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Economic Relations for Peace and Development between Indo-Pak

Satpal

(Lecturer in Political Science, Govt. Se Sc School Ladwa, Hisar, India)

Abstract: *India and Pakistan are South Asia's two largest economies. The economies of both the countries were doing very well at this time and the rising middle classes in both countries desired peace for continued growth. Pakistan has at realized that it will be a gained by according the most favored nation status to India in matters of trade and commerce. India took such a decision in the case of Pakistan a few years back. Pakistan's community has made a strong recommendation for MFN status to India, saying that it changed scenario.*

People in South Asia, home to a vast majority of the world's poor, need the availability of employment opportunities more than anything else. This is essential so that no one takes interest in destructive activities like terrorism. If there is cooperation between India and Pakistan and not conflict, vast opportunities will open up for trade, travel and development that will create prosperity and sustainable peace in both nations. Following is the analysis of India Pakistan trade relationship in terms of Trade Potential and Possibilities, with some suggestions for improvement the economic relations.

Keywords: *Economies, Trade, Development, Sustainable Peace*

I. INTRODUCTION

The economy of India is the third largest in the world as measured by purchasing power parity (PPP). India is the second fastest growing major economy in the world. It is now becoming on the stage to join the club of worlds superpower's due to its 7 to 8 percent as an average growth rate in this century. This has generated faster growth of international trading environment in the country.[i]

India and Pakistan, South Asia's two largest economies, resumed their composite dialogue in early 2011. The objective of this dialogue is to discuss mutual interests and concerns, and build a co-operative and productive relationship between the two countries. Stronger trade and economic relations have the potential to create stake holding in each other's success so that we can build a healthy relationship. The recent liberalization of trade and investment policies of both nations gives us reason to be optimistic.[ii]

Trade between India and Pakistan

Trade between India and Pakistan has always been linked to the political relations the two countries share, than being merely governed by economic factors. In 1996, India accorded Most Favored Nation (MFN) status to Pakistan.[iii] In 2004, as members of the South Asian Association for Regional Cooperation (SAARC), India and Pakistan signed the South Asian Free Trade Agreement (SAFTA). However, even after SAFTA was ratified in 2006, Pakistan did not accord MFN status to India. Thus with the two largest SAARC countries not trading under MFN rules, SAFTA has failed at helping normalize trade relations between India and Pakistan.[iv]

As part of the Confidence Building Measures, in October 2008 the two governments permitted trade and travel across the Line of Control along Jammu and Kashmir. The Joint Statement issued in November 2011 laid down the sequencing and timelines for full phasing in of MFN status for India. In the first phase, Pakistan would graduate from the positive list to a small negative list specifying banned rather than permitted items. In the second stage, the negative list would be phased out; overall as well as for the road route on which trade takes place for only a fraction of the items on the positive list. These changes would usher in the full phasing in of MFN that forms an essential part of the trade normalization process.[v]

Adhering to the Joint Statement, in March 2012 Pakistan made a transition from the positive list approach to a small negative list of 1,209 items. However, it continued to restrict road-based trade by allowing only 137 items to be imported from India via road; while India took a number of steps to address Non Tariff Barriers (NTB's). Since then, trade negotiations on MFN changed stance one more time. During the 7th Round of talks held in September 2012, India and Pakistan agreed to further deepen the preferential arrangements under SAFTA with India offering concessions to Pakistan in exchange for Pakistan granting MFN status to India. In a major step, India pruned its sensitive list to 614 items. The current status as of July 2013 is that India would bring down its SAFTA Sensitive List to 100 tariff lines (from the existing 614 items); with Pakistan simultaneously granting MFN status to India, including the phasing out of negative lists and removal of restrictions on items traded by road.

