1st Annual Conference on Normalizing India-Pakistan Trade
New Delhi

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Summary of Proceedings

ICRIER has recently launched a three year project on ***Strengthening Research and Promoting Multi-level Dialogue for Trade Normalisation between India and Pakistan.*** The project is aimed at improving trade and investment relations between the two countries by undertaking targeted research on this subject matter and providing a platform for dialogue and consultation between both the countries. ICRIER collaborates with academic institutions, think-tanks and business chambers on both sides of the border to develop targeted research on key issues that affect bilateral trade.

As part of the project activities, ICRIER organized its first annual conference on ***Normalising India-Pakistan Trade*** to hold discussions and deliberations on the trade normalization process. The conference saw active participation from stakeholders involved in India-Pakistan trade as well as academicians, key policy-makers, parliamentarians, and chambers of commerce representatives of both countries. Academicians, industry representatives and policy makers reflected on the recent trade normalization measures adopted by India and Pakistan, and discussed the opportunities and challenges for enhancing trade between the two countries.

Some of the key speakers from the Indian side included Shri Pawan Kumar Bansal, Minister for Railways; N K Singh, Member of Rajya Sabha; S R Rao, Commerce Secretary; and Rajeev Kher, Additional Commerce Secretary. Notable members of the Pakistani delegation included Salman Shah, former Finance Minister and Hafiz Ahmed Pasha, former Commerce Minister of Pakistan.

A number of research studies conducted under the aegis of this project were presented and discussed at the conference. Researchers and academicians from major universities on both sides presented their findings at the conference, which were deliberated upon intensively by the discussants and audience members.

The discussions at the conference deliberated on different themes, encompassing:

- Expanding Trade in Goods
- Barriers to Trade
- Trade Perception Survey
- Sector Studies (focusing on Energy, Textiles and Sports Goods)
- Trade in Services and FDI
- Panel Discussion on India-Pakistan Trade: The Way Forward.

In his ***keynote address,*** Shri Pawan Kumar Bansal (then Railways Minister of India) emphasised that the trade potential between the two countries could vary between 0.5 to 20 times of the trade volume today. He highlighted that India had undertaken measures to address non-tariff measures to enhance Pakistan's market access to India and it will continue to do so in the future. He urged the parliamentarians in both countries to redress the trust deficit that persists by developing stronger communication channels and transport links. The role of railways in augmenting trade ties by facilitating movement of people and goods in the process is crucial. The train line between India and Pakistan is currently functional and should be upgraded to allow movement of containerised cargo between India and Pakistan to help cut transaction costs to trade. Further, railways in the two countries are collaborating to discuss regional integration and technology transfer to create more efficient railway networks and allow South Asia to be an integral part of the UN Trans-Asian railway network.

In his ***special address,*** Mr. Salman Shah (former Finance Minister of Pakistan) laid out his vision of developing the South Asian region like the European Union, calling upon a concerted effort from both nations to put economic interests at the forefront and work towards better bilateral trade ties which could serve as a harbinger of peace in the region. Trade is a virtuous cycle, and if progress is made in trade then the effects are felt on the overall relationship; but there should be a commitment to maintaining a good relationship in order to sustain trade. Well structured rules, processes, and better infrastructure between neighbours can contribute to growth in GDP, trade enhancement and make regional industries globally competitive. Tourism has a huge potential between the two countries, with the total potential being much higher than currently estimated. By demonstrating commitment to trade, the two countries can usher in a new era of peace and prosperity in the region. Mr. Shah's speech evoked a lively discussion with the members of the audience. Calls for an 'uninterrupted and uninterruptible' trade dialogue were seconded by Parliamentarians like Mani Shankar Aiyar and N. K. Singh.

Mr. S R Rao (Commerce Secretary of India) in his ***special address*** highlighted that economic engagement is the only way to redress mistrust and political misgivings between the two countries. Events of the past two years indicate that both Indian and Pakistani governments are committed to normalising trade and commencing dialogues, and the only way forward in this process is to engage private sector entrepreneurs from both sides, committing them towards deepening their economic and commercial ties. There is a strong rationale for India and Pakistan to engage in trade considering that the cost of transportation between the two countries is very low. Even though Pakistani producers are apprehensive of importing agriculture and automobile products from India, this should not stop trade liberalization since safeguard measures in the SAARC agreement could be used to protect domestic markets, when required. Further, Pakistan's poor trade balance with India may rather turn into their favour since India could provide cheaper commodities to Pakistan.

