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Dr. Adam Saud,
Assistant Professor,
International Relations,
Bahria University,
Islamabad
&
Kashif Ali Khan,
Internee at Brookings
Institute, Washington DC

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# INDIA-PAKISTAN TRADE RELATIONS: A CASE OF NON-TARRIF BARRIERS

*Despite having a potential of minimum $ 25 billion a year bilateral trade, India-Pakistan current trade volume is little over $ 2.5 billion a year. Political tension between the two countries is the major hurdle to the minimal trade relations. There are a lot of prospects to increase trade and social contacts between the two countries as both share a long, easy and human friendly terrain at their border. Despite having conducive physical conditions, only couple of routes are used for human and goods exchange. Strict tariff and non-tariff barriers further escalate difficulties in bilateral trade. This article focuses on the non-tariff barriers promulgated by both the states while having bilateral trade. It explains the nature of these non-tariff barriers and their implications on India-Pakistan mutual trade. It also discusses the future potential of India-Pakistan trade relations.*

# INDIA-PAKISTAN TRADE RELATIONS: A CASE OF NON-TARRIF BARRIERS

Dr Adam Saud & Kashif Ali Khan

## INTRODUCTION

Since their independence in 1947, India and Pakistan have continued a rivalry marked by hostilities through all-out wars as well as through proxies. This unending rivalry has led them to invest heavily in their militaries and also acquire nuclear weapons as a means of deterrence against one another. Occasional moves towards confidence building measures (CBMs) have consistently been obstructed by deep mistrust and suspicion.[1]

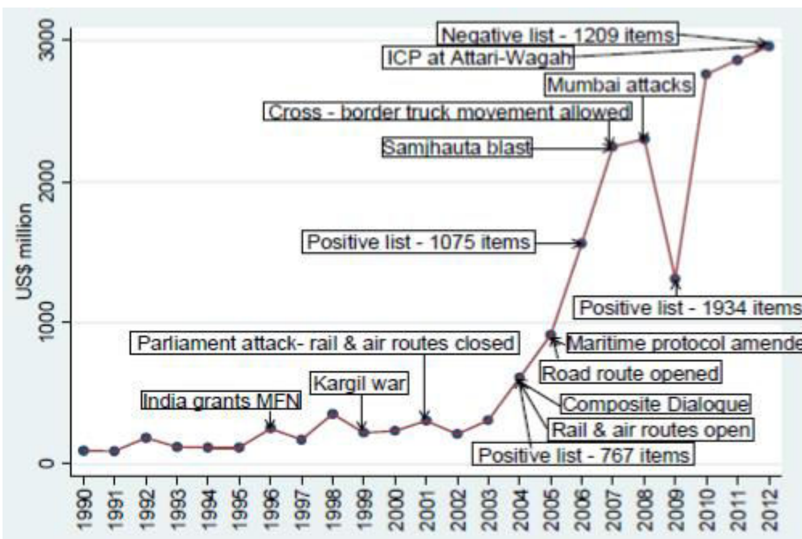
Before its partition in 1947, the sub-continent had been a large well-integrated economy where people, goods and money flowed freely for centuries. Even the violent partition did not remove the trade complementarities between the two new states. The two countries went to war in 1948 right after their independence but bilateral trade continued even during the war. By 1949, trade with India represented half of Pakistan's exports and 32% of its imports. But the same year also saw the first major bump in bilateral trade between the two countries when Pakistan – being an exporter of jute, cotton and wheat – refused to match India's currency devaluation in anticipation of a commodity price boom. This was the first of many disruptions which followed in the tumultuous trade relations between them.[2]

The worst ever effects on Pakistan-India bilateral trade were witnessed during the 1965 war and later on during 1971 war. These wars brought major disruptions to trade between the two countries and for the first time, a military and tactical dimension to trade reverberated on both sides of the border. So politically charged was bilateral trade that as

Pakistan looked to aggressively liberalize its economy during the 50s and 60s especially with GATT members, it persuaded GATT to interpret clause 11 of Article XXIV – an article[3] recognizing the special relationship between the two countries – in a completely opposite way from what it was intended to be.