Trade Potential and Possibilities

This section examine the current trade trends, assess trade potential for India and Pakistan, examine the composition of the negative and sensitive lists, and assess the extent of trade potential accounted for by these items. The protected sectors having the highest trade potential are identified and implications of opening up these sectors have been discussed. The sectors that are likely to face competition from imports once the negative and sensitive lists are further liberalized have also been identified. Trade possibilities and potential in the important service sectors have been examined as well.

Trends in Bilateral Trade

Bilateral trade between India and Pakistan increased by more than 9 times between the years 2000 and 2011. Total trade between the two countries was US$ 1.97 billion in 2011, of which India's exports to Pakistan were US$ 1.66 billion and imports US$ 313 million. Despite exporting only on the positive list, India has always had a trade surplus excluding mineral fuels with Pakistan; with the trade balance as a proportion of its total trade with Pakistan increasing from 55 to 68 percent between 2000 and 2011. However from 2009-12, the average annual rate of growth of imports from Pakistan has been 23 percent while that of exports has been just 9 percent, signaling some reversals in the trend. In 2011, India's top 3 exports to Pakistan at the classification of items included chemicals, textiles and vegetable products accounting for 68 percent of total exports to Pakistan. India's top 3 imports included mineral products, vegetable products and textiles accounting for 59 percent of total imports. At a disaggregated level, top commodities exported from India to Pakistan that year included, cotton, oil-cake, xylene, tomatoes, woven fabrics, chickpeas, polypropylene, rubber tyres, tea, fruits, and iron and steel containers. Cotton alone accounted for 16 percent of exports.

Trade Potential in Goods

Several estimates have been made to predict the trade potential between India and Pakistan. But despite lower inter-country distances, transport and other transaction costs of trading are very high. Moreover, existing bilateral trade is limited to the positive list. Trade possibilities exist in items that two countries can import from each other instead of importing from elsewhere in the world. The results of this exercise show the existence of an estimated untapped bilateral trade potential in mineral fuels, textiles, chemicals, and machinery, mechanical appliances and electrical equipment, jewelry, medical instruments and appliances, cotton, tubes and pipes of iron and steel, polyethylene , copper waste and scrap, accounting for maximum percent of total export potential. At a disaggregated level, largest potential items include petroleum oils, light petroleum oils, cellular phones, cotton, vehicle components, polypropylene, xylene, tea, textured yarn, synthetic fibre and medicaments. However, 13 of the top 25 products with the highest potential are currently on Pakistan's negative or sensitive lists or on both, making it difficult to realize the potential from these items. The three categories with the largest import potential include textiles, jewelry and precious metals, and base metals accounting for 52 percent of total import potential.

Trade Possibilities in Services

There are additional trade possibilities in services sector which is becoming increasingly important in the economies of India and Pakistan. In 2011-12, this sector accounted for 59 percent of India's GDP and 54 percent of Pakistan's GDP. These are the sectors, where there is potential include information technology and Business Process Outsourcing (BPO), health services, and entertainment services, IT, Software exports, specialized software services such as gaming and animation, financial services and healthcare. The two countries could also gain if India sets training institutes in Pakistan, or if professionals from Pakistan come to India to get professional training. Healthcare service is another area in which there are opportunities for both countries. India has emerged as an important destination for provision of medical services due to affordable cost of treatment and advancement in the field of medicines. Several Pakistani patients have been visiting India for medical treatment like liver transplant, open heart surgery and kidney transplant.[vi] There are trade possibilities in the entertainment industry as well. India and Pakistan share a common language and culture, thus providing scope for trade and co-operation in the film industry. India is the second largest producer of movies in the world, while Pakistan produces very few movies. There is also an interest in Pakistan to watch Indian television serials and in India to watch Pakistani plays. However, Pakistani entertainment channels are not broadcasted on Indian channels whereas several Indian channels are broadcasted in Pakistan. The trade potential in the entertainment industry particularly in films, television and music can be tapped by encouraging joint productions. Removing the ban on screening movies would benefit both the countries.

