Building Peace through Trade

The Future of India-Pakistan Trade & Economic Relations

CUTS International

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Preface

When I sat down to write this piece, the Cricket World Cup has just ended, with India winning the trophy. For less enthusiastic cricket buffs like me, I watched few matches only in snatches. One match which I did see at some length was the semi-final match between India and Pakistan, as well as the India Sri Lanka finals. As the Indo-Pak match was scheduled the Indian Prime Minister invited his counterpart from Pakistan to witness it live at Mohali in Indian Punjab. Media termed this as Cricket Diplomacy with the pregnant wish that such gestures will lead to increase in the dialogue process. This was a welcome move.

The Pakistani PM did come though he must have been disappointed that they lost the match to India. However, he was graceful to accept defeat and went back not as an unhappy person but perhaps as a leader with the thought that his visit would add value to the process of dialogue to achieve the elusive peace between the two nations with a history of conflicts and distrust. One way forward in the peace building process is to enhance not just interaction, but trade.

Mainly me and my friend in Pakistan, Abid Suleri (along with another friend from Pakistan, Huma Fakhar and three of my colleagues, Siddhartha Mitra, Joseph George and Faisal Ahmed) have been writing and publishing articles on India-Pakistan trade relations in our respective media. One important issue is that Pakistan in spite of being a member of GATT/WTO and also member of the regional association SAFTA, has not/do not want to reciprocate the status of MFN to India. On the other hand, every other time and at every international forum it brings in the Kashmir issue on the forefront, forestalling any major breakthrough in two-way trade and meaningful economic cooperation between the two nations.

My answer is simple. History provides ample evidence that no neighbouring countries have ever survived and progressed on prolonged belligerent relations. "History repeats itself" is the saying going time and again. The famous economist, Wilfred Pareto (1889) wrote, "customs unions and other systems of closer commercial relations could serve as the means to the improvement of political relations and the maintenance of peace".

During past 3 to 4 years we have been actively advocating and also writing in newspapers that "why should trade await a final settlement." When India and Pakistan can play cricket, why can't they undertake trade? Policy makers in Pakistan have so far been insisting that unless all disputes between two countries are resolved, trade and economic cooperation will proceed on a case-by-case basis.

However, disputes or even armed conflicts have never prevented economic cooperation around the world. France and Germany had been at loggerheads for a millennium, but now both are major players in the European Union. Likewise, Malaysia and Thailand had border disputes but this has not prevented them from cooperating economically through the ASEAN Free Trade Agreement.

Peace Dividend

There are examples across the globe of trade playing a positive role in conflict resolution between neighbouring countries. The EU, Asean and Mercosur are often cited as venues for improved political-military relations. The evolution of European Union over almost 50 years has proved to a peace-dividend generator. Given that bitter memories of the Nazi atrocities remained vivid among the people in Europe, especially those of Poland, Holland and Russia, this should be deemed as no minor achievement. The strong economic ties amongst 10 Southeast Asian nations (ASEAN) have played the critical role in bringing the belligerent countries which had border conflicts.

It was hard to believe that Thailand was on the American side in the Vietnam war; that Vietnam invaded Cambodia in 1975; that Vietnam and China fought in 1979 and that Thailand had a border skirmish with Laos as recently as 1988. Regional cooperation has come a long way since then. The nuclear rapprochement between Argentina and

Brazil has eliminated the historical rivalry and mistrust between them and the whole region has benefited too.

The regional trade agreements (RTAs) that expand trade flows, as some studies indicate, appear to have a substantial dampening impact on conflict. Mansfield and Pevehouse (2000) found that the outbreak likelihood of a militarized inter-state dispute declines by about 50 percent, if both belong to the same regional trade agreement. As an RTA, SAFTA can provide institutions and a forum for the bargaining and negotiations needed to address tensions before they erupt in conflict.

Informal Trade

A wrong and unfounded notion afflicting the people of Pakistan that India, being a huge nation and relatively more efficient, will swamp the entire Pakistani economy. If strong economies always dominate bilateral trade then USA and China would dominate all economies. Admittedly, India-Pakistan trade is competitive rather than complimentary, and according to some trade experts, there is little scope for expansion.

However, a large informal (illegal) trade is still taking place between the two nations, estimated to be more than four times as high, standing at about US$1.5 to US$2bn, as against formal trade of just US$400mn (in 2004), suggests a huge trade potential. If this informal trade is allowed to take place in a formal way under SAFTA not only bilateral trade will increase but also strong economic and consequently political ties will develop.

Two Measures to Enhance Cooperation

Two specific measures from international community, particularly from the developed countries, like the US and EU would go a long way if taken by them earnestly. They are: (i) Qualifying Industrial Zones (QIZs) and (ii) cross-border infrastructure projects. Both these schemes have played positive and substantive role in not only mitigating conflicts but also help improve trade and investment relations between erstwhile rival countries. The US congress authorized designation of qualifying industrial zones (QIZs) between Israel and Jordan (1999) and Israel and Egypt (2004). The QIZs allow Jordan and Egypt to export to the U.S. duty-free if the products contain a minimum level of inputs from Israel. The purpose of this trade initiative was to support the prosperity and stability in the region by encouraging economic cooperation.

Prompted by this successful endeavour I, by writing a letter to the USTR, tried to convince that the introduction of such a similar scheme between India and Pakistan, be under GSP or SAFTA, would, like in the West Asia, bring peace and enhance economic cooperation in the South Asia. I did get a response, but no action.

The East-West Economic Corridor (EWEC), a 1500-km highway project crossing Greater Mekong Sub-region in the South-East Asia connecting South China Sea to the Indian Ocean, and the Middle-East Regional Cooperation Projects have encouraged trade and cooperation, and thereby peace and prosperity in the regions. Regional cooperation projects have the potential to improve the well being of all parties involved because of the scale economies they permit, the complementarities between the economies, and the externalities they induce (multiplier effects, attraction of foreign investment, diminution of gaps etc.) The Iran-Pakistan-India gas pipeline, if implemented will surely open more vistas for regional cooperation in the region.

Time to Accelerate Economic Ties

More recently due to absence of mutual recognition of standards Pakistan and India both blocked imports of commodities across borders, sugar imports from India by Pakistan and cement imports from Pakistan by India. Both those barriers were erected in the name of standards (a non-tariff barrier), but clearly there existed vested interests behind them in the form of local producer cartels: sugar in Pakistan and cement in India.

And neither country has had an effective competition law. Only recently have both countries adopted modern competition laws but the same have to evolve. How our target to take the volume of trade between the two countries from present level of US$1.76bn per annum to US$10bn by 2010 would be achieved, is a question which can not find any easy solution?

Trade theory amply demonstrates that imports are an effective competition policy tool to reduce the local market dominance of domestic interest groups, a situation that delivers sub optimal outcomes, which go against the interests of the consumers and economy at large. Let's learn from our humble housewife, who seems to have more economic wisdom than the political masters of our countries. Buy from the cheapest source, in commercial language called "forum shopping", shopping from the most cost effective forum/source. After all we just happen to be neighbours. What if our politics makes a little noise!

It is in this spirit and understanding that these articles/papers have been written and I do believe that the readers of these papers will find them as interesting and exciting and that it will contribute to focus on the future by correcting the past mistakes and wrong doings. I do subscribe to the view expressed by people on both sides of the border (as appeared in the opinion poll conducted by the Indian Express in alliance with Dawn News and CNN-IBN Survey and also NDTV 24X7 debate in 2009) that friendship and cooperation (read trade) are a prerequisite for improving relations between the two neighbouring nations- India and Pakistan.

Jaipur
December 2013

Pradeep S Mehta
Secretary General
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Pradeep S Mehta is Founder and Secretary General, CUTS International, an international NGO with its headquarters in Jaipur, India. He has studied commerce at the Calcutta University and law at the Rajasthan University, Jaipur. In April 2012, Mehta was nominated to the High Level Stakeholders Panel of the WTO Director-General on "Defining the Future of Trade". He has been an Honorary Adviser to the Commerce & Industry Minister of India and NGO Adviser to the WTO Director General from 2002 to 2005. He serves on several policy-making bodies of the Government of India and Inter Governmental Organisations related to trade, investment, competition, environment and consumer affairs. A prolific writer, gifted speaker, skilled trainer and organiser in the social science field, Mehta has been named as one of the 30 most famous columnists in India by a leading newspaper in India.

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Freedom from past

Published in
Jang, Pakistan, January 14, 2007

By Pradeep S Mehta and Abid Qaiyum Suleri

Pakistan and India need to go beyond formal exchanges to resolve their differences. The world abounds in examples that the two countries can follow to foster peace and prosperity in South Asia

Only a few weeks ago, Pakistan and India exchanged the lists of their nuclear installations. The purpose of the exercise is that these installations will not be attacked by the two countries in the event of any conflict. But exchanging lists is not a sufficient cover for an unwarranted action by either country. Only a relationship that is based on trust and willingness to resolve all issues and is backed by economic and commercial links as well as strong support from the international community can guarantee that Pakistan and India don't go to war against each other.

Can we, therefore, now start thinking of a forward looking strategy which does not stop at the mere exchange of nuclear installations and thus ensure that the threat of any nuclear or conventional attack is extinguished for ever? The fact that other countries have successfully done that only serves to highlight the inadequacy of the current approach India and Pakistan are employing to resolve their differences.

Even if we confine resolving the problem of nuclearisation of India and Pakistan, a successful model to emulate exists in the form of the Argentine-Brazilian nuclear rapprochement.

During the colonial era, two European powers (Spain in Argentina and Portugal in Brazil) expanded their own rivalry through territorial conquests in South America. Even after their independence (Argentina in 1816 and Brazil in 1822), the rivalry between the independent states continued to reflect their colonial past. Competition for the leadership of South America -- with elements of antagonism, rivalry, and mistrust -- was always present in the bilateral relationships between Argentina and Brazil.

Though the South American experience can be valuable for India and Pakistan, one important difference must be kept in mind. While Argentine and Brazil were competitors and rivals for the leadership of South America, they were not enemies. The only war between them took place in 1825, more than a century-and-a-half ago, giving birth to a new (buffer) state, the Uruguay, through the peace treaty of 1828. Since then, their relations have alternated between cooperation and competition, but not a single shot has ever been fired. Even a bitter border dispute between them was resolved by arbitration, not war. In 1985, the time came when it was decided to put an end once and for all to the rivalry and mistrust that had pervaded bilateral relations for too long, especially by focusing on social and economic relations.

Beginning with the 1980s, Argentina and Brazil initiated efforts towards a nuclear rapprochement and by 1985 this process developed in earnest. The period from 1985 to date can be divided into two stages: During the first period, (1985-1988) purely bilateral approach to the issue was undertaken while the second period between 1989 and the present had dual objectives: first, to give a legally-binding character to the agreements already signed by the two countries, and second, to take these obligations to the international field, making the two nations part of the regional and global non-proliferation regimes.

It is in this endeavor that these two countries along with Paraguay and Uruguay formed the South American Common Market (the MERCUSOR) in 1991 which was later joined by Chile in 1996 and Bolivia in 1997. The aim of the formation of the common market was to enhance trade and investment opportunities because these Latin

American countries had realised that closer and deeper economic relations facilitated by free trade would further strengthen understanding, faith, confidence and mutual cooperation among themselves.

But if we want to go beyond the nuclear sphere and bring in all the various aspects of bilateral relationship between India and Pakistan, the world is not devoid of lessons that can be easily learnt. There are several examples offered in the history where belligerent neighbouring countries have moved from hatred, antagonism, rivalry and mistrust to understanding, trust, faith and cooperation thereby enhancing peace and prosperity between themselves and in the region.

It took several decades after the World War II to mend relations between the people of Germany and those of France. The formation of the European Union, giving rise to higher levels of economic well being resulting from enhanced economic cooperation, has been instrumental in reducing the enmities — not only between France and Germany but across the Western Europe — and receding the memories of the atrocities of the World War II from the minds of most people, especially of the next generation which came of age by the 1970s. Given that bitter memories of the Nazi atrocities remained vivid among people in Europe even many decades after the World War II, especially among those living in Poland, Holland and Russia, this should be deemed no minor achievement.

