



## Enhancing Indo-Pak Trade Perspectives from Pakistan

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Despite periodic tensions over the years, there have been numerous positive developments between Pakistan and India, including Lahore-Delhi bus service and the peace process that was launched in February 2004. The peace process did achieve some breakthroughs including the resumption of Khokhrapar-Munabao rail route, Srinagar-Muzaffarabad and Rawalakot-Poonch bus service, formation of Joint Anti-Terrorism Mechanism, and launching 'Road Trade' through truck service.

The above developments provide an opportunity to both the countries to improve and enhance bilateral trade. With the signing of South Asia Free Trade Agreement (SAFTA) in 2004 and its coming into effect in 2006, the scope for intra-SAARC (South Asian Association for Regional Cooperation) multilateral trade has also been widened. The two governments and the private sectors are required to take initiatives to explore the potentials of mutual economic engagement through joint ventures. However, the fact remains that the trade between Pakistan and India is not an easy phenomenon. It involves certain issues, problems, political and economic compulsions that make it more challenging task than merely engaging the two parties in any economic activity.

Despite the challenges and problems to enhance bilateral trade, what are the dynamics and the

existing potential of bilateral trade? What are the ways and means to improve their bilateral trade relations in view of the existing problems and prospects?

### I INDIA & PAKISTAN: NATURE AND STRUCTURE OF ECONOMIES

The subcontinent's economy was an agricultural one and after the partition the two independent countries followed the legacy of their ancestors till the industrialization started taking place. Unfortunately, despite achieving a steady growth, due to multiple factors, including rapid increase in population, India's economy is still rated as developing or poor economy. However, as compared to its regional neighbours, the country's economy is stable and has access to global market for its goods. Several factors contribute to India's steady economic performance: Consistent democratic basis/system; Active diplomacy; Pragmatic and largely neutral economic and political policies; Industrial base; and diligent services sector.

These factors have not only contributed towards India's economic stability but also have attracted several trading partners, especially the EU, the Gulf States and the Middle East. Moreover, the 'Look East Policy' also ensures greater economic access for Indian goods to Southeast Asian markets.

On the other hand, Pakistan's economy not only has traditionally been agricultural, but continuous internal political instability and regional politics increased its dependency on external sources. The country experienced a high growth rate in late 1960s; however, that phase ended with the dismemberment of Pakistan. Among other factors, the economy also suffered due to the gradually increasing shortfall in agricultural production. Later on, due to continuous political tensions, Pakistan started losing its investors as well. "The structural adjustment programme began in 1988 with the annual budget announcing a number of measures with respect to Pakistan's trade policy. The tariff structure was sought to be rationalized, the number of items on the restricted and banned lists were brought down, and import licensing requirements were streamlined. All regulations on investment licensing, imports of capital and intermediate goods and royalty payments have been



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removed. Public sector industry in manufacturing, banking, telecom and power is being divested". Unfortunately, these structural changes have failed to boost Pakistan's economic progress and 20 years down the road, the country largely is unable to manage with the economic crisis.

Pakistan's economic growth has been hampered by certain factors: Internal political instability; Weak democratic structure/system; Lack of an industrial base; Low investments and savings; and reliance on external borrowings and remittances.

## II BILATERAL TRADE: AN ANALYSIS

Keeping in view the minuscule trade level and structural differences in the two economies, one may argue that the two countries lack commonalities or convergences in their trade or economic policies and hence are less likely to compliment each other's economic growth through bilateral trade. However, there are several avenues which are not only of common interest to both Pakistan and India but they can also explore them together to their mutual benefit. There are opposing views on the significance of enhanced bilateral trade between the two countries; one that trade would facilitate cheaper access to goods for the consumers in both the countries. While others believe that India being the larger economy tends to dominate the economic interactions between the two countries.

The existing trade between Pakistan and India is conducted via three different ways: official trade which is dismal, non-official trade and illegal trade. Since the bilateral trade is marred by multiple issues, the official trade between the two countries has not been able to cross the limited volume. India also associates the official trade with granting New Delhi of MFN status (most favoured nation status) by Pakistan. India granted Pakistan MFN status in 1995 but Pakistan still is reluctant to reciprocate.

Though this act of Pakistan is viewed as a violation of the SAFTA, the country maintains its reluctance. Non-official trade, on the other hand, has grown, as there are certain items which are not on the positive list of the two countries. These items are traded via third country such as United Arab Emirates, especially Dubai. The informal trade is estimated at some two billion to three billion dollars per annum. Moreover, there are a number of goods that are traded illegally across the border which only serves the vested

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interests of the illegal traders. Additionally, "most products that Pakistan can export to India are effectively blocked by high tariffs, quotas, and even outright bans. Imports from India to Pakistan for public sector use are restricted. However, the private sector is allowed to import a select list of 322 products from India".

