

Commerce

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Barriers to Trade Between India and Pakistan

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ABSTRACT

India and Pakistan, the two largest economies in South Asia, share a common border, culture and history. Despite the benefits of proximity, the two neighbors have barely traded with each other. Normalizing economic and commercial ties has emerged as the most pertinent issue in India and Pakistan's bilateral relations.

The current paper looks at the large untapped trade potential between the two countries and aims to identify the bilateral trade possibilities and non-tariff barriers between India and Pakistan. The vast trade potential remains unrealized largely due to impediments in transport and transit facilities, a restrictive visa regime, the continuation of large informal trade flows, and the presence of nontariff barriers to trade between India and Pakistan.

The idea of trade facilitation is simple: implement measures to reduce the cost of trading across borders by improving infrastructure, institutions, services, policies, procedures, and market-oriented regulatory systems.

Introduction

India and Pakistan, the two largest economies in South Asia, share a common border, culture and history. Despite the benefits of proximity, the two neighbors have barely traded with each other. This paper aims to identify the bilateral trade possibilities and non-tariff barriers between India and Pakistan.

India and Pakistan should work together in eliminating barriers such as lack of transport infrastructure and procedural problems to boost bilateral trade. While recent tariff liberalization is giving a boost to trade between India and Pakistan, non-tariff barriers, especially deficiency in transport infrastructure and procedural opacity, are contributing significantly to the cost of doing cross-border trade..

The current volume of trade between India and Pakistan is found to be far below potential and both countries are foregoing huge welfare gains by not acting proactively to facilitate growth in bilateral trade.

India-Pakistan Bilateral Trade (Chart 1)



Data Source: International Trade Center & Ministry of Commerce and Industry (India), 2014

Historical Background of India Pakistan Trade

Following independence, India was Pakistan's largest trading partner. For almost two decades there was plenty of trade and cross border movement. The trade links ceased after the Indo-Pak conflict of 1965. After many years of muted trade relations, Pakistan opened up formal trade with India in the eighties by introducing a positive list of 46 items. The list kept on expanding over time and a significant increase in the positive list came in 2005-06. Around 2,000 items were on the positive list before the negative list was introduced. India granted Pakistan MFN status in 1996. Since then, India has been demanding a similar status from Pakistan. However, recently Pakistan did not grant that status to India owing mostly to strategic considerations but also due to pressure from the local industry.

Objectives

The current paper looks at the large untapped trade potential between the two countries. This paper aims to identify the bilateral trade possibilities and non-tariff barriers between India and Pakistan. The vast trade potential remains unrealized largely due to impediments in transport and transit facilities, a restrictive visa regime, the continuation of large informal trade flows, and the presence of nontariff barriers to trade between India and Pakistan.

Review of Literature

Ghuman (1986) Examined Indo-Pak trade relation with respective to different items of the exports and imports, and opined that the strengthening of the mutual cooperation could help in big way to ease tension between two countries.

Srinivasan, T. N. and Cananero, (1993) Analyzed the bilateral trade as being proportional to the product of GNP of the trading partners and inversely related to the distance between them.

Qamar 2005(SBP Research Bulletin) analysed that Pakistan can benefit from trade with India by not only tapping a huge Indian market for exports but also substituting expensive imports with cheaper Indian.

Nabi and , (2011) 2011(DPRC LUMS) investigated that liberalized trade with India can help Pakistan achieve high, sustainable and regionally balanced growth. They suggested that Pakistan and India set up a bilateral commission to redress NTBs, ease travel restrictions, launch more trade routes and proactively address the trust deficit on either side.

Naqvi (2009), analyzed that impediments to bilateral trade like NTBs, restrictive visa regimes, limited land and air routes must be resolved through dialogue and alongside granting India MFN status, Pakistan and India should also explore trade opportunities under a FTA.

Impediments to trade between India and Pakistan

Trade between Pakistan and India is limited by the many barriers that exist.

Positive List Approach

Pakistan currently allows only 1938 items to be imported from India. This restricts bilateral trade much below its potential. The positive list approach is in violation of both SAFTA and WTO norms.

Infrastructural Barriers and Regulations

The infrastructure on border is not well equipped to handle cross border trade . Lack of warehousing and storage facilities

along the border act as a major barrier. Manual data entry and antiquated custom procedures lead to delays in movement of cargo. Also, lack of proper testing facilities along the port tends to cause unnecessary delays. The transport infrastructure and regulations relating to them also act as major hindrances.

The existing customs infrastructure at the Wagah-Attari border is inadequate for handling trade between the two countries, even for the limited number of goods allowed to be traded through the land route.

Transport

One of the major reasons trade is hampered is the limited routes available for trade. This hinders both the movement of people as well as the movement of goods.

(a) Air Transport

Only 12 flights are operating between India and Pakistan per week. The flights operate between Karachi-Mumbai and Lahore-Delhi. There are no direct flights between the capital cities of Islamabad and New Delhi. Number of promises has been made to increase the number of flights; however, no significant change has been witnessed so far.

