



Political Dominance or Economic Gains: A Case Study of India-Pakistan Trade and Perceptions of the People of Pakistan

Afsheen Naz

Abstract

The South Asian region suffers from a lack of economic integration with political differences between India and Pakistan serving a primary factor. This paper analyzes the perceptions of Pakistani stakeholders on the ways in which political relations have affected the economies of the two countries, and South Asia as a region. The findings are based on a perception survey in which 50 Pakistani professionals were interviewed from four cities—Islamabad, Karachi, Lahore, and Rawalpindi. Distrust between the two neighboring states was flagged as a potent factor holding back the trade potential of the region.

Author Profile

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Introduction

South Asia has low regional trade in comparison with other such regions in the world. Over a period of time, various accords, for instance the South Asian Free Trade Agreement (SAFTA) and the SAARC Preferential Trade Agreement (SAPTA), have been signed by the countries in the region to enhance economic integration and boost trade. Despite these regional, multilateral, and bilateral agreements, trade within the region has failed to grow at expected levels, and research has identified the conflict between India and Pakistan as one of the major factors that has adversely affected the process of regional economic integration.¹

Recognizing this reality and other exigencies for better relations with neighbors, various efforts have been made by both states. The Indo-Pak Composite Dialogue process was re-launched in 2004 and, currently, efforts are underway to improve trade and other economic ties. While the governments are involved in these dialogues, little effort has been made to understand the perception of various stakeholders on the prospects for regional trade. This paper analyzes the perceptions in Pakistan on the impact of the political conflict with India on regional trade in South Asia.

The findings are based on a survey titled “Cost of Economic Noncooperation to Consumers in South Asia” which was conducted by the Sustainable Development Policy Institute (SDPI) for the Consumer Unity and Trust Society-India (CUTS-India). CUTS-India prepared a report on the effects of economic noncooperation on consumers and their welfare in South Asian countries based on the survey.² A subset of questions from the original survey, related to the objectives of this paper, has been used here.³

Pakistani stakeholders were queried on:

- a) The overall impact of trade agreements—multilateral, regional, and bilateral, signed by Pakistan,
- b) The current trade and regional cooperation scenario among South Asian countries,
- c) The relative importance given by the government of Pakistan to political priorities and economic logic,

¹ A. Sayeed, *Gains from Trade and Structural Impediments to India-Pakistan Trade*, (Karachi: CSSR, 2011).

² Bipul Chatterjee and Joseph George, *Consumers and Economic Cooperation: Cost Of Economic Non-Cooperation To Consumers In South Asia* (Jaipur: CUTS-International, 2012).

³ The names of all respondents have been changed to maintain anonymity. All the questionnaires were administered between February and March 2012.

d) The measures that may be taken by the political community of India and Pakistan to enhance trade in South Asia.

Stakeholders representing academia, civil society, the media, the business community, and government were interviewed from four cities of Pakistan—Rawalpindi, Islamabad, Lahore, and Karachi. Twenty-nine of the respondents were from Islamabad; 11 from Lahore; eight from Karachi; and two from Rawalpindi. Ten of the respondents were from the media, 15 from government, seven represented civil society groups, 10 were from academia, and eight were traders or business entrepreneurs. Given the nature of the research, a purposive sampling technique was employed and only those who had relevant experience in India-Pakistan trade were selected. A questionnaire was developed and responses were analyzed using quantitative and qualitative techniques.

Key Developments since 1947 on Trade between India and Pakistan

India and Pakistan granted the Most Favored Nation (MFN) status to each other in 1948, right after signing the GATT agreement. In 1948–49, exports of Pakistan to India were 56 percent of her total exports and her imports from India were 32 percent of total imports.⁴ The 1965 and 1971 wars created a major schism between the two countries, after which economic relations could not be brought back on an even keel. Disparities kept increasing and both states erected barriers. In 1973, to restart trade, the two countries adopted the “positive list” approach. However, they did not give MFN status to each other, as was expected under GATT. It was only in 1996 that India again granted the MFN status to Pakistan with the signing of the SAFTA agreement, but Pakistan did not reciprocate. More importantly, despite granting the MFN status, India nurtured a restrictive trade policy in the context of Pakistan and raised many tariff and non-tariff barriers on Pakistani products and services. Some of the non-tariff barriers in India were:

