

India-Pakistan relations

The benefits of trade

Introduction

After many months of near hostility and the threat of war, leaders in India and Pakistan have started talking about the possibilities of restarting the stalled peace process in South Asia, and are talking about addressing all issues, which affect both countries. While Kashmir continues to be the focus, there is even talk about the possibility of restarting cricket matches between the two countries.

Pakistan's Foreign Minister, Khurshid Mehmud Kasuri, in a very refreshing departure from the past, has been quoted as saying that trade and business ties can precede the resolution of the Kashmir issue. While there is still a long time to go before one sees this resolve translated into action, nevertheless, it is worth our while to look at the prospects and benefits from trade, which might accrue as a consequence of improving relations.

While different and conflicting stands and claims on Kashmir are the biggest, or perhaps the only, stumbling block to normalisation of ties between the two countries, a different path to normalisation of ties between India and Pakistan ought to be explored. Since it is improbable that the Kashmir issue is going to be 'resolved' to everyone's liking in the near future, it is perhaps important to make headway in other directions, which may eventually also

which both countries are members. Not only are there large trade-related advantages to governments and consumers in both countries, but positive externalities are also likely to emerge as a result. Besides, *it is in Pakistan's interest far more than it is India's*, to have normal trading relations with each other.

The benefits of trade

Pakistan and India have been trading with each other since 1947, and in the last 56 years, trade has slowed down or been suspended, for only nine years prior to, the most recent developments, between 1965-74. However, despite an uninterrupted trade regime since 1974, the extent of trade between India and Pakistan has been limited and almost negligible. In 1998, before relations started worsening following Kargil, official trade with Pakistan was a mere 0.44% of India's total trade, and Pakistan's trade with India was also just 2% of its total trade. Moreover, there is no India-Pakistan trade agreement, and Pakistan allows only a handful of commodities to be imported from India, which have, however, increased over the years. Nevertheless, despite the 615 items permissible for trade, 90% of the trade takes place in only 42 items. India does not import any of Pakistan's major exports,

which will get far greater revenue from legalising the existing illicit border trade. Moreover, important segments of producers would also benefit because of increased competitiveness and market access to a much larger Indian economy.

A study by the Karachi Chamber and Commerce and Industry, also endorsed the idea of trade with India, on the grounds that now having signed the agreements, which have led to the setting up of the World Trade Organisation, all signatory members have to be treated equally, and understands that giving Most Favoured Nation status to India "is not a special favour to India, but an obligation under WTO and an economic and geopolitical imperative". In this new world order, the study argues, Pakistan has to face competition from all countries including India, and hence 'instead of shying away, we should be well prepared to face the eventuality. In any case, salvation lies in streamlining of operations and upgrading of technology which was long overdue'.

This study presents a sector-wise analysis of trade with India and shows the impact on each sector, looking at numerous aspects including what it calls 'silver linings'. For example, it feels that

originates in either country but is imported through a third country. This recalculation increases the total trade between the countries by a factor of four or five. This is a significant increase, especially when one considers the fact, that already, for Pakistan at least, using the official bilateral trade figures alone, *India is the main trading partner in the SAARC region*. The new set of figures would further enhance that dominance. Compared to Pakistan's neighbours, Afghanistan, Iran, and China, trade with India is far greater than the former two, and with the new set of figures, India comes a close second to China. Clearly, despite an unfavourable trade, economic and political environment, there is already substantial trade between Pakistan and India, which has even greater economic possibilities.

There is also the important issue of and impact of globalisation. All countries of the world are affected by it, some favourably and others not so favourably. To take further advantages or to protect themselves from the negative impacts of globalisation, many neighbouring countries have established trading blocs. There are huge advantages and benefits to such regional trading arrangements, yet, *South Asia is the only major world region not to move towards regional co-operation and integration*. Clearly, normalisation of trading ties between India and Pakistan should be seen as a first step to such trading arrangements. As Shahid Burki has argued, our policymakers must be cognisant of the fact that the world is organising itself into a number of regional arrangements and we in Pakistan cannot afford to be left out of them.

Numerous small industries are likely to benefit from cheaper raw materials from India and may help address the problem of some of our sick industries. This is likely to have an employment-enhancing effect. Moreover, many of Pakistan's industries will benefit from increased competitiveness and will have to become more efficient in light of international and Indian imports. Also, greater market access of Pakistani exports should be beneficial.

