

**India-Pakistan Trade: Qualitative Perceptions
from Stakeholders**

By Afsheen Naz

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Sustainable Development Policy Institute (SDPI) Abstract

The South Asian economy is comparatively least integrated one in the world. Political conflict between India and Pakistan, the two most dominant countries of the region, is considered the most important factor hindering the region to economically integrate and prosper collectively. On the basis of such argument, this paper analyses the perceptions of Pakistani people about the dominance of politics over economic gains and its effects on both the economies as well as economies of other countries in the region. Findings of the paper are based on a perception survey in which fifty Pakistani professionals were interviewed from big cities including Karachi, Lahore, Islamabad and Rawalpindi. According to the stakeholders, political conflict not only affected the trade between India and Pakistan but also the regional trade. However, distrust is considered the leading factor causing political unrest which, the stakeholders strongly recommend, needs to be controlled.

Introduction

The South Asian region is said to be the least integrated region in terms of economy with very low regional trade level compared to other regions in the world. Over the years, various trade accords, for instance, SAARC, SAFTA and SAPTA, had been signed by the regional countries to enhance the economic integration and boost the trade level. Nevertheless, despite signing regional, multilateral and bilateral agreements, the trade within the region has yet to reach at desired level. At many times the political unrest between India and Pakistan is said to be one of the major reason negatively affecting the process of regional economic integration (Sayeed 2011).

India and Pakistan are the two major countries in South Asia owing to their density and economy. So, being the most influential, both of them are trapped in various conflicts and issues including political, economic, religious, security, military and historical. Sometimes these conflicts are so severe that they resulted in complete deadlock. However, efforts have been made by the two sides to normalize the relations during different periods starting from Composite Dialogue series in 2004 which is going on. At present, the economic ties between the two neighbours are heading towards progress with a good pace.

Keeping in view the importance of such arguments, this paper examines stakeholders' perception about: a) overall impact of trade agreements signed by Pakistan, b) current trade and regional cooperation scenario among South Asian countries, c) influence of political dominance on trade relationships between India and Pakistan, and d) desired measures that may be taken by the political community in South Asia towards enhancing trade in South Asia.

The findings of this paper are based on a survey titled "Cost of economic non cooperation to consumers in South Asia" which is conducted by SDPI for CUTS-India. The survey was then used by CUTS-India in a report that also includes the findings from other countries in the region as well.¹The original study presents the effects of economic non-cooperation on consumers and consumer welfare living in South Asian countries. However, this paper analyses the dominance of political conflicts between India and Pakistan over the regional trade. A subset of the questions that are related to the objectives of this paper has been used from the original survey.²

In the survey, fifty people representing academia, civil society, media, business community and government officials were interviewed from the major cities of Pakistan including Rawalpindi, Islamabad, Lahore and Karachi. To analyze the perception of these groups, qualitative technique has been used in this paper in which a firm level questionnaire was developed.

This paper finds that most of the Pakistanis consider the political unrest between India and Pakistan a major reason behind less economic integration in the region. Also, the political conformity between the two neighbours is considered paramount factor in way of regional as a whole.

Rest of the format of this paper is as follows:

Section 01 objectives, section 02 overview of trade between India and Pakistan, section 03, literature review, section 04 data set and methodology, section 05 analysis and section 06 presents conclusion and recommendations.

¹ "Cost Of Economic Non-Cooperation To Consumers In South Asia", CUTS-India

² Questioner used in the original survey is attached in the annexure 01

Section 1

Objectives

The study is aimed at finding out perceptions of stakeholders on:

- a. Overall impact of trade agreements signed by Pakistan
- b. Current trade and regional cooperation scenario among South Asian countries
- c. Influence of political dominance on trade relationships between India and Pakistan, and
- d. Desired measures that may be taken by the political community in South Asia towards enhancing trade in South Asia.

Section 2

Trade between India and Pakistan

2.1. Historical Background of the Conflicts

The two most potent countries in the region have very low bilateral trade ties soon after getting independence. Both the countries have granted the Most Favoured Nation (MFN) status to each other in 1948, right after signing the GATT agreement. According to Tabish *et al* (2011), Pakistan's exports to India were 56 per cent of its total exports whereas its imports from India were 32 per cent of the total imports in 1948-49. A major jerk in relations occurred during the 1965 and 1971 wars which hampered the economic relations. Moreover, disparities kept on increasing with the passage of time. To restore the trade ties, both the countries adopted the 'Positive List' approach in 1973.

With the adoption of Positive List approach, both the countries violated the GATT agreement in the wake of non-provision of MFN status to each other. Nonetheless, in 1996 India granted the MFN status to Pakistan with signing of SAFTA agreement but Pakistan did not. Nevertheless, it has been argued that despite granting the MFN status, India kept its trade policy restrictive for Pakistan and raised many tariff and non-tariff barriers on Pakistani products and services.