Given the high level of economic and other cooperation among different member countries of ASEAN (Association of Southeast Asian Nations), it is hard to believe that Thailand was on the American side in the Vietnam war, that Vietnam invaded Cambodia in 1975, that Vietnam and China fought in 1979 and that Thailand had a border skirmish with Laos as recently as 1988. Regional co-operation has come a long way since then.

There are several lessons that can be derived from the friendship, cooperation and peace-making process across the globe. First and foremost, to be successful, an exercise of this kind must be based on a sincere purpose of reaching agreements to end nuclear race and/or cross border terrorism and establish a climate of mutual confidence. No moves in this field can have the slightest chance of success if they are taken with the ulterior motive of destabilising the other party or lulling it into a false sense of security. As a first step, a country should open itself to the other party, on the understanding that this policy will be reciprocated. Information should flow fully and freely from one country to the other. Of course, the climate of mutual trust thus attained will not last if flanking and additional measures do not follow to give it a permanent character.

Such additional measures include to keep talking: it's never over until it's over. Secondly, constructive engagement works better than pressure: Renewed efforts for willingness to support bilateral confidence-building measures would lead to more progress than diplomacy-based political criticism accusing each other for cross-border terrorism (which of course needs strong action by both the sides).

Thirdly, regional cooperation infrastructure projects have a potential for the improvement of the well being of all parties involved. The East-West Economic Corridor, a 1500 Km long highway project crossing 6 GMS (Greater Mekong Sub-region) countries in the Southeastern Asia connecting South China Sea to Indian Ocean and the Middle East regional cooperation projects are some good examples in this regard. In the same vein the mega-economic projects like the Turkmenistan-Afghanistan-Pakistan and the Iran-Pakistan-India gas pipeline projects would help in promoting trust and regional economic cooperation between India and Pakistan.

Lastly, it may be beneficial to look for opportunities where the United States (and European Union) foreign policy can support bilateral initiatives that can have positive proliferation. For example, river diplomacy in Argentina accelerated bilateral cooperation in the nuclear area. The current initiative to expand upon 'bus diplomacy' in India and Pakistan should receive strong US and EU support. Similarly, India and Pakistan can benefit if the US offers them Qualifying Industrial Zones (like the ones in which exports from Jordan and Egypt containing inputs from Israel enter duty-free into the US market) under the Generalized System of Preferences of international trade.

Skeptics would argue that in the case of India and Pakistan, the Kashmir dispute is sui generis and thus the improvement of relations is dependent upon its resolution. In this case, one can draw lessons from North Ireland, which has been a bone of contention between the United Kingdom and Ireland as well as a huge number of people living in Norhern Ireland. The Irish Republican Army has agreed to lay down its arms, and has also stopped any terrorist activity either in Ireland or in the UK, after thirty years of conflict. Can the same not be attempted in Kashmir, which has become a similarly intractable problem between India and Pakistan as well among the people living in various parts of Jammu and Kashmir.

Fortunately, due to various internal as well as external reasons, a window of opportunity is opening wide for improving relations between India and Pakistan. Both the Pakistani President General Pervez Musharraf and Indian Prime Minister Dr Manmohan Singh (apparently due to their own reasons) have suggested ways forward to craft peace among the two nuclear countries. Similarly, people in both the countries and in Kashmir have a strong yearning for peace. They are dreaming of a South Asia free of hunger, poverty and under-development. Like past 59 years, they have been wishing for a new year during which their governments would shift the huge resources being spent on defence expenditures to developmental expenditures.

On New Year's eve, which incidentally was the Eid-eve in India and Pakistan too, many expressed their desire to celebrate festival across the border on various private TV channels. Should we not imagine a South Asia full of peace and harmony?

Should we not let peace work for prosperity? Should cross border tourism not take over cross border terrorism? There seem to be a little ray of hope from the top. It is about time that we create the pressure from the bottom and facilitate the peace process between two nuclear nations through enhanced economic relations.

Some political observers are defining a new South Asia as a region where various types of freedoms can be realised — that is, freedom from want, freedom from fear, and freedom to live with dignity. This is premised on the axiom that every single individual on earth has both the potential and the right to live a decent life. Let us work for a new South Asia in 2007 and grab any opportunity for a long lasting peace following the examples in South America, Europe, and Southeast Asia.

Once opportunities arise

Published in
Financial Express, October 03, 2007

By Pradeep S Mehta

At a recent seminar in Kathmandu on trade in South Asia, the issue of regional trade cooperation figured prominently. The meeting resolved to focus on supply-side issues, which include a rationalisation of standards and implementation of an effective competition policy and law. It is no secret that the cause of regional trade is mortgaged to Indo-Pak relations. Alas, recent incidents of two-way non-tariff trade barriers, though unconnected, only appear to stall the story. One was Pakistan's blocking of sugar exports from India, while India blocked cement imports from Pakistan.

And we wish to take the volume of trade from $1.76 billion per annum to $10 billion by 2010. Both those barriers were erected in the name of standards, but clearly, there existed vested interests behind them in the form of local producer cartels: sugar in Pakistan and cement in India. And neither country has an effective competition law.

Now, India and Pakistan are signatories to the WTO's SPS and TBT agreements, and if these consignments are not in conformity with the stated standards, then officials have a right to hold them up. But if the same sugar is good for Indians and cement for Pakistanis, why the brouhaha?

On the other hand, both India and Pakistan argue at the WTO that there should be mutual recognition of standards and/or equivalence. If they cannot do so at the regional level, what right do they have to do so at the WTO in Geneva? Whenever either party opens its mouth in Geneva at the negotiating table, someone points this out.

Thus, the way ahead is to start identifying minimum standards and safeguards which should have mutual recognition, taking into account existing standards in the respective countries, and possibly accept them as regional standards for trade within the region. Second, they should also adopt good competition laws to foster regional cooperation under the Safta framework. Once this is done, not only Pakistan and India, but the whole developing world can demand the same at Geneva.

That traders are sometimes a little too clever is a worldwide observation. One example from Zambia beats all logic. Recently, the Zambian government confiscated sugar imports from Zimbabwe on the pretext that imported sugar is not fortified with vitamin A. No prizes for guessing who was behind this illogical standard; Zambia has just one rent-seeking sugar factory that is making a mountain out of a sugar heap under the pretence that fortified sugar is the health equivalent of iodised salt. The sobering truth is that vitamin A can easily be obtained via other food sources in a balanced diet.

Trade theory amply demonstrates that imports are an effective competition policy tool to reduce the local market dominance of domestic interest groups, a circumstance that delivers suboptimal outcomes which go against the interests of the consumer and economy at large. Domestic trade policy must never be held hostage to vested interests, and a perspective of the larger national welfare must never be lost in devising trade and other policy instruments and practices.

Engaging in mutual trade brings benefits to all. This is not rocket science, and even the common man understands this. Pointers in this direction were offered by a recent opinion poll conducted simultaneously in India and Pakistan by The Indian Express in alliance with Dawn News and CNN-IBN, as also by an NDTV 24x7 debate held in Karachi and telecast on June 18, 2007 ("Indo-Pak: Generation Gap"): people on both sides of the border feel that friendship and cooperation (read trade) are a prerequisite for improving relations between the two neighbours.

There are examples across the globe of trade playing a positive role in conflict resolution between neighbouring countries. Even regional trade agreements (RTAs) that expand trade flows, as some studies indicate, appear to have a substantial dampening impact on conflict. Mansfield & Pevehouse (2000) found that the outbreak likelihood of a militarised inter-state dispute declines by around 50% if both belong to the same regional trade agreement. As an RTA, Safta can provide institutions and a forum for the bargaining and negotiations needed to address tensions before they erupt in conflict. The EU, Asean and Mercosur are often cited as venues for improved political-military relations. In Africa, RTAs that address the management of cross-border resource issues are more effective in reducing military conflict than other RTAs.

There are examples galore of conflicts being contained by trade agreements. China imposed a ban in 2003 on Japanese rice by putting it on a list of agricultural imports deemed at risk of insect infection. But now, an agreement ("rice diplomacy") has been signed between Japan, the world's most expensive rice producer, and China, the world's largest rice consumer, and this has rekindled the relationship. In 1979, Brazil signed an agreement with Argentina and Paraguay, thereby ending their dispute over the use of hydroelectric resources of the river Parana ("water diplomacy"). These are only some examples of conflict resolution through trade and economic cooperation.

So, let's rationalise trade policy. And let's face down trade barriers. The rest will follow once other opportunities arise for mutual assurance and lasting peace.

Time to accelerate economic ties

Published in
The Hindu Business Line, December 16, 2006

By Pradeep S Mehta and Huma Fakhar

History provides ample evidence that no neighbouring countries have ever survived and progressed in the background of prolonged belligerent relations.

A recent action by the Pakistani government to increase the positive list of tradeable products from 773 to 1075 under the South Asian Free Trade Agreement (SAFTA) could result in the doubling of formal trade from $1 billion to $2 billion. But this exchange can quadruple if only there is closer economic cooperation and that could set the pace for normalisation of relations.

Whenever one speaks about the peace-promoting economic relations between India and Pakistan, sceptics opine that the relations between the two are marred by the border dispute and cross-border terrorism. Hence, to expect more peaceful relations between the two fast growing economies through trade is a dream. We do not agree.

Until recently, it was not known that to promote peace in West Asia, the US hadadopted a similar scheme. In 1996, US Congress authorised designation of qualifying industrial zones (QIZs) between Israel and Jordan (1999) and Israel and Egypt (2004). The QIZs allow Jordan and Egypt to export to the US duty-free if the products contain a minimum level of inputs from Israel. The purpose of this trade initiative was to support the prosperity and stability in the region by encouraging economic cooperation. It has worked well.

India, Pakistan entering PTAs

Since both India and Pakistan are preparing to or are entering into various preferential trade agreements (PTAs, bilateral as well as regional) with other countries and regions (both with developed and developing countries) it would be sensible to include QIZ-type of arrangement in some of the agreements particularly with the EU, the US and China and even within SAFTA and the proposed ASEAN-India FTA. Such arrangements would help both Indian and Pakistani exporters/importers reap the benefits of free trade as well as promote greater cooperation.

Among other ways to promote economic cooperation is to look at cross-border infrastructure projects, which have opened prospects for economic benefits through cooperation. Regional cooperation projects have the potential to improve the well-being of all parties involved because of the scale of economies they permit, the complementarities between the economies, and the externalities they induce (multiplier effects, attraction of foreign investment, diminution of gaps, etc...).

The East-West Economic Corridor (EWEC), a 1,500-km highway project crossing six Greater Mekong Sub-region countries in South-East Asia connecting South China Sea to the Indian Ocean, and the Middle-East Regional Cooperation Projects are some good examples.

Regional trading blocs may be an instrument for peace and prosperity. As Keynes observed, "A Free Trade Union, comprising the whole of Central, Eastern and South-Eastern Europe, Siberia, Turkey, and (I should hope) the United Kingdom, Egypt and India, might do as much for the peace and prosperity of the world as the League of Nations itself."

Tools for peace, prosperity

Keynes said that trade and commerce have been the most effective way of establishing peace between rival nations. The formation of the European Union most effectively united the Continent that for long was divided and warring. The EU has led to higher levels of economic well-being resulting from enhanced economic cooperation amongst the member states. History provides ample evidence that no neighbouring countries have ever survived and progressed on prolonged belligerent relations. "History repeats itself" is the saying going around time and again. The famous economist, Mr Wilfred Pareto (1889) wrote, "customs unions and other systems of closer commercial relations (could serve) as means to the improvement of political relations and the maintenance of peace".

