

INDO-PAKISTAN TRADE RELATIONS: NEED FOR FASTER IMPROVEMENT

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Introduction

Regional trade has been found to be the most effective and efficient way of bringing progress and prosperity to countries in a region. This is the reason for the emergence of regional trading blocs namely the European Union (EU), North American Free Trade Area (NAFTA) and Association of South-East Asian Nations (ASEAN). This is the right time for India and Pakistan to be thinking about strengthening the South Asian regional trading bloc.

The South Asian region has strategic significance for Asia and the rest of the world.. This notion has also been recognized by the United States of America. Accordingly, the Obama administration has attached greater importance to this region and the US has been pressurizing both India and Pakistan to make collective and concerted efforts for the development of the South Asian region. There is no option for both countries but, to help each other, and develop the required degree of mutual cooperation to accelerate growth and development of South Asia.

India's economy is key to the emergence of South Asia as one of the world's most powerful regional blocs. It accounts for 75 per cent of South Asia's total population and 82 per cent of its combined GDP (US\$ 4.10 trillion of US\$ 4.96 trillion, at Purchasing Power Parity). How can India provide leadership to the region beyond the dated, bureaucratic confines of the South Asian Association for Regional Cooperation (SAARC)? Pakistan's granting of most favoured nation (MFN) status to India is a starting point. At an average annual GDP growth rate of 7.5 per cent, India's economy would more than double in 10 years to over US\$ 8.50 trillion. Pakistan's own economy — even

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assuming annual GDP growth at 4 per cent (twice its current rate) — will be just US\$ 0.70 trillion 1/12th of India's GDP. These statistics provide a realistic future for the economies of India, Pakistan and the rest of South Asia.

The future global geopolitical scenario would be dominated by three economic zones, namely the American Economic Zone, bridging the Atlantic from North and South America to Europe; the Chinese Economic Zone, tracing an arc across the Pacific Ocean; and the Indian Economic Zone, sweeping through South Asia to West Asia and Africa. Hence, positive and constructive trade relations between India and Pakistan are imperative.⁽¹⁾

Trends in trade

While sentiments and emotions are strong on both sides, the mindset seems to be changing for the better. Unmindful of the political tensions between the two nations, the man on the street and traders from India and Pakistan have strongly pitched for keeping trade and politics separate from each other.

All business organizations across the borders are of the opinion that trade between India and Pakistan should get priority over politics and political tensions should not be allowed to create obstacles for economic development. Accordingly, the fruits of growth, development and prosperity should be shared between the two neighbours rather than letting any third economy take advantage of it.⁽²⁾

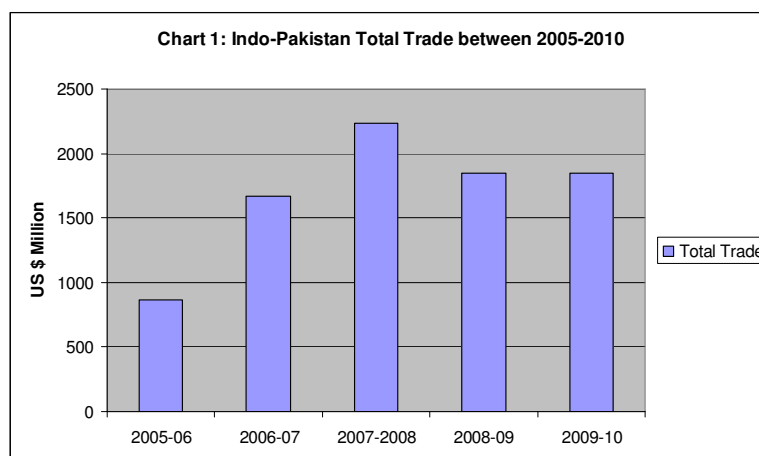
India and China have border issues and tensions, but trade between them is booming. The question then is that why can this not happen in the case of India and Pakistan. Hence, governments of both India and Pakistan should de-link economic and commercial relations from politics so that both economies would be able to share their untapped economic potential.

Pakistan has a limited approved list of commodities for bilateral trade. Between 2004 and 2008, Indo-Pakistan trade went up by a huge margin of 550 per cent and touched an all-time high figure of US\$ 2,239 million. However, in 2008-09 bilateral trade declined by more than 19 per cent. Its total value amounted to US\$ 1,810 million during 2008-09, considered below the expected level. But in 2009-10 there was a marginal improvement with the figure reaching \$1,849 (Table I). During 2010-11 there was an appreciable increase in total trade. Since 2004 Indo-Pakistan trade in terms of total trade has continued to fluctuate [Chart 1].

