# Trade with India in Pakistan's interest

By

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The issue of granting MFN status to India by Pakistan under the WTO provisions had been in the limelight lately. Despite India's granting of MFN status to Pakistan in trade since 1995-96 the latter has not reciprocated likewise. The question that arises in this context is whether the principle of reciprocity is so fundamental to trade under the multilateral trade regime that not granting MFN status to India will amount to a violation of WTO Agreements by Pakistan. Another question that needs due consideration is whether granting MFN status to India lies in Pakistan's economic interests.

If we examine the preamble to the General Agreement on Tariffs and Trade (GATT) it hints at the fundamental principle of reciprocity in trade; the Contracting Parties have declared their desire to contribute to the Agreement's objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce. Government of Pakistan being among the first group of Contracting Parties to GATT 1947 is expected to respect the same and adhere to it in letter and spirit by granting MFN status to India.

Moreover, under Art. I of General Agreement on Tariffs and Trade 1994 (GATT), all WTO members are bound to grant Most favoured Nation (MFN) treatment to all the other members with respect to trade in goods. This makes it mandatory upon Pakistan to grant MFN status to India, as the non-compliance constitutes a violation of the WTO Agreement. Though, if Pakistan is still waiting to respond when India takes the MFN matter to Geneva, then it seems to be mistaken, as chances are that the decision would most likely be against the former. Additionally, it would not only be a cause of serious embarrassment for Pakistan but would also work to tilt the global opinion in favour of India's trade policies.

No doubt, GATT itself provides certain general and security exceptions to MFN treatment, but Pakistan seems to be in no position to avail them right away. For instance, Pakistan could have used a security exception under Art. XXI of GATT 1994 for the protection of its essential security interests taken in the time of war or other emergency in international relations. But, for that Pakistan has to show a serious continuous threat of armed conflict existing between the two countries. However, keeping in picture the present normalization of bilateral relations and a drift towards confidence building measures (CBM) gives no room to Pakistan to claim that security exception.

Studies reveal that active bilateral trade is likely to result in a win-win situation for both neighbouring countries. It is strongly believed that Pakistan will improve its industrial productivity and competitiveness by granting MFN status to India. Unfortunately, the history of trade relations between the two countries has been disappointing. Immediately after independence, India was Pakistan's most important trading partner. In 1948-49, 56% of Pakistan's exports were to India and 32 % of its imports came from India. However, trade reduced to a trickle by 1950 and has never looked up since then. Pakistan had been keeping a negative list and originally permitted only '573' importable items from India. Under second round of South Asia Preferential Trade Agreement (SAPTA) negotiations this list was increased to '601' items expanding it to 615 items under 1997-98 trade policy. Under the present trade policy 678 items come under permissible imports from India. Pakistan government has cleared 78 items for tariff concessions to India under SAPTA as a CBM. Although the new expanded list of importable items includes several important items like milk powder, unsweetened milk, ferrous products, urea, super phosphates, marble and granite tiles, graphite electrodes, wrist watches and wall clocks, yet it does not include items like automotives, consumer durable, heavy engineering goods, cement, computer software and most drugs and pharmaceuticals which have high potential. If this policy were maintained, none but Pakistan would be the ultimate loser in the long run.

There are a number of arguments that can be given in favour of granting MFN status to India, the underlying theme being that economic interests must be kept in view rather than keeping political differences. The recent move of Pakistan government clearing 78 items for tariff concessions to India should be an insinuation that if such agreements for concessional tariffs exist with India, Pakistan may also consider granting MFN status to India or even signing a Free Trade Agreement (FTA) with it. We have the example of Sri Lanka that has gained immensely after signing Free Trade Agreement with India. Moreover, by providing the MFN status Pakistan can claim access to the huge Indian market without any reservations, and using the advantage of freight could market its goods at least in northern India at highly competitive rates.

Raw materials required for Pakistan's industry could be cheaply imported form India instead of the far off developed countries. Indian economy is not as big as compared to US, Canada, EU, Japan, etc., which are allowed to have normal trade with Pakistan on almost all items. If Pakistan's products are seen to be competitive with those of developed countries than it would not have much difficulty in competing with Indian products as well.