Details of the session-wise deliberations are as follows:

1. Expanding Trade in Goods

The session was chaired by Hafiz Pasha (Dean, Beaconhouse National University, Lahore; former Commerce Minister, Finance Minister and Deputy Chairman, Planning Commission, Government of Pakistan). Papers were presented by Nisha Taneja (Professor, ICRIER, New Delhi), Sanjib Pohit (Senior Principal Scientist, NISTAD, New Delhi), and Manzoor Ahmad (Senior Fellow, International Centre for Trade and Sustainable Development, Geneva). The discussants for the session were Aradhna Aggarwal (Senior Fellow, NCAER, New Delhi), Deb Kusum Das (Associate Professor, Ramjas College, University of Delhi) and Saikat Sinha Roy (Associate Professor, Department of Economics, Jadavpur University, Kolkata).

The first two papers presented at the conference provided estimates for trade potential between India and Pakistan. Dr. Taneja used the trade potential approach to arrive at an estimate of \$20bn (\$10bn excluding mineral fuels) if the two countries traded only in products wherein they were globally competitive. Dr. Pohit used a Computable General Equilibrium model to estimate the trade potential between two countries. It showed that if fully liberalised, the volume of exports from Pakistan to India will increase by 89 per cent and volume of exports from India to Pakistan will increase by 42 per cent. Further, if the trade liberalisation is accompanied by removal of logistics impairments and improved trading routes, the trade would increase by 110 per cent and 58.2 per cent respectively. These presentations were complemented by a paper on facilitating regional integration of supply chains by Dr. Ahmad. Using concrete examples of supply chains in electric fans, surgical goods, plastics and chemicals, the presentation highlighted that the gains to trade and GDP from removing barriers to supply were much more than a simple removal of tariffs. Measures such as simplification of documents and automated clearance processes would cut down transaction costs, and open more trade routes between India and Pakistan to considerably enhance bilateral trade. The current volume of trade between the two countries is significantly low and the potential so high that it represents a low hanging opportunity for India and Pakistan to exploit. A small improvement in the trade environment would spell large gains for people on both sides of the border.

2. Barriers to Trade

The session was chaired by Surjit Bhalla (Chairman, Oxus Investments). The speakers were Aisha Ghaus Pasha (Director, Institute of Public Policy, BNU, Lahore), Nadia Rehman (Trade Economist, USAID Trade Project, Islamabad) and Abhijit Das (Head & Professor, Centre for WTO Studies, Indian Institute of Foreign Trade (IIFT), New Delhi). The presentations were followed by a discussion, with Naeem Anwar (Minister-Trade, Pakistan High Commission, New Delhi), Ram Upendra Das (Senior Fellow, Research and Information System for Developing Countries (RIS), New Delhi) and Pardeep Sehgal (Partner, Sinochem Impex, Amritsar) being the discussants.

The speakers emphasised that India-Pakistan trade is brimming with non-tariff barriers, and removal of these barriers is crucial to fully realizing the gains from bilateral trade. India's non-tariff barriers are more restrictive than of Pakistan. It is widely accepted that some barriers are related to perceptions, and strong political will is required to overcome these. Further, the presentations highlighted that it is essential to identify which barriers posed by India are specific to Pakistan. The barrier most frequently cited is the strict visa regime which prevents businessmen to travel freely for exploring new trade opportunities and networking with prospective trade partners across the border. Further, poor infrastructure and connectivity also continue to impede bilateral trade. It was recommended that both nations jointly undertake harmonisation of codes, simplification of customs procedures and mutual recognition of testing certificates to facilitate trade. Moreover, agricultural subsidies given to Indian farmers were the key cause of concern for Pakistani producers, and the main reason why agricultural lobbies in Pakistan are against the grant of MFN status to India. It was suggested that India takes off wheat, rice, mangoes and textiles from its sensitive list as these items were of key export interest to Pakistan.

3. Trade Perception Survey

The session was chaired by Sanjay Kathuria (Lead Economist, Regional Integration, World Bank, Washington DC). Presentations were given by Nisha Taneja, Mishita Mehra, Prithvijit Mukherjee (ICRIER, New Delhi) and Sanjib Pohit (Senior Principal Scientist, NISTAD, New Delhi).

ICRIER is conducting a Trade Perception Survey among businesses engaged in India-Pakistan trade, to identify the current impediments to trade, and to capture the perception of expected changes in future. The perception is quantified on indicators including trade policy awareness, market access, product standards, business facilitation, customs and documentation and port infrastructure. The preliminary findings of surveys conducted in India and Pakistan were presented at the conference. The first year survey would form a baseline over which survey results for the next two years would be compared. The discussants for the session were Atindra Sen (Senior Advisor, Transnational Strategy Group, India) and Usman Khan (Faculty Member, LUMS, Lahore).

