Pakistan - India: on the path towards trade liberalization

A breach of the ceasefire in 2013 on the Line of Control (LoC) has caused a recent sharp cooling in the Pakistani-Indian relations. An informal meeting of the two leaders - Prime Minister of Pakistan Mian Muhammad Nawaz Sharif and Indian Prime Minister Manmohan Singh - on the sidelines of the 68th Session of the UN General Assembly in September 2013, has budged the countries to resume dialogue.

Looking ahead, we should note that a special feature of the present stage of bilateral relations is holding informal meetings at various levels during international forums. Many analysts believe that keeping contacts at a low profile is due to a desire to avoid, first, mutual obligations, and second, the potential criticism of “flirting with the neighbour” on the part of the political opposition in their respective countries.

In December 2013, the settlement of the frontier problem by representatives of the border troops of the both countries, i.e., the restoration of the ceasefire on the LoC, provided an opportunity to discuss another significant issue for the parties – the commercial issue. On January 1, 2014, the parties traditionally, according to official documents, exchanged lists of their respective nuclear installations and facilities, as well as lists of prisoners held in prisons in both countries.

Due to well-known reasons, unsettled commercial matters adversely affected the business activities in the countries in 2013, primarily in the neighbouring Pakistani province of Punjab and the Indian state of Punjab.

In 2012, during the period of active dialogue, the trade volume reached $2.5 billion, and the parties planned to increase this to $4 billion in the fiscal year 2013-2014. It was predicted (according to Pakistani press materials) that this would help increase the GDP by 1.5%, create about 169,000 jobs over three years, reduce inflationary pressures in the country, etc. Cooling of bilateral relations in 2013 also caused a decline in commercial relations, many joint investment and economic projects were postponed.

One of the long-awaited projects, i.e., granting the status of the most favoured nation (MFN status) to India by Pakistan also remained unresolved. By the way, New Delhi granted MFN status to Islamabad in 1996. Pakistani officials, who often spoke about it in 2012, kept silent about this project in 2013, despite their commitments to the International Monetary Fund.

The resumption of dialogue was prompted by commercial interests of business communities in both countries. Prime Minister of Pakistan Nawaz Sharif had several objectives – to demonstrate the potential of his ruling party, the Pakistan Muslim League (PML) for the normalization of relations with New Delhi (it came to power in May 2013, and its main electorate is the population of Punjab).

However, the political opposition in the country (in both the former ruling Pakistan People’s Party, and the ruling PML) has rejected and still rejects significant concessions or trade liberalization in respect of India. Pakistani parliamentarians tied trade dialogue with India with the water issues. Back in March 2012, at a hearing in the
National Assembly (lower house of parliament), they emphasized that “…in principle, we are not against the expansion of our trade relations with India. However, before the conclusion of an agreement on trade, we should bear in mind that if India starts the construction of dams, despite the Water Treaty involving rivers in occupied Kashmir, which flow into Pakistan, this will create problems for agriculture in Pakistan in the future. Beginning of a crisis in agriculture will create production problems, and our trade can become a hostage to Indian terms. Thus, India can blackmail Pakistan on trade issues”.

In November 2013, already under the new administration, the National Assembly’s (NA) Standing Committee for Food Security & Research declined granting MFN status, stressing that “… the policy of normalizing relations does not exclude the protection of trading positions by each side.”

Nevertheless, in fairness, it should be emphasized that, for example, the World Trade Organization has repeatedly requested Pakistan to improve the quality of products (primarily agricultural – rice, wheat) according to the international standards. This requires time, expenses, expert examinations, etc.

In December 2013, the flame was fueled by a report that the International Court of Arbitration (ICA) had allowed India to construct the Kishanganga Hydroelectric Project with a capacity of 330 MW, despite the protests of Islamabad. The operative part of the resolution states that India “cannot take the water on a very low level in the dam”, and thus leave Pakistan without the resource. Islamabad has always protested against the construction of the dam, stressing that this way New Delhi has obtained a mechanism for manipulating agricultural products of the neighbouring country. Islamabad was critical of the decision made by the ICA.

In January 2014, representatives of Pakistan and India came to the negotiating table again at the level of Ministers of State for Commerce and Textiles within the 5th Saarc Business Leaders Conclave in New Delhi. The previous round was held in September 2012.

The theme of trade cooperation between Islamabad and New Delhi was given a new impetus. Pakistan has stuck to its principles and, in order to avoid possible criticism and questions, the parties have agreed on the wording of “Non-Discriminatory Market Access” for two countries, instead of the “most favoured nation” status. This, according to the Pakistani side, has a lower political importance, compared with granting of MFN status, but, at the same time, it stimulates the growth of trade. Providing a non-discriminatory access to the Pakistani market for Indian companies, according to Islamabad, is an indirect and informal way of granting MFN status to India. In practice, this means that a reduced rate (up to 30%) will not be provided to a significant number of goods, which fact was confirmed by the parties on February 16, 2012 at a joint press conference of Trade Ministers in Islamabad. The Cabinet, headed by Nawaz Sharif, expects to return to the issue of the most favoured nation status after the general elections in India, scheduled for April 2014.

The Trade Ministers reaffirmed their intentions to liberalize visa policies for entrepreneurs; agreed to maintain a non-stop day and night movement of trucks and containers through Wagah-Attari, the main checkpoint on the Pakistan-India border. Previously, trade was permitted during a limited time period – eight to ten hours, and only during daytime. The Central Bank of Pakistan proposed to the Central Bank of India to issue licenses to conduct banking operations to three Pakistani banks. The agenda also includes the formation of working groups for Customs Cooperation, railways, banking, energy, etc.

We should recall that the main exports of Pakistan to India are the following: fresh fruit, cotton cloth, cement, copper, gypsum, cast iron and steel scrap, medical equipment, leather and skins, chemical products, etc.

Pakistani-Indian commercial arrangements of January 2014 only emphasize that the parties have returned to the state of trade affairs of 2012, and have begun to develop a mechanism for the gradual removal of tariff barriers. Despite persistent calls of business communities, of both Pakistan and India, to liberalize trade policies, the leading politicians of the both countries are not hurrying to resolve this issue. Its implementation requires political courage from the leaders of both countries. However, if the parties do not take steps towards each other in the near future, this question may be delayed for many years. The refusal of IMF to provide money, for example a loan, may be an additional incentive or pressure on Pakistan to decide the issue of granting India MFN status (such events have been confirmed in practice).

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