

AN INDISPENSABLE GROWTH FOR PAKISTAN THROUGH FREE TRADE WITH INDIA TO COUNTER INFORMAL TRADE

Dr. Bashir Kakar
Prof. Dr. Kaleemullah Bareach
Muhammad Siddiq
Dr. Amjad Abbas Magsi

Balochistan University of Information Technology, Engineering and Management Sciences,
Quetta, Pakistan
Professor, Department of History, University of Balochistan, Quetta
M.Phil. Scholar, Pakistan Study Centre, University of Balochistan, Quetta Pakistan
Assistant Prof., Pakistan Studies, UOP, Lahore

ABSTRACT

Pakistan and India, the best demographic South Asian “Golden Land”, have had a tremendous experience of bilateral trade with relevant competitive advantages contributing towards Global trade enchantment with an extensive realism of free trade in last decades but that has unfortunately declined, which has let the masses on both sides suffer the miseries of poverty and low standard living mainly caused by the trade restrictive policies on both the sides. Given the endowed trade feasibility is in the wide interest of both sides where this study classifies the core areas for available possibilities of trade and investment cooperation amongst both countries further encouraging the exchange for trades through acquiring the status of most favorite nations towards each other to curtail the degree of informal trade by proper archive management. The policy by now inhibits trade, lacks transparency leading to high

transaction costs along with other varied barriers though having Social similarities as well comparative demands across equally. Effective system of information flow, contract enforcing, risk sharing & mitigation has already been organized by the informal trader being efficient than formal trade in returns even though relative cost is much higher. The paper as well identifies factors determining informal trade, major informal route, estimate of Pakistan informal trade with India, modalities of informal trade and recommendations to shift it towards formal trade by promoting free trade.

Key Words:- Bilateral trade, Most favored Nation, trade restrictive policies, Golden Land, trade and investment co-operation, trade potential, Transaction costs, Social similarities, comparative demands, Geo-Economic potential. Transport impediments, competitive advantages.

INTRODUCTION & BACKGROUND

The Word FREE TRADE is literally defined as the world of mutual trade that is free from any conditionality's of tariff & qualitative or quantitative restriction for imports & imports of goods as well services amongst the nations across their political boundaries. (Frankel, Aug 2008) The idea is brought in operation to promote international trade with distinct effects irrespective to various economic systems. The approach reflects definitive impacts based on the economic conditions of each party where third world countries with intentions for take-off stage are not recommended but a smart move for the well-developed first world economies having mass consumption to capture regional vulnerable markets through protection to home / domestic infant industries. (Elms, 2013) Owing to the common

interest towards the increasing trade, the two main countries of south Asia may go for the free trade by the elimination of trade-restricting policies and practices.

Free bilateral trade is essential for encouraging Mutual Cooperation to lead for an environment of optimum utilization of resources & existing vast opportunities since comparative advantages differ equally. (Globalization) The very initial step is through reconstructing the overall trade network by enduring a convenient path as well common understanding to exploit the lying potential at best. Pakistan has historical been a transit route for that facilitating the transportation through road or railway passage as well at other end transmission of oil/gas pipeline could not only contribute financially in raising in GNP as chained process with multiplier effect but also preserving the interest for bilateral trade with India.. (HUMAN DEVELOPMENT IN SOUTH ASIA, 2005) There can be a prosperous exchange of textile, food- related items, fabrics and readymade garments and there can be a division on the basis of best suitable production respectively laying further positive impacts on the consumers as well as producers. (Latif, 2013)

Although serious efforts for trade liberalization through diplomatic or organizational setup were initiated by south Asian countries but still formal trade affected by political moves is abysmally low. Whereas informal trade has been recorded as persistent feature of the region that continues further to thrive. Commentary identifies this enhancing informal trade as a key resource for low inter-regional trade in south Asia making this an attractive subject for further research & studies. (ADB, Aug 2013) One of the notable country pair in South Asia on the issue is India & Pakistan as old military rivals through political tensions. Both countries

hold a history of strained & restrictive bilateral trade & transport agreements along with Memorandums of understanding. Although recently measures to normalize trade & common moment have been agreed but still informal trade persists seeking for more practical solutions for the common marginalized above then political hegemony (Hussain D. I., Feb 2013). Informal trade between both the countries through different routes with minimal security checks mostly has been recorded up to US\$ 250 million to US\$ 2 billion per year. If such trade is brought under within the ambit of official trade will result in increase in total trade on both sides. Understanding informal aspect of the trading relationship would give deep insights into the functioning of the bilateral economic relationship and help provide policy inputs into the trade normalization process. (ASSISTANCE)