Conflict resolution

The Southern African Development Community originated in the 1980s as a coalition opposed to apartheid in South Africa and, more recently, turned to creating a free trade area. Some observers note that African Customs unions and free trade areas are as active in areas such as conflict resolution as in trade liberalisation. Finally, many see relaxed tensions between India and Pakistan as the real payoff of SAFTA (World Bank, Global Economic Prospects, 2005).

Many studies also point out that RTAs that expand trade flows appear to have a substantial dampening impact on conflict. Mansfield and Pevehouse (2000) attempt to identify empirically the role of RTAs in ameliorating conflict. They found that, on an average, the likelihood of the outbreak of a militarised inter-state dispute declines by around 50 per cent if both belong to the same RTA. However, only RTAs that expand trade flows appear to have a substantial impact on conflict.

In Africa, for example, RTAs that address the management of cross-border resource issues (such as water) are more effective in reducing military conflict than other RTAs.

Though both India and Pakistan are moving closer, it is at a snail's pace and constantly encountering hurdles. Some of the above measures could divert attention from sticky matters and accelerate economic cooperation between the two nations by reducing (if not eliminating) tensions and mistrust and bringing peace and tranquility to the region.

For peace to reign, prepare for trade

Published in
The Business Recorder, Pakistan, June 25, 2005

By Pradeep S Mehta and Huma Fakhar

A foundry equipment manufacturer in India procured an order of Rs 7crores for supplies to a new foundry in Pakistan in 2004. The equipment was routed through Dubai with all signs of India removed from the machinery. The Pakistani importer had to pay at least 17 percent more than what he would have paid if he could have imported the equipment directly from India.

In any case the cost of similar equipment from other countries would have been higher by at least 35 percent, so the Pakistani businessman soundly bought the equipment from India. When he will need to buy spare parts, he would follow the same circuitous route. Similar experiences obtain in many such situations, where goods worth hundred of crores from India and Pakistan are bought through either a circuitous route or clandestine channels.

However, times seem to be changing and the greater social impacts seem to have made everyone alive to the fact that every action does have its rather, grave, economic implications which cannot but be taken into account. Regional and bilateral trade, more often than not, have been the first casualty in cross-border conflicts. It's a double whammy and therefore, costs tend to be multiplicative rather than additive in their emergence and effect.

A simple back of the envelope calculation of such costs indicates that costs of conflict in addition to the costs of lost trading opportunities more often than not constitute a not so significant proportion of GDP. Had it not been for these costs the impact on social development could have pushed most countries engaged in cross-border conflict a few notches up the HDI. Conflict deterrence, therefore, seems appropriate and a Rupee saved, is therefore a Rupee earned. In times of fiscal stringency with ever widening costs of running a country, such cost cutting efforts are most welcome.

More significant are the costs to the consumer and the producer - the most significant segments of the social dynamo. A look at Indo-Pak trade is rather instructive about the need to make economics central to all our efforts.

Admittedly, Indo-Pakistan trade is competitive rather than complimentary, and according to some trade pundits, there is little scope for expansion. However, a large informal, illegal, border, call it what-you-like trade indicates the contrary.

Though official bilateral trade figures are pegged at slightly less than $400mn, illegal trade is $1.5-2bn. Informal trade, through third country like the foundry equipment purchase, is another $1bn. Some talk of a range of $2-8bn! Official trade figures apart, informal and illegal trade are mere guesstimates. Nevertheless, they indicate the huge potential for trade.

The size of market demand, therefore, cannot be dismissed as piffle. Business on either side hunts for market access, market penetration, market share in all regions except in countries with contiguous borders. Does it make sense or is it force of circumstance? Obviously the latter. Going by the unofficial figures, who wouldn't want to trade with there neighbours.

In all this number crunching, the plight of the consumer and the producer, be it in India or Pakistan is rather unenviable. The Pakistani consumer pays higher costs virtually for every commodity coming from India, primarily because of a round-about the consignment takes to reach from India to Pakistan. Also, something available in the neighbourhood, is not permitted becomes more costly at the point-of-purchase, being sourced from a costlier supplier. India should consider a preferential tariff and reduced non-tariff barriers formula for Pakistan.

A Bilateral Investment Treaty can readily neutralise the supply side constraints in Pakistan and the fear of being swallowed by the giant Indian economy. At the end of the day despite huge trade deficits countries have not stopped trading with China. Even Nepal, Bangladesh and Sri Lanka have FTA's with India. If it's only politics pulling Indo-Pak back, then the new norm needs to be reiterated, which is, economics will drive politics for all future and practical purposes.

India should not be looked as a competitor alone, for sure India will win the numbers game in the short run due to its huge market size, however, Indian market should be eyed as the hub of investments and transfer of technology not alone for Pakistan but for the whole region.

At present, Pakistan, which has one of highest per capita consumption of tea, imports 150mn kgs mainly from Kenya, even though Pakistanis prefer Indian tea. India didn't buy from Pakistan directly. If it did, as is experienced today, the Chana (chickpea) in our dal in Delhi would be much cheaper being sourced through Wagah than from Maharashtra!!. Zinetac, a patent medicine for acidity, sells in India at Rs 7.20 for 10 tablets; it retails in Pakistan for between Rs 80 and Rs 150.

For decades, Pakistan imports iron ore, rice and sugar from Australia, Indonesia and Brazil respectively. If we take just another example of Suzuki motor cars, Pakistanis pay more than twice as much than what an Indian would do in India. The spare parts of the car are believed to cost nearly seven times as high. Instead, it could have been imported these from India, and enjoyed lower transport costs. Do we see an opportunity here?

Significantly, in times of crisis we knock on our neighbour's door. In 1990, India helped Pakistan tide over a potato and onion crisis, and during a sugar shortage in 1997, it imported 50,000 tons of Indian sugar. Recently, too, Pakistan sourced meat, tomatoes, onions, garlic and potatoes from India, duty free, to rein in prices and meet domestic demand.

Similarly, in 2003 India sourced enormous consignments of grains from Pakistan due to an emergency. Where else could both have acquired food supplies on an emergency basis but from its neighbour? It is expected that if importers decide to pass through the price differentials domestic prices would drop by 15-20%.

On the other hand, Pakistani industries and engineering sector can benefit from the import of machinery and basic and intermediary raw materials to reduce the costs of capital goods and machinery as well as the finished goods. Pakistani textile industry can be the single biggest beneficiary because Pakistan leads India in coarse counts 20s and below and India leads Pakistan in fine counts 40s and above.

In addition, India needs to source woven fabric from Pakistan; one of the heaviest and more recent investments made by Pakistan textiles sector is in the woven sector, what could be a better market? Allowing the import of capital goods and machinery from each other will offer substantial savings in freight costs and time due to the geographical proximity.

Economics has assumed a pivotal role in the foreign policy exercise among nations since the end of the Second World War. History bears testimony to the fact that even countries of the war-ravaged Europe displayed a vision by deciding to set aside their mutual political and security problems for widening their bilateral and multilateral economic interactions.

Let's learn from the humble housewife, who seems to have more economic wisdom than the political masters of our countries. Buy from the cheapest source, in commercial language called "forum shopping" shopping from the most cost effective forum/source. After all we just happen to be neighbours. What if our politics makes a little noise!

VIEW: Why should trade await a final settlement?

Published in
Daily Times, March 27, 2005

By Pradeep S Mehta and Huma Fakhar

Cricket seems to be a far greater force uniting nations and sentiments than war. If commonality of purpose can exist on the sports field it can also be a part of trade processes. If one can play cricket, one can also undertake trade

India and Pakistan have been at loggerheads over Kashmir, among other things, since independence. However, times seem to be changing. This change gathered momentum when Pakistani Prime Minister Shaukat Aziz, at the World Economic Forum meeting in Davos, Switzerland, at the end of January, proposed to his Indian counterpart to evolve a series of confidence building measures that need not be held hostage to the resolution of Kashmir, the central dispute.

The Kashmir issue has been singularly responsible for blocking cooperation between the two countries, except where it is imperative and unavoidable. At international fora, at times, both share similar views and stands. For example at the World Trade Organisation (WTO), both are members of the developing countries' alliance — G-20 — which is trying to ensure that the Doha Development Agenda will protect the interests of poor countries. Both countries have been founder members of the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT).

The two countries are also members of the South Asia Association of Regional Cooperation (SAARC) and its various instruments: this includes the South Asia Preferential Trade Arrangement (SAPTA), to be succeeded by the South Asia Free Trade Arrangement (SAFTA). However, any progress on either of these protocols has been mortgaged to the Indo-Pak détente. Consequently, the entire region has suffered.

India-Pakistan economic relations have been facing the bugbear of some myths that continue to define the debate on whether the countries should or shouldn't resolve all disputes prior to forging trade and economic relations. Thus, progress on economic cooperation between India and Pakistan has taken a backseat. In this article, we have identified the major myths and proceed to demolish them.

Countries at war can play cricket but cannot trade!
Cricket seems to be a far greater force than war. If commonality of purpose can exist on the sports field it can also be a part of trade processes. If one can play cricket, one can also undertake trade!

All disputes need to be resolved before economic cooperation?
Policymakers in Pakistan have so far been insisting that unless all disputes between the two countries are resolved, trade and economic cooperation will proceed on a case-by-case basis. While some change is taking place in this line of argument, the jury is still out. We need to proceed with gradual opening up on both sides: India should look into serious tariff reduction and Pakistan should give up on 'sensitive' lists. A good way to begin could be a Bilateral Investment Treaty (BIT).

Disputes have never prevented economic cooperation around the world. France and Germany had been at loggerheads for over a millennium, but now both are major players in the European Union, which is continuously deepening economic and political cooperation. Malaysia and Thailand too have border disputes but this has not prevented them from cooperating economically through the ASEAN Free Trade Agreement.

The deepening India and China economic ties also set a precedent. India and China have a border dispute but have decided to keep it on the backburner. In 2000, bilateral trade between both countries was around three billion dollars. Within three years, it crossed $10 billion. Several estimates show that India and Pakistan can also achieve similar levels of trade if they decide to open up their borders.

Reciprocity should be followed in dispute settlement

Reciprocity may not be useful in the current environs. Times are testimony to the adverse impacts economic growth has faced in both these countries. What cannot be undertaken officially has somehow been substantiated unofficially. The market apparently knows what is right. Unofficial trade has already reached an estimated staggering two billion dollars. Imagine if this trade is carried out officially, reducing costs and having a trickle down effect. India has already granted Pakistan the MFN status, in spite of pending disputes. Curtailing trade due to unsettled issues is reciprocity at its worst. One should therefore, attempt a non-reciprocal approach to foster more trade.

India will dominate the economy of Pakistan if trade is liberated

There is concern that if Pakistan liberalises trade relations with India, the latter will dominate Pakistan's economy. Undoubtedly India will have a trade surplus against Pakistan as it has with other neighbours, Bangladesh, Nepal and Sri Lanka. Yet no one complains. To the contrary, the Free Trade Agreement between Sri Lanka and India has led the two to initiate talks on further custom union integration. Simple economic rationale indicates that India enjoys these surpluses because of the size of its economy and the comparative advantages it enjoys. But this does not translate into a domination of Pakistan's economy by India.

If strong economies always dominated bilateral trade then China and the US would dominate all economies with which they have a trade surplus.

On the contrary, USA runs a deficit with most trading partners, which do not dominate the American economy. China has a trade surplus against US, which exceeded $68 billion in 2000. China had a trade surplus of $ 0.8 billion in 2003 against Pakistan. This doesn't indicate economic subjugation. On the contrary it indicates vibrancy and a leashed domestic demand waiting to be harnessed and catered to. Bilateral trade will help both countries. Take the case of the India-Pakistan-Iran pipeline. It will fetch Pakistan an annual income of $500 million.

Trade will lead to disputes which will promote more conflict
Trade disputes take place between all trading partners, as can be seen from the history of the WTO and other dispute settlement machinery. These are resolved through legal processes. Countries do not and should not resort to violence to resolve commercial disputes. This is not something to worry about. Disputes indicate a dynamic relationship.

