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chemicals, textile fabrics, leather,  
medicines, plants for perfumes,  
pharmaceuticals, videotapes,  
rice, sugar, cosmetics, and  
viscose fibre, is estimated around  
\$2bn per year.

India granted Pakistan the  
status of Most Favoured Nation  
(MFN) in 1995-96. In Pakistan, a  
dominant lobby has been trying to  
impede the free trading  
between the two neighbouring  
countries. Pakistan, as a result of  
this hostility, does not extend  
normal GATT-WTO rights or the  
MFN status to India.

There is a general fear that  
Indian goods will flood our  
markets and cause closure to our  
local industries. Government is  
cognisant of this fact and has  
thus been selective so far in  
allowing only those goods to be  
exported and imported that are  
not immediately going to  
negatively affect our industries.

Moreover, the fear of an  
Indian take-over has been  
exaggerated. India has an upper  
hand in certain industries, while

these companies decide to  
produce for the Indian market.

Similarly, it is an open secret  
that Indians, under the guise of  
some other companies, procure  
rice from Pakistan, sort it, brand  
it, and market it all over Europe.  
Joining hands with Indian  
companies to use their marketing  
expertise may prove extremely  
beneficial for Pakistani rice  
exporters.

On the other hand, Indian  
products, especially their  
industrial products, may lower  
the cost of importing for many  
industrialists in the country.  
Textile producers could benefit  
from the low cost, low freight  
textile machinery being produced  
in India. Similarly, India's  
chemical industry could provide a  
good alternative to the more  
expensive Swiss chemicals, being  
used in many industries in  
Pakistan.

#### A win-win game

The attraction of mutual  
trading between the two sides is

trade are cultural affinity,  
common language, similar  
economic and social systems that  
provide an ideal foundation for  
broader Indo-Pak trade ties.

For instance, Pakistan imports  
iron-ore from Brazil and  
Australia, and tea from Kenya at  
higher prices, though these items  
could be imported at lower rates  
from India. Considering that  
Indian pharmaceutical products  
are 30% cheaper than Pakistani  
products, it would certainly make  
a difference to the common  
citizen in Pakistan. In turn, this  
would help Indian pharmaceutical  
products to sell larger volumes in  
geographically proximate  
markets, besides impacting  
positively on industrial growth.

India and Pakistan, both being  
agrarian economies, could co-  
operate in agriculture, which is a  
core component of the GDP and  
the largest employment  
generation sector in both  
countries. It, therefore, makes  
sense for the two countries to co-  
operate in areas of common

significant impact on the regional  
economy. This industry has one of  
the highest economic multiplier  
effects among the various  
industries. It is even ahead of the  
communication and power sector.  
According to an estimate,  
liberalised Indo-Pak trade in  
agricultural sector would generate  
around 2.7 lac jobs in India, and  
1.7 lac jobs in Pakistan.

#### Conclusion

The huge cost of conflict,  
perhaps, is the biggest incentive  
to improve trade relations. After  
all, the Europeans fought two  
wars before they realised that war  
was a lose-lose game and signed  
the Treaty of Rome in 1950; but it  
took them another 42 years to  
become a Union when in 1992  
they signed the Single European  
Act in Maastricht and decided  
that trade and economic  
integration was the only way to  
survive and compete in a  
competitive world. Thus, it is  
time for Pakistan and India to  
forget past conflicts and form an  
alliance, which will make them  
the single largest trading block  
and consumer market in the  
world.

To realise this vision, it is  
imperative that both the countries  
must take the following  
facilitating steps:

1) Relax visa/travel regimes  
between the two countries,  
wherein citizens/businessmen are  
given city-specific visas and have  
to report to the police authorities  
periodically during their stay in  
either country. Instead, there  
should be multiple entry visa  
facility, which would ease travel  
restrictions in a major way.

2) Positive media reportage  
would also help in creating better  
impressions in the minds of  
visitors for each other's  
countries. While democratic  
governments in either country  
have no direct control over news  
media, journalists invariably tend  
to pick up news leads informally  
from officialdom about the other  
country. Governments of India  
and Pakistan must make sure that  
their statements reflect the  
positive side of the situation.

3) Land routes could be more  
beneficial than sea-borne trade  
for Indo-Pak trade flow. Long  
distances from the port city of  
Karachi to the hinterland by  
road/rail may prove to be  
uneconomical in comparison to  
the shorter distances directly  
through the land borders of the  
two countries.

4) Regular interaction between  
businessmen is necessary as a  
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# in-win game





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Moreover, the fear of an Indian take-over has been exaggerated. India has an upper hand in certain industries, while

beneficial for Pakistani rice exporters.