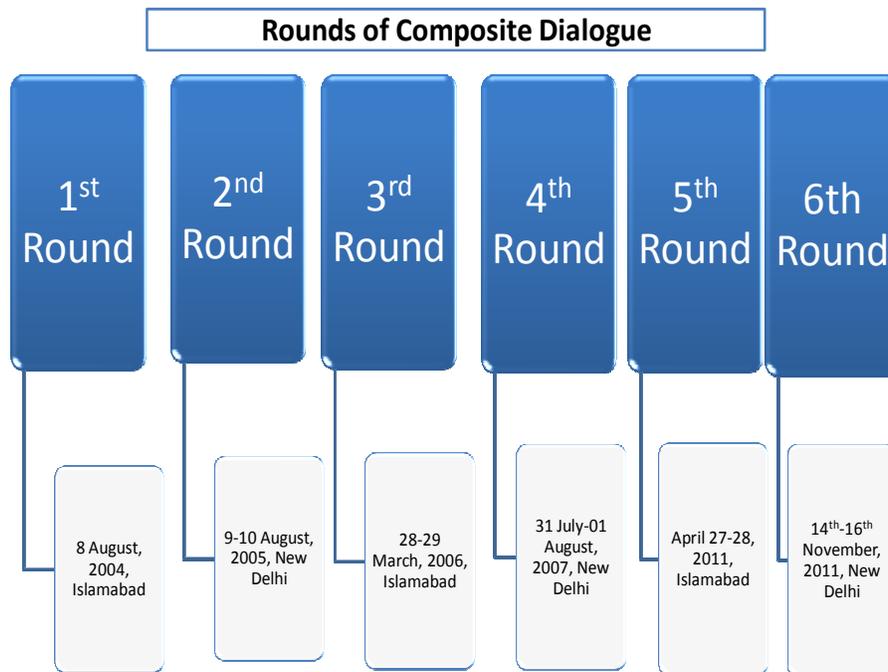
2.1.1 Non Tariff Barriers in India

- Visa and travel restrictions
- Inter-Provincial movement of goods
- Limited number of ports and inland custom posts for imports
- State trading enterprises
- Excessive use of trade defense measures
- Tariff rate quotas
- Technical standards and regulations
- Import regulations

Pakistan is an agrarian country and India has raised extremely high tariff barriers on agri products of Pakistan. These tariffs are an average of 90%. Moreover, India has also maintained the composite duty-Ad Valorem and Specific Duty on textile manufacturers which in some cases exceed 100%. On the other hand Pakistan kept the Positive List approach for Indian products. Consequently, trade could not reach at desired level between the two neighboring countries.

In 2004, the two countries initiated a 'composite dialogue' process to resolve the conflicts, which is going on. Instead of the issues relating to peace and security, the dialogue's agenda includes Confidence Building Measures (CBMs), Jammu and Kashmir, Siachen, Sir Creek, Wullar Barrage, Terrorism and Drug Trafficking, Economic and Commercial Cooperation and Promotion of Friendly Exchanges in various fields.³ So far six meetings of this dialogue process have been held; the last dialogue was held from 14th to 16th November 2011 in New Delhi-India.

³ "Indo-Pak Composite Dialogue", Sameer S. Patil, IPCS, Special Report, June 2008



2.2. Major decisions taken in the 6th round

- Pakistan will transition from the current Positive List Approach to Negative List Approach by Feb-2012
- Thereafter, all other items than in Negative List shall be freely exportable from India to Pakistan
- The timing of phasing out of Negative List will be announced at the timing of the list is notified in Feb- 2012

The four-year gap between fourth and fifth dialogue is noteworthy. It was the period when the incidence of Mumbai attacks occurred and Pakistan was blamed for the attacks. Later, the composite dialogue process restarted in 2011 with two successful rounds in the same year. The MFN status recently granted to India is supposed to be the biggest achievement of the process.

On the MFN status to India, the Pakistan's business community expressed reservations and fears, particularly in agri products. Thus market capturing by Indian products is another major concern for the business community of Pakistan. Nonetheless, during sixth composite dialogue certain measures were adopted to overcome or at least to reduce such fears of Pakistani businessmen. For instance, the proposition of signing of following agreements between the two countries is one of such measures.

2.2.1. Agreements to be signed to Address Tariff and Non Tariff Barriers

- Customs Cooperation Agreement
- Mutual Recognition Agreement
- Redressal of Grievance Agreement
- Preferential Tariff under SAFTA Agreement

And to protect the local industry, effective use of trade defense laws were also proposed in the dialogue

2.2.2. Trade Defense laws in Pakistan

- National Tariff Commission Act, 1990
- Antidumping Duties Ordinance, 2000
- Countervailing Duties Ordinance, 2001
- Safeguard Measures Ordinance, 2002

2.3: Trends of Trade between India and Pakistan

According to Asad Sayeed (2011) despite knowing the benefits relating to enhanced bilateral trade and its effects on the entire region, the trade volume between the two countries remained less than \$ one billion in previous decade or so. The study analyzes that none of the two countries remained at top five trading countries list in the magnitude of their global trade volume.

Table 2.3.1: Growth Trends of India's Export and Import towards Pakistan

Values in US \$ Millions					
Year	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
EXPORT	1,350.09	1,950.53	1,439.88	1,573.32	2,333.62
%Growth		44.47	-26.18	9.27	48.32
India's Total Export	126,414.05	163,132.18	185,295.36	178,751.43	251,135.89
%Growth		29.05	13.59	-3.53	40.49
%Share	1.07	1.2	0.78	0.88	0.93
IMPORT	323.62	287.97	370.17	275.94	332.51
%Growth		-11.02	28.54	-25.45	20.5
India's Total Import	185,735.24	251,654.01	303,696.31	288,372.88	369,769.13
%Growth		35.49	20.68	-5.05	28.23
%Share	0.17	0.11	0.12	0.1	0.09
TOTAL TRADE	1,673.71	2,238.50	1,810.05	1,849.26	2,666.13
%Growth		33.75	-19.14	2.17	44.17
India's Total Trade	312,149.29	414,786.19	488,991.67	467,124.31	620,905.02
%Growth		32.88	17.89	-4.47	32.92
%Share	0.54	0.54	0.37	0.4	0.43
TRADE BALANCE	1,026.47	1,662.56	1,069.72	1,297.38	2,001.11
India's Trade Balance	-59,321.19	-88,521.83	-118,400.95	-109,621.45	-118,633.24

Source: Government of India, Ministry of Commerce & Industry, Department of Commerce (Dated: 16/05/2012)

The table clearly depicts the picture of trade balance in favor of India. During the past five years, India's export to Pakistan is higher than its imports from Pakistan. Despite not granting the MFN status to India and bearing very high tariff and non tariff barriers, Pakistan is importing more goods and services from India. The table also draws attention towards the negative export and import growth of India with Pakistan in 2009-2010. This is the period when the two countries confront with political war due to Mumbai attacks in India (Mohsin 2009). This situation is a clear example of political war and its effects on trade between the two countries.

3: Literature Review

Khan *et al* (2007) while elaborating the importance of India in the South Asian region writes the states in South Asia have a long history of conflict and integration. In the entire region, the state of India has its importance dominantly since the British rule in the subcontinent. Even after the segregation of Indian state into India and Pakistan, it is still the largest and centrally situated state in the region.

