The Role Of Shipping Industry And Seaborn Trade In Economic Development Of Pakistan

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Abstract:
Seaborn trade is the backbone of world trade, and its share is 80% of the total trade around the globe, while in developing countries it is more. Sea trade is the cheapest mean of trade. Its contribution to economic development is enormous. Pakistan a developing country is eagerly looking for its economic growth and sea trade to be the main pillar of the desired objective. Pakistan a coastal state is blessed with opportunities and can attract international trade to and from its deep-sea ports. It can serve the landlocked countries of Central Asia and even beyond. The main objective of this article is to highlight the role of maritime trade in the economic development of Pakistan. in order to achieve the desired objective descriptive and analytical methods are applied. This paper concludes that the seaborn trade and shipping industry is the potential enough to boost the economy of Pakistan.

Key words: Seaborn trade, shipping industry, ports, trade.

Introduction:
In a report on maritime transport (2006) United Nation declared growth of 7.2 % in trade ships and touched the limit of 690 million Deadweight Tons (DWT) during the first quarter of 2006. During 2004 with the growth rate of 12.6 Sea trade reached to 36.1-million-ton foot equivalent units (MTUs). The ports of developing countries share 137 MTUs to the total. (UNCTAD, 2006). The world experienced 3.5 % economic Growth and 9 % growth in container traffic in 2005 while 6 % growth in global merchandise export and sea trade hit by 7.11 billion tons. Further growth in the sector is expected in coming years. With the passage of time energy demand of the world would increase, the estimated increase in natural gas is 2.75 % annually in coming 20 years. Increase in sea shipment of crude oil is 3.5 %, demand of the world would remain uninterrupted for several years (UNCTAD 2004).

The ports of the Black Sea are used by the landlocked counties of the Caspian Sea and Russia as they constructed pipeline for their resources, but the workload on Turkish straits boosted the demand for new venues. The enormous resources of Central Asian Republics got
the world’s attention. The port at Gwadar would be a possible alternate route for transportation of these resources, alternate economy generator for Pakistan (Jehanzeb, 2010).

There are some key areas pointed by the international shipping industry as at risk of pirate attacks. In Asia’s Seas these are Philippine, Indonesia, Vietnam, Singapore straits and South China Sea (at low extent) West African part particularly from Angola to Mauritania, India, Sri Lanka, Bangladesh, and East Africa. Somalia is a special case in this regard where all the ships passing is cautioned to keep 50 M distance from the coastal area to avoid attacks of pirates. The whole shore of Africa is piracy affected; these vessels are used for drug trafficking (Dillon, 2006). On the basis of all these threats China is eager for alternate routes for its energy and consider various transit pipelines.

Beside Pak-China all weathers friendship bilateral trade between the two is not up to the mark, an increase of 37 % was reported during 2004-5 in which Pakistan’s share is $ 911 million while Chinese share is $1.9 billion. Trade balance strongly supports China (Government of Pakistan Board of Investment, 2006). In order to extend its trade routes China signed a number of bilateral agreements. Under its policy “go west”, China is developing its western region, including Xinjiang, that has contributed $ 4.5 billion in terms of international trade while $ 22.7 billion to GDP in 2003. Pakistan can revise its economic ties with China under the current status of Xinjiang. (Haider, 2005)

Pakistan’s former president General Pervez Musharraf declared, on the occasion of the inauguration ceremony of the Sust dry port declared that the 10000-foot-high altitude facility would strengthen bilateral trade and will highlight Pakistan’s potential for intra- regional trade (Dawn, July 4, 2006). A dominant role of Gwadar port is visualized in China’s foreign policy in near future. Through Karakurm highway, connecting to Ratodero-Khuzdar road, the shortest route, Gwadar is connected to western China. The port is connected through first class international airport. (Niazi, 2005)

**The role of seaborne trade in economic growth:**
Presently there is a rising understanding that integration into the global economy is the road to economic prosperity. (UNESCAP/UNDP, 2007) from 1950 to 90 international trade experienced 1.5 times growth while currently about 2.2 times growth is recorded. Hill is of the view that sea trade contributes significantly to the economy and as a motivator of growth and modernization. As proof he noted that sea export of many of world’s top economies covers reasonable percent of national income. Contribution of Sea export is 17 % of GDP of Pakistan (World Bank, 2015).