Will there be a peace dividend if the cooperation is concretised?
There will be a huge peace dividend if trade relations are strengthened. When two countries trade with each other, people develop an interest in maintaining peace, so that the flow of goods and services is not disrupted.

Will it lead to the dissolution of other issues?
When countries are trading with each other, they avoid conflicts. If there are any disputes, as is likely to happen, they use dialogue to resolve them. What has been seen in many similar situations is that countries decide to maintain the status quo (somewhat like the LoC) and move on.

They always say one should learn from the lessons of history. We should also not repeat the mistakes that were made while history was being written.

For more than mutual assurance

Indo-Pak lessons from the Argentine-Brazilian model of cooperation

Published in
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By Pradeep S Mehta and Abid Qaiyum Suleri

Mutual trust achieved, additional measures would include a commitment to keep talking: it's never over until it's over

Pakistan and India have just exchanged lists of their nuclear installations, as part of a mutual assurance that these shall not be attacked by either party in the event of any conflict. However, exchanging lists is not sufficient cover for an unwarranted action by either country. Can we think of a strategy to ensure that there is no threat of any nuclear or conventional attack ever?

A successful model exists in the Argentine-Brazilian nuclear rapprochement. In the era of colonialism, the two European powers, Spain and Portugal had expanded their own rivalry through territorial conquests in South America: the former in Argentina and the latter in Brazil. Even after their administrative independence (Argentina's in 1816 and Brazil's in 1822), the burden of colonised mindsets found continued expression in a South American rivalry between the two. They vied with each other for leadership of South America, with all the usual antagonism and mistrust.

Although the South American experience could be valuable, one important difference must be mentioned: while Argentina and Brazil were rivals, they were not enemies. The only war between them took place in 1825, more than a century-and-a-half ago, giving birth to a new (buffer) state, Uruguay, through the peace treaty of 1828. Their relations since have alternated between cooperation and competition, but no single shot was ever fired. A bitter border dispute was resolved by arbitration, not war. In 1985, they both grasped a moment of economic logic to put an end once and for all to the mistrust that had bedevilled bilateral relations for so long. Thus did social and economic relations come into focus. The subsequent period can be divided into two stages. In the first (1985-1988), the approach taken was bilateral. In the second (1989—), the process had a dual objective: first, to bind the signed agreements legally, and second, to integrate the agreements with international nonproliferation regimes.

It was as a part of this endeavour that these two countries, alongwith Paraguay and Uruguay, formed the South American Common Market (Mercosur) in 1991, which was later joined by Chile in 1996 and Bolivia in 1997. The aim of this common market was to enhance trade and investment opportunities, as these countries realised that closer economic relations facilitated by free trade would consolidate mutual understanding, confidence and cooperation.

There are several other examples in history of neighbourhood peace and prosperity taking the place of hostility and heartburn. Europe put aside the bitter Nazi experience for the formation of the European Union. Even in Asia, it is hard to believe that Thailand, Vietnam and Cambodia were ever at war.

There are several lessons that can be derived from all this. First and foremost, to be successful, an exercise of this kind must be motivated by sincerity of purpose. No such moves can have the slightest chance of success if they are taken with the ulterior motive of destabilising the other party. As a first step, a country should open itself to the other party, on the understanding that this policy will be reciprocated. Information should flow fully and freely from one country to the other. Of course, the sense of mutual trust thus attained will not last if flanking and additional measures do notfollow to give it permanence. Additional measures would include a commitment to keep talking: it's never over until it's over. Second, constructive engagement works better than pressure: renewed reinforcement of the will to support bilateral confidence-building measures would lead to more progress than diplomacy-based political criticism involving cross-accusations on issues like terror (which, it hardly takes a couple of minutes to reiterate, requires dedicated action on both sides).

Third, regional cooperation infrastructure projects could be proposed. The East-West Economic Corridor, a 1,500 km long highway project crossing six Greater Mekong Sub-region countries in the Southeast Asia, and the Middle East regional cooperation projects are some good examples. Likewise, mega-economic projects like the Turkmenistan-Afghanistan-Pakistan and the Iran-Pakistan-India gas pipeline projects would help promote regional economic cooperation between India and Pakistan.

Lastly, it may be beneficial to look for opportunities where the US (and EU) foreign policies can support bilateral initiatives. River diplomacy in Argentina, for example, accelerated bilateral cooperation in the nuclear arena. The initiative to expand Indo-Pak 'bus diplomacy' should receive US and EU support. The US could offer incentives by offering the benefits of its Qualifying Industrial Zones scheme (by which exports from Jordan and Egypt containing inputs from Israel enter the US duty free), under its Generalized System of Preferences.

Sceptics would argue that in the Indo-Pak case, the Kashmir dispute is sui generis, and thus any improvement of relations is dependent on its resolution. Even if this is so, one can draw lessons from North Ireland. After 30 years of conflict, the Irish Republican Army has agreed to lay down arms. Frankly, neither India nor Pakistan would like an independent Kashmir. Yet, fortunately, there is a window of opportunity at the moment. Pakistan President General Pervez Musharraf and Indian Prime Minister Dr Manmohan Singh have both suggested ways to craft a lasting peace between the two nuclear countries. The yearning for peace is evident among people on both sides, as also in Kashmir. Is it not time to grab it and move ahead?

Trade against terror and tragedy

Published in
Financial Express, India, March 30, 2008

By Abid Qaiyum Suleri and Pradeep S Mehta

While reporting the terror attack on the Delhi-Lahore train, FE (February 20, 2007) carried an editorial saying, "...it is during such moments of tragedy that the real basis of subcontinental peace can be glimpsed. That basis does not lie in complex territorial negotiations, but in more and more, ultimately leading to free and open, two-sided flows of people and business".

Despite resumption of rail-road links, the journey between the two neighbours is critically dependent upon the security and safety of travellers. The governments of the two countries must address the challenges of security to sustain the renewed interest of the people in visiting each other more frequently. The Indian Express-Dawn News-CNN-IBN opinion survey in both countries and an NDTV 24X7 debate in Karachi give a clear message that people on both sides of the border feel that friendship and cooperation (read trade) are a prerequisite for improving relations between the two neighbours.

There are enough examples showing how treaties of sharing river waters, cross-border infrastructure projects and nuclear rapprochement have partially bridged divides between hitherto not-so-friendly or even belligerent countries. The Indus Water treaty of 1960 has ironically survived more than 47 years of conflict over Kashmir. Likewise, the war between Cambodia and Vietnam has not prevented them from reaping the fruits of a 1,500-km long crossborder highway project. And the Middle East Regional Cooperation projects have encouraged trade and thereby peace and prosperity in the region.

India and Pakistan are regional nuclear powers and have recently exchanged lists of their nuclear installations. However, mere exchange of lists is not sufficient cover for an unwarranted action by either party. The Argentina-Brazilian nuclear rapprochement is an example worth emulating. They initiated bilateral efforts towards nuclear rapprochement in early 1980s. During 1985-88, they pursued the issue bilaterally and signed an agreement, which was made legally binding in 1989. Subsequently, they became the members of regional and global non-proliferation regimes by taking the issue to the international forum. This agreement encouraged the countries to seek cooperation in the economic sphere as well. Having realised that closer economic relations facilitated by free trade would further strengthen understanding and mutual cooperation, the two countries persuaded Paraguay and Uruguay to form the South American Common Market (the Mercosur) in 1991. They were joined by Chile in 1996 and Bolivia in 1997. The common market was formed with an objective to enhance trade and investment among these countries. In a similar vein, Safta offers us an opportunity to make it a vehicle of peace and prosperity in the South Asian region.

Such vehicles of peace have become very important, given the growing incidence of terrorism in the sub-continent. Until recently, it was only India that was a victim of cross border terrorism, but of late, Pakistan has also experienced it. This has demonstrated that terror has no religion and knows no national boundaries. Terrorism has thus become a common problem for both nations. Cooperation between the two countries on this issue will go a long way in building trust and confidence and mitigating myths and distrust between the nations.

Historically, Pakistan has been a close ally of the US. The US has been helping Pakistan not only economically but also in many other ways. The US considers Pakistan a great ally in combating international terrorism. Of late, India has also inked a civilian nuclear supply agreement with the US to meet its rising energy needs, and many political observers comment that in doing so, it has compromised its long-standing stance of non-alignment. Keeping such rhetoric aside, it may be beneficial to look for opportunities within the framework under construction by which the US (and EU) foreign policies can work in favour of supporting bilateral initiatives.

River diplomacy in Argentina, for example, accelerated bilateral cooperation in the nuclear arena. The initiative to expand Indo-Pak "bus diplomacy" could also flower with EU and US support. To create peace through economic (trade) cooperation in the Middle East, for example, the US has offered a Qualifying Industrial Zones scheme under its Generalised System of Preferences. Under this scheme, exports from Jordan and Egypt containing inputs from Israel can enter the US market duty free. A similar preferential access scheme, if offered by the US to India and Pakistan, would be an element in the mutual cooperation efforts between the two countries for peace in the region.

Some experts observe that there is little scope of trade expansion between India and Pakistan as the countries are competitors rather than complements in the world Economy. However, a large illegal/ informal, border trade indicates the opposite. Though official bilateral trade figures currently stand at slightly less than $1 billion, the illegal trade is in the region of $1.5-2 billion. Informal trade, through a third country, is another $1 billion. Though informal and illegal trade figures are mere guesstimates, they nevertheless indicate the huge potential for enhanced trade relations between India and Pakistan.

Trade to the forefront

Published in
Financial Express, India, April 20, 2008

By Abid Qaiyum Suleri and Pradeep S Mehta

Not enough is being done to encourage business between Pakistan and India

India and Pakistan, as discussed in our last article ('Trade against terror and tragedy', March 23), have new opportunities to intensify the engagement, even as the contextual incentive framework undergoes changes. In a world so keen on the gains of trade liberalisation, it is now well recognised that it is a pity that the potential for trade between India and Pakistan is not being addressed fully, despite the fact that entrepreneurship has flourished on both sides of the border.

Unfortunately, governments on both sides are not doing enough to pave the way for an increase in the volume of trade and a concomitant restoration of amicable relations. With globalisation upon us, trade negotiators of both countries should use the skills of commercial diplomacy as a complement rather than replacement for neighbourhood diplomacy, and vice versa.

There are several examples of such diplomatic endeavours. China imposed a ban on imports of Japanese rice in 2003 following the risk of insect infection. But later, an agreement ("rice diplomacy") signed between Japan, the world's most expensive rice producer, and China, the world's largest rice consumer, restoring rice imports by China and salvaged the neighbourhood relationship.

In the subcontinent, it is important to point out that the two countries have indeed come to each other's aid in times of crises. Pakistan approached India in 1990 to help it tide over a potato and onion crisis, and imported Indian sugar during a shortage in 1997. Similarly, India imported foodgrains from Pakistan in 2003 on account of an emergency. Who else could have helped on an emergency basis in the case of essential commodities but a neighbour?

The February 18 elections have brought back parliamentary democracy in Pakistan. Here, it must be kept in mind that Pakistani voters gave a heavy mandate to the Pakistan Peoples Party (PPP) and Pakistan Muslim League Nawaz (PML-N) with the hope that this alliance would help to end the Constitutional as well as economic crisis facing the people of Pakistan. This mandate comes with a huge responsibility — that is, of restoring supremacy of the Constitution, and providing immediate relief to people on the socio-economic front. While the first one (especially restoration of the judiciary) would understandably take some time, people would demand an immediate relief to their economic miseries. This, in turn, requires fiscal space that can easily be created, first by reducing military spending (one quarter of current expenditures are on defence), and second, by promoting intra-Saarc trade to reduce the trade deficit.