The recent studies on Pakistan-India trade identify several areas of possible joint ventures and economic cooperation between the two countries. Potential sectors for economic cooperation between the two countries "include agricultural products, especially tea, auto spare-parts, minerals, chemicals, pharmaceuticals, leather, textiles, telecommunications, iron ore, energy resources, electricity generation using coal and wind energy". Of all the above-mentioned sectors, there is an immense scope for cooperation in energy sector and textiles, especially ready-made traditional garments. "There is also a large scope of trade in private service sectors such as health, entertainment services, information technology, and tourism. Pakistan and India have mostly common multinational companies operating in their respective countries for instance, Standard Chartered, Unilever and GlaxoSmithKline (GSK), which are a force to be harnessed as they can act as meaningful conduits for trade and investment if they source raw material from each other".

The SAFTA also provides an opportunity to Pakistan and India to gear up intra-regional multilateral trade which is bound to open up newer avenues not only for the two countries but also for their regional neighbours. On the other hand, the bilateral trade can be increased through the framework of 2005 meeting between former President Pervez Musharraf and Indian Prime Minister Manmohan Singh. The meeting was held in April 2005, during former President Musharraf's visit to New Delhi and was part of the ongoing Composite Dialogue. The talks laid great emphasis on enhancing bilateral trade through different avenues. The two sides agreed to set up joint business council to accelerate bilateral trade; they resolved to boost cooperation in energy sector; allow trucks on the route to promote trade; expand road and rail links; revive a panel to promote trade and introduce other trust-building measures. It was followed by the resumption of Khokhrapar-Munabao rail route and commencement of Lahore-Amritsar bus service.

There are several reasons why the analysts stress upon enhancing trade ties between Pakistan and India. First, India and Pakistan are two major countries in South Asia and regional economic integration is largely hampered due to the lack of cooperation between them. In order to trigger the regional economic integration or speed up economic growth of the regional economies, the two countries ought to explore mutual areas of economic cooperation as until or unless they cooperate with each other the efforts towards regional economic integration would end in vain. Second, both Pakistan and India have poor economies. In order to provide better economic opportunities to their public and to better their economic standard they must exploit the untapped

trade and investment opportunities through joint ventures with a vision of collective well-being. Third, the bilateral trade will open up opportunities for foreign investors as well. Both the countries require foreign exchange to stabilize and for the growth of their economies and increased bilateral trade will enhance the confidence of foreign investors. Fourth, the increase in direct official trade will boost the two economies. They share common border and direct trade will be lesser in cost and higher in profit. "The potential of the increased direct trade is estimated to be 10 times the current level".

### III

#### BILATERAL TRADE: MAJOR ISSUES/PROBLEMS

Several political and economic issues hinder the propitious bilateral economic relations between Pakistan and India. Some regard longstanding intractable issues as responsible for the low level of cooperation between the two countries. To others, it's India's hegemonic ambitions that threaten other regional countries, especially Pakistan to enhance trade relations with New Delhi. Largely, 'fear factor' (paranoia) or 'enemy syndrome' and mistrust form the basis for political hindrances to bilateral trade. It was due to the fear factor that New Delhi has been reluctant to agree on the modalities of the Iran-Pakistan-India gas pipeline project. It regarded the proposed route insecure as suspected that in the wake of any conflict Pakistan may affect Indian economy through obstructing the energy supply. Additionally, the pipeline was to cross the Baluchistan region which is regarded as politically instable area. India was suggesting the sea route instead to ensure security of the project. However, the project was expected to greatly benefit the two countries, especially India in meeting their energy needs.

Mistrust also plays its role in having the two countries failed to reach to concrete arrangements for mutual cooperation. On several occasions, owing to the trust deficit the two countries experienced failure of peace parleys and inability of leaders to conclude any political or commercial agreement. Moreover, intractable issues, especially the Kashmir dispute, divergence in foreign policy goals, arms race, differing ideologies and terrorism mar the process of bilateral economic cooperation between Pakistan and India. In fact for the last decade, New Delhi has been insistent upon making 'terrorism' as the major issue or the basis of every issue between Pakistan and India. Following the same stance, India seized every communication link with Pakistan in the wake of shooting incident at the Indian Parliament on 13 December 2001. That decision by India brought the two countries to a military stand-off.

Apart from political problems multiple economic issues also obstruct bilateral cooperation. First and the foremost is the asymmetric size of economies. "India has virtually 100 percent of the total resources of the region (in respect to such strategic resources) as uranium, iron ore, copper, gold, lead, silver zinc asbestos and diamond. It has more than 90 percent of the resources in coal, crude petroleum, chromium, magnetite and salt. Moreover, India is at a far more advanced stage of economic development than

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Pakistan, especially in the field of heavy industry". Secondly, as compared to Pakistan, Indian economy is less dependent on external resources. "The Indian policy of non-alignment during the Cold War enabled that country to follow a relatively independent path of development. As a result, India was able to maneuver between Washington and Moscow to create somewhat independent economic base".