Literature Review

The study explains the bilateral free trade amongst Pakistan & India to encourage formal mod of exchange for financial gains. The formation of such trade option would improve the supply of various items including cotton yarn (Tribune, May 2013). Informal trade that has no documented system to add in national economy continues to thrive between India and Pakistan around US\$ 4.71 billion with Pakistan's imports from India are estimated to be USD 3.99 billion and export of USD 0.72 billion. (Taneja, July 2016) Despite recent measures undertaken by the two countries to normalize trade and reduce transport impediments. Informal trade due to lack of free trade zones amongst both the countries has encouraged traders prefer informal trade to develop effective mechanism for sound contract enforcement, information flow risk sharing & mitigation though

transaction costs vary significantly in both trading channels effecting the potential magnitude in long terms. (QAQAYA, 2008)

The vast untapped potential equally that both the countries possess as natural trading players in South Asia though geographically contiguous, transportation including transaction costs of trading are too high for common private businessman / entrepreneurs that result in promoting informal trade. Estimates on informal provide with an indication for potential between both the countries. Studies suggest that Pakistan possesses comparative advantage for 29 items mostly agriculture products while India for 37 items. Few of the major identified items are textiles, agriculture, engineering, electronics, chemicals, metals, minerals, dilatory items, tobacco, IT & even entertainment industry as well. Export possibilities for India exist in pharmaceuticals, rubber & plastics etc. (Husain, Sep 2012)

The field of petrochemicals has immense capacity to benefit both countries in particular growth in Pakistan through chemical industry including paints, coating, pharmaceuticals, lubricants & catalysts etc., characterized by vastly varied products with adequate value of addition. The low cost based specialty of common as well scarce chemical is assuming strong factor for its competitiveness in global markets. India has displayed frequent interest for entering in joint venture with Pakistan, which also leads in soda, ash, paint, charcoal & science products, Pakistan being an agrarian economy is enriched with agriculture products but pesticides as non-existent with the possible support of strong available support of Indian manufacturing capabilities.

Private corporate sector has sound track record for promoting Pakistan-India trading. One of the inhibiting factors in mutual trading is the lack of

information on quantities & commodities to be traded, trading environment & policy regimes in the two countries. Another interesting factor is the chamber of commerce & industry has also served an important role in mutual sharing. The federations of chamber of commerce and industry with autonomous power at both sides (FICCI & PCCI) have actively been engaged since 1995 through exchange of delegations resulting in generation of joint cooperation forming the Indian-Pakistan chamber of commerce and industry in 1999 with the objective to accelerate trade, promoting networking opportunities, investment, payment and transaction mediums, relationship building, discussion of on policy review and technical ties promotion across the board. (Relation, 2014)

Commentators are of the view that free trade with India will serve Pakistan in various aspects including linguistic, cultural, social, climatic & productive similarities. With our land border access or geographical proximity consuming less duration & cost would benefit Pakistan at both individual & collective level. Along with these factors some common benefits & challenges are defined as below.

Benefits

Consumers Benefit

Competition among the industries

Cheap Indian imports

Goods matching our culture

Geo-economic potential of Pakistan

Iran-India gas pipeline (Energy)

Challenges

Political/military exploitation:

Inadequate infrastructure:

Hard documentation
Decision-making process

Purpose

The study is conducted considering the phenomena of limited resources & insufficient institutional arrangements to overcome the burden of adjustment required to address the contemporary barriers. It also intends to highlight the behavior & trend of maximum attainment through optimal utilization of free trade. Some of the intricate areas of the study to identify possible consequences are stated as below.

To identify impacts on both side at national level along with opportunities for common producers & consumers.

To evaluate, if free trade may help to improve infrastructure through corporate sector & restore the regional stability across the borders through identification of informal routes.

Finally, to know about the longitudinal impacts of mutual agreements.

Methodology

The methodology adopted in the research article is based on secondary data collected & revised through different available authentic sources for credible findings accordingly along with detailed in-depth desk review of related articles & research studies conducted in both India & Pakistan. The scope of the study is non-subjective kept limited to sources involved with it rather input from layman since it is out of their intellectual coverage to attain required useful information. The paper is a descriptive study approach to examine the mutual impacts of free trade with allowed goods & services that are practiced by the state through private / corporate sectors documented along with informal trade momentarily known &

shared. The author will also attempt to explore the impact of the formal trade between both countries.

Trade profile of Pakistan & India

For promotion of economies the trend has shifted with integrated zones like, EU & SAFTA etc., where inter-regional trade is estimated to form 50% of the total international trade but merely 0.3% by Pakistan & India of their total with crowd of reasons. Currently bilateral trade between both the countries is conducted through three main channels given as. (Rizwanulhassan, June 2015)

The circular/informal trade carried through third country & re-exported.

The illegal trade / smuggling through land borders.

The official / formal trade.