Table 1**Emerging Trends in Indo-Pakistan Trade from 2005-2010**

Year	Total Trade (US\$, Million)
2005-06	869
2006-07	1674
2007-08	2239
2008-009	1810
2009-10	1849
2010-11	2666

Source: The Economic Times, New Delhi, 5 September 2011



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The bulk of bilateral trade between India and Pakistan is held through Attari/Wagha border

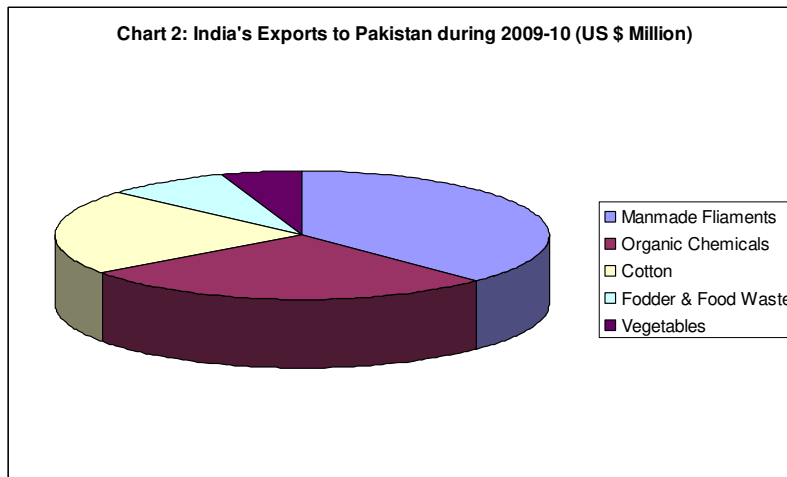
Table 2**Indo-Pakistan Trade through Attari/Wagha border**

Year	Attari Road Land Custom Station (Value in Rupees Crore)		Attari Rail Cargo Land Custom Station (Value in Rupees Crore)	
	Exports	Imports	Exports	Imports
2008-09	421.18	410.30	588.55	491.22
2009-10	395.92	798.05	417.89	640.36
2010-11	452.86	1170.46	306.31	892.23

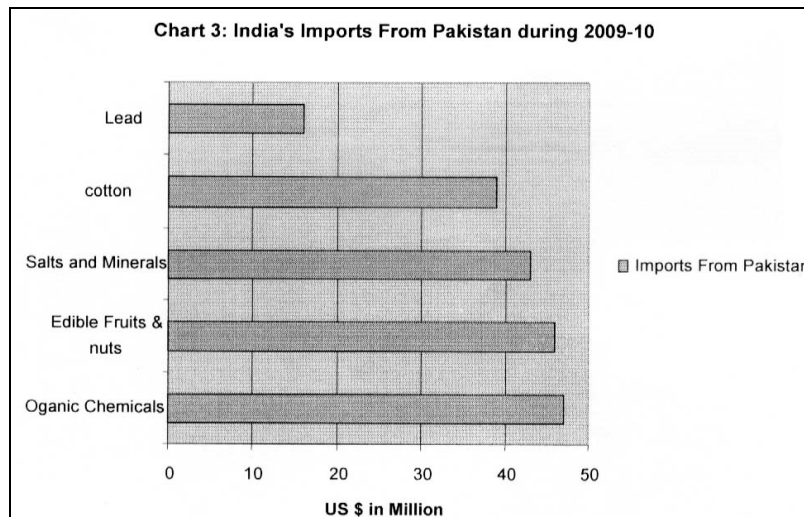
Source: Rajya Sabha Secretariat, Government of India, New Delhi

India's exports to Pakistan went up by 9.2 per cent during 2009-10 and touched a level of US\$ 1,573 million, while India's imports from Pakistan declined by 25.4 per cent and amounted to US\$ 270 million.⁽³⁾ This is because India and Pakistan have failed to capitalize on the potential that each country has to offer the other.

India's major exports to Pakistan are manmade filaments, organic chemicals, cotton fodder and food waste and vegetables. India's major imports from Pakistan are organic chemicals, fruits and nuts, salts and minerals and lead (see Charts 2 and 3).