Sea trade grew to 0.55 billion to 5.88 billion tons from 1945 to 2002. (UNCTAD Secretariat, 2003) Growth in international sea trade, motivated by economic growth, has far exceeded the sea trade growth rate as whole (UNCTAD Secretariat, 2003). For instance, average growth of total sea trade was 3.3 % per year from 1987-99 while in the same period the containerized cargo grew by 8.3 % per year, caused 160% growth in total sea Container transport. Because of the importance of transshipment transportation number of the containers dealing in the ports of the world grew by a prompt rate of 9 %. Stapford is of the view that the real size of the Country’s Sea trade can be examined by its actual economy size. Increase in economies generates trade. GDP and trade relationship is dynamic in its nature. Nature of
economies and trade change as growth take place. Growth varies from country to country at various phases of economic development and the edges for growth for states at various phases of economic development are remarkable (Stopford, Martin, 2009). Some other variables, i.e. area and population of the country slightly effect the concept of maritime trade. Combination of demand and supply of export and import is known as economic activity, it’s not the number of people living in a country (Stopford, Martin, 2009).

**Shipping industry and economic development:**

Shipping industry and economic development are closely interlinked with each other; therefore, the development of shipping industry is not only important for major shipping but for all countries. (Frankel, 1987) As over 90 % of all international trade is routed by water that’s why shipping service is very important for global trade (Tangredi, 2002). Most of the developed nations consider a maritime policy as integral part of its stable trade policy.

A stable professional marine sector stimulates productive exports, fruitful trade venture and to get the best of available technology and products. Reliance on foreign manufacturers, suppliers, containers, and traders cause under-achievement and indifference in foreign relations. When economies become restricted and lethargic its savings and investments drop, its potential of productivity and industry neglected and results removal of energy of competition in the global market (William A. Lovett, 1996).

Shipping industry needs huge amount of capital, and a lot of risks are also involved as there is variation in freight rates and demands (Hansen, 1981). Developing countries currently contribute about 20.3 % of world total tonnage; in which Asian share is 74.1 % (UNCTAD, 2003) international maritime trade is blamed by most of the developing countries for uneven share and high freight charges. (Frankel, 1987)

**Investment in shipping industry by developing countries:**

There are five main reasons of investment in the shipping industry by developing countries, i.e., to save foreign reserve, to boost up foreign trade of the country and to reduce freight cost, to get profit of shipping trade, provision of employment, assurance of suitable and reliable shipping service. To avoid consumption of foreign exchange on foreign vessels has been another reason often tabled by developing countries for investment in the field. These states may get savings in foreign exchange. From a national point of view, there are certainly less depending on factors in a net saving of foreign exchange.

- Type and age of the ships and their cost structure under domestic and national flag.
- The requirements of international vessels and financial arrangements in this regard
- Level of utilization of national resources in the operation of these vessels like management, crew, and repair facilities.
- Degree of profit generation and operational efficiency.
- Impacts of freight rates.
- The common situations on the particular trade routes in question.

Though current employment opportunities in shipping industries are less, but through its trade linkages and spin-off factors, it may have very important impacts on trade. The
availability of maritime service provides an advantage in case of war or other emergencies in the field of domestic and global trade.

Developing countries due to lack of capital, interested in less expensive alternatives like the use of leased or second-hand ships. But the used or second-hand ships cause high consumption and maintenance costs, as the rusty body and old engine need permanent look after. The aged ships fail to produce profit as their maintenance cost is more than their profit.

Stopford compares shipping industry with the game of Poker where players must be aware of the rules of the game. Same as in the game of Poker victory in shipping industry depends on planning, probability, luck and psychology (Stopford & Martin, 2009). Many developed nations subsidize their maritime trade, which negatively affects developing countries shipping industry, but same time favors their trade as freight rates are low.

As a coastal state, Pakistan is facing difficulties to explore the sea resources effectively. Several years of less attention have troubled the development of sea sector, that ultimately bothered country’s security and economic development simultaneously. Maritime trade is known as the backbone of the economy of Pakistan, the national industries of shipping and shipbuilding are in confusion in terms of economics; the sector of maritime could change the base of the economy and accelerate economic growth. Development the navy as strategic and congenital force is much more crucial in terms of protection of national rising maritime economic interests against coercion and predation. The same is essential for protection of national strategic interests as well. Nearly ninety five percent of the country’s foreign trade route through the sea, that in the years of 2003-04 roughly contributed 36.3 % to the GDP (Economic Survey, 2003-2004).

The development of Gwadar deep seaport and installation of business-oriented policies for revival of shipping industry and exploration of offshore riches are some of examples in this regard firstly, seducement of state-owned merchant marine in Pakistan has pushed the state of dependency on international ships for foreign trade. In time of war or in a state of high tension, dependency on international ships could have negative effects on the maritime business of the state.