4. Sector Studies (focusing on Energy, Textiles and Sports Goods)

The session was chaired by I. N. Mukherji (Senior Consultant, RIS, New Delhi). Presentations were given by Mahendra Lama (Professor, Centre for South, Central, Southeast Asian and Southwest Pacific Studies, JNU, New Delhi) on energy trade, Saon Ray (Senior Fellow, ICRIER, New Delhi) on textiles trade, and Kiran Javaid and Farah Shahid (Teaching Fellows, LUMS, Lahore) on sports goods trade between India and Pakistan. Discussants for the session were Syed Yawar Ali (Chairman, Nestlé Pakistan Ltd), Biswajit Nag (Associate Professor, IIFT, New Delhi) and Prabir De (Fellow, Research and Information System for Developing Countries, New Delhi).

Dr. Lama's presentation talked about India and Pakistan being net energy importers, relying on third countries for their energy needs. Therefore, co-operation in energy procurement and distribution would allow the two countries to benefit from efficient utilization of both renewable and non-renewable energy sources that are available in their immediate neighbourhood. For instance, India could access energy resources in Turkmenistan via Pakistan and Afghanistan while paying transit fees to Pakistan. In return, Pakistan could gain access to Nepal's hydroelectric power resources transiting via India much like the current power route from Nepal to Bangladesh via India. Further, Indian companies could take advantage of the incentives available in Pakistan for establishing power plants. Integrated electricity grids can help the two countries address their energy needs.

Dr. Ray's presentation highlighted that textiles and clothing sector contributes 22 per cent to the total bilateral trade between India and Pakistan at present. Intra-industry trade in the sector is also high since both countries import and export cotton yarn and woven cotton textiles. The production pattern of the spinning sector of Pakistan's textile industry is heavily tilted towards the production of coarse categories of yarns with an overall average count of about 20. Therefore, there is potential for import of lower counts of yarn (less than 20), and also of Pakistan's cotton woven fabrics and made ups. On the other hand, there is potential for export of Indian cotton yarn of 30s to 80s counts and synthetic fabrics to Pakistan. Since these are currently on Pakistan's banned and sensitive lists for India, synthetic fabrics are majorly traded informally. There is also scope for export of textile machinery and spare parts from India to Pakistan.

The presentation by LUMS faculty covered trade in sports goods between India and Pakistan, which stood at US$1.6 million in 2011. Though Pakistan exports sports equipment and sports apparel to India while India exports sports equipment and sports footwear; the current trade levels remain low because of the presence of non-trade barriers. During the discussion, the need for in-depth studies on other important sectors - such as automobiles and agriculture - was highlighted, as these are of great concern to trade between the two countries.

5. Trade in Services and FDI

The session was chaired by Anupam Khanna (Chief Economist and Director-General, NASSCOM, Delhi). Speakers at the session included Rupa Chanda (Professor, Department of Economics and Social Sciences, Indian Institute of Management, Bangalore), Hadia Majid and Nadia Mukhtar (Assistant Professor, LUMS, Lahore) and Vaqar Ahmed (Deputy Executive Director, SDPI, Islamabad). The discussants were B N Goldar (Visiting Professor, Jawaharlal Nehru University, New Delhi), Jehan Ara (President, Pakistan Software Houses Association for IT and ITES, Karachi) and Arpita Mukherjee (Professor, ICRIER, New Delhi).

During the presentations it was highlighted that the services sector is important for the economies of both India and Pakistan, but the volume of bilateral trade in services is miniscule. India has a higher comparative advantage in commercial services than Pakistan, and the potential for trade in services, particularly in the social sectors of healthcare and tertiary education is quite large. Due of absence of quantitative data, anecdotal evidence was relied upon to point that patients from Pakistan are already visiting India for surgeries and other medical treatments; however, there is no institutional mechanism through which medical services can currently be traded between the two countries. One of the key impediments to trade in services is the restrictive visa regime. Trade in services is dependent on movement of professionals between countries, and the current regime followed by India and Pakistan is not conducive to this. Although the visa regime is liberalizing, restriction on the number of cities to visit and the difficulty in obtaining visas continue to hinder travel of businessmen. This also prevents the development of supply chains for trade in goods and affects particular sectors, such as engineering, where trade complementarities are high.

Considerable scope for collaboration was emphasised in the information technology sector with the chambers of commerce of the IT industry in India and Pakistan having established contacts for exploring opportunities of joint ventures and partnerships. In addition, Pakistani academicians are being sought and encouraged to join the South Asia University in New Delhi. Other areas of potential collaboration in the services sector include business process outsourcing (BPOs) and religious tourism.