Exports to India:

Vegetables

Water cooler & appliances

Sugar

Sports goods

Surgical Instruments

Fresh fruits / foods

Textile fabrics

Cotton yarns

Dry fruits

Leather products

Imports from India:

Coffee / tea

Consumer goods

Machinery & IT equipment

Raw material for pharmaceuticals

Pharmaceutical products/ drugs

Garments

India contributes 1.7 % of Pakistan export market where as Indian imports claim 6 % share of Pakistan total imports due to phasing out the negative list. The MFN status & preferential duty structure under SAFT extents to positive impact on Pakistan economy comparatively. (Hussain I. , 2012) .

Indian exports to Pakistan have been increased three times in recent times

Direction of Trade Flows (Million\$ US)							
Trade Flow	Within Region		Developing Countries		Developed Countries		
India	4.2	4.5	17.5	27.4	78.2	65.3	
Pakistan	4.5	12.4	12	23.8	81.2	61.9	
India's Trade with Pakistan & the Rest of the World		Pakistan's Trade with India & the Rest of the World		Annual Mutual Trade			
Exports to Pakistan	1,914	Exports to India	320	Year	Exports to India	Imports from India	Total Flows
India's total Exports	189,000	Pakistan's total Exports	19,121				
% Share of Pakistan	1.01%	% Share of India	1.70%	2004-05	288	547	835
Imports from Pakistan	320	Imports from India	1,914	2005-06	293	802	1095
India's Total Imports	257,600	Pakistan's Total	31,747	2006-07	343	1235	1578
% Share of Pakistan	0.12%	% Share of India	6.00%	2007-08	255	1701	1956
Trade from Pakistan	2,234	Trade from India	2,234	2008-09	320	1914	2234
India's Total Trade	446,600	Pakistan's Total Trade	50,868	2011-12	313	1659	1972
% Share of Pakistan	0.50%	% Share of India	4.39%				

from US\$ 835 to 2234 million while Pakistan exports remained stagnant with only 11% growth. The volume went down in 2011-12 where imports

from Pakistan only accounted 0.12 in Indian total trade (PILDAT, Jan 2012) . Trade liberalization will ultimately benefit consumer in Pakistan as product price falls with increased consumer choices as barriers removed. Increased flow will help in import prohibition for item from India towards added customs revenue to Pakistan. Supporting the protective economies mutually will add to specialization in subsectors unleashing the induction of new inputs and technology for optimum production with better comparative advantages to expand markets in pharmaceuticals, chemicals, petrochemicals, automobiles, agro, IT and joints energy exchanges under SAFTA. If harmonized. (Naqvi, 2007)

The tune of illegal/informal trade is more than formal trade with estimated \$ 1 billion of worth by traders through free ports of Dubai & Singapore, while illegal trade is carried out by smugglers through suitcase misusing borders or ‘Green Channels’ at international ports. On the other hand formal trade bears conditionality & complicated documentation that is way out of private businessman favor as it costly consumes time & resources. The free trade would first legalize the overall informal, circular or illegal trade with a positive effect of the revenue for the government & let the consumers enjoy multiple choices/options in regard with commodities. we can gain advantages by mutual trade due to low cargo costs, Pakistan imports tea from Kenya that costs at higher side, if same is imported from India would surely cost lower, similarly iron from Brazil and Australia at higher prices (Vaqar Ahmed). The bilateral trade of the two countries may better be evaluated by reviewing their profile in connection with mutual exchange given as.

Mostly the major routes adopted for informal trade between both countries

Pakistan's informal imports from India- Estimated Value (Million\$ US) (2012-13)

Products	Value	Share %	Average Duty %	Negative List	Sensitive List
Real Jewellery (Diamond, gold, precious stones, etc.)	910	23%	5	x	X
Textiles	780	20%	12.5	x	X
Machinery and Machine Parts	305	8%	20	X	X
Electronic Appliances	220	6%	17.5	X	X
Scraps / Spare Parts	193	5%		X	
Paper	190	5%	15	X	X
Chemicals	187	5%	17.5	X	X
Tyres	187	5%	15		X
Packaged Food Items	170	4%	30		
Spices	160	4%	10		
Pulses	156	4%	7.5		
Consumer Durable Items	150	4%	30		X
Industrial Additives	133	3%	15	X	X
Pharmaceutical Products	83	2%	15	X	X
Jewelry (Artificial)	28	1%	7.5		x
Pan Leaves/Betel Leaves	26	1%	Rs 200/kg		
Alcohol	22	1%	90		x
Coconut Oil	20	1%	Rs.10800/MT		
Tea	16	0%	25	X	
Shaving Blades	15	0%	10		x
Fruits and Vegetables	12	0%	15		x
Pan Masala	8	0%	30		
Tobacco Products	6	0%	30		x
Leather	5	0%	22.5	X	
Auto Components	4	0%	35	X	X
Stone	3	0%	27.5	X	
Furniture	2	0%	20		x
Aampapad	0.5	0%	30		
Soda bottles	0.5	0%	25		x
Total	3992	100%			

is conducted through informal approach by using third country that effects final prices of products for the end users, in particular free ports like Dubai & Singapore. Seven routes are usually adopted for informal trade commonly given as (Bimal, July 2016).