- Visa and travel restrictions
- Restrictions on inter-provincial movement of goods
- Limited number of ports and inland custom posts for imports
- Control by state trading enterprises
- Excessive use of trade defense measures
- Tariff rate quotas
- Technical standards and regulations
- Import regulations

India also raised extremely high tariff barriers on agricultural products from Pakistan. These tariffs, even today, average around 90 percent. Moreover, India maintained the composite duty-Ad Valorem and Specific Duty on textile manufacturers, which in some cases exceeds 100 percent. The “positive list” approach for Indian products and several other non-tariff barriers were kept in place by Pakistan. Nevertheless, it has been noted that, “the Indian trade regime is still more restrictive than its counterpart in Pakistan. According to an IMF study, India’s trade

⁴ I. Tabish and M. Khan, *Indo-Pakistan Economic Cooperation Harnessing India Pakistan Trade Potential*, (Islamabad: SAARC Chamber of Commerce and Industry, 2011).

restrictiveness measures 8 (on a scale from 1 to 10), while Pakistan's index stands at 6."⁵ As a result, trade has not reached the desired level between the two neighbors.

Trends of Trade between India and Pakistan

Despite awareness of the benefits that come with enhanced bilateral trade, the volume between the two countries remained less than one billion dollars during the period 2000–10. Neither country made it to the top five trading countries' list of the other, in the magnitude of their global trade volume.⁶ A cursory glance at the data reveals this and the imbalance in the trade. (See Table 1)

Table 1: Growth trends of India's Export and Import towards Pakistan

Values in US \$ Millions

| Year | 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 |
| %Growth | | 44.47 | -26.18 | 9.27 | 48.32 |
| India's Total Export | 126,414.05 | 163,132.18 | 185,295.36 | 178,751.43 | 251,135.89 |
| %Growth | | 29.05 | 13.59 | -3.53 | 40.49 |
| %Share | 1.07 | 1.2 | 0.78 | 0.88 | 0.93 |
| IMPORT | 323.62 | 287.97 | 370.17 | 275.94 | 332.51 |
| %Growth | | -11.02 | 28.54 | -25.45 | 20.5 |
| India's Total Import | 185,735.24 | 251,654.01 | 303,696.31 | 288,372.88 | 369,769.13 |
| %Growth | | 35.49 | 20.68 | -5.05 | 28.23 |
| %Share | 0.17 | 0.11 | 0.12 | 0.1 | 0.09 |
| TOTAL TRADE | 1,673.71 | 2,238.50 | 1,810.05 | 1,849.26 | 2,666.13 |
| %Growth | | 33.75 | -19.14 | 2.17 | 44.17 |
| India's Total Trade | 312,149.29 | 414,786.19 | 488,991.67 | 467,124.31 | 620,905.02 |
| %Growth | | 32.88 | 17.89 | -4.47 | 32.92 |
| %Share | 0.54 | 0.54 | 0.37 | 0.4 | 0.43 |
| TRADE BALANCE | 1,026.47 | 1,662.56 | 1,069.72 | 1,297.38 | 2,001.11 |
| India's Trade Balance | -59,321.19 | -88,521.83 | -118,400.95 | -109,621.45 | -118,633.24 |

Source: Government of India, Ministry of Commerce & Industry, Department of Commerce (Dated: 16/05/2012)

⁵Abid Qamar, "Trade Between India and Pakistan: Potential Items and the MFN status," *SBP-Research Bulletin* Volume 1(1), (2005): 47.