Consumers in Pakistan are going to benefit by cheaper Indian imports as well. As the Ministry of Commerce study argues, 'exposure to competition from a neighbour would encourage policymakers as well as the private sector in Pakistan to focus more sharply on the investments needed to strengthen Pakistan's international competitiveness.' Moreover, the report continues, 'the fear of a deluge of Indian products in the Pakistan market after liberalising trade is much exaggerated. This

has not happened in the past when trade has been liberalised and is unlikely to happen in the future given Pakistan's global orientation in trade and the quality conscious Pakistani consumers.'

In passing, it is worth highlighting some observations, which give India-Pakistan trade a rather ironic twist. It was in 1977-78, when Pakistan was under General Ziaul Haq's Martial Law, that trade between the two countries got an impetus following the 1974 Protocol for the restoration of commercial relations on a government-to-government basis, signed by the two countries after the 1971 war.

Again, still under a military government in 1987, Pakistan increased the number of permitted traded goods with India nearly six-fold, from 42 to 249, a measure, which led to a three-fold increase in the following three years. Also, although both countries avoid improving their mutual trading status, both turn to each other at times of crises and shortfalls of eatables.

In 1990, India helped Pakistan tide over an onion and potato crisis, and again Pakistan imported 50,000 tons of sugar from India on an emergency basis in 1997. Likewise, India has also depended on Pakistan for sugar, potatoes, onions and chilies, at a time of a shortage. Most interesting is the fact that the largest amount of trade between the two countries ever, was in Pakistan's fiscal year 1998-99.

Pakistan's fiscal year runs from July to June, which means that this was the fiscal year, which followed the May 1998 nuclear tests by both countries, included the Lahore Declaration of February 1999, as well as the Kargil war of May and June, 1999. By any measure, this was a rather eventful year in South Asia, and yet, registered the largest volume of trade. This suggests two things: India and Pakistan, despite huge differences, trade with each other at times of shortfalls and crises; and, even a military ruler can improve (trade) relations with India if need be.

For Pakistan, trade with India is beneficial in terms of economics, as well for a reorientation of its political economy. It could also be a precursor to peace in the region and act as a formidable Confidence Building Measure (CBM), which could lead to a better, less hostile, environment, where other more contentious issues can also be addressed.

Even if there is no substantive improvement in CBMs between the two countries on account of trade, improved trade is unlikely to make matters much worse. Certainly for Pakistan, and probably also for India, trade in itself, is highly beneficial. Trade with India, in this regard, is a win-win situation.

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have a positive impact on the impasse over Kashmir. Partial normalisation in other areas can still take place despite the continuing disagreements and conflicts over Kashmir. Pakistan's Foreign Minister has also hinted at this option.

One route towards better

nor does Pakistan import any of India's major exports.

The Ministry of Commerce of the GoP, which conducted an extensive study on the prospects and implications of trade with India in the mid-1990s, argues that there are numerous advantages to trade between neighbours, as there are low transportation costs, cultural similarities, which influence taste and cause profitable complementarities to emerge. In addition, transaction costs are also lowered and such trade 'facilitates the flow of ideas and knowledge that strengthen international competitiveness'.

The study looks at a number of sectors in the Pakistan economy and concludes that 'the economic benefits of liberalising trade with India outweigh costs'. Consumers in Pakistan will benefit 'unambiguously' because of lower prices, and the government

while opening up of trade with India is likely to affect the engineering sector, cheaper steel and iron ore imports from India, will have a positive impact overall and 'will result in the reduction of very high inventory costs of the engineering sector'. However, the main argument which this Report seems to be making, is that Pakistan trades with almost every country in the world, so why not with India?

Although much is made of the rather limited volume of trade between India and Pakistan, a number of points, especially from the Pakistani angle, have been overlooked. First, the quantum of official trade between the two countries of between two to three hundred million dollars, needs to be supplemented with illicit trade between the two countries, and the trade of goods, which

Bilateralism

relations between India and Pakistan, is open-normal—trade between the two countries. There is no economic rationale and justification for either of the two countries not to trade with each other, especially in the era of globalisation and liberalisation and after the setting up of the World Trade Organisation of