International ships may refuse to serve in such a highly sensitive areas where war is certain or increase the charges up to unacceptably levels. This idea is fairly reasonable considering the fact that the shipping and assurance charges for Pakistan sharply increased during 2001 when USA attacked Afghanistan and next time in the time of second Gulf War during 2003 (Aslam, 31 May 2006). Second, navies, as an essential element of military power at sea, are developed by the maritime nations to protect their strategic and economic interests.

The growth of the Pakistan Navy has not been proportionated to the growth of the country’s strategic and oceanic interests. In fact, the limited mind set of the stakeholder has not been able to appreciate a due role for the Navy in the total defence 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 (Hill, 1994) 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), theatre ballistic missile defence 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 (Nalebuff, 1988). Gwadar is predicted to provide sea access to landlocked 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 Gwadar 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 interdependent with the trend of globalization and the modernization in the means of transportation. The economic growth is widely be accelerated by Openness to international trade. This up to some extent explains the new trend in international trade. The 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 geopolitical situation and geography in the region, Pakistan is largely dependent on the 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 (Hansen, 1981). In the result of which country is spending around $1.5 billion of foreign exchange annually on cargo charges, which is about 2.2 per cent of the GDP.

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 mind set of the stakeholders, and the predominant geopolitical situation. The neglected shipping industry causes serious drawbacks of 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 un-maintainable publicly owned enterprises.

The role of seaborne trade in economic growth:
At present there is a growing consensus that the road to prosperity lies in integration with the global economy (UNDP, 2001). 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 (UNDP, 2001). According to Hill “maritime trade not only contributes considerably to the 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 (World Bank, 2015).

From 1945 to 2002 the maritime trade grew from 0.55 billion tons to 5.88 billion tons (Stopford, 1997). 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 (UNCTAD, 2003). 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 trans-shipment, transportation (the transfer of cargo from one ship to another) the number of the containers deal in the world’s ports grew at any even more rapid rate in excess of 9% (UNCTAD, 2003).

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 in countries in the early stages of economic development is phenomenal (Stopford, 1997) 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 geopolitical location in the region, Pakistan is depending heavily on the sea for its existence. More than 95% of the country’s trade is routed through the sea (Stopford, 1997). The exports for financial year 2003-2004 have risen to $12.1 billion, while imports remained 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 (World Bank, 2003) 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 tons. 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 (UNESCAP, 2002).

In South Asia, Pakistan approximately doubled its output growth rate to 4.6% (UNCTAD, 2003). Real GDP for 2002-2003 was 5.1% and during the fiscal year (2003-04), it reported a growth of 6.4 per cent (Economic Survey, 2003-2004). Some of the exports of economics are of the view that Pakistan is on the take-off stage (Khan, 5 May 2003).

The new alteration, in Pakistan’s economic situation and the visible boost of trade in the years of 2004-2005 (export and import targets are $13.7 billion and $16.7 billion respectively) replicate this change (Dawn, 23 July 2004). This is also explained by the point that each of the states has its own distinguished Trade Development Cycle (TDC), which founded on the dynamics of its production, cultural and commercial reflections (Stopford, 1997). Pakistan’s imports are overwhelmingly composed of few items i.e., machinery, chemicals, petroleum and petroleum products, edible oil, transport equipment, iron and steel, tea and fertilizer. All of these imports donated 75.2% of overall imports during the years of 2001-02. Machinery, petroleum products, chemicals and petroleum are the categories which
cover about 60.1% of total imports. Substantial changes took place in the structure of some of the groups of imports with the passage of time. (Vahidy, 28 January 2002)

**Shipping Industry and Economic Development:**
Shipping industry and economic development are closely linked. Growth of the shipping industry is of great economic significance for all nations of the world (Frankel, 1987). As approximately ninety per cent of the global trade is conducted through sea lanes therefore to deal with such a huge bulk Shipping service is of crucial importance (Tangredi, 2002). About all of the developed countries consider maritime policy as integral part of their trade policy.

Well-developed commercial marine responsible of successful export promotion and conduction of profited trade ventures. In addition, it helps to bring the best of available products and technology to home country. On the other hand, if sea trade depends on non-national marine it causes hurdles in foreign relations and trade Achievements.

The sluggish and restricted economies ultimately lead to less saving and investment. Its industries become less productive that banish its competition in global trade markets (Lovett, 1996). Shipping industry needs huge capital investment where many threats are involved to substantial variations in the demand of vessels and uncertainty in freight charges (Hansen, 1981). Presently developing states contributes nearly 20.3 per cent to the total world tonnage out of that Asia’s nation’s share 74.1% (UNCTAD, 2003). Most of the developing nations declare the unequal share of global sea trade for the high charges of freight that charged to their trade (Frankel, 1987).