Pakistan is the second largest country in the region after India, hence, can be considered as very important for setting the growth trends in the region. These two countries have history of conflict since their creation, which ultimately stops to bring peace and prosperity in the region. The base of the conflicts is manifold like religious, security, military and historical dynamics (Bose 2004, Nisha 2007). Major conflicts between these two countries are stemmed from test of nuclear weapons by both the countries in 1998, Kargil conflict in Indian-held Kashmir in 1999 and terrorist attack on Indian parliament in 2001 that led to accretion of troops along both sides of the border (Mohsin 2009). The most recent incidence is the Mumbai attacks in 2008.

Due to these conflicts, the two neighbors remained reluctant to enhance bilateral trade ties over the period of time. Many of the studies that include Ijaz Nabi and Anjum Nasim (2001) Amita (2004), State Bank of Pakistan (2006), Naqvi and Schuler (2007) etc have been conducted in favor of enhancing the bilateral trade. All these studies not only highlighted the importance of increasing the bilateral trade but also estimated the gain from enhancing of trade. Tabish *et al* (2011) for instance estimated that the two countries are largest in the region and accounted for more than 90 per cent of South Asia's gross domestic product. Due to lower bilateral integration between these two, the whole region is abandoned from trade. According to same study, the intra regional trade is merely at 5 per cent, which accounts for just over one per cent of the region's GDP.

According to economic theories, trade contributes towards the consumer, producers and government's welfare. Literature also shows the importance of benefits of enhancing the regional trade that the more regional trade contributes to enhance the interdependence of the countries that leads to political stability.⁴ The benefits linked with enhanced regional trade have been studied in a number of studies like Wickramasinghe (2001), Burki (2004), Chandra (2005) etc. Likewise, the enhanced intra-regional trade will be beneficial for the whole South Asian region as it will improve the technical efficiencies, better resource allocation and specialization in various products etc.

To minimize confrontations and to enhance the regional cooperation, treaties like South Asian Association of Regional Cooperation (SAARC), Preferential Trade Agreement (SAPTA) and South Asian Free Trade Agreement (SAFTA) have been signed by the South Asian nations over the period of time. Basic motive behind establishing the SAARC was to bring stability in South Asia by enhancing regional cooperation (Khan *et al* 2007).

To strengthen the economic cooperation, South Asian countries have signed a total three regional trade agreements, i.e; SAPTA and SAFTA and SAARC. The SAARC Preferential Trade Agreement (SAPTA) was signed amongst South Asian countries on 11 April 1994. Basic motive behind was not only to sustain the economic cooperation within the region but to promote the trade cooperation as well. (Mel 2010)

⁴ For a discussion on PTAs, see Rosson, C-Parr, et al., "Preferential Trading Arrangements: Gainers and Losers from Regional Trading Blocs," <<http://www.ces.ncsu.edu/depts/agecon/trade/eight.html>>. Quoted in Zaidi, Issues

The third accord SAFTA came into being in 1996, however, its proper functioning started on 1st January 2006. Again, the motive behind was to enhance the regional economic cooperation by reducing and eliminating the tariff & non-tariff barriers and customs duties on the products and services. The creation of “free trade bloc” in the region was one of the strongest objectives of the agreement. Under the agreement, the reduction and abolition of the tariff rates were of two phases. The developing countries in the region like India, Pakistan and Sri Lanka were obliged under the agreement to reduce their trade duties and bring them down to 20 per cent in first phase that is till 2008. These duties were supposed to be cut to zero annually at the time of completion of second phase of the agreement in 2016. However, the least developed countries of the region like Bangladesh, Nepal, Bhutan and Maldives were supposed to be given additional three years, after 2016, to cut the duty rate at zero. (Nisha 2007)

Unfortunately, SAFTA almost failed to prove its success in narrowing down the regional economic distances. On the contrary, countries in the region started bilateral agreements within the region that are very successful. Some of the regional bilateral agreements included India-Sri Lanka bilateral agreement and Pakistan-Sri Lanka bilateral agreement etc. (Khan *et al* 2007)

Nonetheless, studies have separately highlighted the importance and benefits associated with the bilateral relationships between India and Pakistan. According to Tabish *et al* (2011), the benefits bonded with trade integration between the two countries are of manifolds. Availability of cheaper products to the consumers, enhancement in customs revenues, boosting of productivity by specialization in various sub sectors of the economy etc are some of the positive results of bilateral trade openness, according to same study.

At present, trends of coalition between these two countries have been emerged with the provision of MFN status to India. Though India had given the MFN status to Pakistan back in 90s, it raised many non tariff barriers to the products of Pakistan. The provision of MFN status to India is based on many facts and fears as well. The foremost fact that stops taking such action by Pakistan is the presence of very high tariff and non tariff barriers by India. (Abid Qamar 2005). India has allowed the MFN status to Pakistan back in 1996 but Pakistan kept the positive list. Pakistan adopted approach of gradual expansion of the list of items importable from India. During the different trade regimes between the two countries, the trade balance remained in favour of India. (NishaTaneja 2007)

4: Methodology and Data Set

The data used in this paper is based on a perception survey “Cost of Economic Non-Cooperation to Consumers in South Asia”, in which total fifty people of Pakistan belonging to different professional backgrounds was interviewed. The survey was conducted by SDPI while supervised by CUTS-India. The same type of survey was conducted by CUTS in all South Asian countries through various organizations in the respective countries. The current survey covered total fifty people of Pakistan representing diverse professional background. In current paper only those questions of the survey have been analyzed, which fit in to the objectives of the paper.

The survey covered total four cities of Pakistan, Rawalpindi, Islamabad, Lahore and Karachi. Stakeholders were contacted who have related experience on Indo-Pak trade keeping in view the time and budget constraint. Purposive sampling technique was applied in taking stakeholders from these four cities. Categorization of the number of the respondents is as follows;

Cities	No. of Respondents
Islamabad	29
Lahore	11
Karachi	08
Rawalpindi	02
<i>Total</i>	<i>50</i>

These respondents fall under professional categories of traders, producers, academia, government officials, civil society and media representatives. Group wise classification of the respondents is as follows;⁵

Groups of Respondents	No. of Respondents
Media	10
Academia	10
Government Officials	15
Civil Society Representatives	07
Traders/Producers	08

The survey comprises the responses of both male and female professionals. Out of total fifty respondents, 11 were females representing different professional backgrounds.

