India-Pakistan Trade: Challenges And Opportunity

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Introduction

South Asia has a continuous history of seven thousand years. It has a composite culture developed through a historical process wherein the emphasis has been on unity in diversity. South Asia has been the victim of repeated foreign aggressions. The richness of the region perhaps attracted the aggressors from far and wide. In the successive waves of invasions since the ancient times, the Aryans, the Greeks, the Shakas, the Huns, the Turko-Afgans, the Mughals and others came to the region. In the modem period, the Europeans viz. Portuguese, Dutch, French and the British came to South Asia, though it was the British who finally established their hold in the region. The British invasion was qualitatively different from the earlier ones. Whereas the earlier invaders came, settled down here and got completely assimilated with the indigenous people, the British integrated the region into their empire and ruled it from London. The region was linked with the industrially advanced international market in order to exploit its natural resources. South Asian economy and society became subordinated to the imperialist political economy and social development. The region was transformed into a market for the British machine made goods, a source of raw material and foodstuffs, and an important field of capital investment. The entire structure of economic relations between Europe and the South Asia involving trade, finance and technology continuously developed the colonial dependence and underdevelopment of the latter. This new politico-economic system of subordination, called as colonialism, resulted in the emergence of Europe as a leading capitalist region while the colonies were reduced to backward and

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underdeveloped regions of the world. In course of time, the economic and political domination led to numerous conflicts and contradictions which ultimately resulted in the growth of nationalism and movements for independence from colonial rule.

Third World Scenario

Like many other less developed countries, the countries of the Indian sub-continent have suffered exploitation at the hands of their colonial masters. Their economies were made an appendage to imperialism. Subordination created serious distortions in these economies and destroyed their internal dynamism considerably. This was a decisive factor in the development of underdevelopment of the Third World. In the post-Second World War period, there has been a liquidation of colonial empires. Most of the colonial countries came to acquire political independence. But these countries continue to maintain their economic ties with the erstwhile political masters and they are yet to achieve economic independence. The dependent economies of the Third World are subjected by the advanced countries to exploitation in the changed conditions within the neo-colonial framework.[1] Present international economic relations reflect this clearly. These are biased in favour of the advanced, and against the less developed countries. Developing countries are increasingly finding the markets in the developed countries inaccessible to them, particularly for their manufactured goods. These goods are facing high tariff and non-tariff barriers.[2] As a consequence, the share of these countries in the world market is shrinking. Whatever the level of exports from these countries, their capacity to buy imports is diminishing. In other words, the developing countries are confronted with adverse terms of trade. Foreign trade is a tool through which economic surpluses from the developing countries are siphoned off. The giant multinational corporations, based in the Western countries, have entered the less developed countries and control their vital economic segments. These corporations have the capacity to manipulate their economies and even their polity.

Search for the New Order

Less developed countries have become aware of the unjust nature of the present international economic system. Since the 1970's they are pressing for thoroughgoing international reforms. In the Summit Conference of the Non-aligned countries that was held at Algiers, the capital of Algeria, from 5th to 9th September 1973, the call for New International Economic Order (NIEO) was clear and loud. The Third World comprising 70 percent of the world population, subsisted only on three percent of the world income in early 1970s.[3] The Indian Premier, Mrs Indira Gandhi, while addressing the Algiers Summit, said that economic and social development could not be just a domestic effort, emphasising the need for cooperation. Mrs Gandhi said: "We the non-aligned countries do believe that a fight against poverty demands cooperation in which resources and technology are shared among the nations".[4] Subsequently, the leaders of the NAM requested a Special Session of the UN General Assembly to address issues associated with international trade in raw materials. At the Session held in April 1974 the Group of 77[5] (G-77) secured the adoption of the Declaration and Programme of Action for a NIEO despite lacking the support of the United States and a small group of advanced industrialized countries. This programme emphasised the pressing need for far-reaching reforms in the present international economic order, governing the relationship between the rich and the poor countries. These proposals received much attention and became a subject of discussion at many forums and ultimately assumed the name of North-South dialogue. As Mehboob-ul-Haque observes 'the demand for NIEO is to be viewed as a part of historical process rather than a set of specific proposals. Its important facets are the emergence of non- aligned movement, the politicisation of the development issue and the increased assertiveness of the Third World countries'.[6] Despite much publicity and discussion of the programme, implementation remains very limited and results of negotiations are far from encouraging. Given the present balance of international economic power, there is little hope of reforming the international economic relations. Under such circumstances, the less developed countries are left with no option but to develop mutual economic relations and build up their collective strength to fight against the unjust international relations. Their mutual cooperation is a guarantee and the only way to end their unequal status. In this process the fear of exploitation and domination are minimal. The development of Indo-Pak trade fits in well with this perspective because both are developing and neighbouring countries. Both have been the victims of colonial exploitation in the past. The British transformed the Indian economy into a supplier of raw materials and primary commodities, a market for the British manufactures and a field of investment for foreign capital.[7]