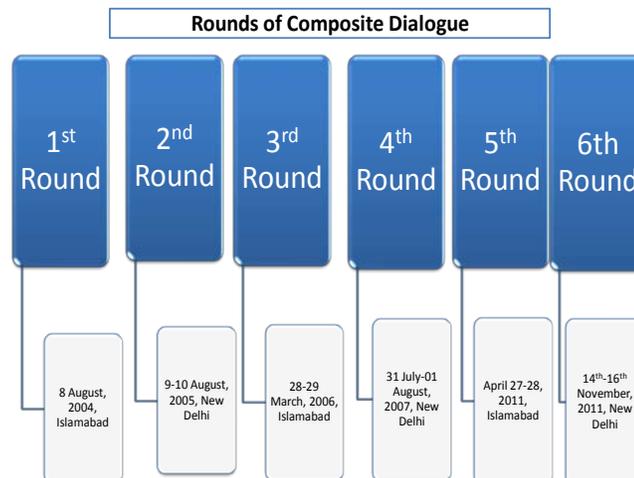
⁶ A. Sayeed, *Gains from Trade and Structural Impediments to India-Pakistan Trade* (Karachi: CSSR, 2011).

The trade balance is clearly in favor of India. In all five years, India's exports to Pakistan are higher than her imports from Pakistan. Despite not granting the MFN status to India and encountering high tariff and non-tariff barriers, Pakistan is importing more goods and services from India. The data also draws attention to the negative trend in both exports and imports from India towards Pakistan in the year 2009-2010. This is the period when the two countries came very close to war due to the Mumbai attacks. This situation is reflective of how the political conflict has impacted trade between the two countries.

In order to address some of the longstanding differences, India and Pakistan started the composite dialogue process in 2004 which included: peace and security including confidence building measures (CBMs), Jammu and Kashmir, Siachen, Sir Creek, Wullar Barrage, terrorism and drug trafficking, economic and commercial cooperation, and promotion of friendly exchanges in various fields.⁷ Six rounds of dialogues have been held up until 2011 (see Figure 1). The most recent dialogue of the series was held in November 2011 in New Delhi.⁸ A number of major decisions were taken during this dialogue regarding trade:

- Pakistan will transition from the current "positive list" approach to the "negative list" approach by February 2012;
- Thereafter, all other items except those in the "negative list" shall be freely exportable from India to Pakistan; and
- The schedule for phasing out of the "negative list" would be announced when the list would be notified in February 2012.

Figure 1



⁷ Sameer S. Patil, *Indo-Pak Composite Dialogue*, Special Report (New Delhi: IPCS, 2008).

⁸ Since the writing of this paper, the Foreign Ministers of the two countries have met again in Islamabad and Foreign Secretary level Talks have been held.

The gap between the fourth and fifth dialogues is noteworthy as the Mumbai attacks in 2008 stalled the process for a considerable period of time. India blamed Pakistan for this attack. However, the composite dialogue process restarted in 2011 and two successful rounds were held in the same year. The declaration that MFN will be granted to India by Pakistan was one of the most successful results of this dialogue.

However, the announcement of granting of MFN status to India was met with an expression of fear by the business community of Pakistan, particularly, with respect to agricultural products. They stated that the trade balance has been in favor of India and this is not likely to change with the granting of MFN status. The market capture by Indian products is another major concern for the business community of Pakistan. Nonetheless, during the sixth composite dialogue, certain measures were adopted to overcome or at least to reduce such apprehensions of Pakistani businessmen. It was proposed that the following agreements to address tariff and non-tariff barriers between the two countries be signed:

- Customs Cooperation Agreement
- Mutual Recognition Agreement
- Redressal of Grievance Agreement
- Preferential Tariff under SAFTA Agreement

To protect the local industry, effective use of trade defense laws was also proposed during the dialogue:

- National Tariff Commission Act, 1990
- Anti-Dumping Duties Ordinance, 2000
- Countervailing Duties Ordinance, 2001
- Safeguard Measures Ordinance, 2002

The fears of Pakistani businessmen are not unfounded. Even after the partition of British India into India and Pakistan, India is still the largest and dominant state in the region.⁹ Pakistan is the second largest country in the region after India; hence, it can be considered important for setting the growth trends in the region. However, the differences between the two states have held peace and prosperity in the entire region hostage. At the base of this conflict lie several issues, but the memory of the traumatic and bloody partition, the continuing dispute over Kashmir, and the alleged sponsoring of *jihadi* groups have played a decisive part in determining their relationship. Since both countries tested nuclear weapons in 1998, this rivalry acquired a different strategic dimension. Major conflicts erupted: the Kargil War in 1999, the terrorist attack on the Indian Parliament in 2001 with Pakistan being blamed and the incident leading to unprecedented troop mobilization along the border, and most recently, the Mumbai attacks in 2008.

