ASEAN as an important trade and investment, and strategic partner. The impetus for greater co-operation between India and ASEAN can be attributed to India’s “Look East” policy, first advocated by Mr Narashima Rao, India’s former prime minister, in 1991. India’s “Look East” policy was aimed at renewing political contacts with ASEAN, enhancing economic interaction and forging defence links and understanding. Successive Indian prime ministers continued to advocate the same policy with equal fervor and enthusiasm.

India’s “Look East” policy has certainly bore dividends. Trade between India and ASEAN has grown from a mere US\$3 billion in 1992 to more than US\$12 billion by the end of 2003. It is expected to hit US\$15 billion by the end of this year. Beyond trade, India is a strong political and security partner of ASEAN. It became a sectoral partner of ASEAN in 1992 and a full dialogue partner in 1995. In 1996, India became a member of ASEAN Regional Forum, aimed at confidence building, conflict

resolution and preventive diplomacy. And in 2003, India and ASEAN signed the ASEAN-India Framework Agreement on Comprehensive Economic Agreement.

In some ways, Pakistan is playing catch up. It developed its “Vision East Asia” policy in 2003. Its trade and investment ties with the Southeast Asian region are small by any standards but there is potential for growth in this area. Similarly, Pakistan’s strategic involvement in the region – its inclusion as a member of the ASEAN Regional Forum and its efforts to be a full-dialogue partner – follows the footsteps of its neighbour. It is clearly evident that it wants to play a larger role in the region.

Pakistan realises the need to be more proactive and engaging in Southeast Asia, lest it be left behind the relationship-building race with its neighbour. It cannot compete with India on the economic front but it can develop strong ideological and strategic alliances with the Southeast Asian region. The visit by Prime Minister Aziz to the various Southeast Asian countries and the call for greater commitment to trade and investment, and security cooperation are clearly reflective of the Pakistan’s effort to bring itself closer to the region.

The United States Factor

In the war against terrorism, Pakistan emerged to become an important front for the United States in South Asia. President Musharraf’s support for the American war against the Taliban in Afghanistan and his continuous efforts to combat terrorism along Pakistan’s border and within the country has resulted in Pakistan being seen a strong ally of the United States. The allegiance and affiliation has not been without its rewards. For instance in 2004, the then Secretary of State for the United States, Colin Powell, recognised Pakistan as a “major non-NATO ally” for all military-to-military purposes.⁸

However, Pakistan realises the need for it to develop its own foreign policy agenda beyond the United States. It is clearly not the Arab world’s good books for its support

⁸ The United States gives members of this club preferential treatment in the purchase of excess United States’ defense materials. They can stockpile American military hardware, and participate in cooperative defense research and development.

for the United States and it is fully aware of that. At the same time, it is aware that “there are no permanent friends and foes, just permanent interests”. It needs to propagate its own interest and forge ties with other countries and other regions. It cannot possibly rely on the United States to play ally forever.

With the recent visit by the Chinese premier to Pakistan and Prime Minister Aziz trip to Southeast Asia, Pakistan sends a strong message to Washington that it is not entirely reliant on the United States. It will continue to develop ties in the pursuit of its own national and strategic interests. Such initiatives by Pakistan would also perhaps also help placate Pakistan bashers in the Muslim world who see Pakistan aligning itself too closely to the Americans.

Moving Ahead

The recent visit by the Pakistan Prime Minister was important for Pakistan in several regards. It showed the keen desire of the Pakistan government to forge and strengthen ties with Southeast Asia and Singapore. It has strong links with the Middle East but its overtures into ASEAN have been less notable. The progress on the FTA and the signing of the anti-terrorism MoU highlighted Pakistan’s commitment to engage Singapore. Economic development and security cooperation are key to ensuring long term peace and trade relations between both the countries.

The visit also opened economic possibilities for Pakistan and Singapore, and for Pakistan and Southeast Asia. There is a great deal of potential in areas such as infrastructure development – roads, power and telecommunications, electronic and banking. Pakistan’s trade volume with the Southeast Asian countries is expected to increase as it forges ahead with its free trade agreements.

Pakistan has also been able to send the message to its South Asian neighbours and the international community that it has the desire and the will to forge alliance aimed at achieving its objectives and protecting its interest. It wants to build bridges beyond just the United States and it is willing to compete with India for the attention and interest of Southeast Asia.

Whilst Pakistan offers opportunities for Singapore, there are key challenges facing the country. Its legal system (as in the case of most South Asian countries, with perhaps the exception of India) lacks the depth of skilled personnel and its infrastructure suffers from bottlenecks. At the same time, there is the question of the government's long-term political stability, although the Musharraf government has shown considerable resolve to crush dissenting groups and ensure its stranglehold on the country. The country's western border is a volatile region, and there have been instances of sectoral clashes and violence, and sporadic terrorist attacks within the country.

These challenges notwithstanding, Pakistan has shown its mettle in dealing with its internal challenges. Its economy is expanding and growing.⁹ The government's policy of disinvestment and liberalisation makes it an ideal investment destination. A stable and strong alliance between Pakistan and Singapore will pave the way for further economic and geopolitical integration in the Asian region and promote an environment of peace, prosperity and security.

⁹ The economy saw a growth rate of 8.4 percent as of May 2005.