



# ISSUE BRIEF

*"Advancing the Strategic Potential of India-US Relations, Accelerating India's Economic Development"*

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## India-Pakistan Trade Diplomacy: Sustaining Hope

by Amb. Hemant Krishan Singh



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 inter-governmental 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.

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.

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 uncertainty and high transit costs for those who dared to venture.

This scenario also greatly undermined intra-regional trade under the South Asian Free Trade Agreement (SAFTA) of 2006, denying the benefits of regional economic integration to SAARC. Unusually, the possibility of change was heralded in SAFTA deliberations, where a request from Pakistan that India should remove non-tariff barriers for improved market access in exchange for MFN status appears to have marked a turning point in the unfolding saga.

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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

Values in US\$ Millions

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
EXPORT	1,350.09	1,950.53	1,439.88	1,573.32	2,333.62
IMPORT	323.62	287.97	370.17	275.94	332.51
%Growth		33.75	-19.14	2.17	44.17
%Share	0.54	0.54	0.37	0.4	0.43

Source: DGFT, Department of Commerce, GOI

### References

1. "Commercial benefits", Prof. Nisha Taneja, *The Indian Express*, Nov.26, 2011.
2. "After Attari", C. Raja Mohan, *The Indian Express*, April 16, 2012.

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

Movement on India-Pakistan trade is likely to have a positive impact on the SAFTA regime, which has languished under the shadow of India-Pakistan differences. If the leaders of India and Pakistan "are determined to use the potential of regional cooperation for the economic development"\* of the two countries, they can help remove, or at least mitigate, the history of antagonism and mistrust which has blocked common strategies to promote SAARC regionalism. In any case, trans-border connectivity benefits which enjoy support from state governments in both the North East and North West of India will now become harder to ignore. Benefits of economic interdependence will not remain confined to South Asia. Pakistan can reap rich dividends from its geographical location as a transit country.

In a host of areas, problems between India and Pakistan are unlikely to disappear or even diminish. By co-opting the public, business community and bordering provinces as stakeholders and beneficiaries, enhanced economic ties can certainly help stabilize India-Pakistan relations. There are no illusions that this will pave the way for greater mutual trust and political understanding any time soon, given the vitiated climate of relations and its susceptibility to domestic power equations in Pakistan and political polarization in India. But the peoples of India and Pakistan will stand to gain immensely if progress on trade diplomacy is sustained and its successes are safeguarded from the vicissitudes of India-Pakistan relations. That is a risk work taking and a challenge worth confronting.



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