The trade and commerce relationship between the two countries never really recovered from the conflict and rivalry started in the 1960s. The trade did not see a consistent upward trend until 2004 when the two governments decided, at the head of state level, to remove various barriers to trade isolating it from other longstanding political and strategic issues. Figure 1 shows the impact of various conflicts, terrorists incidents, political events and facilitative measures which have had an impact on bilateral trade between India and Pakistan since 1990.[4]

**Figure 1: India-Pakistan Trade Timeline 1990-2012**



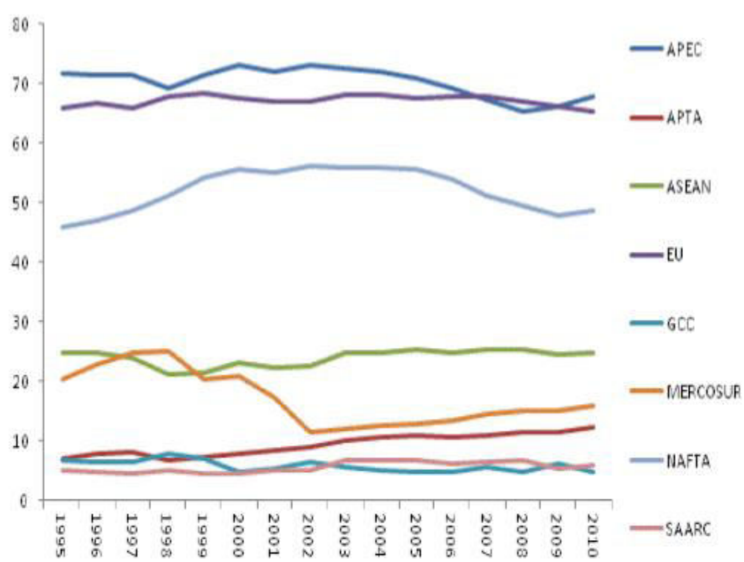

**Source:** Economic Policy and Debt Unit, The World Bank

India-Pakistan trade, or more accurately the impediments to it have been the focus of attention for a long period. International institutions as well as economic experts have long supported the trade liberalization between the two neighbors but fears and apprehensions on both sides of the border and an often adversarial relationship has restricted any progress on the trade front.

## INDIA-PAKISTAN AND THE REGIONAL TRADE

South Asia is one of the least integrated regions in the world much of which has to do with the restrictive policy attitudes between its two biggest countries, India and Pakistan. The two countries account for almost 92% of the region's GDP, 85% of its population, and 80% of its surface area yet their mutual trade accounts for only 20% of total trade in the region.[5] A more stable trade regime in these two countries could lead to more prosperity in the region as a whole as well.

**Figure 2: SAARC's Intra Regional Trade compared to other Regional Organizations**




**Source:** Economic Policy and Debt Unit, The World Bank

The prospective advantages of increased economic integration between the two largest economies in South Asia are manifold considering the unnaturally small trade volume between the two. India's trade relations with Pakistan accounts for less than 1% of its total trade while Pakistan's trade with India accounts for a little over 5% of its total trade. The two countries have some of the most restrictive trade regimes in the world. Barriers in bilateral trade are complex which makes the two countries perform poorly on trade logistics when compared with other countries globally.

Due to restrictive trade policies, the informal trade between India and Pakistan is fairly large ranging 0.5 to 1 billion US$ per year. Most of this trade is done via Dubai through an inefficient process which is additionally fraught with illegalities. This informal trade shows that a large range of products is already avoiding tariff and non-tariff barriers illuminating the expansion potential for official trade.[6]On the consumer end too, this trade leads to an inflated retail price whose market price would be much lower in case of a direct, official trade regime. Much of the limitation to trade between the two countries is considered a result of various non-tariff measures whose removal has not been prioritized by either of the two countries.

## CONCEPTUALIZING NON-TARRIF MEASURES

Non-tariff barriers are restrictions which are a result of prohibitions, conditions and/or specific market requirements that make the import and export of product difficult and expensive. Measures taken by governments and trade authorities such as regulations, policies, prohibitions, specific requirements and business practices to protect domestic industries from foreign completion often work as non-tariff barriers to trade.