Due to these conflicts, the neighbors remained reluctant to invest in strengthening bilateral trade ties. While several studies have pointed to the economic benefits to both countries of

⁹ S. Khan, F. Shaheen, M. Yusuf, A. Tanveer, *Regional Integration, Trade and Conflict in South Asia*, Islamabad: SDPI, 2007

enhancing bilateral trade¹⁰, many have also alluded to the gains that would accrue to the entire South Asian region. It is estimated that intra-regional trade is at five percent, which accounts for just over one percent of the region's GDP.¹¹ This is due to the fact that India and Pakistan jointly account for more than 90 percent of South Asia's GDP. Adversarial relations between the two states, therefore, impact the development potential of the entire region, preventing technical efficiencies, better resource allocation, and specialization in production.

Trade not only contributes directly to the prosperity of the consumers as goods become cheaper, but producers also gain from specialization and revenue sources for the governments increase. This indirectly benefits the population as it leads to interdependence among states, which in turn furthers political stability in the region.¹² The benefits of enhanced regional trade have been documented in a number of studies.¹³

Attempts at minimizing confrontations and enhancing regional cooperation have been made over the years through the South Asian Association of Regional Cooperation (SAARC), SAPTA, and SAFTA. In fact, the fundamental objective of SAARC was to bring stability in South Asia by enhancing regional cooperation and drawing attention away from bilateral hostilities between the different countries of the subcontinent.¹⁴ The SAARC Preferential Trade Agreement (SAPTA) was signed on 11 April 1993. The fundamental motive of this Agreement was not only to sustain economic cooperation within the region but to promote trade as well.¹⁵

SAFTA came into being in 1996. However, it started functioning on 1 January 2006. The intent here was to gradually reduce and ultimately eliminate tariff and non-tariff barriers and customs duties on products and services. The creation of a "free trade bloc" in the region was the ultimate objective of the Agreement. Under this Agreement, the reduction and abolition of the tariff rates was to be carried out in two phases. India, Pakistan, and Sri Lanka were obliged under the Agreement to reduce their trade duties and bring them down to 20 percent in the first phase, which was to be completed by 2008. In the second phase, it was envisioned that these duties would be cut to zero by 2016. However, the least developed countries of the region,

¹⁰ See Ijaz Nabi and A. Nasim, "Trading with the Enemy: A case for liberalizing Pakistan-India Trade," in *Regionalism and Globalization: Theory and Practice*, edited by Sajal Lahiri (London: Routledge, 2001); Amita Batra, *India's Global Trade Potential: The Gravity Model Approach*, Working Paper 151 (New Delhi: ICRIER, 2004); State Bank of Pakistan, *Implications of Liberalizing Trade and Investment with India- Report of the Research and Economic Policy Department* (2006); Z. Naqvi and P. Schuler, *The Challenges and Potential of Pakistan-India Trade* (Washington D.C: The World Bank, 2007).

¹¹ I. Tabish and M. Khan, op.cit.

¹² For a discussion on PTAs see C. Parr Rosson, C. Ford Runge, Kirby S. Moulton, "Preferential Trading Arrangements: Gainers and Losers from Regional Trading Blocs," <<http://www.ces.ncsu.edu/depts/agecon/trade/eight.html>>

¹³ See U. Wickramasinghe, *How can South Asia turn the new emphasis on IT provisions to their advantage?* (Kathmandu: South Asia Watch on Trade, Economics and Environment - SAWTEE, 2001); S. J. Burki, *Prospects of Peace, Stability and Prosperity in South Asia: An Economic Perspective*, Paper presented at an international seminar organized by IRS on June 7-9, 2004, Islamabad; N. Chandra, *Economic Cooperation in South Asia, Current State and Prospects*, Briefing Paper no.2/2005, (Jaipur: CUTS-CITEE, 2005).