The political leadership in India seems ready to avail the opportunity provided by a democratic change in Pakistan. India has expressed hope that economic relations between the two will improve after the formation of a democratically elected government in Pakistan. The co-chairman of the PPP, which is the leader of the alliance with PML-N, Asif Ali Zardari said in an interview with Karan Thapar on the The Devil's Advocate on March 1, 2008, that "India and Pakistan could set aside the Kashmir issue to be resolved by a future generation, while they focus on trade and economic ties to improve bilateral relations." This was widely reported, but it was not all that he said. Zardari also added that "people-to-people contacts should be improved, then inter-dependence of trade if Indian industry depends on Pakistani energy, and we depend on the Indian market for our products to be sold, we are both inter-dependent, financially integrated industry-wise." If the new democratic government of Pakistan acts on this premise and comes out with a decision to confer the muchawaited most favoured nation (MFN) status on India, and India in turn reduces its much criticised non-tariff trade barriers (NTBs) against Pakistan, the way for more trade and cooperation between the two most dominant countries in South Asia would be paved. These gestures would also give a fillip to Safta, which has remained dormant for far too long.

Pakistani voters have rejected military and mullahism (seen in North Western Frontier Province where Awami National Party and PPP have formed the government). An eco-politically stable Pakistan is as important for India and the US as it is for the people of Pakistan. Now it is the collective responsibility of the forces that would like to see peace in this region to combat terrorism and tragedies through trade. *(concluded)*

India & Pakistan: Being Economically Savvy Yields a Peace Dividend

Published in
The Economic Times, July 18, 2008

By Pradeep S Mehta and Abid Qaiyum Suleri

The first foreign secretary and foreign minister level talks between India and Pakistan, held in Islamabad in May, after the restoration of democracy in that country, led to a consensus to continue the ongoing peace process and push for an improvement in bilateral economic relations with the resolution of all issues related to Kashmir.

In a bid to improve and make relations more cordial through a series of confidence building measures, the two sides agreed to increase the frequency of bus services between the two countries, firm up modalities for intra-Kashmir trade and truck service and implement other measures to give a fillip to cross-border travel.

They reaffirmed the significance of ceasefire along the Line of Control (LoC) and committed themselves to cooperation with a mission of safeguarding the LoC as well as liberalisation of visa norms to facilitate people-to-people contact. It was recognised that the menace of terrorism plagues both countries; both sides reaffirmed not to permit it at any cost to obstruct the peace process. It was agreed to activate a joint anti-terror mechanism so that incidents of terrorism do not affect their ties.

What is more important is that both nations now realise that improvement in economic (trade) relations should not wait for conflict resolution. The dawning of this realisation has led to an emphasis on the development of better political relations and defence cooperation as well as stronger trade ties through the dialogue process. That trade and conflict resolution are complementary, as shown in many other instances in geo-political history, was also spoken about. Importantly, trade can also result in almost normal relations despite unresolved problems between countries. For example, foreign minister Pranab Mukherjee said, trading relations between India and China have improved continuously over time in the recent past (total trade has touched $40 billion and is expected to reach $60 billion by 2010), despite their relationship being characterised by contentious issues.

It is expected that the resumption of the composite dialogue process between India and Pakistan will give a fillip to bilateral trade, besides facilitating early execution of various gas pipeline projects such as Iran-Pakistan-India (IPI) and the Turkmenistan-Afghanistan-Pakistan-India (Tapi) projects involving the two neighbours. It is hoped that bilateral trade between the two countries, which stood at $2 billion in 2007-08, rising from a low of just $235.74 million in 2001-02, would touch $5 billion by 2010. During 2002-03 and 2007-08, India's exports to Pakistan and its imports from Pakistan have grown by 62% and 65%, respectively.

Indo-Pak trade could have grown by even higher rates had Pakistan reciprocated in according the Most Favoured Nation (MFN) status to India under its WTO obligations. Pakistan has expanded its positive list of imports from India from 774 products to 1074 products. These products include machinery/equipment, raw materials, chemicals and accessories of a number of manufactured items that are in great demand in Pakistan. Presently, the main commodities of export to Pakistan are dyes, sugar, plastic and petroleum products and cotton while the main items of import are petroleum and crude products, fruit, cotton yarn and fabrics and organic chemicals.

As the figures above indicate, the formal trade between the two countries has been abysmally low, although a great potential to increase it exists. Trade between India and Pakistan, measured by the sum of their bilateral exports, is less than 1% of total exports from India and Pakistan. It is just 4% of the equivalent measure of bilateral trade between Malaysia and China, two countries of comparable GDP and proximity and only 9% of the equivalent measure of trade that occurs between Argentina and Brazil, other countries of comparable size.

A World Bank study based on field research in border regions, Dubai and major urban markets has estimated informal trade between India and Pakistan at $545 million in 2005. The Indian Council for Research on International Economic Relations (Icrier) in its 2007 survey of Indian firms estimated a vast untapped trade and investment potential between the two countries in goods and services. The study showed that the total trade potential between the two countries is $11.6 billion, of which Pakistan's export potential is $2.1 billion and $9.5 billion is the figure for India. Business chambers of India and Pakistan have also identified several items with export potential, including services and tourism.

Recent trends do show that trade has picked up considerably between the two countries and therefore there is much hope of salvaging the situation and tapping the hidden potential for trade between the countries. In fact, the deepening of trading relations has been accompanied by more peace building measures such as opening up of bus and truck services and greater social contact.

The current political atmosphere in both countries favours deeper political and economic interactions leading to more trade and investment. In the joint press conference after the ministerial meeting, Pakistan's foreign minister Shah Mahood Qureshi declared that his government was ready for a "grand reconciliation" with India through dialogue to resolve all outstanding issues with self-respect and dignity. Though such statements are not new, they might be considered significant in the changed circumstances, in particular, the return of democracy to Pakistan and the two main ruling political party leaders Asif Ali Zardari and Nawaz Sharif expressing their desire to improve ties with India and reap the benefits of trade and closer social contact.

With foreign minister Pranab Mukherjee reciprocating the feelings expressed by counterparts across the border, India and Pakistan have probably entered a crucial stage in their relations which could herald a new spirit of complementarity and synergy as both countries develop rapidly. It is hoped that such trends will be consolidated by the proposed visit of the prime minister Manmohan Singh to Pakistan later this year.

Indo-Pak trade: Cutting the Gordian knot

Published in
The Economic Times, August 06, 2008

By Pradeep S Mehta and Siddhartha Mitra

Pakistani press, particularly the Urdu press, is crying foul on the new trade policy announced mid-July . The usual refrain is that Indian goods will flood Pakistan. With a common border of around 3,000 km, striking cultural similarities, a common DNA and almost no linguistic barriers, India and Pakistan are natural trading partners.

However, the bloody partition that resulted in the birth of the two nations, wrangles over territory and inflated egos often characterising young and proud nations have ensured that only a tiny fraction of potential cooperation has been achieved. Yet, recent developments, particularly on the Pakistani front, indicate that all is not lost and there might be lasting peace and much more trade between these nations.

Let us look back at the immediate past and then envision the changes that might breathe fresh life and amity into the relationship between these two often hostile nations. In 2006-07 Indian exports to Pakistan were valued at $1.35 billion - a mere 1.06% of India's exports to the rest of the world and indeed a small fraction when compared to the 3% of the rest of the world population residing in Pakistan. The next year, 2007-08, was only slightly better: official Indian estimates show Pakistani share in total Indian exports of 1.1%.

India's imports from Pakistan were in even more minuscule proportion to its imports from the rest of the world – just 0.17% or $0.32 billion in 2006-07 , which fell to 0.12% in 2007-08 , according to official estimates. In other words, India's imports from Pakistan per Pakistani resident are just 4% of its imports per rest-of-the-world resident.

The intensity of India's trading relations with Pakistan appears very weak when compared with relatively distant Indonesia, a country which is otherwise similar to Pakistan in many respects – Asian, with comparable population, predominantly Islamic and a per capita income that is not vastly different from the Pakistan. Yet, Indonesia accounted for $2.026 billion and 1.6% of Indian exports in 2006-07 ; its imports were even more impressive at 2.24% of Indian imports.

There is no doubt that there is immense untapped potential for trade between India and Pakistan. A 2007 study by Icrier, an economic think tank located in Delhi, indicates an Indian export potential of $9.5 billion vis-à-vis Pakistan and a smaller import potential of $ 2.2 billion. This implies that currently India and Pakistan are exploiting around 15% each of their export potentials vis-à-vis each other.

Both countries have adopted different methods to shut out imports from the other country – Pakistan imports strictly on the basis of a positive list which catalogues items from India to be allowed across the border; potential Pakistani exports to India are often blocked by India's technical barriers to trade and sanitary and phyto-sanitary measures.

Lack of information on each side about the other is also responsible for the lack of depth in trading relations. After years of treating each other like strangers in a rapidly globalising world, good sense has made a sudden appearance in Indo-Pak trading relations. Pakistan in its new trade policy of 2008-09 has announced that it plans to promote raw material and capital good imports from India and take advantage of the lower freight charges to reduce its cost of producing output.

Imports of CNG buses, processed diesel and fuel oil, machinery, mining, quarrying and grinding equipment, stainless steel, cotton yarn, academic and scientific books from India are now being allowed into Pakistan. These measures follow other enabling steps like facilitation by both parties of trade across the Wagah border and the increasing use of rail transport as a vehicle for trade.

These steps not only signify a new era in Indo-Pak trading relations but as a consequence will also usher in a new age of diplomacy and peace between the two nations. Pakistan's willingness to repose trust in India as a conveyor of essential inputs can be interpreted also as a goodwill gesture and an olive branch; a nation will surely not quarrel with another on which its economic interests depend crucially.

The time has also come for India to respond generously. While the mentioned non-tariff barriers cannot be relaxed by India for just one country, the Indian government can help in alleviating information constraints about potential importables from Pakistan; infrastructure improvements like wider roads, more spacious truck depots and warehouses near the Wagah border as well as a reduction in time involved in Customs and related procedures might help. These constitute possible demand and supply side drivers of an increase in imports from Pakistan.

Apart from productivity enhancing and cost reducing effect of greater trade between the two countries, consumers too will benefit. Many goods which now fall in the category of nontradables in either country might become tradable as borders become more porous to goods and services over time. The resulting competition transcending national boundaries would surely imply lower prices and higher quality, resulting in greater consumer welfare.

The more dire possibility that India will not reciprocate also exists. There is a temptation to let Pakistan make all the liberalising moves and benefit through the expanding trade surplus and the lopsided relationship that it might imply. However, this is not an advisable course of action — Pakistan might be forced to retract its steps if it does not get a reciprocal response from India.

Six Decades after Separation

Published in
The News, Pakistan, June 13, 2010

By Pradeep S Mehta and Abid Qaiyum Suleri

A lowering of barriers to formal trade will not only result in formalisation of current informal trade but also encourage hitherto unengaged players

If a person completely unaware of sub-continental history was to read about current Indo-Pak relations, he would probably never guess that barely sixty years back the combination of the two was spoken of as one country. Cultural, linguistic and religious ties which have bound together their peoples for centuries have been rendered impotent in the period that has followed independence from British rule. Sanity has given way to the blinding effect of communal differences and turf battles which have spawned continuous cross-border tensions between the nuclear-armed neighbours and intermittent terrorist activities.

Given this rather unsettling history of Indo-Pak relations, the 'Aman ki Asha' initiative to improve ties by building better business and cultural relations represents a gust of fresh air. The potential of this initiative to generate a peace dividend through trade and investment facilitation across the border has been fairly revealed by the two day meet organised a few weeks ago by CII in cooperation with the Times Group, the Jang Group of Pakistan and the Pakistan–India CEOs Business Forum. Cooperation in the pursuit of self interest and profits could be the ideal salve for long strained relations because of the immense clout that business lobbies wield with their governments.

Trade between India and Pakistan has always been a sorry tale of intermittent progress being blunted by subsequent regress. Annual trade volumes leapfrogged from $251 million to $2.3 billion over 2000-01 to 2007-08. But the 26/11 terror attack on Mumbai took the wind out of the sails of this upward trend and squashed the resulting peace and economic dividends thus earned. 2008-09, therefore, saw a 19 percent drop in bilateral trade to $1.81 billion.