⁵Departments/ Institutes of the stakeholders can be found in annexure 02

5. Analysis⁶

Keeping in view the objectives of the current paper, the reduced form of the questioner has been analyzed. The original questioner contained thirteen questions however four questions will be of particular focus of current paper. The description of these four questions is as follows:

- Perception about the overall impact of trade agreements-Multilateral, Regional and Bilateral Trade Agreements, signed by Pakistan?
- Perception about the current trade and regional cooperation scenario among South Asian countries
- Are regional/bilateral trade negotiations among and between South Asian countries influenced by political priorities rather than economic logic?
- What kind of steps must be taken by the political leadership of South Asian countries to enhance regional trade and economic cooperation?

5.1. Overall impact of trade agreements-Multilateral, Regional and Bilateral Trade Agreements, signed by Pakistan

One of the government officials while sharing his views on the objectives of forming all these three trade agreements said:

“Behind all these agreements the objective was to adopt the global village approach in trade via availability of cheap products, best utilization of expertise and transmit to other countries so that consumers get benefited. Moreover, quality along with availability may be enhanced.” (Saleem-Islamabad)

The agreement wise perceptions of the respondents are as follows.

Multilateral Trade Agreements

As multi-trade agreements enables the developing economies to tap affluent markets of the world, these also help the developing economies to shift to higher levels of productivity and general efficiencies through transfer of technologies and that of managerial expertise. However, combination of perceptions regarding effectiveness and ineffectiveness of the WTO was shared by the respondents as follows:

Almost half of the respondents shared their concerns regarding expediency of WTO. The respondents were of the view that the agreement is ineffective, particularly, for developing countries. One producer, for instance, said:

“I am not really sure about its impact on developing countries and particularly on Pakistan” (Asad-Lahore)

One government official shared the same as saying:

“It is a firm reality that to date WTO has not been successful in promoting trade liberalization around the world. It seems to be biased toward developed countries by safeguarding their interests thus providing

⁶ For analysis purpose, pseudo names of the respondents have been used

limited benefits to the developing and poor countries. A flourishing phenomenon of PTAs in recent years indicates that WTO has not been emerged as a successful process.” (*Zia-Islamabad*)

While almost half of the respondents shared their perceptions about the importance and effectiveness of WTO. However, despite admiring the WTO process, many of the respondents again showed their concerns regarding nature of rules applied by the WTO. The respondents perceived these rules as more beneficial for developed countries. Sharing her perceptions one respondent said:

“The overall impact of WTO-multilateral trade agreement (as signed in the Uruguay round) has been positive since it has raised awareness about businesses subscribing to ‘quality and standards’ to capture the markets. As a result, efficiency, productivity and competition have been increased since resources are being utilized in more optimal fashion-even using wastes to earn money. This is true for the export oriented industry whilst Pakistan. However the domestic industry is unable to provide a level playing field.” (*Shakeel-Islamabad*)

Likewise, one of the respondents, a trader basically, also compared the importance of multilateral trade agreement with its impact on developing countries especially Pakistan. He was of the view that “WTO has resulted in more liberalized and open trade regime in Pakistan. However, Pakistani traders fear the onslaught on cheap products from competing countries such as India and China. However this fear is not one-sided. For instance, Pakistan faced opposition from Bangladesh and India when it was given a special concession package for access to the EU after the 2010 Floods. So basically, all developing countries are somewhat wary when we talk about liberalized trade and WTO in particular” (*Shafaqat-Karachi*)

A media person was of the view that “Regional trade agreements provide broader list for trade than in the case of WTO. In case of Pakistan, it seems that regional agreements damaged the domestic industry while some countries enjoying the win-win situation.” (*Nazim-Islamabad*)

Regional Agreements

SAFTA calls for the gradual reduction of tariffs, customs duties, and other trade barriers, and overall reciprocity and mutuality of advantages so as to benefit all the member states. Regional economic cooperation has the advantage that it shrinks the distances and reduces transportation cost as well as encourage trade due to similarity in culture and tastes. In addition, it not only consolidates the comprehensive relations among the countries, but also helps achieve common aspirations for development, peace and stability in the region.

SAFTA proposes to build on the SAARC Preferential Trade Agreement (SAPTA) by increasing the scope of the South Asian regional trade dialogue to include issues of competition, trade and transport facilitation through progressive harmonization of legislation, banking procedures, macroeconomic consultations, communications, foreign exchange regulations, and immigration (currently SAFTA is only concerned with the facilitation of business visas). SAFTA also introduces a specific Trade Liberalisation Programme that phases down tariffs and eliminates quantitative restrictions in consonance with the obligations imposed by the WTO.

Despite being such an important trade agreement, SAFTA perceived to be failed in achieving its set targets by more than half of the respondents and especially in case of Pakistan. One government official from Karachi said:

“No, concrete/major benefit has been gained so far by signing SAFTA by Pakistan” (Shehzad-Karachi)

Another respondent from academia was of the view that “No substantial progress has been made in terms of market access for Pakistani products in the member countries.” (Raihan-Islamabad)

However, many of the respondents highlighted the importance of political conflict between India and Pakistan. The respondents not only considered these two economies as influential but also linked the ineffectiveness of SAFTA with political conflict between India and Pakistan. One respondents, for instance, from civil society was of the view that “SAFTA would be a great initiative if it were to be implemented but progress has unfortunately been slow due to political differences between the two biggest South Asian countries; Pakistan and India.” (Ahmad-Lahore)

Another person from civil society said:

“SAFTA remains a disappointment given the foreign policy deadlock between India and Pakistan. So far, it has no impact because of political situation in the region” (Jahanzib-Karachi)