¹⁴ Khan et al, op.cit.

¹⁵ Deshal de Mel, *Bilateral Free Trade Agreements in SAARC and Implications for SAFTA*, available at <http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1192413140459/4281804-1192413178157/4281806-1265938468438/BeyondSAFTAFeb2010Chapter4.pdf>

including Bangladesh, Nepal, Bhutan, and Maldives were granted an additional time of three years, that is, up until 2019, to cut the duty rate to zero.¹⁶

Unfortunately, SAFTA almost failed to narrow down the regional economic distances. On the contrary, countries in the region started bilateral agreements that proved quite successful. Some of the regional bilateral agreements include the India-Sri Lanka Bilateral Agreement and the Pakistan-Sri Lanka Bilateral Agreement.¹⁷

It was only in 2012 that positive developments resulted from the composite dialogue and Pakistan decided to grant MFN status to India. However, the arrangement that finally emerges from the process is yet to fully reveal itself and it still remains a question if Pakistan and India will be able to achieve the full potential of bilateral trade. One of the important factors in the ultimate success of trade will be the role played by the businessmen, traders and those involved in the decision making within and outside the government. It is therefore important to understand how they perceive the potential and what they suggest as the way forward. The survey sought to measure these perceptions. The following section provides a summary of the findings.

Overall impact of Trade Agreements: Multilateral, Regional, and Bilateral

Multilateral Trade Agreements

As multi-trade agreements enable the developing economies to tap affluent markets of the world, they also help the developing economies to shift to higher levels of productivity and general efficiencies through the transfer of technologies and managerial expertise. As one government official stated, "Behind all these agreements, the objective was to adopt the global village approach in trade via availability of cheap products, best utilization of expertise, and transmit to other countries so that consumers get benefited. Moreover, quality along with availability may be enhanced."¹⁸

Almost half of the respondents in the survey expressed their concerns regarding the expediency of WTO. The respondents were of the view that GATT was ineffective, particularly for developing countries. A producer from Lahore, for instance, said that he was "not really sure about its impact on developing countries and particularly on Pakistan." Another from the government candidly admitted that,

It is a firm reality that to date WTO has not been successful in promoting trade liberalization around the world. It seems to be biased towards developed countries by safeguarding their interests, thus providing limited benefits to the developing and poor countries. A flourishing phenomenon of PTAs (Preferential Trade Agreements) in recent years indicates that WTO has not emerged as a successful process.¹⁹

¹⁶ Nisha Taneja, *India Pakistan Trade Possibilities and Non-tariff Barriers*, New Delhi: ICRIER, 2007.

¹⁷ Khan et al, op.cit.

¹⁸ Saleem, Islamabad.

¹⁹ Zia, Islamabad.

The remaining 50 percent of the respondents felt that the WTO process was admirable but expressed concerns regarding the nature of rules being framed. The respondents perceived these rules as more beneficial to developed countries. One respondent stated that

The overall impact of the WTO-multilateral trade agreement (as signed in the Uruguay round) has been positive, since it has raised awareness about businesses subscribing to 'quality and standards' to capture the markets. As a result efficiency, productivity, and competition have increased and resources are being utilized in a more optimal fashion – even using waste to earn money. This is true for the export-oriented industry.”²⁰

Likewise, one of the traders compared the importance of multilateral trade agreements in these words:

WTO has resulted in a more liberalized and open trade regime in Pakistan. However, Pakistani traders fear the onslaught of cheap products from competing countries such as India and China. This fear is not one-sided. For instance, Pakistan faced opposition from Bangladesh and India when it was given a special concession package for access to the EU after the 2010 floods. So basically, all developing countries are somewhat wary, when we talk about liberalized trade and WTO in particular.”²¹

A media person was of the view that “Regional trade agreements [in general] provide a broader list for trade than is the case with WTO. With reference to Pakistan, it seems that regional agreements damaged the domestic industry while some countries enjoyed the win-win situation [at the regional level and at the level of WTO].”²²

The respondents were, in general, not very optimistic about multilateral trade and its prospects for Pakistan. This difference became stark when compared with their perceptions about regional trade. The respondents showed a greater degree of optimism. However, regional trade, they said, would be conditional upon one very significant factor – India-Pakistan relations. This is analyzed in the next subsection.