However, it is important to assume a positive attitude and treat such regress as only a temporary setback as the future though uncertain is shaped significantly by the trinity of hope, foresight and planned action. This is especially true in the case of Indo-Pak relations as there is much to gain: according to some estimates, trade between the two nations can reach $10 billion. It should be noted that informal trade between the two countries has been estimated by different sources as ranging from $0.5-$3 billion. Such informal trade is obviously undertaken at great risk to involved agents and involves a sacrifice in profit margins born out of measures to escape the official ban on such trade. This restricted trade regime also deprives consumers of their right to choose. A lowering of barriers to formal trade will not only result in formalisation of current informal trade but also encourage hitherto unengaged players to access markets and sources of supply across the border.

There are some obvious means to effect the lowering of the mentioned barriers. Pakistan can replace the lengthy positive list for India's importable items with a negative list to enable trade in newly emerging products. Likewise, India can reduce its non tariff trade barriers towards Pakistan. Easing of visa requirements to facilitate more effective exchange of human capital and business travel; and the scrapping of visas restricting stays to a single city and the associated requirement of reporting to police stations are other obvious measures. Flexibility in mode of travel as well as port of entry is another desirable step not only to enhance trade ties, but also to improve people-to-people relations. Roaming facilities to link the mobile networks of both countries would enable business travellers to keep in touch with developments at home and thus make such visits less stressful and more effective.

The exploitation of other potential avenues for economic cooperation requires more careful planning and coordination between the two countries. Textiles features in the top three exports of both countries to each other paving the way for potentially beneficial collaboration in terms of research and development and integrated sourcing. A partnership will boost quality of exports and enable these countries to enhance shares in markets in both EU and US.

The challenge of enhancing food security suggests another such avenue. According to estimates of Food Security Risk Index by Britain based Maplecroft, Pakistan is ranked 11 with a tag of 'extreme risk' and India at 25 with a label of 'high risk'. SDPI, SDC and WFP recent report, "State of Food Insecurity in Pakistan" estimates 48.6 percent people in Pakistan are food insecure. In spite of large areas under wheat and rice cultivation, India and Pakistan are worse off than China because of significantly lower yields. Technological cooperation between the apex agricultural organisations of both countries might provide a viable solution in this regard. Both the countries can rely on food imports from each other in the time of need, rather than importing from third country. Food import from neighbouring country would not only be quicker but cheaper as well.

Another area of potential cooperation could be in the education sector and facilitate broadening of the human capital base in these two countries which are still marked by low average education levels and inadequate leveraging of human productive potentials. Such cooperation can take the form of student exchanges which can pave the way for closer relations in other fields such as culture and business and lower the risk of miscommunication between the citizens of these countries. Mutual recognition of academic degrees would not only help in human resource development but would also open up the doors for trade in other services such as health, engineering, and financial sectors.

However, the harvesting of potential in all its mentioned forms is crucially dependent on improvements in cross-border connectivity:

efforts to bring a formal direct land route between the countries into operation; improvement in flight connectivity between major Indian and Pakistani cities; and enhancement of the capacity of the Wagah border to support large volumes of trade.

As discussed, the potential benefit from plucking the low hanging fruits of economic and related cooperation between India and Pakistan as well as planned economic coordination is immense. The meeting of minds facilitated by the Aman Ki Aasha initiative promises to generate the necessary goodwill and exchange of ideas that can fast track such economic alliances. This is reflected amply by the enthusiasm of business communities at the recent meeting. The lethargy and animosity of the past six decades calls for sustained efforts by business leaders to continue building bridges of mutual interest and cement budding alliances.

Why boost India-Pakistan relations

Published in
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By Pradeep S Mehta and Abid Qaiyum Suleri

It is in the best interest of both sides to understand that bilateral engagement is but a national necessity

Both Pakistan and India are members of the World Trade Organisation and also of the South Asia Free Trade Agreement. The WTO agreement requires each member state to grant Most Favoured Nation status to all other members to facilitate smooth trade flows. SAFTA takes up closer economic cooperation among all member states of SAARC. Alas, in the case of Pakistan and India there are several bottlenecks in achieving a harmonious trade relationship in spite of both the agreements. Why should the status remain status quo, when both will gain hugely.

The intra-regional trade in South Asia has been relatively low, owing much to the geo-economic dynamics as well as other factors, and not merely the existing tariff regimes. Some of the impediments to low regional trade include high transaction costs, limited port and transport infrastructure, and – crucially – the lack of political will. The intra-regional exports in South Asia stand at an estimated US$9.3bn as compared to a huge US$2.96bn of intra-EU exports and US$193.8bn of intra-ASEAN exports.

In 2010, the bilateral official trade between Pakistan and India stood at an estimated US$1.83bn. India accounts for approximately 1.2 percent of Pakistan's global exports, while Pakistan accounting for less than 0.9 percent of India's global exports.

In an ongoing study on costs of economic non-cooperation in South Asia by CUTS, Jaipur, and SDPI, Islamabad, and other partners, supported by The Asia Foundation, it was found that annual welfare gains to Indian consumers by importing certain products from Pakistan would be around US$4bn and similarly importing certain products from India would benefit Pakistani consumers by US$280mn. Considering the population of Pakistan at 17.8 million, this would translate to US$15.73 per person, and for the 1.2 billion people in India it would mean a gain of US$3.30 per person, annually. The big figures apart, the gain to Pakistan would be nearly five times that of India.

The gains can come from areas such as farm goods, automobile spare parts and pharmaceuticals. For instance, India enjoys such advantages in cotton, textiles, coffee, tea, spices, man-made fibres and vegetables products. This will also help in increasing the level of intra-industry trade between the two countries, which stands at a low level despite geographical contiguity and cultural affinity.

The recently concluded visit of Pakistan's commerce minister Makhdoom Amin Faheem to India has given a strong boost to the business community, especially in terms of confidence building. The 80-member Pakistani business delegation, which represented 26 sectors of the economy, was an effort towards a more broad-based and deeper engagement.

India has global competitiveness in production and export of services. India's global services export accounts for US$109.5bn as compared to Pakistan's US$2.7bn as of 2010. The potential for bilateral cooperation exists in several services sectors including IT and IT-enabled services, telecommunications, professional services (including architecture, construction and engineering), healthcare services, audio-visual services and cinema, higher education and tourism. Service trade accounts for more than half of the GDP in most South Asian countries and the region is emerging as a major exporter of commercial services worldwide. Tragically, services continue to be out of SAFTA.

Owing to high trade costs, an estimated US$3bn of informal trade happens between the two countries, which also breed corruption. This trade can be brought into the mainstream economy through better trade facilitation measures.

The economic integration need to be seen in a larger perspective by aligning SAFTA with ASEAN, thus having ASEAN as a partner in the east, and the Economic Cooperation Organisation Trade Agreement (ECOTA), which comprises of Afghanistan, Pakistan, Turkey and Central Asian republics, in the west.

It is important for both sides to implement all mutual obligations under SAFTA. This would help create an enabling environment for engagement. Pakistan continues to maintain a long sensitive list currently covering 1,169 items, which needs to be pruned. Further, steps need to be taken for the removal of non-tariff barriers.

The announcement by Pakistan's commerce secretary that petroleum products from India will not be on the negative list will eventually lead to a new chapter in bilateral trade. India has high global competitiveness in petroleum products, being the largest exporter in Asia and accounting for an estimated average of one million barrels of petroleum products exports per day.

The two sides recently discussed the issues of investments and joint ventures in New Delhi with lot of optimism. We need to wait and watch for some decisions on this issue, which can have pragmatic implications for business. However, it is pertinent to note that opportunities for investment cooperation do exist in the areas of agriculture and food, small businesses, manufacturing, electricity, trade-related infrastructure, and oil and gas. The two sides have already agreed to constitute expert groups on energy and petroleum.

On the issue of grant of MFN status to India, there is some hope. The Pakistani business delegation has raised a strong voice in favour of removing this anomaly, and possibly such views can be taken up further during successive negotiations. Even during the visit of the Indian commerce secretary to Pakistan in August this year, this issue was discussed and Islamabad agreed to put it on the agenda. Interestingly, the MFN status for India would pave the way for deepening not merely the trade ties but the whole gamut of cooperation in a geo-economic perspective. But it should be done sooner than later.

In successive negotiations at high level, an important matter of concern should be trade facilitation measures which presently include stringent customs and other administrative procedures. Also, the lack of attention towards adequate transport-related infrastructure development is taking its toll, leading to increased freight and time costs. These non-price trade costs are largely hindering the movement of trading commodities, especially those traversing through the much desired Wagah-Attari land route.

The energy supply routes especially the gas pipeline is a vital economic as well as a strategic necessity for both the countries for procuring a cost-effective natural gas supply. The failure to build common minimum consensus has already left the Iran-Pakistan-India (IPI) gas pipeline in a limbo. It is now up to the two governments, at the level of both commerce and diplomacy, to negotiate the newly-proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, and prevent another such fiasco. This pipeline would help both India and Pakistan secure their natural gas supplies. The signals given by Pakistan's minister toward the strategic importance of ECOTA can well serve this purpose.

Though the complexity factors historically attached to such interactions are deemed to continue, yet we are seeing an increasing realisation of the need for mutual co-existence and interdependence between the two countries. And this is what is the need of the hour. It is in the best interest of both sides to understand that this bilateral engagement is but a national necessity. Therefore, the two countries need to revisit their global repositioning in order to jointly play a pivotal role in evolving both the South Asian geo-economics and also envision the evolution of the Asian Economic Community.

A step for Indo-Pak trade normalisation

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By Pradeep S Mehta

For now, efforts to improve trade ties between the two countries seem to be on the right track

The forthcoming visit of Indian Commerce Minister to Pakistan on February 13 is likely to make way for developing a sustainable model of bilateral trade. The Maldives SAARC Summit has already asserted the vitality of bilateral cooperation as a necessity not only for the region, but for all their trading partners as well.

The Pakistan's Cabinet nod for grant of Most Favoured Nation (MFN) status to India and the Indian Prime Minister's optimism for gradually moving toward Preferential Trade Agreement (PTA) are defining the baselines of trade normalisation. The visits by the two commerce secretaries: Rahul Khullar and Makdhoom Amin Fahim to Pakistan and India have generated an atmosphere of optimism. This has been resonated by not only the business community on both sides but also echoed by policy honchos as more than baby steps. Further, Makhdoom Fahim's declaration that they now have the mandate from their establishment to move ahead in this direction reflects the hubris.

It is, therefore, pertinent that bilateral relations be strengthened to reach the true potential. A study by CUTS in partnership with SDPI, Pakistan and other think tanks in the region, entitled, "Cost of Economic Non-Cooperation to Consumers in South Asia", supported by the Asia Foundation, has taken a close look at the impact of tariff liberalisation under SAFTA on consumption expenditure of five of the largest countries of South Asia.

The study found that trade between India and Pakistan has the highest growth potential. While a large share of gains to Indian consumers will be through Pakistani exports in plastic-based articles, minerals and mineral fuels, Indian exports in pharmaceutical ingredients and electrical equipment will significantly reduce the burden of Pakistani consumers.

In order to have a comprehensive and deeper engagement, both countries need to focus on several other issues, besides tariffs, which act as impediments to both bilateral trade as well as regional integration. A bilateral cooperation package in terms of coverage on transport and connectivity; mutual recognition for the harmonisation of standards in pharmaceutical, textile, cement, food products etc.; streamlining financial institutions and banking facilities; and, working for a common competition regime in South Asia, among others have become highly desirable goals.

In the context of MFN, one of the crucial issues to be addressed is the issue of trade in petroleum products. Both countries are paying due attention to this issue and have formed a joint working group. Numbers reveal that India accounts for an estimated average of one million barrels of petroleum products exports per day, and enjoys a global comparative advantage in petroleum products owing to its efficiencies in cost of production and R&D.