(b) Rail

Rail link between the two countries is the most viable option for enhanced trading activity. After the 1965 war all rail links were shut. Khokrapar-Munabao rail route, which links Karachi with Mumbai, the two largest cities on both sides, remains un-operational. The rail link between Lahore and Amritsar is operational under an agreed mechanism but remains undependable and insufficient.

There are certain factors which hamper the use of trade through the rail route- like availability of wagons, requirement of wagon balancing, non containerized rail wagons, and inadequate handling capacity at Lahore and insufficient infrastructure facilities at the rail cargo station.

(c) Sea Route

Karachi-Mumbai sea route is the most common formal trade route between India and Pakistan. For the sea route, there is a reciprocal requirement that the cargo ships touch a third-country port before bringing in the goods.

(d) Road

Currently, trade is only allowed through Wagah-Attari land route. There are other road links between Pakistan and India that are not used. Lahore-Patti road (Barki road) and Kasur-Firozpur roads are two other road links that can be opened for trade. Sahiwal/Pakpattan road link with Fazilka is the third possible land route that connects south of Indian Punjab with population centers of Pakistani Punjab.

Visa

Visa regime applied by both countries is the greatest restriction. The visa process takes a long time and does not have a transparent evaluation procedure for applications. In addition, the visa issued is generally a single-entry city-specific travel, visa with police reporting requirements. However, recently both countries have started issuing multiple entry business visas.

A restrictive visa regime discourages business interaction among industries and traders and hampers trade activity.

Communication links

A concerted effort needs to be made to create multilevel channels of communication. A comprehensive web portal that keeps track of the latest developments in trade policy and allows traders from India and Pakistan to contact each other could solve the problem.

Currently cross border communication is severely constrained by the absence of essential cellular facilities and courier services between India and Pakistan.

Banking

The current payment system is formalized through Asian Clearing Union (ACU) which is inefficient because the payments are often delayed. The two countries need to expedite opening up of scheduled bank branches in each other countries which would promote financial efficiency, facilitate trade and promote further economic interactions.

Trade in Services

Services trade can indirectly facilitate merchandise trade through cooperation on transport, logistics, telecommunication and other infrastructural services by fostering people to people ties.

Opportunities exist for expanding trade and investment relations in services such as IT- BPO, tourism, health, energy and other business services.

Investments

Some measures to encourage bilateral investments are faster clearances and approval procedures in general, fast track procedures, regular and updated information on opportunities, the regulatory framework for investment, bidding processes and award of contracts, targeting Indian investors of Pakistani origin, greater investment by the Indian government to build investor confidence and setting up common SEZs at the borders.

Informal Trade

India-Pakistan trade takes place through two channels - the official channel which is quite meagre and the informal channel which includes trade via third country. However, the size of informal trade underlines the potential of bilateral trade between the two countries. It is estimated that the current unofficial trade is more than USD 10 billion. Direct trade would also ensure cheaper raw material lower transportation cost and wider markets for the businessmen who would be enjoying the advantage of geographical proximity.

Table 1
Reduction in Cost if imported from India

Sector	Pakistan's Cost Reduction if Imported from India (in per cent)
Steel	55
Transport Equipment	26
Engineering goods	15
Bicycles	20
Pharmaceuticals	35
Fruits & Vegetables	40
Sugar	30

Source: FICCI Survey (2009)

These impediments appear to have had a major impact on the volume of trade between the two countries. Fortunately, some steps have recently been taken. The countries have reached a bilateral agreement to expedite customs clearance on accepting each other's certification of goods. There are ongoing discussions on a visa protocol to facilitate more frequent by business persons.

Conclusion

Improving economic ties through trade may help resolve the larger political issues that have bedeviled India-Pakistan overall relations for over 60 years. Constraints on economic integration include high tariff and non tariff barriers, inadequate infrastructure, bureaucratic inertia, excessive red tape and direct political opposition.

Recommendations

The trade normalization process is expected to unleash huge trade opportunities for India and Pakistan. However, for this trade to be realized, several measures need to be undertaken. Two concrete steps that have been taken since the commerce secretary-level talks are the phasing in of MFN and the setting up of modern infrastructure facilities at the Attari/Wagah border on the Indian side. If infrastructure is not upgraded on the Pakistani side, the full benefits of improved infrastructure cannot be reaped. Other measures that need to be taken to increase trade on the road route include removing restrictions on truck type, and permitting Indian and Pakistani trucks to move freely on each other's territory so that there is no need for transshipment at the border.

Finally, India and Pakistan are trying to address the non-tariff barriers. Some of the measures that can be taken include improving infrastructure for testing facilities, simplifying procedures, and entering into equivalence agreements and mutual recognition agreements

Creating multilevel channels of communication can reduce misconceptions, bridge the information gap, and generate a significant change in the business environment of the two countries.

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