Since 1940s, substantial progress has been made in liberalizing tariff barriers to international trade through various multilateral initiatives. Between the 1930s to right after the Tokyo Round of General Agreement on Tariffs and Trade (GATT), the average tariff level of industrial countries has been reduced from 40 percent to about 4-8 percent.[7]This decline in tariff barriers has however coincided with a prevalence of non-tariff barriers with countries imposing several kind of traditional and inventive measures such safeguards, antidumping restrictions and countervailing duties.

The UNCTAD classifies of NTMs between technical and non-technical categories such as *"sanitary or environmental protection measures, technical barriers to trade (TBTs) and other traditional instruments of commercial policy, e.g. quotas, price control, exports restrictions, or contingent trade protective measures, as well as other behind-the-border measures, such as competition, trade-related investment measures, government procurement or distribution restrictions."*[8]

Essentially, this classification just states the measures and does not judge their legitimacy, necessity or discrimination of any form of policy intervention. This is why a detailed and specific analysis is required for better understanding of the impact of NTBs on trade. It is also important to underline that many NTMs are legitimate and cannot completely be eliminated. For example, sanitary and phytosanitary (SPS) measures and TBTs exist for consumer and environmental protection.[9]

Regardless of whether NTMs are imposed with protectionist intent or to address legitimate market failures, NTMs often impose additional costs on trading, and thus may have substantial effects on trade. And these costs may be higher for some countries or firms than for others. Most of the small and medium-sized firms in South Asia face this challenge, especially with respect to meeting the SPS and TBT standards.[10]

**NON-TARRIF BARRIORS BETWEEN INDIA AND PAKISTAN**

Despite a statutory liberal tariff regime, there is a long list of non-tariff barriers which hamper trade growth between the two neighbors. In a long list of these non-tariff measures jeopardizing Indo-Pak trade potential, some stand out. Trade logistics and lack of infrastructure are often cited as a major reason behind the stagnant trade between the two neighbors. Though connected through a border spanning over 3000 kilometers, road routes for bilateral trade are nonexistent. The Wagah-Atari route which is used for almost 40% of all trade happening between the two countries is a single lane road passing through various congested traffic pockets and medium to large cities.[11]This cancels out the comparative advantage of geography enjoyed by regions such as Panjab, Gujarat, Rajasthan, and Utter Pradesh on the Indian side and Punjab and Sindh on the Pakistani side.

Infrastructure on major border crossings is also minimal. On both sides, authorities give only a 10 hours window for all loading, unloading, customs clearance and reloading. There are inadequate warehousing facilities on both sides and an integrated check post was established as late as 2012. The number of trucks which can be loaded or unloaded at one point of time is extremely low. In the recent past, there have been efforts to open the southern Khokharapar-Munabao route but progress on that has also been marred by stagnation on the diplomatic and political end.[12]

At the same time, rail and sea routes are erratic if not as underdeveloped as the road routes. Indo-Pak rail interchange takes place only on Sundays and with the presence of restrictions on mode of transport for certain export goods, this creates a major hindrance to trade. For example, cement trade between the two countries is allowed only via rail route and with the low frequency of trains running between the two countries, exporting large quantities is practically impossible. Similarly on the sea route, port congestions, demurrage charges[i] and lengthy paperwork pose major obstacles to increased trade.

Standards and technical barriers to trade pose another obstacle in increasing trade between the two countries. The World Trade Organization (WTO), under the Technical Barriers to Trade (TBT) agreement recognizes states' right to apply measures to product for health, safety and environmental protection as such as they are not restrictive in nature. This is to ensure that technical regulations and standard assessments are non-discriminatory and do not pose a barrier to trade. A common example of these technical barriers are Sanitary and Phytosanitary (SPS) measures[13]which are allowed only to the extent necessary and only when backed by sufficient scientific evidence.

