



Pakistan and India Trade Potential

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Abstract *South Asian region could not achieve prosperity and growth until Pakistan and India work together for the development of trade relations. Their cordial trade links would open the gate of opportunities for all. This is only possible if rivalry is removed and supportive environment for trade is introduced. This article is addressing the question whether there is any potential for trade between Pakistan and India or not? An affirmative answer to this question encourages both giants to divert their productive energies towards economic interdependence and regional uplift. Pakistan and India have the potential of trade, though trade has both characters of competitiveness and complementarity while both can lead to prosperous trade relations if sincerely pursued. Competitiveness would result in efficiency of industries and production while complementarity, especially, the emerging one would prove to be an impressive instrument of development and widening of relations.*

Introduction

Pakistan and Indian economies since long are considered to be the prime hub of trading activities. The land of Pakistan and India before partition was a link for the markets of surrounding regions and a source of spread of commerce in South Asia. Even contemporarily, there exists a great potential in economies of Pakistan and India for bilateral trade relations. This part of the land is essential for the growth and development of South Asian region because both economies have enormous chances for expansion of trade. But currently, trade relations are not carried out

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according to the actual capacities that economies are having. Pakistan and India trade could rise up to \$ 10 billion with a proper trade environment both micro and macro (Jamwal, 2016; Khan, 2009). According to Pakistan's Commerce Secretary, Suleman Ghani, if both states pursue dialogue process, there is great margin for trade development between them (Khan, 2009). Once trade is legalized the informal trade amounting \$ 2 billion (Iqbal & Tabish, 2012) could be incorporated in the formal trade.

Many analysts have expressed their opinions about the potentiality of trade between Pakistan and India and have done their own calculations about the trade opportunities.

According to Ahmad, I (interview, 2014) there exists complementarity and competitiveness both among them. The scope for trade between them is huge and trade officials and business people from each side need to identify areas where each side can make the best of existing complementarities.

Ghauri (interview, 2015) highlighted that Pakistan and India are in the same region and produce almost same kind of commodities. They must trade but very carefully. The nature of their trade is both competitive and at the same time complimentary as well. There is no doubt about it that trade will be beneficial as theory of gravity believes that trade with neighbor is always good. It is particularly beneficial for developing countries as they mainly produce and trade in raw material. At international level, they face tough competition and protection. So it is in favor of developing countries to engage themselves in regional trade.

Baroncelli (2007) argue that Pakistan and India must become a vigorous actor in regional trade bodies, i.e. SAFTA. Both can potentially enhance trade by 79 %. Improved cooperation would result in accommodating security and trade policies. It would become possible to incorporate 'informal' in 'formal trade activities', increasing overall trade potential.

The State Bank of Pakistan (2006) estimated for the year 2004, the potential trade level as \$ 5.2 billion. According to the State bank, there are great chances of comparative advantage in products of both states to be traded. Low level of transportation costs gives boost to the trade between the two.

In addition, Batra (2004) has estimated a potential trade volume of \$6.6 billion annually. The FICCI (2003) has an estimated trade potential of around \$6-8 billion. Gul (2009) predicts that trade could boost to 10 times comparative to the present trade.

Pasha (Interview, 2015) said:

Pakistan has a natural advantage in some Indian belts like western states of India. i.e. Uttar Pradesh, Maharashtra, Himachal, CP, Indian Punjab, Rajasthan, UP, etc. India is too huge a state, if western regions of India imports from Pakistan, it's relatively cheap for her than importing from

other parts of India. Trade-in finished goods is not common on both sides though there is vast potential for it.

Different estimations by various studies suggest that trade between Pakistan and India range from \$ 3 billion to \$10 billion. Pakistan and India, being strong economies of the region are hardly exploiting two-third to one quarter (Gul, 2009) of the total trade potential. The present level of commercial cooperation is very limited. Pakistan and India trading more outside the region where they face restrictions from developed states. They should focus on bilateral and regional trade primarily and develop comparative advantages.