**Shipping Industry in Pakistan:**
In its early days there were only four merchant vessels of small size with Pakistan, which came to a figure of 14 during 1950 and touched the number of 71 in 1970 before the separation of Bengal (Iqbal, 1999). During these days Karachi port was known as one among best ports in east of Suez. The Large number of international vessels visits the port for repair and maintenance purpose. Both government and private sectors earned handsome amount of foreign exchange and sense of goodwill in the international community.

In the shipyard of Karachi there were so many workshops of ship repairing that provide not only employment to a large number of skilled and semi-skilled workers but apprenticeship as well (Millwala, 1999). After separation of East Pakistan in 1971 the maritime trade between the two ended and the national commercial marine became in direct competition with international marine.

The industry was trying to get rid of the first shock that government nationalized major private sector owned industries in 1974. The nationalization process finished the healthy competition of public and private sector (Millwala, 1999). In 1979 Pakistan Shipping Corporation and national Shipping Corporation were merged into national Shipping Corporation of Pakistan remained under financial hindrance though it was the sole dominant in the marine sector (Aslam, 2001). Because of two reasons, firstly public sector’s cooperation remained inefficient and secondly absence of healthy competition between public and private sector.
Pakistan’s marine ships experience a continuous decline as it was 54 in number with 518000 deadweight tons in the year of 1982 came to 13 vessels in 2002-3 with 229579 deadweight tons (Economic Survey, 2002-2003) and recently its number rose to 14 with a capacity of 470326 deadweight tons (PNSC, 18 October 2012). The shipping corporation contributed Rs. 4.602 billion to national exchequer from July 2003 to March 2004 (Economic Survey, 2003-2004). The report of United Nations conference on trade and development in 2002 declared that national vessels shoulder only 5% of national cargo that is far below the required minimum level of forty percent (UNESCAP, 2002).

International Marine consumed $1.3 billion from Pakistan in 2002 annually that cause significant drain of national foreign exchange (UNESCAP, 2002). Currently national marine handle just 5 per cent of national trade which is not up to the mark and far less than the mentioned 40 per cent of the UNCTAD convention on code of conduct for liner conference (UNCTAD, 1974). The deteriorating condition of national marine is one of the important causes which prevent Karachi shipyard form development, though it was an emerging sector of 1970s, when a new order of ship building from private sector infused new zeal in the sector (Aslam, 2001).

Investment in shipping industry drag some other service industries in development like marine, telecommunication service, marine insurance, marine training institution, ship provisioning service, ship finance and ship classification service. The nationalization policy discourages private ship owners of Pakistan. It gives complete domination to public sector till 1990s in the sector. Most of them find new venues for their investment in the world elsewhere. In 1984 the facts show that Pakistani businessmen had 63 open-registry ships having the capacity of 1.75 million tons.

Construction of Gwadar deep seaport is actually backed by investment in national shipping industry on two grounds. Firstly, it has the potential to enhance the transit trade of Afghanistan and Central Asia. Secondly, it has the potential to initiate coastal shipping service between Gwadar and Karachi. Pakistan in long term visualized the port as key trans-shipment point of the region. Along with other benefits that the project would bring with it, it would enhance the need of a point or feeder service of ships to deal with subsidiary ports in the area. Pakistan if developed its national freight would be able to get the advantage of the future business generate by the project.

Conclusion:

The government is trying to develop offshore energy, but with no results yet. Major impediments are coastal pollution and lack of scientific preparation of data, to have a continental shelf beyond the EEZ. There is no symmetry between economic growth and capacity development of navy, strategic interests, and maritime sector of Pakistan. One of the most important reasons for neglecting the sector is “continental mindset” of policymakers. Current era of globalization enhanced dependence on navy in both strategic and conventional terms. It is very important for Pakistan to have a second-strike capacity to counter any aggression. Development of naval capability is essential to protect maritime trade and explore offshore resource.
Developing nature of economies needs uninterrupted flow of trade leading to integration. The former Prime Minister of India Mr. Atal Bihari Vajpayee stated regarding South Asian Union that having potential to eventually introduce open border, common currency and common security cooperation in the region is creditable. There is no opposition to this dream of integration in South Asia even Pakistan has carefully declared the dream of Vajpayee feasible (Shahid, 2004). In international relation, it is very common that small neighbors always live under fear when their large neighbors have tendencies of expansionism. Upcoming mutual agreements in the region would help to accelerate integration in South and Central Asia.

Reference:


http://www.webology.org