However, one business community representative perceived the signing of multilateral trade agreement-SAFTA beneficial for business nourishment. He was of the view that “SAFTA is good as it was good news for traders. Because opening of trade is beneficial for business community” (Umar-Lahore)

Bilateral Agreement

Bilateral trade agreements enhance closer economic ties between the two countries. While there are pros and cons to every trade agreement, it is said that it can boost business for both partners and benefit both economies. More important is to understand each other’s strengths and weaknesses. Pakistan has signed bilateral trade agreements with Afghanistan, Malaysia, China, Sri Lanka, Iran and Mauritius. Out of which, the most significant is the FTA with China covering goods as well as investments, which became effective from July 01, 2007. Many of Pakistan exportable products such as textiles, fruits and vegetables, gems and jewellery, engineering goods, leather products, sports goods, surgical goods, marble products and industrial alcohol can enter the Chinese markets at zero duty or concessionary duties. However, FTA with Iran is not very effective due to political reasons. Trade agreements with Malaysia, Sri Lanka and Mauritius are expected to be beneficial for Pakistan’s economy. However, their overall impact rests on the implementation and execution of the agreement.

Many of the respondents while perceiving the effectiveness of various bilateral agreements linked it with lack of proper research in this perspective. One of the respondent from government was of the view that

“A professional analysis post FTA has not come out but it has positive political dimension” (Shehzad-Islamabad)

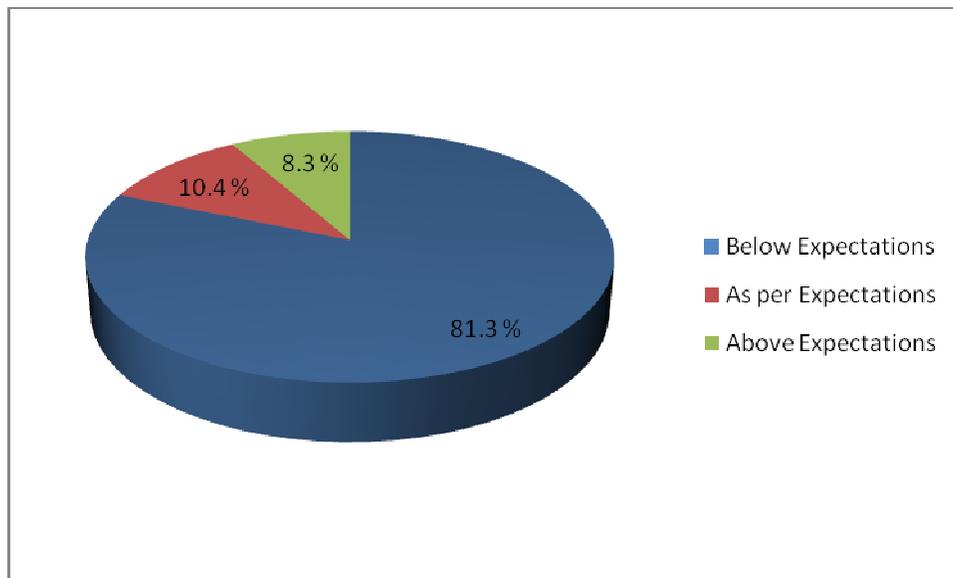
Another person from academia said:

“Will help improve business and technology but Proper Research is not conducted on impact short term and long term, Involving the stake holders.” (Gulbaz-Lahore)

5.2: Perception about the current trade and regional cooperation scenario among South Asian countries

A total of 48 persons furnished their perceptions to this question. The respondents were given three options: (i) Below expectations (ii) As per expectations and (iii) Above expectations. Thirty nine persons perceived the trade and regional cooperation as below expectations. Five respondents perceived such regional cooperation as per expectations while four persons chose the third option.

Figure 5.2.1: Perceptions about the current trade and regional cooperation scenario



This 81.3% area represents the perceptions of almost all of the groups in the survey. A large number of people while catching up their choices in responding to this question also shared their perceptions behind choosing the first option. The people who perceived the regional trade cooperation below expectations were generally of the view that “Given the size of the combined economy of the SAARC, the member countries have not been able to integrate their true trade potential”. Moreover, the respondents linked such low regional cooperation with political conflict amongst South Asian countries. One government representative from Lahore perceived this low integration as:

“Due to persistence of conflict in South Asia and the inability of SAARC members to come up with solutions to the problems, trade among SAARC nations is very limited which make this region least integrated in the world.” (Sumera-Lahore)

However, the respondents considered the regional economic integration beneficial for the region as a whole and particularly in relieving the region from poverty trap. Nevertheless, despite highlighting the political conflicts in the region, various groups of respondents gave some other reasons behind such low

integration. For instance, a general perception, from almost all the respondents, came out that SAFTA has not been implemented properly yet.

Furthermore, the respondents gave much importance to the conflicts between India and Pakistan and their manipulation on the other countries in the region. The respondents categorized these conflicts into economic and political conflicts. One government representative while highlighting the importance of economic conflicts on one of trade agreements i.e; SAFTA, said:

“There are two major countries in the region-Pakistan and India, until trade is normalized in these two countries, until Pakistan grants the Most Favoured Nation status to India, SAFTA cannot be successful. The SAFTA is same like ASIAN, where china is a major player like India in SAFTA. Until one major economy integrates other markets cannot reach that trade potential.” (Alam-Islamabad)

However, out of thirty nine respondents, most of them perceived the political conflicts as more influential than the economic conflicts and considered them as major hurdle in fostering the process of economic integration in the region. One media representative, for instance, perceived in this regard that;

“SAFTA was signed to offer each other tariff concessions for promotion of regional as well as bilateral trade. However, effective trade liberalization could not be achieved due to tariff, non-tariff barriers, political hurdles and lack of political will on the part of Pakistan and India, two main signatories of the agreement.” (Imran-Islamabad)

One government representative from Lahore said that;

“In terms of the potential, these are below expectations. Especially in case of India and Pakistan, political factors impede this cooperation.” (Shah-Lahore)