Moreover, internal developments in each states creating domestic public pressure to establish collaborative trade relations between Pakistan and India (Ahmad & Das, 1998). In general masses, there is growing awareness that war brings destruction while cooperation results in prosperity. In addition, business lobbies' support efforts for economic links rather than military or political conflicts (Ahmad & Das, 1998).

Nature of Formal Trade between Pakistan and India

The nature of the economy of Subcontinent is an agricultural one since beginning. After independence, Pakistan and India economies pursued the regional trend of specialization in agriculture production. The main focus of economies was on cultivation and farming until the development of industrialization in the region.

Initially, both economies were complementary in nature but the political conflicts created competition between them (Chengappa, n.d). Pakistan soon after independence worked to develop cotton textile, sugar, and leather industry excluding the option of trade with the neighboring state of India. Likewise, India also increased jute and raw cotton production. Both states started facing each other in international markets for their products.

This inward-looking economic policy of Pakistan and India which started shortly after division of sub-continent continued till beginning of 1990s (Naqvi, 2009). Indian economy was influenced by socialist ideas of protectionism and nationalization. This was the time when state used to decide about economic policies rather than market. On the other hand, Pakistan's inward-looking policies affected the international competitiveness of her economy. The loss of East Pakistan in 1971 aggravated the economic crisis. In this era Pakistan focused on nationalization of companies that resulted in capital flight from the state. The inward-looking policy was harming both economies extensively. Instead of looking towards each other, they were protecting themselves from bilateral trade.

Pakistan and India introduced liberal economic rules by encouraging international trade in the 1980s & 1990s. These reforms improved the economic performance of both economies. But unfortunately besides such reforms Pakistan

India trade has remained very much managed. The limited number of goods traded between the two states with nearly no trade in services (Naqvi, 2009).

In 2004 -2005, when both states started a discourse on political and economic issues, the trade of commodities between Pakistan and India moved to diversification. Pakistan's exports to India in which India gained were cotton, sugar, wool, herbs, oil, salt, surgical instruments, etc. while India's exports to Pakistan in which Pakistan gained were vegetable seeds, iron ore, black tea, Unani herbs, polypropylene, etc. (Ghuman & Madaan, 2006).

There are almost 2646 common products that Pakistan usually importing that India exports to other states (value \$15 billion) and there are 1181 items that India imports and Pakistan exports worth \$3.9 billion (Khalid, n.d). According to Hussain (2012), both can get commodities at lower price from each other than getting from other states. Pakistan has to compare the quality of imports from India with outside sources of supply to her economy and if Indian items are profitable they must export and import goods with one another (Khalid, n.d).

To keep the environment ideal for further development, Pakistan replaced the positive list of 1946 goods with negative list of limited commodities. At present Pakistan's negative list is comprised of only 1209 items (out of 8000 items) and the rest 6800 is permitted for trade (Sardar, 2013). According to the Zaidi (2015) Pakistan India trade is mainly taking place in food-related items instead of manufactured or intermediate goods. Opening of trade would benefit the consumers to provide items at lower prices and cheap access of raw material to the industrial units and manufacturers.

Nature of Informal Trade

Pakistan- India trade contacts can be divided into three main categories. 1. Formal trade or legal trade; means a recognized system of imports and exports through sea, air and land routes. 2. Circular or informal trade is one where trade exchanges performed through third country (e.g. Singapore or Dubai). There are agents who facilitate such trade and re-export those items to destined land. 3. Thus last category is black or illegal trade carried out through porous land borders. Unfortunately the total value of informal and illegal trade is 10 times the size of formal trade (Malhotra, 2009). There is no authentic source of estimate of informal trade but different studies have given a range of volume varying from \$250 million to \$2.0 billion annually (Taneja, 2004; Sangani & Schaffer, 2003; Kanth, 2002). The reason for huge informal trade is the absence of proper formal trade between Pakistan and India and the interest of business classes in trade with each other. Informal trade is indicative of trade opportunities and potential between them (Malhotra, 2009). It also manifests existence of trade complementarity.

