

Editor's Page

Trade with India: Is Pakistan missing the boat?



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Guest Editor

Mr. Majyd Aziz is a renowned textile industrialist from Pakistan and a past President of Karachi Chamber of Commerce and Industry. Passionate about his country and the textile industry he belongs to, he regularly contributes through his articles, valuable insight into the causes and cures for the multitude of problems faced by the country. As he is a strong proponent of free trade between India and Pakistan, this editorial article is particularly appropriate on the occasion of ITME India 2008, in which Pakistan Textile Journal will participate as exhibitor.

Editor

Pakistan is gradually inching towards a respectable scenario where the exports truly become the prime channel of foreign exchange as well as being the focused source of stable employment, targeted poverty alleviation, and sustained industrialization. However, the export regime has never been an attentive matter of policy for successive governments. There is the usual rhetoric emanating from the corridors of power that Pakistan will be a major player in the global village, but the results demonstrated by the implementer of policies have not done pure justice to the development of a critical mass in exports.

Pakistan has seen imports sky-rocket in the past couple of years, more so because of this impression that that a liberalized trade regime would be beneficial for its progress and economic development. However, this thinking has been patently misused and infected by that cadre of businessmen who, whether taking advantage of the inadequacies in the laws and regulations or even resorting to a well-oiled corruption syndrome or even enjoying a carefree and easy availability of banking finance for imports, have facilitated unbridled inflow of crucial as well as ostentatious and luxurious goods and commodities from foreign countries.

The irony in all this is that while a liberal trade regime is imperative in many a case, such as sensitive items as oil, foodstuffs, and machinery, there is a well-entrenched government policy to hold the reins tight when it comes to trading with the neighbor on the eastern border. Pakistan has signed Free Trade Agreements with SAARC-colleague Sri Lanka as well as with all-weather friend China. Negotiations with Bangladesh for FTA are in its matured stage. Pakistan is a signatory to SAFTA and has announced to all that it intends to adopt a prominent role in intra-SAARC trade. Unfortunately, when policymakers go into a huddle to decide on bilateral trade with India, there is more head banging than serious reasoning.

The ground realities are very apparent. India is becoming an economic power house. All eyes are directed towards this nation that has the largest middle-class buying strength. Already, India has put its John Hancock on FTAs with countries on all points on the map. Indian conglomerates have gone global, buying large companies or even becoming strategic partners. So much so, India has staked its claim for a permanent seat on the United Nation's Security Council. Observe its successes on the international front. The nuclear deal with USA, its omnipresence in world bodies, its gigantic bilateral trade with China, its powerful and potent media and entertainment industry, its information technology stronghold, and its lion's share in the SAARC trade regime. What one has to accept is that India is on the verge of becoming a super power.

This is where trade with India assumes a critical analysis. Pakistan has to pay millions in foreign exchange to transport its imports from all over the world. Pakistan is susceptible to the undocumented trade with India, either across the border or through third countries. Pakistan is unable to penetrate the Indian market due to inertia on the part of the Pakistani exporters or due to what has become a one-way highway coming into Pakistan. India did not waste a moment in giving the Most Favored Nation status while Pakistan declared that adopting such a position, albeit also due to non-tariff trade barriers put up by India, may be construed as sleeping with the enemy.

The Trade Policy of 2008-09 did venture to take cautious steps to further open up more imported items from India, the fact of the matter is that a lot of high-profile items were due to the influence of well-placed Pakistani importers rather than an universal tactic. This would, of course, make the one-way highway into an Autobahn, but the direct benefits would accrue more to these specific importers or groups. A ray of hope is the resumption of the trade across the Line of Control. The opening event manifested a lot of euphoria and the traders displayed sincere emotions. Of course, trade would be more Indian-tilted, but the reality is that after six decades of denial, the genuine trade would counter the undocumented trade regime that was detrimental to the economy, especially on this side of the border.