On the other hand, Indian products, especially their industrial products, may lower the cost of importing for many industrialists in the country. Textile producers could benefit from the low cost, low freight textile machinery being produced in India. Similarly, India's chemical industry could provide a good alternative to the more expensive Swiss chemicals, being used in many industries in Pakistan.

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from India. Considering that Indian pharmaceutical products are 30% cheaper than Pakistani products, it would certainly make a difference to the common citizen in Pakistan. In turn, this would help Indian pharmaceutical products to sell larger volumes in geographically proximate markets, besides impacting positively on industrial growth.

India and Pakistan, both being agrarian economies, could co-operate in agriculture, which is a core component of the GDP and the largest employment generation sector in both countries. It, therefore, makes sense for the two countries to co-operate in areas of common

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#### Conclusion

The huge cost of conflict, perhaps, is the biggest incentive to improve trade relations. After all, the Europeans fought two wars before they realised that war was a lose-lose game and signed the Treaty of Rome in 1950; but it took them another 42 years to become a Union when in 1992 they signed the Single European Act in Maastricht and decided that trade and economic integration was the only way to survive and compete in a competitive world. Thus, it is time for Pakistan and India to forget past conflicts and form an alliance, which will make them the single largest trading block and consumer market in the world.

To realise this vision, it is imperative that both the countries must take the following facilitating steps:

1) Relax visa/travel regimes between the two countries, wherein citizens/businessmen are given city-specific visas and have to report to the police authorities periodically during their stay in either country. Instead, there should be multiple entry visa facility, which would ease travel restrictions in a major way.

2) Positive media reportage would also help in creating better impressions in the minds of visitors for each other's countries. While democratic governments in either country have no direct control over news media, journalists invariably tend to pick up news leads informally from officialdom about the other country. Governments of India and Pakistan must make sure that their statements reflect the positive side of the situation.

3) Land routes could be more beneficial than sea-borne trade for Indo-Pak trade flow. Long distances from the port city of Karachi to the hinterland by road/rail may prove to be uneconomical in comparison to the shorter distances directly through the land borders of the two countries.

4) Regular interaction between businessmen is necessary as a mechanism to gather market intelligence. These meetings should ideally take place independently between the two sides. Such meetings will enable businessmen to understand the strengths, weaknesses, opportunities and threats of their competitors, which is essential for successful negotiations that eventually translate into higher trade statistics.

A peaceful Sub Continent is the solution to Pakistan's problems of lack of foreign investment, employment and lack of social development. A 5% reduction in the defense budget will enable millions of poor people to have access to education and health services, and this alone should suffice as a reason to join hands with India.

# in-win game



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Pakistan has advantages in other industries. Pakistan's two top items, ie cotton and rice are far superior in quality to th ones in India. Pakistan's textil industry can safely compete w India as far as knitted gar are concerned, as it has duced quality stuff for brand Levis, Nike, Timberland et and will find a ready market India if

linked to low freight costs, which translate into cheaper prices, given the contiguous borders of these two countries. In this situation, a government that is keeping in view the people's interests is obliged to ensure that commodities and merchandise are imported only from such countries. Other conducive conditions between Indo-Pak

interests, as it would be to their mutual advantage. Just as coal and steel were the 'lead sectors' in European integration, there is every possibility of agriculture emerging as the major sector in which co-operation and joint action can benefit both countries, especially in the context of liberalisation of these sectors.

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By Andleeb Abbas

## bilateral trade

**R**ecent developments in restoration of relations between India and Pakistan are definitely a silver lining for improving trade prospects of the two countries as well as attracting trade initiatives from other countries to the region. Since all such previous talks have failed to achieve a conclusive end, analysts still feel that one must not expect too much at this stage.

However, it is time to cash upon this opportunity and stress on the importance of keeping this momentum up, as the gains of collaboration and co-operation are innumerable. As the world moves on and discovers newer ways of developing, growing and globalising, it is imperative that countries who want to join the band wagon of the fast growing economies learn the contemporary ways of surviving and adopt the same norms of development to avoid being left behind and being isolated.

Let us see what are these norms and how the recent breakthrough in Indo-Pak relationship will help us adopt these norms and make us eligible for development:

### Era of co-operation

The rules of competition have changed dramatically, creating a profound need in the countries to develop new strategies of competing and surviving. Globalisation has forced countries to make a departure from their traditional practice of competing with nations that possess the same factors of production, and, thus, offer the same competitive advantage, to actually co-operate with them and become partners in development.

The new era of development demands that nations leave their traditional hostilities and rivalries and choose areas of co-operation and competition. Thus, instead of competing with each other on selling farm products to America, the EU now decides which European country will be supplier and which country will be distributor; while other countries become part of the value chain and make much more gains out of the process, rather than competing with each other and causing damaging price wars that erode profitability and productivity.