Source: The Economic Times, New Delhi, 5 September 2011



Source: The Economic Times, New Delhi, 5 September 2011

A status paper on Indo-Pakistan business relations opines that, with a proper trade environment both micro and macro, India's trade with Pakistan could be enhanced to a total value of US\$3-4 billion. This also incorporates the legalization of US\$2 billion of unofficial trade. This could be possible if hostility between the two countries is removed and a conducive trade environment is created. The major sectors where there is a high degree of potential for increasing bilateral trade include: engineering industry, transport equipment, tea, pharmacy, textile machinery, tyres, chemicals, plastics, textiles, coffee, paper and agricultural commodities.⁽⁴⁾

Higher bilateral trade, estimated at over US\$ 3 billion, is carried out either through trans-border smuggling or through third countries, namely Singapore and the United Arab Emirates (UAE). Goods and commodities smuggled across the border include cheap textiles, audio and video cassettes, betel leaves, etc. Exports to Pakistan through a third country are mainly made up of machinery and spare parts, particularly for the textile industry and even for government-owned port installations. Before 9/11, the governments of both countries encouraged third-country trade in importing Indian machinery and spare parts. This was largely because of Pakistan's precarious position of foreign exchange reserves. Industrialists in Pakistan could not afford to import machinery and spare parts from the West or Japan or South Korea. But after September 2011, Pakistan's foreign exchange reserves increased nearly seven-fold and as a result its dependence on third-country imports from India declined. Hence, post-9/11 improvement in Pakistan's economy and a seven-fold increase in its forex reserve meant that it was no longer as dependent on the transit fee. However, Pakistan continues to be keen on early implementation of projects for gas pipelines without linking it to the Kashmir issue because of its growing energy needs.

New Initiatives

India and Pakistan have taken serious practical measures and have shown greater political determination to develop economic relations. The time has come for both nations to transform South Asia with full cooperation to alleviate hunger, poverty and bring the desired level of economic and social progress in the region.

MFN status granted to India

Pakistan has moved closer to granting most favoured nation status to India by switching to a system of "negative lists" that would restrict the import of only 1,200 items from India. Earlier only 1,900 goods were permitted to be shipped across the border. In the next stage, Pakistan would further phase out the negative list by the end of 2012 and move to a regime that complies with the norms set by the World Trade Organization (WTO). This would mark a dramatic shift as almost 90 per cent items would be tradable with Pakistan as compared to only 17 per cent earlier. Following the Pakistan government's decision, which approved a negative list of 1,200 items, Pakistan would now

permit import of nearly 6,800 goods from India. This move would not only enhance import of textiles and pharmaceuticals from India, it would also result in direct trade between the two neighbours.⁽⁵⁾

A win-win situation

India and Pakistan are going for a discussion on a Preferential Trading Agreement (PTA) to lower import duties on an array of products. The discussion may be held under the ambit of South Asian Free Trade Association (SAFTA), the free trade agreement signed eight years ago between member states of the ASEAN. India exported to Pakistan goods worth \$ 2.33 billion and imported items valued at \$330 million during 2011-12. Under SAFTA, both countries are required to bring down tariffs by up to 5 per cent.⁽⁶⁾

India has not been providing any preferential access to 865 items from Pakistan included in a sensitive list. Now it is considering lowering tariffs for Pakistan on nearly 30 per cent of the import items included in the sensitive list within four months of implementation of the negative list. On the other hand, since Pakistan allowed just 1,967 items from India, it automatically did not have to extend tariff preferences to the country under SAFTA. Pakistan has now allowed import of all goods from India except those included in the negative list. In March 2012, Pakistan decided to end its discriminatory trade regime with India by giving up its positive list of imports in favour of a negative list. This initiative would create a win-win situation and would also lead to an almost three-fold increase in imports from India India's exports by the end of the year. When the negative list is phased out, 7,000 items would be allowed. This should logically mean that more goods from India would not only get access to Pakistan's markets but would get preferential terms under SAFTA. Trade analysts are of the view that both sides could benefit from SAFTA with the dismantling of barriers. There is a scope for India to bring down its sensitive list to nearly 57 items under SAFTA. It could be brought down further, depending upon the response from Pakistan, if India is ready to exclude all textile items from the list.⁽⁷⁾

The most vital issues to be resolved between India and Pakistan are lack of road trade routes, irregular railway traffic and an expensive shipping route. This requires immediate attention of both countries. If these issues are not resolved there are chances that global competitiveness would increase the cost of trade. Further, under South Asia Preferential Trading Arrangement (SAPTA), India has extended Pakistan tariff concessions on 393 items up to the third round of SAPTA, but Pakistan has provided India tariff concessions on only 248 items. 73 of these items cannot be imported from India as they are on the banned list. Further, not much headway has been made on investment promotion and protection treaty, arbitration, and regional motor vehicular treaty, etc. that are essential for speedy growth in Indo-Pakistan economic relations.