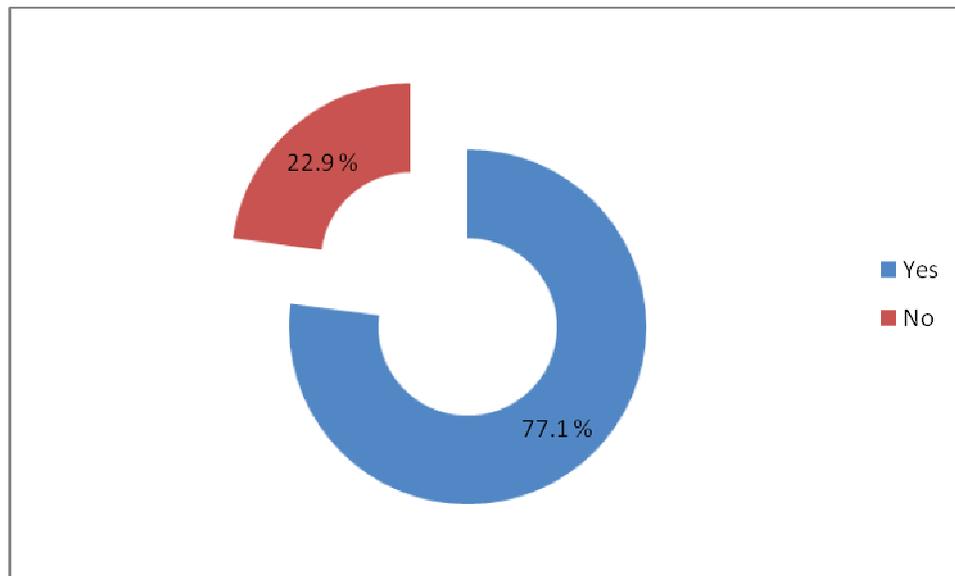
One civil society representative from Karachi not only recognized the political conflict between India and Pakistan as major hurdle in enhancing the regional trade but suggested alternatives as well. She was of the view that “I feel that there is very intense political tension between the two large economies of the region-India and Pakistan. India’s attitude has always been very hostile towards Pakistan and they both do not trust each other. The two countries have to realize the fact that in order to have a sustainable and comprehensive regional economic cooperation they need to show some flexibility in their way of behaving.” (Naila-Karachi)

Whilst, those who considered the current trade and regional cooperation scenario among South Asian countries as per expectations and above expectations simply chose these options and did not showed their perceptions while choosing so.

5.3- Are regional/bilateral trade negotiations among and between South Asian countries influenced by political priorities rather than economic logic?

The respondents were given two options, (1) No and (2) Yes, to quantify their perceptions. Total forty eight respondents replied to this question, out of which thirty seven perceived the political priorities influential than the economic logics. The graphical presentation of the perceptions is as follows:

Figure 5.3.1: Perceptions about Political Priorities over Economic Logics



Out of these 77.1%, most of the respondents highlighted the political conflict between India and Pakistan. Most of the respondents were of the view that these two countries are most influential in the region and always prioritize their political conflicts over the economic gains. Nevertheless, the respondents also perceived many trade barriers, of India and Pakistan, along with political conflicts which are adding to the myth of slow economic integration. Visa restriction, non tariff barriers, religious barriers are some of the factors highlighted by the respondents. Even so, all of these respondents called the political conflicts as most influential over all other trade barriers. The respondents considered such political conflict between the two countries as the greatest hurdle which is stopping the whole region to integrate, progress and hence to prosper.

Some of the responses from various groups, who said that trade negotiations are more influenced by political priorities than economic logics are as follows:

A government official termed the politics between India and Pakistan a tool which, she said, is being used to enhance or reduce the trade. She was of the view that;

“It is a political game, especially; it is true for India and Pakistan trade. The non tariff barriers (NTBs) are very high between these two countries and this is all about the political negativism. The country, particularly I am talking about the India and Pakistan, which do not want to have trade in some goods, the NTBs on those products will be increased. The NTBs are as strong that no matters if there is a signed contract between importers and exporters, the political conflicts highlight these NTBs and trading of those products will be stopped” (Amina-Rawalpindi)

Many of the respondents highlighted some of the major issues that caused the political conflict to occur and to prolong. The Kashmir issue was highlighted by number of respondents, in this backdrop. A government official, for instance, was of the view that;

“Indo-Pak political dispute is the major constraint which limits trade integration among nations. For example, Kashmir issue and war on terror affect economic collaboration between Pakistan and India” (Ambar-Lahore)

One media representative said that;

“The South Asian region is facing conflicts like Kashmir issue thus trade could not enhance until such issues are solved. Pakistan is interested in solving Kashmir issue before any trade could take place. Though some trade is taking place between India and Pakistan but it is not going beyond onions and potatoes. India is not ready to give access to its markets to Pakistan” (Numan- Lahore)

Another media representative from Islamabad perceived the prioritization of political conflict over economic gains in this way.

“The current issue of granting Most Favorite Nation (MFN) status to India by Pakistan is an excellent example that how the governments in South Asia clubbed trade with politics. Pakistan denied expansion of trade with India for many years and always linked it with the solution of Kashmir conflict. On same pattern, India denied trade rights to Sri Lanka due to Lankan government’s tilt towards Pakistan. The reason is again the lack of awareness among the citizens in this region. A common person in South Asia doesn’t know how he has been denied the right of choice, quality and price while purchasing a good due to restriction in the regional trade and how it can benefit consumers in terms of prices and availability of variety of products. Hence, the politicians in the whole region get the benefit of low level of awareness and do politics on trade” (Jawad-Islamabad)

However, those who selected the second option did not actually agreed upon the second option of the question but almost all of them took both of the options as parallel to each other. For instance, one media person from Islamabad said: “There has been a mix of considerations. It is difficult to separate politics and trade relations among the members.” (Shafqat-Islamabad)