On the other hand, Pakistan's economy suffers with political and economic instability, "foreign indebtedness and huge energy bills. There is also a considerable influence of multinational corporations (MNCs) in Pakistan and is one of the major constraints to the development of expanded Pakistan-India economic relations. Led by the developed industrialized states, MNCs operate in Pakistan through enterprises wholly owned by them and hence exert enormous economic and political power in Pakistan. Cheaper labour and lower freight cost make Indian products very competitive when they are allowed access to the Pakistani market. Thus, Indian entry into Pakistan's market poses a serious threat to the interests of those associated with the MNCs". Thirdly, Indian economy attracts foreign investors more than Pakistani does. India has growing partnership with the EU and Gulf Cooperation Council (GCC) countries and it has also managed to conclude civilian nuclear energy agreement with the US, hence is gaining economic benefits. Pakistan largely lacks energy resources such as oil and gas and to meet its energy needs it is forced to spend large portion of its scarce financial resources.

### III

#### RECOMMENDATIONS

India and Pakistan should bridge the trust deficit. The joint ventures and mutual economic engagement can never be effective or beneficial if the two countries continue to experience mistrust against each other. Moreover, India must consider providing level playing-field to Pakistan. It also is associated with the MFN status. Pakistan wants India to remove restrictive trade policies like non-tariff barriers, which inhibit export growth from Pakistan to allow consideration of other issues, like the MFN status.

The prospects for economic cooperation also depends on creating the economic compatibility between the two. Several exportable items for Pakistan and India can be considered to be placed on the positive list of trading items. Moreover, there are a number of goods that India can profitably



obtain from Pakistan. For instance, "the textile trade of the two countries at the global level is governed by the multi-fiber arrangements (MFAs). In their textile exports, both countries encounter similar quota restrictions. It has been recorded that both have frequently failed to fulfill their individual allotted quotas for exports to the EU, the US, and other major markets. As textile exporters, both countries should cooperate with each other and ask for comparatively managed and interchangeable quotas in the international market".

The problem of illegal trade can be dealt through increasing maritime and rail linkages. "Ever since trade through sea route and between Mumbai and Karachi was restored and railways and road linkages reestablished, the traffic of goods through illegal channels came down substantially". Following are specific recommendations to India and Pakistan to increase and enhance the low level of their bilateral economic cooperation.

### Improvement in communications

Due to the lack of efficient means of people-to-people contacts, businessmen, industrialists and traders also suffer from communication gaps. There is a need to first establish effective communication links between them by improvising the technological system.

### Increasing air links

There is a need to increase the number of air flights between the two countries. At present, there is highly selected number of flights scheduled; Lahore-New Delhi, Karachi-New Delhi and Karachi-Mumbai flights. Still no flights are scheduled between Islamabad-New Delhi.

### Opening additional border crossings, bus and rail routes

Similarly, opening up of additional bus/rail routes would provide the two countries better opportunities for enhancing trade. People on both sides of the border have always welcomed opening up of transportation links across the border. Be it Lahore-Delhi bus or Khokhrapar-Munabao rail link, or temporary opening up of seven points across the Line of Control (LoC) in the wake of the disastrous 8 October 2005 earthquake, people in India and Pakistan wish increased people-to-people contact facilities. Opening additional border crossing links may prove to be a profitable confidence building-measure.

### Easing visa restrictions

At least businessmen, investors, industrialists and traders must enjoy the provision of hassle free visas. They should be exempted from police reporting on arrival; should be granted multiple city visas and speedy approval processes.

### Allowing transit trade

The other regional neighbours of Pakistan and India, including Nepal and Bangladesh needs to be provided transit facilities in accordance with international practices as unnecessarily high costs of transportation, imports and exports with an addition of high transit fees dissolve their comparative advantages.

### Trade festivals and exhibitions

The two governments must allow and engage the two business communities in organizing trade festivals and exhibitions. It will not only widen the scope for bilateral economic collaboration but will also open up newer avenues for investments and joint ventures in several neglected areas.

### Enhancing cultural exchanges

Similarly, cultural exchanges also form part of economic activity. There is too much for people in India and Pakistan to explore about other country's culture and changing trends and traditions.

### Allowing branches of Pakistani and Indian banks to operate in each other country

This has also been considered by the two governments on several occasions as part of the confidence building-measures. The opening up of respective banks' branches will further greater economic interaction between the two countries.

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