India and Pakistan are living in unpredictable times. The international system is in a constant state of instability on several horizons, endangering the international security system. It is imperative to create interdependence and partnerships based on trade and commerce to act as a check on governments'

initiating hostile action. Corporate leaders are more capable of turning the course of history than the political leadership of both India and Pakistan. A people- or a media-led civil society movement can also play a crucial role as the people are the most important stakeholders and their will needs to be galvanized.⁽⁸⁾

The burden of peace is heavier on South Asia as it is home to half the world's poor. Peace is no longer a luxury but a prerequisite that every member of society needs to strive for. While the responsibility on the privileged is greater, changing the public mindset requires initiatives from the whole society.⁽⁹⁾

Industry has an important role in improving relationships and bilateral linkages. Pakistan needs to permit India transit trade to Afghanistan and Central Asia, replace the positive list with a negative list to allow imports from India and improve its infrastructure for trade and transport.⁽¹⁰⁾

South Asia is the least integrated region compared to all other regions. Successful regional cooperation and integration initiatives around the world have demonstrated that regional cooperation is a win-win situation that benefits to the entire region. There is no reason why SAARC nations in general and India and Pakistan in particular cannot replicate such a model which has become the sine qua non for progress and development.

New Silk Road

Unlike its ancient namesake, the New Silk Road would be an international web and network of economic and transit connections. That means building more rail lines, highways, energy infrastructure, like the proposed pipeline to run from Turkmenistan, through Afghanistan, through Pakistan into India. It means upgrading facilities at border crossings, as India and Pakistan are now doing at Wagha.

The New Silk Road would also focus on removing bureaucratic barriers and other impediments to allow free flow of goods and people. Today, an Indian businessman has to import cement from Southeast Asia instead of from the flourishing cement industry just nextdoor in Pakistan, and a traveller moving between India and Pakistan has a difficult time getting a visa often has to be routed through airports a thousand miles away just to get across the border. But a New Silk Road aims to eliminate hassles for people and goods to cross borders.

Such a trading structure will help an entrepreneur in Chennai, South India, to put his/her products on a truck that travels uninterrupted through Pakistan, through Afghanistan, to a customer in Kazakhstan. It would also mean that a Pakistani businessman should be able to open a branch in Bangalore.

Officials say the Silk Road strategy would also essentially help Afghanistan become economically self-sufficient. It would give impetus to big regional projects like the Turkmenistan-Afghanistan-Pakistan-India pipeline. While it would take time to realize such cooperation, it would be in the interest of India, Pakistan, and Afghanistan as well as other nations.

Liberal visa regime

India and Pakistan are entering a new phase of full normalization of bilateral trade relations that augurs well for enhancing mutual trust and understanding. The approval of a new liberal visa regime with Pakistan would pave the way for easier travel and increase people-to-people contact and exchange. The signing of a new visa agreement between the two nations would make the historic 1974 agreement a reality. Under the liberal visa regime, businessmen are likely to be issued multi-entry non-police-reporting visas and have access to at least five cities instead of three as at present. However, the credentials of the businessmen for qualifying for such a visa would be endorsed by the chambers of commerce on both sides. From India, it would be the Federation of Indian Chambers of Commerce and Industry (FICCI) and from the Pakistan side, it would be the Federation of Pakistan Chambers of Commerce and Industry (FPCCI).

On 13 April, Pakistan's Commerce Secretary Zafar Mahmood indicated that India and Pakistan would, in all likelihood, announce a new liberal visa regime by May 2012 to facilitate easy movement of businessmen and give a boost to trade. India and Pakistan have been working hard behind the scenes to do away with the 1974 visa agreement and put in place a liberal regime that would allow more free movement for people-to-people exchange. However, May 2012 came and passed without any new arrangement materializing in this regard.

The new liberal visa regime would allow common people to visit at least three earmarked cities. Senior citizens would be exempted from police reporting in both nations. This step may go a long way in expanding vistas for bilateral commerce. A more secure regional environment would also result in progressively helping India and Pakistan to continue liberalizing visa arrangements for the business community.