Regional Agreements

SAFTA calls for the gradual reduction of tariffs, custom duties, and other trade barriers, and overall reciprocity and mutuality of advantages so as to benefit all the member states. Regional economic cooperation has the advantage that it shrinks the distances and reduces transportation cost as well as encourages trade based on similarity in culture and tastes. In addition, it not only consolidates the comprehensive relations among the countries, but also helps in achieving common aspirations for development, peace, and stability in the region.

SAFTA, proposes to build on the SAPTA by increasing the scope of the South Asian regional trade dialogue to include issues of competition; trade and transport facilitation through progressive harmonization of legislation; banking procedures; macroeconomic consultations; communications; foreign exchange regulations; and immigration (currently SAFTA is only concerned with the facilitation of business visas). SAFTA also introduces a specific Trade

²⁰ Shakeel, Islamabad.

²¹ Shafaqat, Karachi

²² Nazim, Islamabad.

Liberalization Program that phases out tariffs and eliminates quantitative restrictions in consonance with the obligations imposed by the WTO.

Despite being such an important trade agreement, SAFTA was perceived as a failure in achieving its targets by more than half of the respondents. A government official from Karachi, for instance said, "No concrete/major benefit has been gained so far by Pakistan by signing SAFTA."²³ Another respondent from academia was of the view that, "No substantial progress has been made in terms of market access for Pakistani products in the member countries."²⁴

Interestingly, many of the respondents were aware of the importance of the political conflict between India and Pakistan and its significance to regional trade. The respondents not only considered these two economies as influential but also linked the ineffectiveness of SAFTA with the political conflict between the two. For instance, one respondent from civil society was of the view that, "SAFTA would be a great initiative if it were to be implemented, but progress has unfortunately been slow due to political differences between the two biggest South Asian countries, Pakistan and India."²⁵ A second respondent from civil society said, "SAFTA remains a disappointment, given the foreign policy deadlock between India and Pakistan. So far, it has no impact because of the political situation in the region."²⁶

Bilateral Agreements

Bilateral trade agreements enhance closer economic ties between the two countries. While there are pros and cons to every trade agreement, it is said that it can boost business for both partners and benefit both economies. Pakistan has signed bilateral trade agreements with Afghanistan, Malaysia, China, Sri Lanka, Iran, and Mauritius. Of these, the most significant is the Foreign Trade Agreement (FTA) with China covering goods as well as investments, which became effective from July 1 2007. Many of Pakistan's exportable products such as textiles, fruits, vegetables, gems, jewelry, engineering goods, leather products, sports goods, surgical goods, marble products, and industrial alcohol can enter the Chinese markets at zero duty or concessionary duties. However, the FTA with Iran is not as effective due to political reasons. Trade agreements with Malaysia, Sri Lanka, and Mauritius are expected to be beneficial for Pakistan's economy. However, their overall impact rests on the implementation and execution of the Agreement.

Many of the respondents, while perceiving the effectiveness of various bilateral agreements, cautioned that actual impact cannot be gauged unless proper research is conducted. They felt that the absence of systematic research on the benefits of these agreements was a major lacuna in deciding future policies. A respondent working for the government was of the view that, "A professional analysis post-FTA has not come out, but it has a positive political dimension."²⁷

²³ Shehzad, Karachi.

²⁴ Raihan, Islamabad.

²⁵ Ahmad, Lahore.

²⁶ Jahanzib, Karachi.

²⁷ Shehzad, Islamabad

Another noted that, it “will help improve business and technology, but proper research is not conducted on the impact – short-term and long-term – on all stake holders.”²⁸

Regional Cooperation Scenario among South Asian Countries

An overwhelming majority (over 80 percent) felt that trade and regional cooperation was below expectations. Only 10 percent perceived regional cooperation to be up to expectation and eight percent thought it was above expectation.