Transport and Transit

Most discussions and studies on the transport issue have focused on the impediments related to the land route. While the sea route has always been operational, it went unnoticed due to the restrictive maritime protocol. This protocol allowed only Indian and Pakistani flagships to carry cargo between India and Pakistan. It is not surprising that in 1995-96 when the road route was closed, trade by rail accounted for 63 percent while that by sea accounted for 33 percent of the total trade between India and Pakistan. By 2011-12 the share of different modes in total trade between the two countries changed substantially due to the opening of the road route and the liberalization of the sea trade. The share of trade by rail fell to 15 percent, while that by sea increased to 60 percent. Share of trade by road increased from zero percent in 1995-96 to 17 percent in 2011-12. Moreover, what is striking is that for both exports and imports. The opening of the road route between India and Pakistan after 58 years was a historic move. India and Pakistan share a 2912 kilometer long border. The significance of this move can be better understood when compared with cross-border transport protocols that India has with Nepal.

This raises immense hopes for successful implementation of further trade-facilitating measures at the land border between India and Pakistan. The two governments are also considering opening up of new road routes. The option of opening the Munabhao- Khokhrapar road route was discussed in the seventh round of talks between the two governments.

The rail route was the dominant land-transport mode for India-Pakistan trade for several years. The rail route's relative importance over the sea and road route has declined as it continues to be limited in its reach. Goods transported by the goods train, often referred to as "interchange train", or by parcel wagons; are attached to the Samjhauta Express passenger train which runs on a biweekly basis carrying 6 to 10 parcel wagons. Since the capacity of Samjhauta Express is limited, most of the rail cargo is carried by the interchange train. Earlier studies have pointed out that the existence of only one rail route through the Attari/Wagah border, poor quality of rolling stock and restriction on the type of wagons are some of the problems that traders faced.[vii] Therefore, they send consignments by sea to Colombo, which are then transshipped to Karachi.[viii] The ongoing bilateral dialogue between India and Pakistan has so far not addressed the issue of transit. India has not allowed Pakistan to access Nepal, Bangladesh, and Bhutan through its territory. Similarly, Pakistan has not given any transit rights to India to access Afghanistan for its exports. There is need to develop a long term vision and plan for road and rail cargo movement by the land route. Limiting the opening of the land route to just the land border is not enough. Freight costs are often determined by the freight trade balance between two countries. Similarly transit through Pakistan can link Indian sea ports with Afghanistan and to rest of Central Asia through Pakistan.

Informal Trade

The restrictive trade environment, has led to large informal trade flows between India and Pakistan, estimated to range from US$ 250 million to US$ 3 billion. The most detailed study on Indo-Pakistan informal trade estimated its value at around US$ 545 million in 2005.[ix] Pakistan's imports from India are estimated to be around US$ 535 million and exports to India US$ 10.4 million. The main import items from India, via informal channels, are cloth, tires, pharmaceuticals, textile, machinery, cosmetics, livestock and medicines; accounting for roughly 80 percent of total informal import value. Pakistan's informal exports mainly consist of textiles; accounting for approximately 90 percent of the total informal trade. It is interesting to note the modalities of India-Pakistan informal trade, with most of the trade flowing via third country. Khan estimates trade via Mumbai-Dubai- Karachi route to be around 88 percent of total informal trade, and the remaining as cross border informal trade through the Amritsar-Lahore and Sind-Rajasthan border routes.[x]

The move towards trade normalization and a parallel reduction in tariffs and non-tariff barriers would certainly lower informal trade flows between India and Pakistan. Trade through Dubai is likely to decrease sooner if there are active channels of information that would bring buyers and suppliers on either side together in order to conduct trade directly with each other rather than through third parties. Elimination of the negative list would also allow export of many items that had to be routed via Dubai and other informal channels of trade. Until all such measures are fully implemented, informal and formal trade between India and Pakistan are likely to co-exist.