The two countries have also inked an MoU between Indian Trade Promotion Organization (ITPO) and the Trade Development Authority of Pakistan (TDAP) to promote trade and investment. This MoU would foster better, effective and efficient trade promotional operations for the benefit of business communities.

Cross-border investments

A breakthrough in cross-border investments came on 1 August 2012 when India lifted a ban on foreign investments from Pakistan. A statement issued by the Indian commerce ministry said their government has decided to permit a citizen or a corporate entity from Pakistan to make investments in India. However, Indian ban on investments in defence, space and atomic energy sectors would not come under this permission.⁽¹¹⁾ India did not allow FDI from Pakistan until this decision was announced and Pakistan was the only country for which investment restrictions were in place. Pakistan on the other hand does not have any curbs on Indian investment.

The second phase of the process would involve consultations between

India and Pakistan Chief Executive Officers' Forum (CEOs Forum wherein governments also want to have their representatives. The Forum would discuss the issue and then decide on the sectors where they want investments to flow.

Presently, there is no joint venture between India and Pakistan. Several Indian firms have shown interest in having joint ventures in Pakistan. It is imperative to understand the nature of such investments and provide timely facilitations. In order to make this more productive and purposeful, both governments should set up an "institutional mechanism" that would guarantee protection of each other's investment.

Will economics win over politics?

In the context of Indo-Pakistan political as well as business relations, this is a very complex question to analyze. Greater volume of business between India and Pakistan would open doors for realizing the dream of a South Asian economic bloc.

Today, not only the business community but also the common people are of the view that the time has come to put all issues behind and take economic relations to a new level. There is already a strong demand in Pakistan and India for establishing air and sea links between Mumbai and Karachi and to further put in place a Mumbai-Karachi Joint Chamber of Commerce and Industry.

Electricity trade

This is another area where the potential and opportunities of trade are enormous. The Joint Working Group on electricity is working on the modalities for opening up electricity trade between India and Pakistan. This step may help enhance economic cooperation to a great extent.

What does Pakistan's move mean for both economies?

Presently Pakistan is importing a small set of goods from India, but with an expansion in the existing list of commodities to be imported from India there would be an enormous increase in the volume and value of trade between the two economies of South Asia. Another strategic benefit of this measure is that the unofficial trade which has been taking place through third-country route (worth \$ 10 billion) would be shut down and would lead to a reduction in costs for Pakistani consumers and industry.

According to a survey conducted by FICCI, steel costs in Pakistan would go down by a margin of 55 per cent; engineering products by 26 per cent, bicycles by 20 per cent, pharmaceuticals by 35 per cent; fruits and vegetables by 40 per cent, and sugar by 30 per cent if these goods are imported directly from India. The survey further opined that liberalized trade in agriculture would result into the generation of 2.7 lakh jobs in India and 1.7 lakh in Pakistan. Further governments of both countries would earn considerable revenue through direct trade or formal trade. The entire region would benefit immensely from the move of granting MFN to India. Trade access to Pakistan would ultimately help Indian

manufacturers to get access to Afghanistan and CIS economies whose markets are still waiting to be explored.

Social face of India-Pakistan relations

It is an undisputed fact that after some six decades the people of India and Pakistan have finally moved forward towards a historic agreement. There are many social products (social face) that India is importing from Pakistan and also exporting to Pakistan.

Freedom fighters

Freedom fighters are useful for India as they de-legitimize indigenous movements against the state.

Musicians

Musicians are the raw material for Indian Bollywood movies. The Pakistani musicians popular in India include Nusrat Fateh Ali, Adnan Sami Khan and Rahat Fateh Ali, to name a few.

Key social goods that India is exporting to Pakistan are:

Bollywood movies

Indian movies are a part and parcel of Pakistani people's lives. Similarly, not very long ago, Pakistan Television (PTV) plays were very popular in India.

The abovementioned social products exchanged between India and Pakistan would open new vistas in enhancing bilateral relations and may go a long way in strengthening bilateral business ties.

What is required immediately?

India wants to increase business with Pakistan through the border route but concerted efforts would be required to tone up the infrastructure at the Attari-Wagha border. On the Indian side the customs checkpoint, too, needs a facelift. Rows of trucks line up on both sides of the road as they approach the border gates. A spell of rain brings trouble. Mud and slush make loading and unloading of goods more difficult.

The border of Pakistan is different. Manicured lawns and neat roads welcome visitors. The customs and immigration checkpoints are modern with state-of-the-art infrastructure.