The products usually traded informally includes, machinery, medicines, tyres, alcoholic beverages, chemical items (Taneja, 2006), spices, pharmaceuticals,

jewelry, and betel leaves, from India into Pakistan (Naqvi, 2009). Former President of KCCI, Siraj Kaism Teli said that more than 600 million value of cattle animals approaches Pakistan every year through border (Kaleem, 2012). According Saleem (2008), Indian clothes, cosmetics, and eatables are conveniently available in different place in Pakistan such as Shahalmi market of Lahore. On contrary, informal imports from Pakistan into India is mainly comprised of textiles and agricultural goods (Naqvi, 2009). As far as the illegal trade in salt and rice is concerned that is uncontrolled (Saleem, 2008) and both exchange their basmati rice with another. But legally they don't trade in these commodities because of lack of proper institutional arrangements (Ahmad, I, interview, 2014). The actual losers are traders on both sides of border and governments. There is another negative aspect of informal trade that commodities traded informally are not checked for threat to health (Ahmed et al., 2014). As they approach illegally, so health and protection rules and standards are not applied.

Pakistan and India Trade is Competitive or Complementary?

Whenever a discussion of Pakistan and India trade initiates, there a question arises whether trade between them is competitive or complementary? The overwhelming benefits of bilateral trade support the liberal school of thought to favor trade among them. As far as competitiveness is concerned, every region has more or less the same features and states in that specific part produce almost similar products. The same is true for Pakistan and India. But interestingly, despite similarity in exports and imports of Pakistan and India, according to Mirza (1988) yet there is a wide spectrum of commodities which Pakistan and India can exchange under their trading affair.

Pakistan and India trade with each other in times of crisis (i.e. food shortages etc.) shows that there prevails complementarity (Ahmar, interview, 2014) while Ghauri (interview, 2015) adds that new complementarities are emerging between the two. Sridharan (2000) is less optimistic about the success of trade in commodities but sees real opportunities in energy trade. He says 'the real potential for economic cooperation today is in energy, for example, a gas pipeline and the export of electricity...' (Sridharan, 2000, p.89). Some latest studies on the region of South Asia highlights greater trade complementarities in the service sector (Wickramasinghe, 2001).

Potential Areas of Collaboration between Pakistan and India

Pakistan and India, both are developing economies. To improve economic wellbeing, they must utilize the untapped potentials. Lack of uninterrupted trade deprives the masses of economic benefits and creates sense of regrets for unexploited potentials of economy. Pakistan and Indian industries have the

capacity to meet the demands of large South Asia market demands, if hurdles are removed, unused and surplus potentials could be made use of (Khan, A. A, 1997). Potential Trade Approach is used to reach the conclusion of possibilities of trade between Pakistan and India. According to this approach, those products can be added into the category of potential items fulfilling these two conditions, 1) having sufficient demand in the importing states, 2) and having sufficient capacity in the source states for supply (Taneja, 2007). Pakistan and India are potential markets for each other goods and services. Bilateral trade would ensure and unleash economic benefits and ultimately lasting peace dividend for both. For the true advantages and benefits of trade, India should play a fair part and alleviate insecurities from the minds of counterpart “Pakistan” that there are no plans of hegemonic role by her (Ahmed & Das, 1998) and as good indicator eliminating trade hurdles. The use of idle resources would have higher profits and lesser costs because of shared borders.

Some of the potential sectors which can participate prominently and urgently in the development of Pakistan and the Indian economy in 21st century are briefly highlighted.

a) Services Sectors

The services sector is considered as an important and potential driver for trade between Pakistan and India. Services cooperation if become possible, it would prove potentially great for intra firm trade for both economies. Services sectors cooperation could be in health, tourism, entertainment, consultancy services, civil construction work and other projects and especially in IT (information technology). Pakistan and India can share their manpower, experts /technically skilled labor and technologies to execute projects and plans in service sectors. IT sector has become an important area for the development of economies worldwide. In South Asia, IT sector in India has made spectacular progress. Multinational companies are attracted to Indian IT sector progress and have research and development centers in India.