Those who were disappointed with the level of regional trade cooperation shared their views on the reasons for the appalling state of regional integration. Many of them linked such low cooperation to political conflicts amongst South Asian countries. But it was unclear which way the causal connection ran for them. Was it because of the conflicts that trade was low or was it because they were not economically well-connected that all conflicts became more intense and intractable? A statement by a government representative from Lahore, for example, was reflective of this confusion: “Due to the persistence of conflict in South Asia and the inability of SAARC members to come up with solutions to the problems, trade among SAARC nations is very limited which make this region least integrated in the world.”²⁹

While the respondents considered economic integration as beneficial and particularly pertinent to relieve the region from the poverty trap, they highlighted political differences and weak implementation of existing agreements as the key causes for not fulfilling the expectations.

Furthermore, the respondents placed particular emphasis on the conflict between India and Pakistan and their manipulation of other countries in the region. The respondents categorized these conflicts into economic and political. One government representative, for instance, while highlighting the importance of economic conflicts on one of the trade agreements (SAFTA) said, “There are two major countries in the region, Pakistan and India. Until trade is normalized in these two countries, until Pakistan grants the MFN status to India, SAFTA cannot be successful. SAFTA is like ASEAN, where China is a major player, like India in SAFTA. Until one major economy integrates, other markets cannot reach that trade potential.”³⁰

A similar sentiment was expressed by another respondent who stated that,

*SAFTA was signed to offer each country tariff concessions for the promotion of regional as well as bilateral trade. However, effective trade liberalization could not be achieved due to tariff, non-tariff barriers, political hurdles, and lack of political will on the part of Pakistan and India, two main signatories of the Agreement.*³¹

A civil society representative from Karachi not only recognized the political conflict between India and Pakistan as a major hurdle in enhancing regional trade, but suggested alternatives.

²⁸ Gulbaz, Lahore.

²⁹ Sumera, Lahore.

³⁰ Alam, Islamabad

³¹ Imran, Islamabad

I feel that there is very intense political tension between the two large economies of the region, India and Pakistan. India's attitude has always been very hostile towards Pakistan and they both do not trust each other. The two countries have to realize the fact that in order to have sustainable and comprehensive regional economic cooperation, they need to show some flexibility in their way of behaving.³²

Political priorities or economic logic?

An overwhelming majority of the respondents, 77.1 percent, highlighted the political conflict between India and Pakistan. Most of the respondents were of the view that the two countries are the most influential in the region and always prioritize their political conflicts over the economic gains. Nevertheless, the respondents also perceived the many trade barriers of India and Pakistan, along with the political conflicts which were adding to the woes of slow integration. Visa restriction, non-tariff barriers, and religious barriers were some of the factors highlighted by the respondents. Even so, when asked to rank the hurdles to integration, they noted that political conflicts were most influential. Respondents considered such political conflicts between the two countries as the greatest hurdle which was preventing the whole region from integrating, progressing, and prospering.

Some respondents stated that political priorities overpower economic logic in trade negotiations. A government official not only considered this as a factor but also termed the politics between India and Pakistan as a tool that was being used to enhance or reduce trade. She was of the view, 'It is a wholly political game; it is especially true for India-Pakistan trade. The non-tariff barriers (NTBs) are very high between these two countries and this is all about the political negativism. If the country-India or Pakistan-does not want to trade in some goods, the NTBs on those products will be increased. The NTBs are so strong that even if there is a signed contract between importers and exporters, the political conflicts highlight these NTBs and trading of those products will be stopped.'³³

Many of the respondents highlighted, what in their view were the major issues that caused the political conflict and have led to its perpetuation. In this context, the Kashmir issue was highlighted by a number of respondents. A government official, for instance, was of the view that, 'the Indo-Pak political dispute is the major constraint which limits trade integration among nations. For example, the Kashmir issue and the war on terror affect economic collaboration between Pakistan and India.'³⁴ One media representative said:

The South Asian region is facing conflicts like the Kashmir issue. Thus trade cannot [be] enhanced until such issues are solved. Pakistan is interested in solving Kashmir before any trade can take place. Though some trade is taking place between India and Pakistan, but it is not going beyond onions and potatoes. India is not ready to give Pakistan access to its markets.³⁵

³²Naila, Karachi

³³ Amina, Rawalpindi

³⁴ Ambar, Lahore.

