India-Pakistan Trade Diplomacy: Sustaining Hope
by Amb. Hemant Krishan Singh

Both countries can welcome these positive developments, albeit with an ample measure of caution. What augurs well is the unprecedented pace at which economic and commercial cooperation negotiations between India and Pakistan have advanced since April last year.

Consider this. Even though India accorded MFN status to Pakistan in 1996, the latter did not reciprocate, holding the issue hostage to the bilateral dispute on Kashmir. Instead, it instituted a distorted trade regime with India based on a so-called “positive list” of just 1934 items which India could export. Setting aside the fact that this cynically termed list applied exclusively to India in open violation of the WTO’s MFN principle, this regime restricted India-Pakistan trade largely to informal flows routed through third countries, creating a nightmare of uncertainly and high transit costs for those who dared to venture.

Against the backdrop of the traditional Punjabi festival of Baisakhi, the past week has witnessed the third productive meeting between the Trade Ministers of India and Pakistan, a first ever Pakistani lifestyle trade exhibition in the Indian capital and the joint, high-level, inauguration of a modern Integrated Check Post (ICP), equipped with a dedicated passenger terminal and a sprawling cargo handling facility, at the Wagah-Attari India-Pakistan border on April 14, 2012.

If there is one issue which can perhaps unite the youthful peoples of South Asia, it is the unfulfilled hope that the countries of the subcontinent can converge to advance economic integration for regional co-prosperity and deliver on the promise of a better future. Uncertain economic prospects and weak global cues for 2012 should in fact provide an incentive for intergovernmental initiatives towards that end. While that logic is unexceptionable, what is remarkable is that winds of change have begun to blow from an unexpected source: a rapidly transforming outlook for progress on India-Pakistan trade.

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Given the fractured history of Indo-Pak dialogues, adherence to timelines for progress on an agreed agenda over the past year is unparalleled. On November 2, 2011, Pakistan’s Federal Cabinet decided to (gradually) grant MFN status to India, while India addressed a number of non-tariff barriers which impeded business relations, thereby boosting confidence in the process underway. On March 21, 2012, the Pakistan Ministry of Commerce issued a Statutory Regulatory Order (SRO) for switching over to a “negative list” regime of 1209 tariff lines for trade with India, which will go a long way in reducing transaction costs. The stage is now set for bilateral trade to expand from the current paltry level of $2.6 billion to $8 billion a year within the next two years. If all goes well, MFN status for India should become a reality through the phasing out of the “negative list” by December 2012.

Any progress in India-Pakistan relations is to be welcomed, but the implications of successful trade diplomacy carry the potential for a more structural shift. It has been widely reported that during “informal” luncheon talks with the Indian Prime Minister on April 8, 2012 the President of Pakistan broached the model of the pragmatic approach which has been followed by India and China, advancing mutually beneficial economic interests while pursuing contentious issues of long standing separately. Ministers and leaders from both countries present at the ICP launch ceremony on April 14 strongly championed greater trade and travel ties between them. Significantly, they included the Chief Ministers of the Indian and Pakistani sides of Punjab, who espoused direct interest in reconciliation and the removal of physical barriers. Given the complex political realities in both countries, this appeared to suggest growing sentiment in favour of promoting peace through trade liberalization and people-to-people flows.

Much work remains to be done. Progress on a liberalised visa regime is on the cards. India has asked Pakistan to expand the approved list of 137 items that can be traded at the Wagah-Attari land border and align this with the nearly 6000 items now being traded through the sea route. Pakistan was also urged to allow the transit of goods to Afghanistan. India, on its part, has indicated it will open the door for Pakistani investments and banks. Provision of power to Pakistan is another possibility. High-level bilateral trade diplomacy is set to continue to guide further progress.

### India’s Trade with Pakistan

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Source: DGFT, Department of Commerce, GOI

### References


*Amb. Hemant Krishan Singh holds the ICRIER - Wadhwani Chair in India – US Policy Studies*

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*Indian Foreign Secretary Ranjan Mathai in media briefing on Zardari—Singh talks on April 8, 2012.*