India - Pakistan: Historical context

Until India and Pakistan became independent in 1947 from the British, they not only formed one political entity but also one integrated economy. Greater Punjab was one economic entity for centuries before partition bi-furcated it between India and Pakistan in 1947. Karachi and Bombay (now Mumbai) were tightly knit sister cities on the sea under the same administrative unit (Bombay Presidency) of the British Raj. Today these regions are all but severed. Before 1947, regions specialized in the production of various goods and commodities on the basis of comparative advantage. Cotton grown in Pakistan was processed in the mills of Bombay and Ahmedabad. Raw wool produced in the cold regions of North West Frontier Province (NWFP) and West Punjab went to woolen mills of East Punjab, Uttar Pradesh (UP) and Bombay for processing and manufacture of woolen cloth. Mineral oil and antimony mixed in the hilly tracts of Chitral in the NWFP went to Bombay and gypsum from Sind and Punjab was used by cement and fertilizer factories all over India.[8] Potassium nitrates of West Punjab went to glass factories in several other parts of India. Large quantities of rawhides suitable for the production of chrome leather went to tanneries situated in Madras and Kanpur. Barley grown in West Punjab was supplied to distilleries in Uttar Pradesh. Joginder Nagar power station in East Punjab supplied more than 70 million KW of electric energy every year to industrial and domestic units in West Punjab. Similar interdependence existed in the eastern sector, particularly in jute industry.

A salient feature of this interdependence was that Pakistan produced raw materials while India processed them thus earning a much higher rate of return. The regions that came to Pakistan were industrially among the most backward parts of the undivided country. Out of 14,677 industrial establishments in undivided India in 1945 only 1414 or 9.6 % of the total fell to Pakistan's share. Of the total 3.14 million industrial workers in undivided India, Pakistan's share was a quarter million or 6.3 % of the total.[9]

Because of this interdependent structure, Indo-Pak trade soon after independence remained at Rs 185 crore in 1948-49. About two third of it was with Eastern Pakistan. Therefore, India's trade with West Pakistan was Rs 63 crores. The trade could have continued at that level but the trauma of partition created a psychosis where the leaders of the two countries held each other in suspicion and sought to establish a different identity from each other. The first major economic repercussion of these attitudes was reflected in a commercial war over jute. Pakistan imposed export duty on raw jute considerably increasing the cost of raw material for the Indian jute industry. India retaliated and declared Pakistan to be a foreign territory from 23 December 1947 for the purpose of levy of customs duty on the export of jute manufactures from India to Pakistan.

The action of both the governments was in the breach of Standstill Agreement signed by them (before the two governments came into existence formally) in 1947 compelling them not to impose new customs duties. They had also accepted, in Standstill Agreement, not to change existing customs, tariffs, excise duties and cesses and not to levy any transit duties or fresh controls. The two governments were also prevented from imposing any restriction on the free movement of goods and remittances including capital equipment and capital.[10]