In India and Pakistan's case however, standards and technical barriers have mostly played a restrictive role to bilateral trade. Many of the measures related to levies, complex procedures and lack of transparency in terms of rules and regulation are restrictive in nature. For instance, Bureau of Indian Standards requires a certificate for Cement import which is technically supposed to take up to 3 weeks to process. However, in cases between India and Pakistan, it often takes up to as much as 6 months for the certification to be processed while pre-shipment test reports from either side are not accepted on the other side of the border.[14]

The issue of infrastructure and agency streamlining is salient again as in many cases inadequate facilities at ports of entry mean that samples often have to be sent out to distant locations for testing and often need to be verified by more than one government agency increasing transaction costs and processing time. The situation is not much different outside the public realm and private sector coordination is almost non-existent. A key indicator is that most banks on either side do not accept letters of credit from banks based across the border and often imports/exports need to be made through a third country.[15]

Another barrier which has strong political roots is that of visa restrictions. City-specific visas, police reporting requirement, requirement to exit only from the port of entry, and delays in grating visas limit the market access traders from both sides have to the other market. The role of both countries' consulates has especially been questionable. They have used increased discretionary powers to grant exemptions from reporting requirements and give visa extensions to specific traders.[16]Repeated visits and prolonged stay help give information access to a small group of traders while the strict visa regime keeps the overall trade situation deplorable.

In a disregard of being signatories of the General Agreement on Trade and Tariffs (GATT) Article V, Pakistan and India do not extend freedom of transit to each other or to international traffic which is in transit. This issue has recently come into light again when India showed its willingness to join Afghan-Pakistan Transit Trade Agreement (APTTA) to which Pakistan showed its reservations. Under the agreement, Afghan trucks are allowed to go only till Wagah (which is the Pakistani side of the border) from where porters shift goods on foot to the Indian side of the border at Attari which is almost a kilometer away.[17]These transit issues have created political tensions not only between and

India and Pakistan but also between Pakistan and Afghanistan as the Afghan government has hinted at similar transit regime towards Pakistani goods trading to Central Asian states.

**PROSPECTS OF INDIA-PAKISTAN TRADE**

In a continually unpredictable political environment, any substantial policy measures would remain liable to changing political landscape between the two countries. However, there are a host of short, medium and long-term measures which can lead to an evolutionary process towards increased bilateral trade. Easing visa restrictions by streamlining the process, allowing multiple-entry business visas and eliminating city specific visas could be steps in the right direction.

On the logistics end, irrational restrictions such as the reciprocal requirements where rails carrying goods from one side must return empty and ships should touch a third country port before bringing in imports are all highly restrictive measures. Furthermore, increasing rail transport frequency, opening up previously dysfunctional routes, cargo consolidation, improved warehousing and increasing custom ports for clearance are measures which can be done in the foreseeable future.[18]

Product standards and certification procedures need to be made more transparent than they are currently as many of the traders face this problem on a regular basis. There is a need to strengthen the capacities of the national standards authorities so that certificates issued by them are accepted on the other side. Furthermore, there is a need for harmonization of standards, custom procedures and establishing mutual recognition principles in South Asia through regionally coordinated efforts.[19]The South Asian Free Trade Agreement (SAFTA) signed in 2004 was a step in the right direction and it provides a detailed framework for removing some of the non-tariff barriers to trade. However, the implementation of SAFTA is contingent upon the agreement between the two largest South Asian countries.

Regional integration even beyond South Asia can lead to normalization of trade relations between the two countries. The Iran-Pakistan-India (IPI) and Turkmenistan-Afghanistan-Pakistan-India (TAPI)gas pipeline, with the renewed regional and global interest in mainstreaming Iran on a high, could help create an interdependencewhich is missing from the India-Pakistan trade equation. Similarly, WTO guidelines – further reinforced through APTTA – require Pakistan to allow transit trade for all goods to and from Afghanistan. Providing this transit will also create a more integrated economic environment in South and Southwest Asia which can span further into Central Asia.

On the political end, the trust deficit between the two sides creates the primary hurdle to normalization of all dimensions of bilateral relations including trade. Populistpoliticsand knee-jerk reactions to isolated incidents of belligerence between the two countries translate into this trust deficit which keeps any semblance of rational politics out of the equation.

## CONCLUSION

The two sides need to move out of the shadow of history and move on with the requirements of the modern world economy which requires increased and better coordination from states. The changing economic realities of the world and slowing down of growth around the developing world can be tackled with more South-South trade and regional integration through trade and free movement of goods, services and personnel. If India and Pakistan can move past the political nuisances to economic integration, it could bring immense shared prosperity to the region which is home to a quarter of the world's population.

## End Notes

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