Thus, companies and

In South Asia, there are enough economic reasons for promoting intra-regional trade and co-operation. Direct trade in goods, which are being diverted through a third party, will benefit all countries. Besides, many goods being imported at higher costs from outside the region can be made available from within the region.

### Trade potential

In 1948-49, India was Pakistan's most important trading partner. That year, 56% of Pakistan's exports went to India and 32% of all our imports came from India. In 2000-01, Indo-Pak bilateral trade was less than 0.75% of the respective countries' world trade. In 2000-01, India exported a mere \$186m worth of goods and services to Pakistan out of \$44bn in total global exports. The same year, Pakistan's aggregate exports stood at \$8.8bn, out of which only \$65m went to India.

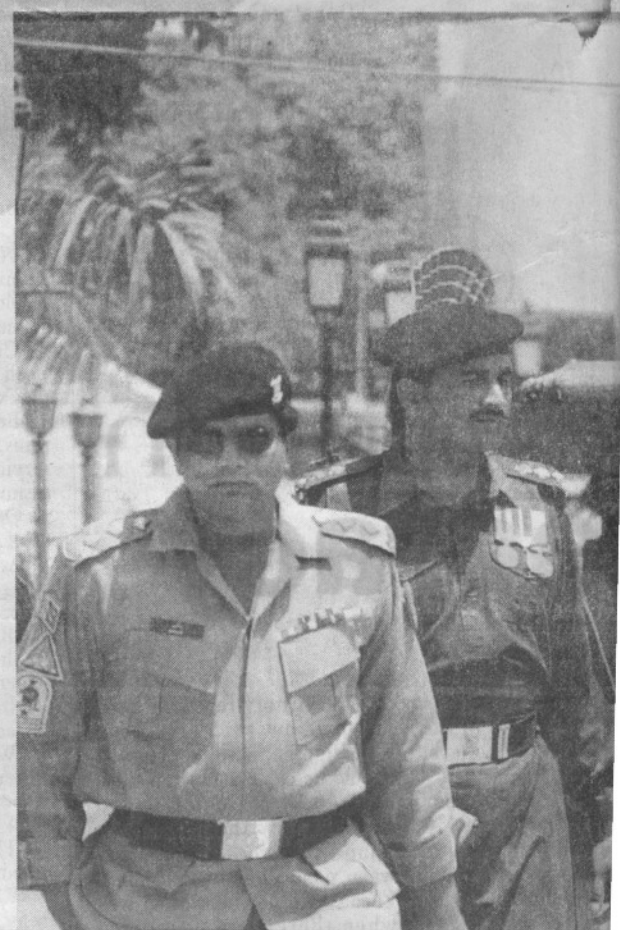
Indo-Pak economic relations

imported onions and sugar from Islamabad purely to cater to severe shortages of these commodities in India.

Though businessmen conduct trade, government still has to play the role of a facilitator and promote this activity by relaxing the visa/travel regime and reducing tariff barriers that are prerequisites for trade promotion.

Indo-Pak trade ties have three components—illegal trade transacted through borders circular or 'informal' trade carried out through a third country and re-exported from there to Pakistan; and formal trade, through imports/exports of merchandise through recognised seaports, airports, land custom stations and inland container depots. The illegal trade channel are smugglers who operate along the 675km unfenced stretch of the Rajasthan sector along the contiguous Indo-Pak border. Circular trade is conducted through agents who are stationed

# A win-



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The News  
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The new era of development demands that nations leave their traditional hostilities and rivalries and choose areas of co-operation and competition. Thus, instead of competing with each other on selling farm products to America, the EU now decides which European country will be supplier and which country will be distributor; while other countries become part of the value chain and make much more gains out of the process, rather than competing with each other and causing damaging price wars that erode profitability and productivity.

Thus, companies and countries are forming alliances to gain advantages in terms of scale and scope, giving rise to a new form of modus operandi called 'co-opetition'. To make this possible, there is a worldwide movement for forming regional trading blocs.

There are many advantages for forming regional trading blocs: it promotes economic co-operation among the members; improves the competitive position of the group in a globalised world; facilitates political harmony within the group; and forges a collective bargaining position in global negotiations. Yet, trade among South Asian countries was less than 5% of the region's total exports, compared to 22% in Asean and 55% in Nafta.

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## bilateral trade

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can be divided into trade—which is done between business communities—and co-operation, which is conducted through governments. Scope for co-operation at the government level is generally limited to infrastructure-related projects in sectors like railways, power and telecommunications. However, a few years ago, New Delhi

in free ports like Singapore or Dubai. Thus, the combined volumes of illegal and circular trade are much larger than formal levels of trade, which in reality, therefore, amounts to 'pseudo' trade between the two countries.

Informal trade between India and Pakistan through a third country—particularly Dubai or Singapore—of vegetables, fruits, fine