The Standstill Agreement expired on February 29. 1948. Because of the differences over jute duties, neither government was in a mood to renew it. Normal licensing and tariff restrictions came into force on March1, 1948. New complications arose on the payments front. India devalued her rupee in September 1949 following the devaluation of the sterling with which the Indian rupee had long been linked. It was assumed that Pakistan would do the same but it did not.[11] India refused to accept the new value of Pakistan's currency (100 Pakistan rupees = 144 Indian rupees).[12] Thus, Pakistan's refusal to devalue her currency made imports into India far dearer, thereby drastically reducing imports of jute and cotton that were principal items of imports from Pakistan into India. The value of India's trade with West Pakistan came down from Rs. 63 crores in 1948-49 to Rs. 24 crores in 1949-50 and Rs. 16 crores in 1950-51.[13]

These developments shattered the hopes well-meaning economists had earlier entertained, that despite the political division of the subcontinent, economic cooperation and close trading relations between the two dominions would continue. By 1950, the economists were noting ruefully that each country is trying to be self-sufficient and in trying to be so deny itself the products of other. Questions of cost have been disregarded largely due to the considerations of nationalism.[14] The specialization that had been evolved over a period of centuries has been shattered and new economic patterns and relationships were evolved in the two countries. Politics based on communal hatred and suspicion has systematically undone the work of generations, by defying the factors of economic geography and laws of economic science.

It needs to be stated here that the forces set into motion by separatism that defied economic rationality have continued to operate till today. Economic policies of the two countries in the last six decades have been shaped, among other things, by a strong urge to be independent of each other in respect of trading their produce and products. Pakistan, from the outset, tried to develop cotton textile, jute (in the Eastern Wing) and leather industries that would use the surplus raw materials which earlier went to India to feed its industries. The latter, on the other hand, went all out from the start, to secure self-sufficiency in raw cotton and jute apart from food grains, to protect its own major industries against the threat of stoppage of raw material supplies from the traditional source viz., Pakistan. As the two economies preceded on their divergent development paths, the earlier complementaries between them gave way to competition.

Changing Relations

The Indo-Pak war of 1965 brought to a halt even the limited amount of trade that was there at the time. This was followed by the Bangladesh War in 1971. Trade between the two countries thus remained disrupted from 1965 to 1972. Article 3 of the Simla Agreement signed in July 1972 provided for negotiating of a trade protocol which would normalise trade relations between the two countries. It took over two years for the protocol to be signed, which was done on 30 November 1974.[15] The protocol lifted trade embargo and listed cotton, engineering goods, jute manufactures, iron ore, railway equipment, rice and tea as thrust areas for bilateral trade. Another protocol signed in January 1975 provided for resumption of shipping services between two.[16]

The private sector was allowed to enter the trade in July 1976. This led to substantial increase in trade volume during the next two years, as it rose from Rs. 10 crores in 1976-77 to Rs. 66 crores in 1977-78.[17] The private sector links were taken up further in 1981 when delegations from the Federations of Pakistani Chambers of Commerce and Industry and Lahore Chamber of Commerce and

Industry visited India. An agreement was arrived at to make all efforts towards expansion in trade. As a result of this visit, Pakistan announced a list of 40 items in which the private sectors of both countries could trade through the Trading Corporation of Pakistan and, subsequently, a joint committee was set up to discuss and evaluate the scope and opportunities for bilateral economic cooperation. This was followed by a visit of a 21 member delegation of Punjab, Haryana and Delhi Chamber of Commerce and Industry to Pakistan in November 1982. This was the first ever visit by a private Indian delegation to Pakistan. In 1983, an Indo-Pakistani Joint Business Commission was set up whose first meeting was held in June 1983. As a result of this meeting eight industries were identified in respect of which India could extend technical cooperation. These industries were: (1) Automatic components manufacturing, (2) Manufacture of agricultural machinery and implements, (3) Chemicals and dyes, particularly for the tanning and textile industries, (4) Drugs and pharmaceuticals industry for producing basic ingredients, (5) Diary production and equipment, (6) Medium and heavy electrical equipment, (7) Material testing and process control equipment, and (8) Compressors.[18]

