

Speaking Note

CUTS 30th Anniversary Lecture

Future of India-Pakistan Trade and Economic Relations

11 December, Islamabad

It is a well-known fact that bilateral trade between India and Pakistan is currently far below what it ideally should be. There is ample literary evidence available on the underutilization of trade opportunities that exists between India and Pakistan. While both countries have been successful in bringing forth trade reforms that advanced their respective levels of trade integration with other trading partners, leaders of both countries have been apprehensive about exploring trade with each other, the main reason being a longstanding miscalculation of the *net* of economic gains and political losses out of trade. Though economic benefits of more trade with each other is recognized by policy makers in both countries, ruling powers always tend to consider such gains as less than the perceived costs by way of political backlashes. This miscalculation has happened because of gross underestimation of economic gains based on analysis of past trade trends which itself has never been representative of the actual bilateral trade potential. Continuing neglect towards bilateral trade reforms has kept actual trade volume at low levels from which bleak trade prospects were wrongly predicted, further discouraging reforms. Thus a vicious cycle of sorts had ensued.

This vicious cycle can only be broken if gains from trade can be properly demonstrated and used to inspire reforms which would spur further trade. Thus the current situation can be reversed, kick-starting an upward cycle of trade leading to better reforms and more trade. For this, it is absolutely necessary to show the benefits of trade and key stakeholders in both countries so that stakeholders understand what they are missing. This has been the motivation for CUTS's work in the area of bilateral trade.

In a series of projects implemented by CUTS, with the partnership and support of SDPI, Pakistan and other like-minded organizations, several product categories with high trade potential between India and Pakistan were identified. Such products have high import demand in one country and commensurate export capacity in the other. Our studies have shown that facilitating trade in these products can easily triple the current volume of bilateral trade and take to about US \$12 billion per annum.

The benefits to consumers and producers in both countries owing to enhanced bilateral trade would be manifold. Currently, unreasonably high trade costs owing to various barriers overshoot and impede the advantages of geographical proximity and trade potentiality of many important product categories between India and Pakistan. Our work has demonstrated that even a minimal set of reforms to improve trade connectivity would bring down the cost of trade by about 30 percent of total trade value per annum. This would bring down the costs and prices, and increase the commercial viability of trade by a huge margin.

One of the main points which we have been raising is the importance of active involvement and participation of the private sector in the process of trade reforms. For bilateral trade to grow over time, several facilitative ingredients are needed, such as ease of communication, more business-to-business interaction, information flow on market conditions, and convenience of usage of established trade networks and infrastructure. Transaction costs for new business houses to enter into and execute trade contracts will gradually reduce because of market information flow and scalability (ability to use the same channel for trade in more number of products) of trading

channels. Rate of export diversification and expansion will increase with decreasing transaction costs.

Enhancing ties between India and Pakistan is crucial not only from the perspective of sustainability of growth and development of both countries but also for the global fight for peace and prosperity. Both countries together constitute a strategically important sub-region in the world map, which can bring down a significant share of global poverty through quickening of its own economic growth and can provide a crucial link between underdeveloped markets in Central and South East Asia through betterment of its own internal connectivity. Currently, value chains connecting Central and East Asia are far too less and the two regions largely remain commercially disconnected from each other because of the barricades along the Indo-Pak border. A change in this condition will open up huge possibilities for trade in intermediate goods across a large stretch of Asian countries from Central to East.

Deepening of economic cooperation between India and Pakistan will have exponential developmental aftereffects and increase in bilateral trade is where this cooperative process should start from. Currently, India and Pakistan are amongst the largest buyers in the international defense markets and both countries together account for about 17 percent of global imports of major arms, according to reports by the International Peace Research Institute. In addition to increase in employment opportunities in both countries because of increase in bilateral trade, enhanced trade ties between both countries will enable respective governments to gradually redirect defense spending to social development and thereby welfare generation.

If trade conditions improve, it will have an immediate and tangible positive effect on the other important avenues of cooperation. Mainly, energy trade, food security measures and trans-

boundary water sharing arrangements are the areas in which India and Pakistan can find common grounds to the benefit of millions of their citizens. Out of these, trade in energy is of utmost importance, given the critical role energy has in sustaining the much needed high rates of economic growth. Energy trade is an area which we are pursuing at CUTS and we will give due importance to awareness generation about the need for energy trade and policy harmonization needed for the same in our future programmes.

It is heartening to note that the track 2 level efforts that we have been carrying forward with partner organizations like SDPI and a large number of stakeholders from both countries are gaining traction. Our effort has been one of the important ingredients in keeping alive the bilateral dialogue process. We need to expand the scope and reach of the ongoing dialogues by including and participating in a wider set of stakeholders in the dialogues. One of the tools that we have in mind is that of civil-military dialogues on areas of bilateral economic cooperation including trade. We also understand the importance of having more connection between track 1 and track 2 diplomacy efforts. It is crucial that we start talking about track 1.5, wherein CUTS, SDPI and our development partners work in collaboration with respective governmental agencies and officials to have better and quicker policy advancements.

Though working for better bilateral trade and economic relations as a civil society organization has not been an easy task, it has always remained an important part of our work at CUTS. We thank various partner organizations and resource persons from various walks of life from both sides of the border, who have given us their generous support over the years. I take this

opportunity to seek your support in the future as well, in continuing our joint efforts towards betterment of bilateral trade and economic relations.