

Expanding India-Pakistan Trade

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Introduction

- ▶ Main premise: increased trade between India and Pakistan can help improve overall relations.
- ▶ April 2005 - major breakthrough in trade relations at Musharraf-Singh meeting in New Delhi.
- ▶ Mumbai terrorist attacks in November 2008 – serious setback.
- ▶ 2011: Meetings of Ministers and Secretaries of Commerce. New opportunity?

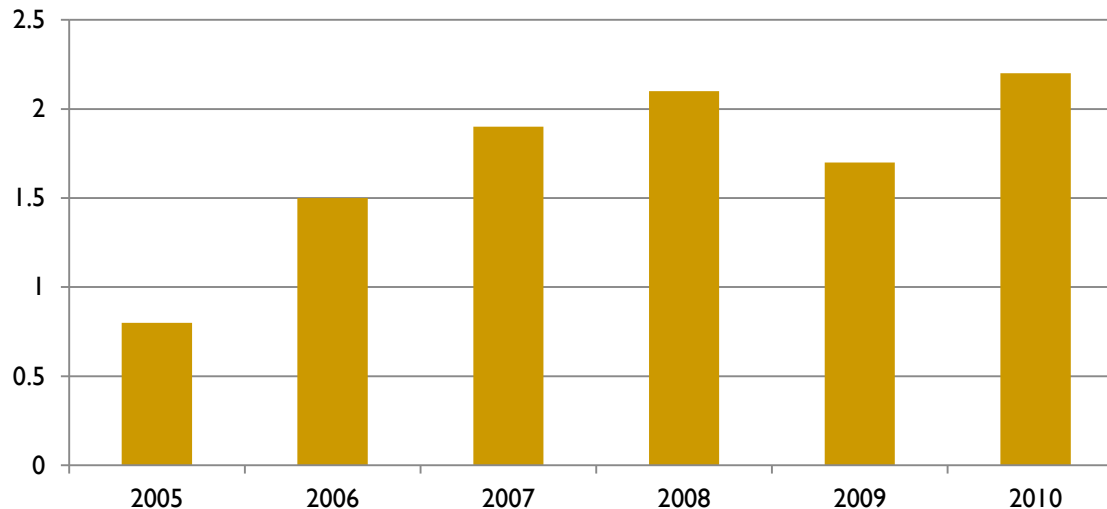
Structure of Presentation

- ▶ Current initiatives.
- ▶ Potential for increased bilateral trade.
- ▶ Strategy for overcoming trade barriers.

Current Trade Between India and Pakistan

- ▶ Both countries are members of the SAFTA.
 - ▶ But trade between them is unnaturally small.
- ▶ India and Pakistan trade in 2005-2010.

India-Pakistan bilateral trade



Current Initiatives

Opening of talks in 2011

- ▶ Meetings of Secretaries of Commerce (April, November).
- ▶ Meeting of Ministers of Commerce, Mumbai (September)
- ▶ Meeting of Prime Ministers, Maldives (November).

Results of Meetings

- ▶ Formation of joint working groups.
- ▶ MFN for India approved by Pakistan cabinet, November 2, 2011.

Gravity Model Estimates

- ▶ Previous studies.
- ▶ PIIIE gravity model.
- ▶ Estimates of PIIIE gravity model.

Potential India-Pakistan Trade

Actual to potential (APT) trade ratios for India and Pakistan based on gravity model estimates.

- ▶ Absolute lowest APT ratios of the two countries are for their trade with one another.
 - ▶ India's exports to Pakistan: 0.02 – 0.05
 - ▶ Pakistan's exports to India: 0.01 – 0.02
- ▶ Potential trade over 20 times current trade.

Strategy for Increasing Trade

Build public support for trade liberalization

Focus on bilateral measures

Executive orders not new legislation

Reduce barriers and achieve regional integration in two phases

Short-term measures

Medium-term measures

Constraints on Trade

Transportation

Transit

Standards

Visas

Customs
procedures

Subsidies

Financial barriers

Complaint/dispute
settlement



First Phase: Short-term Measures

MFN

Ease visa requirements and business travel restrictions

Facilitate sea shipments

Increase rail traffic

Open additional border crossings and bus routes

Increase air links

Increase customs posts

Allow cross-border banking operations

Second Phase: Medium-term Measures

India

- ▶ Allow transit trade to Bangladesh and Nepal from Pakistan.
- ▶ Lower/remove tariffs and reduce nontariff barriers on goods of particular interest to Pakistan such as textiles, agriculture, leather, and onyx .

Pakistan

- ▶ Allow transit trade to Afghanistan and Central Asia from India.
- ▶ Reduce items on negative list applied to Indian imports.

Second Phase: Medium-term Measures for both countries to implement

- ▶ SAFTA implementation alone would not significantly improve economic integration between the countries.

Improve and harmonize infrastructure

Facilitate energy trade

Allow trade in IT and other services

Harmonize customs procedures

Ease obstacles to FDI flows

Conclusion

- ▶ Governments in both countries looking for opportunities to improve economic ties.
- ▶ Measures outlined are strongly supported by businessmen, but need critical constituency support in both countries.
- ▶ Success of “confidence building” short-term measures and resulting growth in trade would lend support to far-reaching trade liberalization.
- ▶ First initial steps in improving overall relations between two neighbors.