Keeping in mind the possible constraints with regard to infrastructure, both governments agreed to open a second gate. Despite some initial delay, the new integrated checkpoint is operational since April last. It is estimated that the new gate would help raise the number of trucks to 500-600 daily from the current 100-150 trucks that transport goods through the Attari-Wagha border.

India and Pakistan also need to focus on increasing trading hours for faster movement of goods. The approach road to Attari needs to be widened significantly to facilitate movement of large-sized trucks and containers.

Besides, telecommunication links also require revamping for better and efficient data sharing.

Both the governments have also discussed opening another trade route at Khokrapar- Munabao. They have set up a joint working group to examine the feasibility of this new business route.

Any rise in business relations through the land route would have “spin-off effect” on the infrastructure and incomes of people living near the border areas. Development of cold chains, warehouses and logistics is expected to transform the region.

Very recently, Pakistan allowed bigger trucks and containers into its territory. Earlier, only 10-wheeler trucks were allowed. Now that has been enhanced to 22 wheelers. Added to this, containers with opening of the new Integrated Check Post (ICP) are allowed on the Attari-Wagha border

Strategy for future

There is an urgent need for evolving an action plan on the following points:

- a. To infuse confidence among businessmen and common people.
- b. Identify those areas of cooperation which could be projected to Pakistan as stand-alone areas. In one of his statements in India, Prime Minister Yusuf Raza Gilani of Pakistan was quoted as referring to cooperation in the field of agriculture between Indian and Pakistani Punjab as another possible stand-alone area which Pakistan would be prepared to take up without linking it to the Kashmir issue.
- c. Planners and Policy makers both in India and Pakistan as well as influential sectors of political and economic elite are also aware of the considerable potential of Indo-Pakistan economic and technological cooperation in areas of “mutually beneficial commonalties” that have come up in the wake of business liberalization (NEP).
- d. To exploit and capitalize on opportunities arising out of changed political and economic environment, governments in both nations need to demonstrate their resolve to incrementally revise fiscal policies that have prevented the flow of human capital and knowledge exchange across their common borders. This is a major constraint in the way of the much needed economic and technological collaboration.
- e. Intensify interactions with those sections of the Pakistani business community which are in favour of an early normalization of bilateral economic relations.

- f. Identify areas of cooperation. Pakistan's agriculture has not been doing as well as that of India. Pakistan has to import wheat periodically while India is self-sufficient in foodgrains. This is an area which needs to be explored intensively and extensively for possible co-operation.
- g. Governments in both countries must demonstrate their resolve to revise official policies that have prevented the flow of human capital and knowledge exchange.
- h. Identified areas, namely agro-products, automobile spare parts and pharmaceuticals require concentrated action and their real potential needs to be tapped.

Conclusion

From the foregoing discussion, it is clear that there has been a minimal degree of trade relations between India and Pakistan. Trade between the two countries could be doubled, i.e. from \$2 billion to \$6 billion, in the coming years. There is also a possibility of materializing talks on preferential trading arrangement proposed by Pakistan. This may go a long way in bringing down tariffs. There has hardly been any significant flow of investment especially FDI and ODA. Hence, there is an urgent need to promote greater economic cooperation, which could provide mutual economic benefits and help them both to develop a strong and viable South Asian region.

Businessmen and trade analysts from India and Pakistan are hopeful that with a little push from their respective governments, bilateral trade can jump five-fold to \$10 billion in the next two years. If Pakistan can make a negative list, instead of the present positive list and some of the trade barriers are lifted by both the countries, bilateral trade can easily touch this figure in the next two years. In 2000, their bilateral trade was only \$200 million, which, rose to \$1.86 billion in 2010. Normalization of business relations with Pakistan would be a step in the right direction and would certainly result in enormous growth and development in the South Asian region.

The exchange of visits between commerce secretaries of India and Pakistan, which resulted in the adoption of the April 2011 communiqué, provides a viable future agenda for facilitating economic cooperation, which needs to be implemented with positive perception on both sides. Using trade as a tool to mitigate political tension between the two neighbouring countries is a welcome move; however, a greater political will with a changed mindset shall remain the key to success of all such endeavours.

It is imperative that both India and Pakistan work towards achieving an economically interdependent relationship. The much talked of 'Asian Century' rhetoric can only be truly realized if it is preceded by peace, harmony and stability, specifically in the Asian subcontinent.

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