Pakistan-Dubai-India

Pakistan-Afghanistan-Iran-Dubai-India

India-Dubai- Pakistan (Karachi)- Afghanistan-Pakistan (sea and land route)

Sea route through Bandar Abbas

Pakistan-Afghanistan-India

(Air route)

Lahore-Amritsar-Delhi (bus/rail)

Cross LOC route (Uri-Islamabad
and Poonch-Rawalkote)

Route-wise Estimates of Pakistan's Informal Export to India (Million\$ US) (2012-13)

Products	Routes			Trade Value
	Via Dubai	Lhr-Amritsar-- Dehli	Cross LoC Trade Routes - (Uri- Islamabad& Poonch- Rawalkote)	
Textiles	96	153	101	350
Dry fruits		167	63	230
Spices		75		75
Carpet		20	8	28
Cement	15			15
Fruits & Vegetables		9	3	12
Leather	9			9
Electronic		1		1
Leather chemicals		1		1
Estimated Value	120	426	175	721
Over %	17%	59%	24%	100%

CONCLUSION & RECOMMENDATIONS

Pakistan & India known as “Golden Land’ having best demography awaits formal free trade to convert in favor of Governments & common people through exchange of goods & services at low cost causing gains as well reduce the informal trade..

The productive sector of both the countries having similarity with each other require joint collaboration as both the countries have got variable respective potential and also due to the upcoming increased competition, international markets are increasingly becoming more inaccessible for both the countries, so they both by joint efforts may meet the required standard of international markets with an affective output. Our industries mostly inefficient and sluggish may get in their productive fields assisted by the advantages of cheap Indian imports and indirectly by the increased competition among the industries. India in order to meet her increasing energy demands needs Pakistan because of its geographical position lying between India and Iran.

Bilateral defense issues such as Kashmir, Kargil & LOC needs immediate considerations through third party reconciliation to further expand trade infrastructure & means for formal free trade along with mutual exchange that will reduce regional tensions & shift extensive defense spending along with discouraging political & military exploitations.

Decision making for operational procedures and documents may be made feasible as well in access to attract / facilitate domestic traders & investors to fruit-bearing results for better mutual trust development to avoid any unforeseen disrupting contingency situation.

Convenient opportunities: cultural, religious, social and linguistic similarities have to be utilized for the wellbeing and prosperity of the two Nations. Recent dialogues between the two countries are expected to go

for strong and durable ties as shining and fruit bearing impacts are not difficult to analyze.

Political immaturity & difference in behaviors during power or opposition opposing to their own policies creates a volatile environment for the vulnerable traders. Such imbalances adversely affects bilateral trade in long terms for survival therefore compliance of earlier agreed polices may be continued irrespective of political occupation through depoliticizing & decentralization the state bodies on both sides with a little of military intervention.

Media & civil society has immense impacts on governed in both the countries to take up for the support of small & medium enterprise liberalization, Since shock to economy at on side will shift or share its intensity with the other, therefore strong mechanism is required to retain the flow of trade by relaxation in restrictions that may be physical or financial imposed via qualitative restrictions, -tariff or capital control along with embargo.

Composite dialogues on outstanding issues should continue frequently with degree of seriousness, constructive attitude & commitment to disperse the profit equally rather keeping it the concentrated authority of immunization for limited people.

Economic cooperation in IT, tourist packages, higher education, cultural exchange, agriculture, health, research & development would be highly beneficial particularly to reduce brain drain.

A proper authorized redressal forums or mechanism that is expeditious, inexpensive and equitable agreed by both the nations may be formed through chamber of commerce & industry backed by key state machineries to address the issues to rise in due course of business & operations.

The presence of negative or sensitive list of 1209 items is identified as a core reason for expansion of informal trade through third countries creating impediments to policy environment for high good duties mainly through Dubai, Iran or Afghanistan. The list needs to be revised at good will based on the contemporary requirements of people with mutual benefit while maintaining protection for its sensitive constituencies.

Strengthening communication & information system regarding the business trends by organizing events, discussion forums, trade fairs, exhibition & online portal to disseminate about trade regulation, procedure & policies for conducive environment.

A system of authorized trader status could be introduced to reduce security checks at sea and land ports. In addition to physical transport connectivity, there is a need to improve connectivity through easier visa processes, cellular services and courier facilities. Setting up cross border banking facilities would be an important step towards faster payments for traders. Easier access to formal credit and banking systems may encourage traders to use formal channels of trade.

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