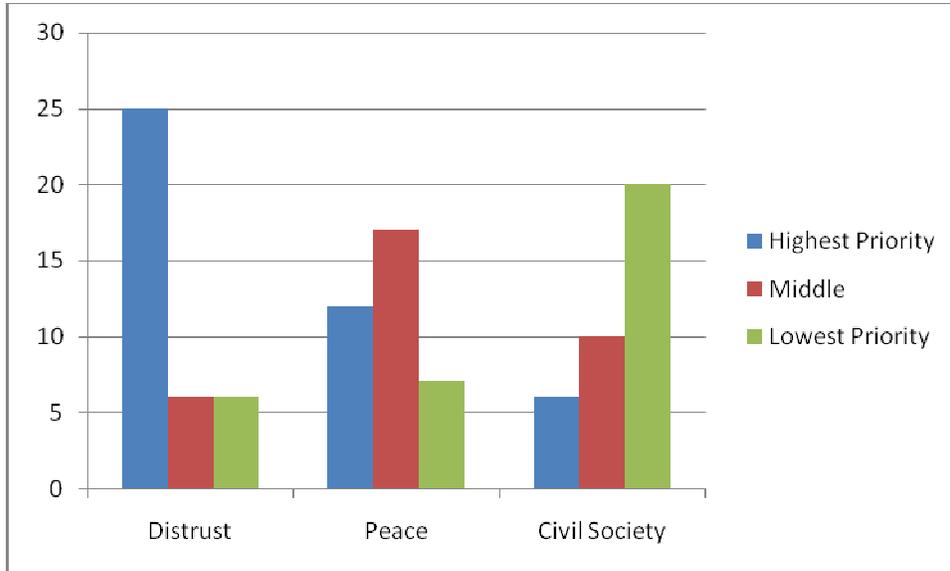
5.4: What kind of steps must be taken by the political leadership of South Asian countries to enhance regional trade and economic cooperation?

Rank them in order of your choice – 1 = Lowest priority; 3 = Highest priority

- a. Stop distrusting each other
- b. Highlight peace dividends from enhanced regional economic cooperation in their actions
- c. Take part in civil society initiatives toward enhancing regional economic cooperation

When respondents were asked about their perceptions about the best step needed for political leaderships to enhance economic integration, most of the respondents chose option A. Total forty three stakeholders gave their perceptions under this question of which twenty five ranked “Stop distrusting each other” as highest priority.

Figure 5.4.1: Steps Needed for Political Leadership



The respondents who chose option A, while confining themselves to Indo-Pak trade, called the distrust as a major product of continuous political conflicts between these two countries. One person from academia for instance was of the view that “Distrust is the major factor that is due to long awaited dispute between India & Pakistan, like Kashmir, Siachen etc” (Zulqarnain-Karachi)

A representative of the business community shared his perception in this way;

“Core political issues are needed to be solved by the two countries to stop mistrusting each other” (Kamran-Lahore)

Such perception of business community again highlights the distrust as a creation of political conflicts

A media representative from Lahore, while highlighting the results of distrust said: “Distrust is really a poisonous thing when it comes to mutual relations; the states should work upon to dilute that mistrust that would eventually develop amicable relations between the nations. Especially, the people of India and Pakistan consider any favour to other country as surrender or disloyalty to the respective lands” (Tahir-Lahore)

Whereas, the second highest priority which perceived to be a step needs to be taken by the political leadership was “to highlight peace dividends from enhanced regional economic cooperation in their actions”. One respondent, for example, from civil society shared his perceptions in this way:

“Highlighting peace dividends in the form of economic and trade benefits will help in regional economic integration” (Umar-Islamabad)

While a person from academia perceived the peace dialogues as most effective step needs to be taken by the political leadership to enhance regional trade and economic cooperation. He said: “Peace is the key of any future understanding” (*Wajahat-Islamabad*)

However, to follow the initiatives highlighted by the civil society in enhancing the trade cooperation received lowest perception of the respondents.

6: Conclusion and Recommendations

Majority of the respondents considered the political conflicts between India and Pakistan a root cause behind economic non-integration of the region.

Majority of the respondents considered both regional-WTO and multilateral-SAFTA trade agreements ineffective. The respondents were of the view that both of the agreements have almost failed to fully achieve their objectives. The respondents were of the view that these trade accords are ineffective particularly towards developing and least developed countries in the region.

More than half of the respondents i.e. thirty nine ranked the regional trade as below expectations. Whilst, most of these respondents term the political unrest amongst south Asian countries and particularly between India and Pakistan, a major reason which is stopping the regional trade in reaching as per expectations.

Thirty seven respondents perceived the political priorities more influential than the economic logics. Here again the respondents not only considered the India and Pakistan as most influential countries in the region but also gave examples of political prioritization over economic gains by these two countries. The respondents perceived such political prioritization as a hindrance behind Indo-Pak economic ties but also considered it as a major reason behind causing low economic integration amongst rest of the countries in the region.

More than half of the stakeholders considered distrust as most powerful indicator behind creating and then boosting the political conflicts between India and Pakistan and ultimately negatively effecting the economic relations between the two countries and having spillover effects on the entire economies in the region. Moreover, Kashmir and Siachen disputes were highlighted as roots of such distrust. Thus, to control the distrust factor was strongly recommended by the stakeholders. However, advancing of peace dialogues between the two countries was recommended by the stakeholders for the betterment of the region as a whole.

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Annexure

Annexure 01

Cost of Economic Non-Cooperation to Consumers in South Asia (COENCOSA)

A Perception Survey of Stakeholders

Introduction (Why this Survey?)

Intra-regional trade in South Asia is very minimal compared to other fast growing economic blocs of the world, and it remained stagnated around 4.5 % of total trade of South Asian countries since 1995. Studies have shown that there exists immense unexploited growth potential for trade and economic relations between South Asian countries. One of the main reasons behind economic non-cooperation is the lack of awareness or misinformation amongst stakeholders regarding the potential benefits of enhanced trade and economic relations within the South Asian region.

This survey is undertaken by CUTS International to understand the perceptions of various stakeholders belonging to South Asian countries regarding regional economic cooperation.

The survey is part of the CUTS project entitled Cost of Economic Non-Cooperation to Consumers in South Asia (COENCOSA). Full details of the project, its objectives and activities are available at [COENCOSA Project Webpage](#)

Confidentiality

Your participation in this research study is voluntary. We assure you that the information shared and views expressed by you will be used only for research purposes and a strict confidentiality of information and identity of the respondent will be maintained.