Research indicates that the potential for Foreign Direct Investment (FDI) between the two countries is also high. The top three sectors identified for investment in India by Pakistani nationals are: textiles, cement, hotel and restaurant services. Other sectors where Pakistani businessmen are interested in investing in India are surgical goods, food processing and leather industry. However, FDI is marred by the lack of contact between businessmen in the two countries. Yet, both Pakistani and Indian investors have invested in each other's countries via a third country, such as Dubai and even the US and UK. From Pakistan, only big businesses are considering investment in India since investing in SMEs is considered too risky to be profitable. Anecdotal evidence suggests that even big businesses face excessive red-tape and civil interrogation from multiple bodies. The Reserve Bank of India's recent decision to allow FDI from Pakistani nationals in India is encouraging, but the regulation stipulating any investment from a Pakistani national to first be considered by a 'special panel', is viewed as a hindrance by many Pakistani investors.

6. India-Pakistan Trade: The Way Forward

The session was moderated by Sanjaya Baru (Director for Geo-economics and Strategy, International Institute for Strategic Studies, New Delhi). The panellists included Rajeev Kher (Additional Secretary, Ministry of Commerce and Industry, Government of India), Hafiz Pasha (Dean, BNU, Lahore and former Commerce Minister, Finance Minister and Deputy Chairman, Planning Commission, Government of Pakistan), Syed Yawar Ali (Chairman, Nestlé Pakistan Ltd), Nagesh Kumar (Director, UN-ESCAP South and South-West Asia Office and Chief Economist, UN-ESCAP), Manoj Pant (Professor, Centre for International Trade and Development, JNU, New Delhi) and Nisha Taneja (Professor, ICRIER, New Delhi).

The session discussed the urgency to take the India-Pakistan trade normalization process forward; considering that the negotiations and the state of affairs between the two countries have long been marred by political issues. Though there is a commitment from both countries towards normalizing their bilateral trade policies, it is important to ensure that the progress achieved in the economic realm shall not be rolled back against any political disruptions. The discussion highlighted the importance of peaceful ties between the two countries, which shall benefit not just the economic conditions within the two countries but rather spread over the entire South-Asian region as well.

The main issues of contention that came forward were: the grant of MFN status to India by Pakistan, bilateral trade in agriculture and textile sectors, the barriers posed by the sensitive list of India, insufficient transport and transit routes, as well as the poor investment relations shared between India and Pakistan.

Given that the policy framework on the above issues lies within the ambit of the prevailing central governments, this unstable political structure has been the basis for ambiguity towards the grant of MFN status to India. In addition, the Urdu translation of MFN has been a major cause of rising discontent among policymakers, making it inacceptable to be granted to any hostile nation. However, the agenda for trade normalization lists grant of MFN status as the preliminary step for taking up subsequent measures that involve pruning the respective sensitive lists for enhancing bilateral trade. Considering that after missing many deadlines the MFN status still remains to be granted, it was felt that the normalization process must not get stalled on the very issue. India could instead take the first step towards the next stage of liberalization by removing non-tariff barriers (specifically agricultural subsidies and para-tariffs) and reducing the number of items in its sensitive list to 100. At present, India's sensitive list under SAFTA for non-LDCs (i.e. Pakistan) has a large proportion of textile and agricultural items which are of export interest to Pakistan. Hence, removal of these specific items from the SAFTA sensitive list is likely to generate export confidence and help Pakistan cover its trade deficit with India.

It is important to note that FDI plays an important role in deepening trade relations. Therefore, promoting a regime that is more conducive to greater bilateral investment flows should be encouraged. Along with helping enhance trade, a liberal bilateral investment treaty shall act as major confidence building measure for businesses engaged in India-Pakistan trade.

Liberal trade must also be supported by creation of infrastructure for improved transport and transit facilities. Transit agreements could bolster trade at the sub-regional level by connecting India with West and Central Asia, and even Europe, via Pakistan; and Pakistan to South and South-East Asia via India. The two countries could even work towards connecting their respective transport networks through a 'Regional Motorways Agreement' and 'Regional Railways Agreement', alongside Investment Treaties and Capital Market Agreements for increasing FDI flows.

With India joining the G20 and many more regional agreements such as ASEAN+3 and RCEP, the importance of SAARC has not faltered and rather efforts have become stronger to maintain normal and peaceful ties with the neighbouring country of Pakistan. However, these efforts must be reciprocated by Pakistan considering the economic benefits India could provide through its much wider influence in regional and global affairs. A strong partnership between India and Pakistan is crucial towards South Asian economic integration, and shall pave the way for development of this region in the changing global architecture.

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