The Indo-China trade scenario has a much more pragmatic and visionary strategy. It can rightly be stated that a pro-business and long-term thinking on the part of the erstwhile Vajpayee government, further solidified by Prime Minister Manmohan Singh, has seen Indo-China bilateral trade crossing the US\$ 50 billion mark and the next target is to touch three figures in less than five years. This is all due to understanding and accepting the contention of the business community of India who very correctly emphasized that the best way to counter smuggling,

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the best way to ease friction and tension at the border, and the best way to generate employment as well as expanding India's global trade base, is to go all out with each and every country and have agreements on a fast track basis. It is true that India has the critical mass that it needs to sustain and maintain an upward drive. Yet, talking about relations with China, both the governments accepted the fact that bilateral trade and development should not be hostage to contentious issues that could be solved on the negotiating table. Both nations have adopted a positive stance regarding Sikkim, Tibet, and NEFA. The astounding upsurge in bilateral trade figures demonstrates this pro-active approach.

This is a lesson for Pakistan. The snail-speed decision making attitude of the government has in actuality been detrimental to Pakistan's market share in India as well as in other SAARC countries. While Kashmir is the core issue and needs to be resolved after sixty years of indecisiveness and many wars and deaths, the policy makers cannot be ostriches anymore. Trade with India, though lopsided in India's favor is still a better option for Pakistan. A solid example is that in the current Trade Policy, diesel and fuel products can now be imported from India. This translates into over US\$ three billion worth of products. One should take this as affordable supplier substitution rather than filling the coffers of avowed enemy Number One.

Another very pertinent issue is movement of Indian goods to Afghanistan and Iran through Pakistani land routes. This is still anathema to many in Pakistan who suspect that weapons and dangerous stuff would cross over to Afghanistan. This is another fallacious argument. Today, under the Afghan Transit Trade Agreement, hundreds of containers arrive at Pakistan's ports for transportation by land to Afghanistan. Under a policy announced a few years ago by Federal Bureau of Revenue, these containers are not opened or checked at time of unloading. No one can be sure what is inside these containers. Moreover, ATTA is blatantly misused by unscrupulous importers as the goods destined for Afghanistan are either diverted to Pakistani markets or are re-routed back to Pakistan after formal custom entries across the Durand Line.

The Pakistani government has also paid lip service to the idea of attracting Indian investment in Pakistan. This myopic approach has deprived the nation of millions in foreign investment that could have come from across the eastern border. The sensible step would have been to focus on investment from regional investors, especially from India, since language, culture, and affiliations are understood and accepted. Take Thar Coal - the two ideal countries to seek investment for its development are China and India. Both have expertise and both can provide the money and the technical know-how. Pakistan will import nearly five million tonnes of coal in 2009 costing about a billion dollars. Reliance Group of India has recently invested millions for a strategic share in an Indonesian coal mine so that it gets an assured line of supply for its mega power project being set up in India. Indians could become partners in engineering sector, in gems and jewelry, in minerals, in chemicals, in information technology, and of course even in textiles, for after all, textile is an over half a trillion dollar global industry.

President Asif Ali Zardari has been talking about opening up the trade regime. The LoC trade smells of honey and cinnamon. What is needed now is to do away with the positive list of items allowed from India and to replace it with a practical negative list. This will discourage smuggling, under-invoicing, and mis-declaration. This would bring the business communities on both sides closer. This will facilitate investment and open up new vistas of cooperation. This would enable Pakistani industries to enter the largest middle class market in the world. This would also enable the software engineers, the call center operators, and the computer sector to take full advantage of the experience and expertise available in India. It is a win-win situation if one ponders deep, if one sheds old suspicions and mindset, and if one overcomes the erroneous notion that even in isolation this country is going to be a progressive nation.

One talks about democracy, peace, and economic development. Pakistan is a victim of global terrorism, of misguided extremism, of shattered economy, of negative image, of burgeoning population, of meager social infrastructure, and of unstable political governments. Most of the nation's energies are expended in intrigue and conspiracies, in mundane non-developmental activities, and in becoming torch-bearers for the solution of the problems of other countries and citizens. It is time to look within the country and truly make sure that it is always Pakistan First. Thus the ideal target would be to get on the express train and enhance trade and investment with SAARC, and more so with India. Yes, Pakistan should not miss the boat again as was done previously with South Africa, with the Central Asian Republics, and with many countries. In the words of American President Thomas Jefferson, "Peace and friendship with all mankind is our wisest policy." ♦