Those who oppose Pakistan's granting MFN status to India are of the opinion that there is a danger that by doing so, India will flood Pakistan's domestic markets with Indian commodities killing Pakistani entrepreneurs. It needs to be pointed out here that we shouldn't forget that WTO laws provide ample protections against such actions, and even if there were no protections available for the entrepreneurs, studies reveal that it could be a blessing in disguise for at least the consumers in Pakistan.

Pakistani industries are opposing the recent move of allowing import of 78 listed goods from India as undesirable as they say that these could have been imported from any other country. Even the Production Ministry is of the view that allowing concession of customs duties would hurt the local industry, especially milk powder, unsweetened milk and ferrous products as tariff is low on the import of these items.

On the contrary, the Ministry of Commerce is right in pointing out that since the net decrease in tariff in case of powder and unsweetened milk is only 5 percent (from 25 percent to 20 percent) and in case of ferrous products only 1 percent (from 10 percent to 9 percent) respectively, it is quite an insignificant margin to cause any harm to the domestic industry.

However, if Pakistan is afraid of India's imports it can take measures, under WTO provisions against the subsidized and cheaper imports to protect the local industry. Art. XIX of GATT provides that where, as a result of tariff reductions, a country finds that a product is being imported "in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers" it can impose safeguard measures to restrict such imports for temporary periods. We have the example of US imposing safeguard measures against foreign imports in order to protect its domestic steel industry.

Secondly, the way in which consumers' may benefit from cheaper Indian products being imported into Pakistan can be judged from the following example; medicines like Zinetac – Glaxo cost 10 tablets for Rs. 7.20/- in India whereas the same 10 tablets made in Pakistan would cost the consumer Rs. 80/-. A similar price comparison can also be made for automobiles showing Indian product as much cheaper. This along with hundreds of different examples of comparative prices of identical products between India and Pakistan can be cited, and all point out to one thing i.e. the entrepreneur in Pakistan faces the least competition and this provides him with the opportunity to burden not only the poor consumer but also blackmail the government at different stages of taxation and regulation. This is also one of the reasons that has led to the widening of economic gap between the rich (entrepreneur) and the poor (common consumer). So, it is time that trade is liberalized with India and the entrepreneurs in Pakistan made to face the competition. This will not only curb their monopolistic attitudes but will also indirectly force them to improve their production standards to meet the challenges in the international markets.

But, Pakistan has to ensure that an MFN treatment is meted out to the products coming from India. Otherwise, import duties imposed by the Government of Pakistan will just be another form of taxation on Pakistani consumers. Import duties are not paid by Indian exporters but come out of Pakistani importers who then pass the duties on to Pakistani consumers.

Subsequently, many of the products coming from India would be far cheaper for the consumer in Pakistan and would benefit him in procuring the same at a much lower price. A recent government decision of allowing import of raw materials of medicines form India had already resulted in scaling down prices. However, one may imply from the above that import of cheaper products from India would ultimately result into gradual decline of certain domestic industries of Pakistan. The sectors that would instantaneously fall prey are likely to be the pharmaceutical and automobile industries. The answer to this and for those considering economies of Pakistan and India as competitive and not fit for trade lies in the basic principles of international trade and economics evolved from the theories of open trade, remarkably that of economist David Ricardo.

David Ricardo's 'theory of comparative advantage' provides that a country does not have to be best at anything to gain from trade, as differentiating it from the 'theory of absolute advantage' in which countries can benefit by specializing in goods they produce efficiently and trading internationally to buy others. Consequently, Pakistan's industries that are likely to face threats from the imports of similar Indian cheaper and better quality products will either try to catch up in the race and become more competitive or on the other hand would shift to a sector that is already competitive in which they can more fruitfully use their labour, resources and energies. No doubt, that it would cause a temporary unemployment situation for the workers of the hard hit industries but sooner or later they will be imbibed into better more rewarding competitive sectors.

Research has shown that imports do not cause a net loss of jobs in a nation's economy. Imports from India may displace some workers in less competitive industries of Pakistan, but the overall level of employment will be determined by its monetary policy, labor market flexibility and other non-trade factors. Thus, trade with India will benefit Pakistan's economy in the same way as technology, causing resources to shift to more productive sectors, raising overall living standards. It is believed that for the overwhelming majority of Pakistani workers, Indian imports would raise real compensation by keeping prices down and stimulating domestic competition.