While the Pakistan IT industry is in the initial stages of growth and could not catch the race. Indian companies such as Wipro, Infosys, Tech Mahindra, and HCL etc. are known all around the world but contrarily, in Pakistan there are not many home develop IT companies. Pakistan is facing issues like absence of IT infrastructure and management skills. According to Taneja (2005) there can be joint projects in this sector where Pakistan’s skilled professionals can participate in a more fruitful manner with the Indian counterparts and would maintain the labor cost advantage for India because Indian IT professional’s wages are increasing day by day.

b) Energy sector

Energy is another area of possible collaboration. There is immense potential for cooperation in the energy sector. India's growing economy at the rate of 9 % demand for more energy resources. For the achievements of her economic goals, India would depend on the nearest energy abundant areas such as Gulf and Central Asia. As Pakistan also needs natural gas for domestic needs, it would be an ideal option to construct a joint pipeline for supply of gas to Pakistan and India instead of separate pipelines.

Pakistan's role in the energy sector is not as a supplier itself rather a potential transit route for Indian energy demand from Iran and Central Asia. It is estimated that Pakistan would gain 50 cents per million cubic feet of gas per day (mmcf) or \$ 600 million per year (The Express Tribune, 2012) in transit fees from India. India would gain from diversified sources of pipeline gas as well as less dependence on more costly liquid natural gas (Sangani & Schaffer 2003).

Electricity trade is another potential area concerning trade in energy. Pakistani consumers could benefit potentially by the liberalized trade in power, as the viable, abundant and cost-effective trade of power supply would counter the prevailing energy crisis faced by the users in Pakistan. "The Joint Working Group on electricity is working on the modalities for opening up electricity trade between India and Pakistan" (Mehdudia, 2012). There must be enhanced collaboration for water management and hydropower schemes also. It will assist in water management, and lessening threats of floods. Saved resources would make both states to establish an inter-country electric grid system for the supply of electricity. Cooperation in energy sector between Pakistan and India would have a stabilizing impact on the South Asian region as a whole (Ahmar, interview, 2014).

c) Automobiles

Pakistan automobile industry is comprised of those units involved in the manufacturing and assembling of light commercial and passenger vehicles, motorcycles, buses and trucks (Ravi Magazine, 2015). The market composition of automobile industry is concentrated (Ravi Magazine, 2015). Some of the main automobile companies in Pakistan are Honda Atlas, Suzuki Motors, Nissan Ltd, and Hino- Pak Motors, etc.

Pakistan automobile industry is functioning under the agreements of the franchise and technical cooperation with world's level top producers of vehicles (Hussain, n.d). Auto manufacturing units are dependent on the imports of inputs (mainly spare parts) from abroad for the production. Although there are many units of automobile production and assembling this sector has not achieved great success. The reasons vary such as ongoing issues of energy crisis, lack of research, abrupt policy changes by government, heavy taxes on this sector

by the government as well as disturbed economic conditions, etc. creating problems for this industry and in turn, consumers are suffering. It leads to fear by existing companies of new entrants in the market as a threat for them.

On the other hand, India has a developed automobile industry (Hussain, n.d) and heavily exporting cars (compact) to Europe. The Indian automobile industry has a high scale production because of good engineering base, cheap labor costs, low priced materials making it highly cost-competitive. Indian automobiles Big companies like Tata, Hyundai, etc. making cheapest cars in the region. Pakistan can cheaply import automotive parts. In the automobile imports in Pakistan, Japan has the largest share though it's a costly business for Pakistan (ICRIER, 2014).