We thank you for showing interest and participating in this survey.

Name of Respondent:

Education:

Age:

Sex: Male Female

City:

Country:

Organisation:

Email:

Respondent's Profile

Producer/Trader/Exporter	<input type="checkbox"/>
Government Official	
Trade-Related Service (Transport Sector, Insurance Sector, Banking Sector, etc)	<input type="checkbox"/>
Political Person	<input type="checkbox"/>
Academic/Researcher	<input type="checkbox"/>
Civil Society Organisation	<input type="checkbox"/>
Business/Industry Organisation	<input type="checkbox"/>
Media	

For Enumerators Only

Name of the Enumerator:

Enumerator's Code:

1. What is your thinking about overall impact of trade agreements signed by your country?

Multilateral Trade Agreement (World Trade Organisation Agreement):

Regional Trade Agreement (South Asian Free Trade Agreement):

Bilateral Trade Agreements¹

¹ For example India-Sri Lanka Free Trade Agreement

2. How do you perceive the current trade and regional cooperation scenario among South Asian countries?

a. As per expectations	<input checked="" type="radio"/>
b. Below expectations	<input type="radio"/>
c. Above expectations	<input type="radio"/>

Explain your choice:

3. Are regional/bilateral trade negotiations among and between South Asian countries influenced by political priorities rather than economic logic?

a. Yes	<input type="radio"/>
b. No	<input type="radio"/>

Explain your Argument:

4. Do you believe that more trade liberalization at the regional (South Asian) level is beneficial to consumers of your country?

a. Yes	<input type="radio"/>
b. No	<input type="radio"/>

Explain your Point

5. Is trade-related consumer welfare ignored by trade policy makers of your country?

a. Yes	<input checked="" type="checkbox"/>
b. No	

Explain your Argument:

6. What ought to be the volume of intra-regional trade among South Asian countries in 2020?²

a. 5-10%	<input checked="" type="checkbox"/>
b. 10-20%	<input checked="" type="checkbox"/>
c. 20-30%	
d. Above 30%	

Explain your Choice

7. What do you think is the best mode to deepen trade integration in the South Asian region?

a. Multilateral Trade Liberalisation (WTO)	<input checked="" type="checkbox"/>
b. Regional Trade Agreement (SAFTA)	
c. Bilateral Trade Agreements	

Explain your Choice:

8. Can economic and political relations in South Asia be complimentary to each other to enhance trade and regional economic cooperation?

a. Yes	
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b. No	
-------	--

Explain your Argument:

9. What factors hinder South Asian countries to enhance regional trade and economic cooperation?

Please select what do you thinking most important factor (by marking 1) and what do you think least important factor (by marking 2)

a. Distrust among South Asian countries	
b. Lack of complementarity in production and consumption	
c. Lack of awareness about consumer benefits from regional economic cooperation	
d. Lack of expectations about other economic benefits from regional economic cooperation	

Explain your Choice:

10. Do you think that consumer welfare impact analysis needs to be taken into account in trade policy making?

a. Yes	
b. No	<input checked="" type="checkbox"/>

Explain your Argument:

11. What do you think about generating more awareness about positive consumer welfare impact of greater regional trade cooperation?

Rank them in order of your choice – 1 = Lowest priority; 4 = Highest priority

a. Media campaign at national and regional level	
b. Networking among consumer organisations at national and regional level	

c. Networking among producers and consumers at national and regional level	
d. Dialogue between politicians, producers and consumers at national level	

Explain your Choice:

12. What kind of steps must be taken by the political leadership of South Asian countries to enhance regional trade and economic cooperation?

Rank them in order of your choice – 1 = Lowest priority; 3 = Highest priority

a. Stop distrusting each other	
b. Highlight peace dividends from enhanced regional economic cooperation in their actions	
c. Take part in civil society initiatives toward enhancing regional economic cooperation	

Explain your choice

13. State some of your general views on the values and virtues of greater regional trade and economic cooperation:

Annexure 02

<i>Covered Cities 04</i>	
Institution	City
Pakistan Institute of Trade and Development	Islamabad
Research, Development and Advisor Cell, Ministry of Textile Industries	Islamabad
Rawalpindi Chamber of Commerce & Industry	Rawalpindi
Institute of Policy Studies Islamabad	Islamabad
Pakistan Software Export Board(PSEB)	Islamabad
Institute of Policy Research Institute	Islamabad
Sustainable Development Policy Institute, Islamabad	Islamabad
Lahore Chamber of Commerce and industry	Lahore
Small & Medium Enterprises Development Authority (Head Office Lahore)	Lahore
Action Aid (NGO)	Islamabad
National University of Science and Technology (2)	Islamabad
Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology (SZABIST)(2)	Islamabad
IPP-Beaconhouse National University	Lahore
State Bank of Pakistan (3)	Karachi
Economic Affair Division (EAD) (2)	Islamabad
Pakistan Observer (media)	Islamabad
OXFAM (NGO)	Islamabad
Dawn (media)	Islamabad

GEO (media) (2)	Islamabad
<u>kcapak@cyber.net.pk</u>	Karachi
Trade Development Authority of Pakistan	Karachi
Ministry of Industries and Production	Islamabad
National University of Modern Languages (3)	Islamabad
The Federation of Pakistan Chambers of Commerce & Industry	Karachi
Alfaisal marble	Islamabad
al imran trading corporation	Lahore
SAARC Chamber of Commerce and Industry	Islamabad
Islamabad stock Exchange	Islamabad
DAWN (media) (2)	Islamabad
Zafar enterprises	Karachi
Fatima Jinnah Women University,	Rawalpindi
A.R Cargo, Lahore (2)	Lahore
The News (4)	Islamabad
Pakistan Association of Automobile Parts & Accessories Manufacturers (PAAPAM)	Lahore
Small and Medium Enterprise Development Authority	Lahore
Social Policy and Development Center	Karachi
Competition Commission of Pakistan	Islamabad