Visas

A lot needs to be done in simplifying the visa regime between India and Pakistan. Grant of city-specific visa, the requirement of police reporting on arrival and before departure, the restriction on going beyond the port of entry, and delays in getting a visa have limited market access for aspiring traders. Consulates in both countries have exercised tremendous discretionary power in granting visas and waiving visa requirements along with allowing some traders to be exempted from scrutiny by the Ministry of Home Affairs in India and Ministry of Interior Affairs in Pakistan. They have also allowed extended period of stay, exempted Interviews with traders in Dubai in 2012 traders from police reporting, and removed restrictions on the number of cities that can be visited. The new visa agreement was signed between India and Pakistan in September 2012. The agreement introduces measures to ease travel of tourists, pilgrims, elderly and children to facilitate people-to-people contact between the two countries. The business visa has also been made more liberal, allowing one year multiple entry visas for up to 10 places with exemption from police reporting for those reporting a turnover of at least Rs. 30 million or equivalent in Pakistani Currency. The new visa regime is a step forward towards easing the channel for information exchange on trade-related matters between India and Pakistan. As a next step the countries could consider the use of electronic systems that would assist in having adequate and effective security systems in place while at the same time allowing genuine traders to trade across borders.[xi]

Institutions Engaged in Trade Normalization

Trade normalization efforts have been driven at multiple levels on sides of India and Pakistan. All bilateral talks are spearheaded by the Ministry of External Affairs. Other important government departments involved are the Ministry of Commerce and the Ministry of Home Affairs. The former is leading the trade negotiating agenda while the latter has the primary responsibility of maintaining security. The Indian and Pakistani military forces are also not seen as adversaries in the trade normalization process. The involvement of

NGO's too is quite limited. The business communities in both countries have been actively engaged in pursuing the trade liberalization agenda through the Chambers of Commerce for several years. In India, the Federation of Indian Chambers of Commerce and Industry (FICCI), the Confederation of Indian Industry (CII), the Associate Chambers of Commerce (ASSOCHAM), and the Punjab, Haryana and Delhi Chambers of Commerce and Industry (PHDCCI) have taken the initiative to facilitate cross border interactions between business delegations and communities to assess trade possibilities. Academic discourse in India has largely focused on the political issues between India and Pakistan to have implications on trade normalization between the two countries.

II. CONCLUSION AND FUTURE PROSPECTS

One of the most strategic issues needs immediate attention is MFN. On the issue of the Most Favored Nation (MFN) status and other trade requirements, India in principle granted MFN treatment to Pakistan in 1995-96 but has no list of permitted or forbidden products. Pakistan has not extended normal GATT/WTO rights or the MFN in principle to India.

The most vital and strategic issues to be resolved between India and Pakistan are lack of road trade routes, irregular railway traffic and an expensive shipping route. These issues are required immediate attention of both the countries. If these issues are not solved there are chances that global competitiveness would in danger as the cost of trade would go enormously.

There should not be "myth" but "reality" in this regard. Corporate leaders are more capable of rewriting history than the political leadership of both India and Pakistan. People or a media-led civil society movement is also critical as people are the most important stakeholders.

Burden of peace is heavier on South Asia as it houses half the world's poor. Peace is no longer a luxury but a prerequisite that every member of the country or society needs to strive for. While responsibility rests heavier on the privileged, changing the public mindset requires initiatives from the full spectrum of society.

Industry has an important role and contribution in brining an improvement in relationships and bilateral linkages. There is an immediate need to permit transit trade to Afghanistan and Central Asia, replace the positive list with a negative list of goods beyond which it would permit imports from India and improve its infrastructure for trade and transport.

It is true in all senses that geographical proximity offers tremendous scope to reap the benefits of cheaper transportation costs and trade complementarily in goods in which either country has a comparative advantage. Despite the shadow of two world wars and the cold war, unparalleled development has taken place in the last years. The sky is the limit for expansion of bilateral economic activity. Let us together step out of the old and into new.

End Notes

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