Pakistan and India have different comparative advantage in the manufacturing of automobile products, their joint ventures would enhance demand and supply in this sector (Pasha, interview, 2015) additionally expanding employment opportunities. In addition to economic benefits, this sector can play a role for peace between them as the automobile sector did in case of USA, Mexico, and Canada.

d) Other Emerging Potential Areas

There are substantial potential if Pakistan and India further cooperation especially in the sectors where there exist commonalities for mutual benefits for them (Price, 2012). Some other sectors where chances of trade expansion between Pakistan and India exist are;

- Tourism is an area of possible cooperation. Free movement of tourists would increase the contact of masses and reciprocally removing the wave of misperceptions existing between people on both sides of border. The historic belonging and similarity of cultural values support this sector to impressively flourish (Pasha, interview, 2015). Efforts for joint work in field of tourism would boost this industry, particularly in Himalayan and coastal region. Likewise religious and historic heritage also have great chances for expansion of tourism. Both sides, for this beneficial task, have to smoothen visa processes and support tourists by liberalizing traveling rules and regulations.
- God has blessed this region with natural complementarities e.g. Mango in India is from Feb to Mid-May while in Pakistan, it is available from May to August and in the same manner, Citrus in India is from September to December while it's in Pakistan from December to March. It shows that this area can enjoy these for such a long time. These are seasonal complementarities between Pakistan and India (Pasha, 2015). Moreover, Indian tea is much cheaper than tea from Kenya. People have got awareness that why not to import tea from near and less expensive source than far off expensive one.

According to Lama (Interview, 2014);

They conducted a survey in 1997 and results showed that Pakistan is the largest importer of tea and by not importing tea from India; Pakistan is losing \$110 million every year.

As South Asia's traditional plantation is the tea crop. If Pakistan and India jointly work and develop tea centers in Karachi, it would easily divert import of tea from abroad to India. Though time has already changed and 10-20 percent of Kenya tea import to Pakistan is taken by Indian tea. And Pakistan market is inclining towards Indian tea (Pasha, interview, 2015).

- Cement industry also offers huge potential for collaboration. India is a good market for Pakistan's types of cement. Cement if sold at not a very attractive price, still, they can earn because Pakistan's cement is one of the cheapest cement of the region and raw material quality is good i.e. Gypsum, clinker, and limestone. Furthermore, cement production capacity of Pakistan is having surplus of around 8 million tons (Khan, interview, 2015) which can be easily exported to India.

Conclusion

It is extracted from the above discussion that though there are some areas where Pakistan and India compete with each other in the international market but more importantly they complement in so many areas too. Needs of one state and supply capacity of others could produce high-quality goods at less cost. These complementarities would help both Pakistan and India to free themselves from the dependency of developed states.

The concept 'not to trade' with each other has proven wrong with time. Both states have to open doors of their economies as a compromise by one partner won't produce expected results. Transformation in thinking is taking place because of ground realities in economic terms. Enhanced cooperation would integrate them, increasing investment inflow, and opening doors for joint ventures. This region is blessed with human resource, agricultural land, great civilization, and enormous mineral resources. If properly utilized can make the region of South Asia a vibrant part on the globe.

Those who oppose Pakistan - India trade because of dumping issue, it must be recalled that there are WTO rules available against such tactics. It must not be forgotten that those industries unable to face competition are a burden on poor states economy. Such industries also blackmail the government for favors, especially in taxation and rules related matters. Trade would curtail monopolistic approach and making right use of resources.

There is a need to understand and convince each other that it's not always the case with commodities to target other market and dump it. A commodity can be harming even with fair price because of its comparative advantage. In that case, there should be some mechanism to check import of that item with full understanding. In case of Pakistan and India, both must move step by step so not to harm market structure of each other.

Geography has served only the interest of enmity and hatred between Pakistan and India till now. In reality, proximity is a positive feature and being next-door neighbor they can take benefit from potential items to trade. Trade needs to be made free of tariff and non-tariff barriers for free flow of goods and services. With time more and more complementarities would develop and competition would result in development, controlling the insanity of warmongers.

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