Interestingly, the US$7.6bn Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project is also moving ahead. In the last week of January, both countries have agreed to a transit fee formula for the TAPI project, with Pakistan agreeing in-principle to accept the formula as is settled between India and Afghanistan.

Another pertinent issue is related to the poor trade infrastructure and transport connectivity through the Wagah-Attari land route, which are taking its toll on trade costs. It has been agreed by both sides that all infrastructure construction would be completed by February and trade through this route shall resume to its full potential. A Rs150 crore package is all set to upgrade the checkposts.

The Integrated Check Post at Attari will also help reduce the various associated non-tariff barriers and bottlenecks especially those relating to lack of mechanised loading and unloading facilities, poor infrastructure facilities, stringent customs procedures and other such trade facilitation measures. Also, it is hoped that plans of possible grid connectivity between Amritsar and Lahore, which can enable trade of upto 500 MW of power, reaches its logical conclusion.

Pakistan currently uses a positive list approach, but a move toward having a sensitive list approach would be more beneficial for both the countries. Recently, it amended the Import Policy Order 2009, and added 12 more commodities to its list of items that can be imported from India. This takes the number of commodities to 1,946 up from 1,934 in the positive list that Pakistan maintains for trade with India. In a more recent development, Pakistan proposes to have a small negative list.

It is also important to save time and cost incurred by third country trade that encompasses almost 20,000 items, which could otherwise follow the bilateral route. The present volume of trade is marred by exorbitantly priced imports from third countries like UAE. Moreover, the illegal trade between the two countries, which as per various estimates accounts for more than US$4bn can also be checked, thereby contributing to an estimated three-fold increase in bilateral trade over a short span of time. In a recent development, Pakistan proposes to have a smaller negative list by this month.

The CUTS study disseminated at a regional meeting in Kathmandu on 3-4 February 2012 also shows about 91.24 percent of the total consumer welfare due to India will accrue by way of imports of rice, plastic and polyethylene based articles, household articles made of polymers, cotton yarn and woven fabrics from Pakistan. India's total current import expenditure on these items is about US$939.54mn, out of which not less than US$545mn can be saved if such imports from outside the SAFTA region is replaced by imports from Pakistan. This implies that India and Pakistan can together save a minimum of 55 percent of their import bills on about 200 product categories, reducing the consumption expenditure by consumers of both the countries by more than US$800mn per year.

On the other hand, the main product categories which exhibit maximum consumer welfare gains for Pakistan from imports from India are pharmaceuticals and ingredients for medicines, various electrical and electronic products including telephonic or telegraphic switching apparatus, and automotive spare parts.

Currently these products are included in the sensitive list of items to which preferential tariff rates prescribed under SAFTA are not applied. Application of SAFTA preferential tariff rates on a number of commodities on which both Indian and Pakistani consumers would gain will be an important step leading to an eventual PTA between India and Pakistan.

Also, the business visa regime is all set to be relaxed with the expected decision for multi-entry/ multiple cities for businessmen. We thus need maintain the momentum of optimism of smoother business relations and taking it towards a peak. Importantly, two most vital ideological considerations need continuous attention. One is the political willingness, and the other being the effort to eliminate the trust deficit through change in hearts on both sides!..

Why we must normalise Indo-Pak trade

Published in
Financial Express, February 14, 2012

By Pradeep S Mehta and Faisal Ahmed

The Indian Commerce Minister's visit to Pakistan is likely to help develop a sustainable model of bilateral trade.

The Maldives SAARC Summit has already asserted the vitality of bilateral cooperation as a necessity not only for the region, but for all its trading partners as well.

The Pakistan's Cabinet nod for grant of Most Favoured Nation (MFN) status to India and the Indian PM's optimism for gradually moving towards a Preferential Trade Agreement (PTA) are defining the baselines of trade normalisation. The visits by the two commerce secretaries (Rahul Khullar and Makdhoom Fahim to Pakistan and India) have already generated an atmosphere of optimism, heralded by the business community on both sides and by policy honchos as more than baby steps.

Bilateral relations have to be strengthened to reach the true potential. A study by CUTS in partnership with SDPI Pakistan and other think tanks in the region, entitled Cost of Economic Non-Cooperation to Consumers in South Asia, supported by the Asia Foundation, has taken a close look at the impact of tariff liberalisation under SAFTA on consumption expenditure of five of the largest countries of South

Asia. The study finds that trade between India and Pakistan has the highest growth potential. While a large share of gains to Indian consumers will be through Pakistani exports of plastic-based articles, minerals and mineral fuels, Indian exports of pharma ingredients and electrical equipment will significantly help Pakistani consumers.

In order to have a comprehensive and deeper engagement, both countries need to focus on several issues besides tariffs that act as impediments to bilateral trade and regional integration. A bilateral cooperation package covering transport and connectivity, harmonising standards in pharma, textile, cement, food products etc., streamlining financial institutions and banking facilities, and working for a common competition regime in South Asia has become a highly desirable goal.

In the context of MFN, one of the crucial issues to be addressed is trade in petroleum products, which a joint working group is addressing. India accounts for an estimated average of 1m barrels of petroleum products exports per day, and enjoys a global comparative advantage in petroleum products owing to its efficiencies in cost of production and R&D. Interestingly, the US$7.6bn Turkmenistan-Afghanistan-Pakistan-India gas pipeline project is also moving ahead. In January, both countries have agreed to a transit fee formula for this project, with Pakistan agreeing in-principle to accept the formula as is settled between India and Afghanistan.

Another pertinent issue is poor trade infrastructure and transport connectivity through the Wagah-Attari land route. Both sides agree that all infrastructure construction would be completed by February and trade through this route shall resume to its full potential. A R150 crore package is all set to upgrade the check posts. The integrated check post at Attari will also help reduce various non-tariff bottlenecks, like lack of mechanised loading and unloading facilities. Also, it is hoped that plans of Amritsar-Lahore grid connectivity, which can enable trade of up to 500 MW of power, reach fruition.

Pakistan currently uses a positive list approach, but a sensitive list approach would benefit both countries. Recently, it added 12 commodities to the list of items that can be imported from India. This takes the total number to 1,946 in the positive list. It is also important to save time and cost incurred in third country trade, which encompasses almost 20,000 items, which is marred by exorbitantly priced imports from countries like UAE. Moreover, the illegal trade between the two countries, which is estimated at over US$4bn, can also be checked, thereby contributing to a three-fold increase in bilateral trade over a short span of time.

The CUTS study also shows about 91.24 percent of the total consumer welfare due to India will accrue by way of imports of rice, plastic and polyethylene based articles, household articles made of polymers, cotton yarn and woven fabrics from Pakistan. India's total current import expenditure on these items is about US$939.54m, out of which not less than US$545m can be saved if imports from outside SAFTA are replaced by imports from Pakistan. India and Pakistan could together save a minimum of 55 percent of their import bills in about 200 product categories, reducing the consumption expenditure by consumers of both the countries by more than US$800m per year.

The main product categories which exhibit maximum consumer welfare gains for Pakistan from imports from India are pharma, electrical and electronic products, and automotive spare parts. Application of SAFTA preferential tariff rates on a number of commodities on which both Indian and Pakistani consumers would gain will be an important step leading to an eventual PTA between India and Pakistan.

The business visa regime is also all set to be relaxed. We thus need maintain the momentum of optimism of smoother business relations, taking it towards a peak. Here, two vital ideological considerations need continuous attention. One is political willingness, and the other is the effort to eliminate the trust deficit through change of hearts on both sides!

Indo-Pak engagement needs strategic depth

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Financial Express, April 10, 2012

By Pradeep S Mehta and Abid Qaiyum Suleri

The mantra of success for both India and Pakistan is simple – collaborate more both regionally and internationally so as to have a strategic depth in bilateral economic engagement

With Pakistan's cabinet approving the negative list approach with a commitment to grant the much-hyped most-favoured-nation (MFN) status to India by late 2012, bilateral trade and economic relations are all set to get a boost. With expanding bonhomie, is it not time for both to join up to look at international trade issues with third countries that affect them both, even if at varying intensities?

This is important because, after a long era defined by conflicting cohesiveness and cohesive conflicts, both countries are now willing to identify and remove the deterrents to their bilateral relations.

In a globalising world, bilateral engagement will also be affected by external factors as diverse as differences at the World Trade Organisation (WTO) and the competitive nature of their external trade (including efforts to diversify their respective export portfolios in common markets). Therefore, an important arena of interventions to bilateral engagement comes from how both countries are interacting and competing internationally and whether they will be able to build common positions on issues shaping the global economic order and their own conflated interests.

For example, when the Basmati rice patenting case came up in 1997 due to a US company, Ricetech, obtaining a patent in the US Patent Office, it affected both adversely. India had filed an objection. Subsequently, it emerged that Basmati can be protected as a Geographical Indication under the TRIPs agreement, provided it is so registered under the country's laws. India approached Pakistan to jointly register it, but Pakistan did not agree as there was a lack of consensus on the definition, areas of cultivation, etc. Following that, Pakistan granted a trademark on Basmati rice to its rice growers' association, which only led to further confusion. The lesson from the Basmati case raises the question of how both countries should pursue issues of mutual interest at other international fora.

Recently, Iraq banned the import of non-Basmati rice from India and Pakistan and revised the minimum length of the grain to 6.8 mm from 6.0 mm. This meant that only premium Basmati rice can be exported by India and Pakistan to Iraq. Reportedly, Pakistan also started importing Basmati rice from India, perhaps for re-export.

The two countries are also competing internationally in the export of mangoes. Most Indian mangoes are exported to the traditional markets across Asia and Europe, especially Bangladesh, West Asia and parts of Europe. In newer markets like the US, the standards requirements, like those relating to pest-mitigation, are stringent. Pakistan may fare better in the long run, despite the less costly Indian mangoes. But even more than that, Brazil and other Latin American and Caribbean countries could get a better hold than both India and Pakistan in the North American mango market. Thus, such economic scenarios need to be analysed so that bilateral cooperation can be supported with competitive collaboration.

The competitive nature of most of the products from both the countries in international markets needs to be dealt with a special focus, considering the level of complementarity in the economic activities of both countries.

Almost a year down the line, much has changed in the approach of India and Pakistan towards each other on the trade front. Nearly a year ago, New Delhi argued against Pakistan on the issue of concessions on Pakistan's textiles products by the European Union (EU), such as those given to least-developed countries (LDCs).

Earlier, the EU wanted to give concessions to Pakistan's products by reducing tariffs because of the severe floods there. This would allow the EU to remove tariffs on a list of more than 70 items, mainly textile products. This was seen as discriminatory by major textile exporters in India, Bangladesh, Brazil and Indonesia. However, India graciously back-tracked on its opposition considering the current progress on bilateral trade relations.

Both India and Pakistan can seek tariff concessions from the US and Europe by creating Qualifying Industrial Zones, such as the ones that exist in Jordan and Egypt. In 1996, the US Congress authorised the designation of QIZs between Israel and Jordan in 1999 and Israel and Egypt in 2004, which would have allowed exports to the US duty-free if the products contain a specified level of inputs from Israel. The purpose of this initiative was to support peaceful prosperity and stability in the region by encouraging economic cooperation. It has worked well.

Other than third country issues, better cooperation between both would enable SAARC to function well. Thus far, many of the regional issues being discussed at the SAARC platform are mortgaged to Indo-Pak relations and, therefore, progress is either slow or negligible. For example, a good initiative like the SAARC Food Bank, an initiative which was approved during the 14th SAARC summit in Islamabad in 2007 with the aim 'to adopt a common approach to collective food security of the region'. Though the food bank is functional, more capacities need to be built to cope with disaster mitigation, as the region is prone to calamities like floods, earthquakes, etc.

Another pertinent issue of bilateral cooperation is the challenge of climate change. In fact, in February 2012, the Sustainable Development Policy Institute (SDPI) and Heinrich Boll Stiftung (HBS) organised a Track-II dialogue on climate change for peace in which stakeholders emphasised that both India and Pakistan should work closely to address climate change challenges in order to achieve food and energy security and a South Asian energy grid, among other areas for a sustainable livelihood.