³⁵ Numan, Lahore

A media representative from Islamabad commented on the prioritization of the political conflict over economic gains thus:

The current issue of granting MFN status to India by Pakistan is an excellent example of how the governments in South Asia clubbed trade with politics. Pakistan denied expansion of trade with India for many years and always linked it with the resolution of the Kashmir conflict. On the same pattern, India denied trade rights to Sri Lanka due to the Sri Lankan government's tilt towards Pakistan. The reason is again the lack of awareness among the citizens in this region. The common person in South Asia doesn't know how he has been denied the right of choice, quality, and price while purchasing a good, due to restrictions on regional trade. How it [trade] can benefit consumers in terms of prices and availability of a variety of products. Hence, the politicians in the whole region are benefiting from low levels of [citizen] awareness and do politics on trade.³⁶

Another media person from Islamabad added, "There has been a mix of considerations. It is difficult to separate politics and trade relations among the members."³⁷

When respondents were asked about their perceptions on the steps required for the political leadership to enhance economic integration, most of them foregrounded the need to combat distrust. "Distrust is the major factor that is due to the long-awaited dispute between India and Pakistan...disputes like Kashmir and Siachen," said one respondent.³⁸ A representative of the business community said: "Core political issues are needed to be solved by the two countries to stop mistrusting each other."³⁹ Such perceptions of the business community highlight that distrust is seen as a creation of the political conflicts. A media representative from Lahore, while highlighting the results of distrust, was of the view, "Distrust is really a poisonous thing when it comes to mutual relations. States should work to dilute distrust. This would eventually develop amicable relations between the nations. Especially, the people of India and Pakistan consider any favor to the other country as surrender or disloyalty to their respective lands."⁴⁰

There was consensus on working towards peace. Bilateral trade to ease the relationship was accorded the second highest priority by the respondents of the survey in Pakistan. In general, the stakeholders felt that steps needed to be taken by the political leadership "to highlight peace dividends from enhanced regional economic cooperation in their actions". One respondent, for example, from civil society said, "Highlighting peace dividends in the form of economic and trade benefits will help in regional economic integration."⁴¹ An academic among the respondents suggested that furtherance of the peace dialogue was one of the most important steps that the political leadership should take to enhance regional trade and economic cooperation. He was of the view that: "Peace is the key to any understanding of 'the future'."⁴²

³⁶ Jawad, Islamabad

³⁷ Shafqat, Islamabad

³⁸ Zulqarnain, Karachi

³⁹ Kamran, Lahore

⁴⁰ Tahir, Lahore

⁴¹ Umar, Islamabad.

⁴² Wajahat, Islamabad.

Conclusion

The analysis of the perceptions of the stakeholders in the Pakistan about the current level of trade reveals that they are not particularly satisfied with either multilateral or regional arrangements that are in place. Even on bilateral trade, the stakeholders do not see the results as being very positive. They are especially dissatisfied with the current level of bilateral trade with India and feel that there is an urgent need to address both tariff and non-tariff barriers that India has imposed on Pakistani goods. However, there is a realistic understanding of the challenges that economic integration or even normalization of trade ties between the two hostile state, entails. While the stakeholders are critical of Indian policies, they do not absolve the Pakistani policymakers of all responsibility. They acknowledge that only when both states take the necessary steps towards resolving political difference and simultaneously improve trade ties, can the vision of regional integration of South Asia be realized, which will ultimately be decisive in bringing prosperity to the region. Therefore, peace is not one of the options in their view, but the only one if trade has to achieve its full potential in South Asia, especially for India and Pakistan.

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