

Prospects of trade with India

By Sultan Ahmed

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PRIME Minister Atal Behari Vajpayee of India has responded promptly and quite emotionally to the peace offer of Prime Minister Zafarullah Jamali. Announcing his first measures for restoration of normal relations between the estranged neighbours he said it would be his last throw of the dice to solve one of the most intractable and dangerous disputes.

Mr Vajpayee, who is 78, was evidently thinking of his place in history. He does not hope to be in office after two years when general elections are due in India. So he wants to succeed in bringing peace to a region where he had failed in his earlier two attempts, in 1999 at Lahore and in 2001 at Agra. So he wants to move cautiously, with a firm agenda in hand and move from one disputed area to another and finally come to Kashmir.

This has been a familiar exercise in India-Pakistan relations where the train stopped at the outskirts of Kashmir and all the earlier good work was undone or put in cold storage for long. Will Mr Vajpayee go the whole way, or stop short of Kashmir because of intractable difficulties as India perceives them in regard to that issue which Pakistan regards as the core issue.

The priorities for India in any effort to normalise relations with Pakistan have been people-to-people contacts, cultural exchanges, economic relations and trade, and after success in these areas more or less, Kashmir. But when the last wheel failed, all other wheels collapsed. That has been our 50 year history. Recently even the lone enduring treaty between the two countries, the Indus Water Treaty, came under severe threat.

Mrs Indira Gandhi who signed the Simla Pact with Zulfikar Ali Bhutto, asked me in 1972: "Have you read the Simla Pact. Carefully? Pakistanis have the habit of ignoring all the articles of the Simla pact and coming down to Kashmir and insist the last thing should be implemented first". The reality is we have to implement all other clauses first and then come to Kashmir. That has been the Indian position ever since.

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ful of better relations between the two countries. The Indian businessmen have already contacted their Pakistani friends to revive the India-Pakistan Joint chambers of Commerce with its headquarters in Lahore, set up in 1999. Since then there have been only two meetings of its executive and the third was aborted by the tension between the two countries following the massing of Indian troops on our borders.

Pakistani industrialists were earlier afraid of free trade with India. They feared the cheap Indian goods would drive their own products out of our markets. And smuggling in such goods would increase wherever there was high import duties. India would produce their goods cheap, they argued, because of low cost energy, low interest rates and flexible taxes, low wages, and the economy of size.

On the other hand cost of production in Pakistan was regarded as high because of high power prices, high interest rates, high wages and varied hidden production costs. But the situation has improved a good deal now, though not altogether. Interest rates have now come low, export refinance is available at 3.5 per cent, the rupee has become stable, and wages are low again.

When foreign secretary Riaz Kokhar was High Commissioner to India he used to say the volume of smuggling between the two countries was a billion dollars. That meant a loss of half a billion dollars in import duties then. There is no stopping of the smugglers on either side regardless of what the top officials in New Delhi and Islamabad may forbid.

The volume of trade between the two countries has been small despite the scope for larger trade. It rises when we import

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One of the areas in which India is really interested is trade with Pakistan. Following the setting up of SAARC in 1985 there had been great many meetings of trade officials of the two countries and businessmen. A SAARC chamber has also been in existence for long — remarkable for its meetings and resolutions than its positive achievements. So real trade is too small.

When India found large scale trade in the region was not possible or was too vexatious, it sought free trade areas with Sri Lanka and Nepal and is now negotiating a deal with Bangladesh. We followed India and are negotiating free trade agreements with Sri Lanka and Nepal in a slow dance movement.

The SAARC trade officials initially agreed on the need and wisdom of having South Asia preferential Trade Areas and later opted for the South Asia free Trade Area. Surprisingly there was little opposition or resistance at all such meetings, but except for increasing the number of items permissible for import by member countries from other members and lowering of the tariff nothing else took place practically.

Recently the Indian leaders have been saying that if the relations between India and Pakistan should normalise SAFTA should be made a reality. If that happens the people of the region will be very happy as they can get cheaper goods from the regional states and travel will become easy and cheap. If SAARC is to be made a success now and economic relations given real muscles, it is more important to give practical shape to the scores of old agreements rather than have new meetings to reach new agreements.

The governor of the State Bank of Pakistan Dr Ishrat Husain has identified the areas of regional cooperation if that really comes to pass. He has identified agriculture, manufacturing, science and technology infrastructure where joint ventures could be set up. He says half of the poorest people of the world are living in the region. He laments the regional states have a little share in the region's six trillion dollar trade.

Businessmen from both sides used to attend conferences on trade and investment and feel a great deal of bon homie and comeback with large hopes of economic exchanges. But after they return home they find the bureaucratic hurdles, red tape hassle and visa difficulties standing in the way. When they are chased by intelligence men after they visit the Indian High Commission or the Pakistan mission in New Delhi they lose all the excitement in seeking trade with the other country. "Too much hassle for too little trade," said one of them.

But now the business leaders of Pakistan and India are hope-

friends to revive the Joint Chambers of Commerce with its headquarters in Lahore, set up in 1999.

sugar from each other or India imports cotton from Pakistan. The last bulk cargo we got from India was of vegetables.

Now with the World Trade Organization in full swing new factors have emerged to shape our trade relations with India. We cannot refuse or have low trade relations for long. What we stop, the smugglers will bring in and cheaper. They are already supposed to be doing that on a large scale via Dubai now. Earlier they used to change the manifests of ships and bring in Indian goods as made elsewhere.

We are also facing dumping charges and anti-dumping duties from time to time as we do in the European Union today.

Now Pakistani manufacturers who feared Indian goods for being cheap are poised to face the far cheaper Chinese goods. If earlier the engineering goods, like water equipment, electrical goods, and varied toys came, now we have Chinese bicycles coming in large numbers. Cautious of their impact on the Pakistani market the government issues a small number of import licences. But a large number of them have been smuggled in, making the cycle manufacturers protest sharply. They say they have lost 25 per cent of the market to China. The motor cycle-makers fear the same may happen to their industry.

There will be revolutionary changes in the world textile trade after 2004 when the quota system ends and a free for all in textile trade begins. Textile exporters of the world are getting ready for the new challenges to come. Some millowners are doing that in Pakistan, not others, and not adequately.

We have to make our industry efficient and our production cheap. We have to improve the quality of our products and our brands have to enjoy ready acceptance abroad. We have to take to cost-cutting without credibility-cutting and our business practices have to improve vastly.

It is no use arguing we are a small country compared to India, and so can't compete with India. How are small countries like Belgium, the Netherlands and Denmark living in the neighbourhood of France and Germany, and thriving with Industries known for their excellence? They are focusing on their core areas of competence and competitiveness, and improving their capabilities all the time through research and market surveys. Our industries and exporters have to learn to accept lower profits and spend more money on research and market surveys.