Considering the huge shortage of electricity in Pakistan, there is also a proposal to buy it from India. Pakistan intends to import 500 MW of electricity from India to meet the increasing demand. Not that India has surplus power, but it is considering the supply seriously so as to build closer relations. Pakistan is also facing a huge shortage of natural gas, while India badly wants to buy natural gas from Central Asia, and the pipelines will have to transit through Pakistan. Thus, it will be a win-win situation for both.

The mantra of success for both India and Pakistan is simple – collaborate more, both regionally and internationally, so as to have a strategic depth in bilateral economic engagement.

Indo-Pak trade needs a push

Published in
The Hindu Business Line, January 14, 2013

By Pradeep S Mehta, Abid Qaiyum Suleri and Joseph George

While the two governments have pared trade walls, non-tariff barriers require civil society intervention.

Instead of waiting, non-state actors should reinforce governmental efforts with their own and take advantage of opportunities of improved commercial relations.

The last two years have witnessed a number of promising developments on commercial relations between India and Pakistan. And they have to be nurtured, as against just crying over Pakistan's decision to postpone the grant of the most-favoured-nation (MFN) status to trade with India. Recent developments show that Pakistan has provided de facto MFN status to India. The Indian establishment should look at it as a deferred success of its diplomatic efforts.

In real terms

From a narrow base of a positive list, Pakistan has decided to apply a broader negative-list approach. As against the earlier approach of allowing trade in just about 1,800 tariff lines, this base has increased to all product lines except about 1,200. In other words, earlier just over 20 percent tariff lines (products) were allowed for trade between India and Pakistan.

Now, about 15 percent are barred from being traded – opening up a new opportunity of trade in almost 65 percent of the tariff lines. This was followed by a decision taken on the side of the trade ministers' meeting on South Asian Free Trade Agreement held in Islamabad in early 2012.

Delegations led by respective commerce ministers paid mutual visits and declared a series of revitalising steps, liberal business-visa regime being the most notable one. Traders benefited from the commencement of an Integrated Check Post at the Wagah-Attari border.

However, there is fear that the momentum generated in the preceding years is running out of steam, as implementation of some of the decisions is taking longer than expected. Efforts at the governmental level are covering short-term shocks that may arise out of easing of trade restrictions. At this juncture, what is to be pondered over is how stakeholders other than governments can contribute to the latter's initiatives on normalising our trade relations.

Non-tariff barriers

While tariffs are coming down, numerous non-tariff trade barriers (NTBs), particularly procedural ones, are hindering our trade. Removal of such barriers is now the key to fostering Indo-Pak trade, but what is lacking is a formal institutional mechanism to do so. This gap can be plugged by involvement of civil society. An initiative, supported by The Asia Foundation and in which CUTS International of India and Sustainable Development Policy Institute of Pakistan are joint participants, has recently made inquiries into the extent of NTBs affecting intra-regional trade in South Asia.

It was observed that costs amounting to 34.81 percent of the value of total intra-regional trade can be saved if South Asian countries undertake minimal reforms to harmonise, regulate and remove NTBs. Our work has estimated that in the case of Indo-Pak trade, NTBs are much above the South-Asian average and accounts for about 43 percent of the value of total aggregate bilateral trade.

This calls for a new tack. The current approach to trade reforms suffers from a number of problems such as unclear definition of NTBs, fragmented policy responses towards NTBs, difficulties in quantifying costs and benefits of reforms, and subsequent problems related to incentives and enforcements. Hence, disciplining NTBs remains sub-optimal.

Involving Pvt sector

Excluding relevant stakeholders in the process of reforming NTBs is a major limitation. Many important NTBs even fail to get discussed, as the directly affected trading community has limited access to the official channels.

Greater involvement of the private sector in the formal system of reforming NTBs would strengthen the official initiatives. Businesses possess first-hand information on trade costs and potential alternatives to costly and ineffective trade regulations. Direct inputs from them will make the reform process more informed and focused.

Besides fostering transparency and efficiency, an inclusive and participatory approach toward NTB reforms will also facilitate responsibility sharing, reducing some burden on the governments.

As the private sector gets involved in the process, starting from identification of non-tariff barriers to implementation of reforms, possibilities may be thrown up for public-private partnership in financing reforms, a pressing concern with respect to trade facilitation measures and improvement of trade infrastructure.

The most important building block of such a participatory approach is mutual consultation and consensus among various stakeholders such as government officials, business associations, political groups including trade unions, and consumer groups and other civil society and community-based organisations. The academia and media are required to complement such efforts for collective action.

Civil-society organisations should act as a catalyst for dialogues among these stakeholders. They are in a position to understand and analyse socio-economic implications of enhanced bilateral economic integration, particularly at the local level, and, thus, can potentially bridge macro-micro gaps in policy-making and its implementation. They can take the lead in generating awareness and anchor the dialogue by providing appropriate platforms. Creation of any new or restructuring of old institutional and legal systems is not required for empowering private stakeholders to deliver their respective roles in this participatory approach. Article 3 (Objectives and Principles) and Article 10 (Institutional Arrangements) of Agreement on South Asian Free Trade have adequate provisions for creating such a participatory system.

According to these provisions, businesses from South-Asian countries can access the NTB resolution authority under the South-Asian Free Trade Area through their membership in the national-level business and trade associations; some of them are also members of the regional apex body, SAARC Chamber of Commerce and Industry.

This proposed approach should include raising awareness on the harmful effects of NTBs on intra-regional trade, the urgency of addressing them, as well as the potential role businesses and other stakeholders can and should play. Some recent initiatives to promote the involvement of private sector and other stakeholders in trade liberalisation should be reviewed. Civil society should grab opportunities offered by improved commercial relations between the two neighbours.

Cross-border trading on opportunities

Published in
The News, Pakistan, February 03, 2013

By Pradeep S Mehta and Abid Qaiyum Suleri

Instead of waiting, non-state actors should reinforce governmental efforts with their own and take advantage of opportunities of improved Pak-India commercial relations

One feels sorry about the recent tension between India and Pakistan across the line of control not only due to the losses of precious lives on both side but also due to the fact that such unfortunate incidents may ruin the nascent peace process.

However, it is heartening to note that tension is easing off and both the governments still seem to continue working towards implementation of SAFTA through bilateral trade normalisation. Last two years had witnessed a number of promising developments on commercial relations between India and Pakistan. And they have to be nurtured as against just crying over Pakistan's decision to delay the grant of Most-Favoured-Nation status to trade with India. Recent developments show that Pakistan has provided *de facto* MFN to India. The Indian establishment should look at a glass which is half full rather than looking at half empty glass.

From a narrow base of Positive List, Pakistan has decided to apply a broader Negative List approach. As against earlier approach of allowing trade in just about 1,800 tariff lines, this base has increased to all product lines except about 1,200. In other words, earlier just over 20 percent tariff lines (products) were allowed for trade between India and Pakistan. Now, about 15 percent are barred from being traded – a new opportunity of trade potentiality in almost 65 percent tariff lines. This was followed by a decision taken on the side of the trade ministers' meeting on South Asian Free Trade Agreement held in Islamabad in early 2012.

Delegations led by respective commerce ministers paid mutual visits and declared a series of revitalising steps, liberal business visa regime being the most notable one. Traders benefitted from the commencement of an Integrated Check Post at the Wagah-Attari border.

However, there is fear that the momentum generated in the preceding years is running out of steam, as implementation of some of the decisions is taking longer than expected. It is misplaced as efforts at the governmental level are indeed accounting and covering short-term shocks that may arise out of easing of trade restrictions. At this juncture, what is to be pondered over is how stakeholder groups other than governments can contribute to the latter's initiatives at normalising our trade relations.

While tariffs are coming down, numerous non-tariff trade barriers (NTBs), particularly procedural ones, are hindering our trade. Removal of such barriers is now the key to foster Indo-Pak trade but what is lacking is a formal institutional mechanism to do so. This gap can be plugged by active involvement of the civil society.

An initiative, supported by The Asia Foundation in which Sustainable Development Policy Institute of Pakistan and CUTS International of India jointly participate, has recently made inquiries into the extent of NTBs affecting intra-regional trade in South Asia. It was observed that as much as 34.81 percent of the value of total intra-regional trade can be saved if South Asian countries undertake some minimalistic reforms to harmonise, regulate and remove NTBs by matching intra-regional trade conditions with that of ideal global standards which are achievable. Our work has estimated that in case of Indo-Pak trade NTBs are much above the South Asian average and accounts for about 43 percent of the value of total aggregate bilateral trade.

This calls for a new approach as the current one on trade reforms suffers from a number of inherent problems such as lack of clarity in the definition of NTBs, fragmented policy responses towards NTBs, difficulties in quantifying costs and benefits of reforms and subsequent problems related to incentives and enforcements. Hence, disciplining NTBs remains sub-optimal. Non-inclusiveness of relevant stakeholders in the process of reforming NTBs is a major limitation. Many important NTBs even fail to get discussed as the directly affected trading community has limited access to the official channels.

Greater involvement of the private sector in the formal system of reforming NTBs and related factors would strengthen the official initiatives by bridging data deficiency and by building synergies between governmental establishments and business organisations. Businesses possess first-hand information on trade costs and potential alternatives to costly and ineffective trade regulations. Direct inputs from them will make the reform process more informed and focused.

Besides fostering transparency and efficiency, an inclusive and participatory approach toward NTB reforms will also facilitate responsibility sharing, reducing some burden on the governments. As the private sector gets involved in the process, starting from identification of non-tariff barriers to implementation of reforms, possibilities may be thrown up for public-private partnership in financing reforms, a pressing concern with respect to trade facilitation measures and improvement of trade infrastructure.

The most important building block of such a participatory approach is mutual consultation and consensus among various stakeholder groups such as government officials, business associations, political groups including trade unions, and consumer groups and other civil society and community-based organisations. Academia and media are required to complement such efforts for collective action.

Civil society organisations should act as catalyst for dialogues among these stakeholder groups. They are in a position to understand and analyse socio-economic implications of enhanced bilateral economic integration, particularly at local level and, thus, can potentially bridge macro-micro gaps in policy-making process and its implementation. They can take lead in awareness generation and anchor the dialogue process by providing appropriate platforms. More importantly, as neutral enablers, they can find the sources and reasons of resistance to the cause that may arise and help to defuse conflict of interests among other stakeholder groups.

Creation of any new or restructuring of old institutional and legal systems is not required for empowering private stakeholders to deliver their respective roles in this participatory approach. Article 3 (Objectives and Principles) and Article 10 (Institutional Arrangements) of South Asia Free Trade Agreement have adequate provisions for creating such a participatory system. As per these provisions, businesses from South Asian countries can access the NTB resolution authority under SAFTA through their membership in national level business and trade associations, some of them are also members of the regional apex body – SAARC Chamber of Commerce and Industry.

This proposed approach should have an awareness generation component on the harmful effects of NTBs on intra-regional trade – consumer and producer welfare and revenue generation on the part of governments – and the urgency of addressing them as well as the potential role businesses and other stakeholder groups can and should play. Some recent initiatives to promote the involvement of private sector and other stakeholders in trade liberalisation process in other regions should be reviewed for designing appropriate modalities. The determination of the civil society to grab opportunities offered by improved commercial relations between the two neighbours will prevail if they stop waiting and take proactive steps.

Though both India and Pakistan are moving closer, it is constantly encountering hurdles...measures could accelerate economic cooperation between the two nations by reducing tensions and mistrust and bringing peace to the region.

India should look into serious tariff reduction and Pakistan should give up on sensitive lists. A good way to begin could be a Bilateral Investment Treaty.

India and Pakistan have probably entered a crucial stage in their relations which could herald a new spirit of complementarity and synergy as both countries develop rapidly.

The mantra of success for both India and Pakistan is simple: collaborate more, both regionally and internationally, so as to have a strategic depth in bilateral economic engagement.

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