

Reviving India-Pakistan Economic Relations¹

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Let me first commend the efforts which ICRIER is making in carrying out and disseminating evidence-based research on this highly emotive issue. The relations between the two countries have not been helped by repeated exchange of unsubstantiated assertions, allegations and insinuations. It is time that we confront those who are indulging in such rhetoric and creating confusion by presenting facts and analysis that clarify and shed light on the issues.

My basic message that I have been conveying to the policy makers on both sides of the border is that the primacy of politics for the last 65 years has done more harm than good in normalizing relations between the two neighboring countries. We should make a paradigm shift in our approach and give economics and trade a chance to cement and forge better relations without abandoning our respective principled stances on political issues. It is only the sequencing of issues that needs to be changed.

It is now a well-established fact that Trade has grown at twice the rate of World output and this correlation between Trade and output has withstood the test of time over last five decades.. So trade can be a driver for economic growth.

We also know from Gravity models that Regional trade and particularly trade between the neighboring countries can stimulate domestic growth more sharply. The most recent example comes from Mexico that has increased its exports over ten times since 1993 when it joined NAFTA. Of course, the US and Canada have also benefitted from this trading association.

Almost all studies are unanimous about the huge potential that exists if India and Pakistan normalize their trade ties. The magnitude and the speed of expansion do vary according to the underlying assumptions but a realistic estimate places an increase of three to four times the current levels.

I would also like to inform this august audience that there is now a broad based consensus in Pakistan in favor of normalizing trade with India just like other countries. All

¹ Keynote address delivered at the Conference organized by ICRIER at New Delhi on January 21, 2014

the five major political parties have committed this in their electoral manifestoes and on the basis of which they contested the elections. Prime Minister Nawaz Sharif and PML-N are very keen and forward looking in this respect. The media in Pakistan has also become more balance in their approach and anti-India feeling is no longer as perceptible as it was in the past. In India, skeptics have always blamed Pakistan Army for holding back the normalization process. But in fact they are equally keen to promote trade and improve economic ties as they believe this is in Pakistan's national economic interest. But I find that despite Prime Minister Manmohan Singh's sincere commitment and commerce Minister Anand Sharma's strenuous efforts such as broad-based consensus does not yet exist on this side. The opposition parties take the Congress Party to task whenever some unfortunate incident takes place and the media is venomous in articulating and propagating anti-Pakistan sentiments. Such outburst vitiates the atmosphere and adversely affects public opinion. I honestly believe that India's ambitions to become an economic power can be achieved if its borders are peaceful and its relations with neighboring countries are cordial. I hope that after the elections in 2014 India will also be able to build such a consensus which is the precursor for promoting uninterrupted and uninteruptible friendly relations between the two countries. Easing of tensions and resumption of trade between India and Pakistan will also pave the way for a vibrant SAFTA and greater economic integration within the South Asian Region.

What is required is active management of the trade and economic relations in the future. This strategy should aim at avoiding dislocations and abrupt shocks to domestic economies by flooding the markets with imports from other countries, expeditious dispute resolution mechanisms and enforcing the existing agreements on Visa regime, custom clearance and harmonization of standards.

The recent progress made at New Delhi by the two Commerce Ministers is extremely hopeful. But beyond the current dialogue of further reforms the unfinished agenda is quite long and would require continuous efforts and hard work on both sides. I would divide the proposed reforms into three parts:

- (i) Behind the Borders
- (ii) Across the Borders, and;

- (iii) Around the Direct Trade

Behind the Borders

- (a) Bureaucratic hassles created by outdated and antiquated rules, procedures and a negative mindset create many impediments and need to be removed.
- (b) India's Trade Restrictiveness Index is quite high and needs relaxations and easing of barriers – tariff, non-tariff & Para tariff.
- (c) Pakistan has a large number of firm-specific Statutory Regulatory Orders (SROs) that distort the level playing field for healthy competition among the firms and encourages rent-seeking concessions, exemptions and discriminatory favors. These should be eliminated forthwith.
- (d) There is a large scope for making products and services internationally competitive. Economies of scale and scope through joint ventures and FDI will enable these to be realized.
- (e) Both countries are ranked low in World Bank Index of Ease of doing Business. The governments should take measures to simplify and streamline the procedures and processes that are hindering businesses from carrying out their legitimate activities.
- (f) Pharmaceutical industry in Pakistan should be deregulated and except for some specified essential drugs prices should not be determined by the Government.
- (g) India's agriculture imports are subject to many restrictions. A review should be undertaken with the aim to have a less restrictive environment.

Across the Borders

- (a) Pakistan should immediately grant Non-Discriminatory Market Access (NDMA) to India and shift some of the items that it needs to protect to the Sensitive list under SAFTA.
- (b) Logistics, supply chain and infrastructure facilities at the border crossings should be expanded and made more efficient and user friendly.
- (c) Business Facilitations, Custom documentation, Product Standards Harmonization have to be deepened.

- (d) Regional growth poles in adjoining areas on both sides of the borders should be developed.

Around the Direct Trade

- (a) Two way Energy transfer infrastructure should be developed so that the supply-demand gap can be managed through sub-regional system rather than national systems.
- (b) Railway, Road and Highways, Ports, Airports should form an integrated multi-modal transport system linking the neighboring countries.
- (c) Banking and financial services should be made available by allowing branches of the two countries' banks to be located in each other's territories.
- (d) Foreign Direct Investment from one country to the other should be liberalized, encouraged and facilitated.
- (e) Educational exchanges and Access to Healthcare facilities should be promoted between the two countries.
- (f) Telecommunication connectivity between the two countries should be established.
- (g) Organized Tourism, Cultural, Music and Sports events should be organized frequently.

The above steps are necessary to promote better understanding at people to people level which will then help in shaping the public opinion for improved ties between the two countries.