SAPTA Initiative

In 1996, India and Pakistan both were signatories to South Asia Preferential Trade Agreement. India granted to Pakistan the Most Favoured Nation[19] (MFN) status and Pakistan decided to expand its positive list (imports from India) to include 596 items. The bilateral trade stood at US$ 180 million. By 2005 trade between the two countries had increased to US$ 602 million and the number of commodities traded increased to 770 items. The number of commodities in Pakistan's positive list was increased to 1075 by 2006. By 2007-08 trade had increased to US$ 2.2 billion.[20] The decline in global trade following the subprime crises impacted Indo-Pak trade as well. However, the bilateral trade picked up in 2009-10. Pakistan's positive list for trade with India was further increased to 1938 items and the total trade recovered from US$ 1.8 billion in 2008-09 to US$ 2.7 billion by 2010-11. The bilateral trade balance is heavily in favour of India.[21]

Rapprochement on the trade front gained momentum since 2010. The Joint Statement issued in November 2011 laid down the sequencing and timelines for full phasing in of MFN status for India.[22] 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.

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.[23] 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). In a major step, India pruned its sensitive list to 614 items. The current status as of December 2013 is that India would bring down its SAFTA Sensitive List to 100 tariff lines (from the existing 614 items); and Pakistan simultaneously granting MFN status to India, including the phasing out of negative lists and removal of restrictions on items traded by road.

The existing trade between India and Pakistan is conducted via three different ways: official trade which is dismal, non-official trade and illegal trade. Since the bilateral trade is marred by multiple issues, the official trade between the two countries has not been able to cross the limited volume. The potential of trade is estimated to lie between US$10.9 billion and US$19.8 billion.[24] Non-official trade, on the other hand, has grown considerably as there are certain items which are not on the positive list of the two countries. These items are traded through third countries such as United Arab Emirates, Singapore and the Central Asian Republics. The non-official/ informal trade is estimated at some US$ 10 billion.[25] Moreover, there are a number of goods that are traded illegally across the border which only serve the vested interests of the illegal traders.

New Developments

Over the years, much has changed in the approach of India and Pakistan towards each other on the trade front. In 2012 New Delhi had 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). 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.[26] 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.

Another positive development was the visit of Indian Commerce Minister Anand Sharma to Pakistan in February 2012, the first in 30 years and at the head of an 80-strong business delegation. It seems that India and Pakistan are trying to emulate the *China Model* in their bilateral relationship.[27] The *China Model* is based on the premise that trade as a CBM would lead the two countries developing a stake in each other's security, and, thus, to ultimate conflict resolution. Currently, Pakistan is fraught with severe electricity shortages. It 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 countries.

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3. Ali, W. (2004). India and the Non-aligned Movement, New Delhi: Adam Publishers, 2004, p. 127.
4. Ibid.
5. The Group of 77 is a coalition of the developing nations designed to promote the collective economic interests of its member states and create an enhanced joint negotiating capacity at the UN. There were 77 founding members of the group but presently its membership has raised upto 132.

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9. Ibid., p. 2.

10. Ibid., p. 3.

11. Pakistan has not felt the necessity of devaluing her rupee. The problem of an adverse balance of payment facing other countries was non-existent in her case. Moreover, her exports consisted mainly of raw materials and if she had devalued her rupee she would not have been able to expand her markets in the hard currency areas. The dollar area was an important source of capital goods and with devaluation, these goods would have been costlier and less easy to obtain. This would have inevitably retarded the pace of Pakistan's industrial advance.

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16. See Protocol between the government of India and the government of the Islamic Republic of Pakistan regarding shipping services. Retrieved from: http://www.commonlii.org/in/other/treaties/INTSer/1975/3.html

17. Waslekar S. op.cit., p. 7.

18. Ibid., p. 10.

19. In international economic relations and international politics, most favoured nation (MFN) is a status or level of treatment accorded by one state to another in international trade. The term means the country which is the recipient of this treatment must receive equal trade advantages as the 'most favoured nation' by the country granting such treatment. In effect, a country that has been accorded MFN status may not be treated less advantageously than any other country with MFN status by the promising country. All members of the WTO (Pakistan & India being members) agree to accord MFN status to each other.

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21.Ibid., p. 9.

22. The joint statement of the 6th round of talks on "Commercial and Economic Cooperation" between Commerce Secretaries of India and Pakistan is available at:
http://commerce.nic.in/trade/Minutes14-16Nov2011.pdf

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