Some feel the danger that Pakistan's import duties have been reduced to a little or non-tariff barriers whereas in India the tariffs are still much higher with a number of non-tariff barriers. Suffice to mention here that international trade laws do not bar any member state from making a trade policy, however they do not allow those trade policies that are against the commitments made in the schedules to the multilateral trade agreements entered into after detailed negotiations. If Pakistan feels that India's trade commitments may be injurious to the former's economy, it can hold further trade negotiations in this regard and even enter into a Free Trade Agreement with the latter. Moreover, there are many other WTO members that also have higher tariffs like that of India, but Pakistan has never agitated against them. So, Pakistan cannot criticize against India's trade commitments for it is meting out a similar treatment of tariffs for goods of all other member states on an MFN basis. It is hoped that with the passage of time India would further reduce its tariffs and completely eliminate the non-tariff barriers, which is the ultimate goal of the international trade regime under WTO.

Others are cynical of the trade statistics between the two countries as they find the figures in favour of Indian economy. In the year 2001-02, Indian exports to Pakistan were $ 186.521 million, while Pakistan exported $ 49.227 million in goods to India. And, during the first eight months of the financial year 2002-03, Pakistan's exports stood at $39.903 million against imports of $106.932 million from India during the same period. Thus, despite enjoying MFN status Pakistan is suffering from a trade gap which was more than $137 million for the last year and India despite being a non-MFN state earned that much from its exports to Pakistan. Last years figures also show, that the official trade despite being as low as $ 235 million, clandestine trade between the two countries amounts to as much as $1.5 billion annually.

Actually, Pakistan – India's informal trade has two components. One, illegal trade transacted through the land borders, secondly circular or informal trade which is carried out through third countries and re-exported from there to Pakistan. Even without granting MFN status, Indian products are being smuggled into Pakistan markets through the porous border between the two countries. Pakistan loses more than $ 500 million annually in custom duties to smugglers. This trade includes chemicals, industrial machinery, cement, tyres, tea, medicines, and videotapes, cosmetics and viscose fiber. There are other goods that also find their way through third markets such as Dubai and Singapore. Trade analysts predict that the unofficial trade between the two countries could run as high as $ 6 billion to $ 8 billion. The informal trade practice can possibly be brought to an end by the following ways: -

i. Allowing more official trade by granting MFN status to India
ii. Reducing tariffs on imports
iii. Improving the trade infrastructure
iv. Entering into a Free Trade Agreement (FTA) with India

This will result into bringing not only more revenue for the governments of both Pakistan and India, but would also help in lowering prices for the consumers by cutting the transport costs and transit time for goods that at present moves through third markets.

Pakistan and India usually trade about 4000 items each year. The present Pakistan's major exports to India in reasonable quantities include fruits and vegetables, cotton fabric and cotton yarn, fish and fish preparations, rice, spices, oil seeds, wool, leather products, mineral manufactures, pearls and precious stones, furniture and surgical instruments. Whereas, Pakistan's imports from India include chemical elements and compounds, chemical products, tyres and tubes of rubber, medicinal and pharmaceutical products, dying and colouring materials, crude vegetable materials, ores and concentrates of iron and steel, feeding stuff for animals, ships and boats, black tea, printing matter, photographic apparatus, measuring and analyzing instruments, machinery and parts, iron and steel manufactures, glass and glass ware and betel leaves. There is a possibility of joint ventures of India and Pakistan in the areas of agriculture, infrastructure, pharmaceuticals, refinery, oil and gas, iron and steel. In services, India can provide further assistance to the developing Information Technology sector of Pakistan. Pakistan can export surplus power to India and India can export surplus high-speed diesel to Pakistan. India and Pakistan may also co-ordinate in setting up international level health centers. Moreover, a lot can be achieved in the fields of environment and water management between the two countries.

India's official trade with Bangladesh is touching $ 1 billion, with Sri Lanka $600 million and with Nepal $ 700 million. Pakistan at present seems to lag behind in the South Asian localized trade race. From all that has been said above it can easily be gathered that liberalization of trade in goods and services between Pakistan and India under the WTO regime is the need of the hour and should be actively carried on between the two neighbouring countries without any discrimination which calls for Pakistan to accord MFN treatment to India as soon as possible.

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