Concerns in Indo-Pak relations

What is the issue?

\n\n

Economic integration of South Asia has remained persistently stunted by the hostile political relationship between India and Pakistan.

\n\n

What does the stats show?

\n\n

\n
- The South Asian region was among the first to recover from the global financial crisis with a growth rate of 8% in 2009.
\n
- However, trade within the region has hovered around 5% of the region's total trade.
\n
- This has occurred in a region that has one of the most dynamic economies of the world, with the Indian economy averaging growth of over 7% over the past 15 years.
\n
- The World Bank study, A Glass Half Full, also highlights the fact that the gap between actual and potential trade for South Asia has been widening since 2001.
\n

\n\n

Where does the relationship stand?

\n\n

\n
- Economic integration of South Asia has remained persistently stunted by the hostile political relationship between India and Pakistan.
\n
- This is despite the economic size and physical proximity of the countries, rising population, historical and linguistic proximity and their higher

participation in regional or bilateral free trade agreements (FTAs).
\n
- As a result, South Asia has been unable to translate its inherent advantages in achieving economic integration in the region.
\n
- The conflict between India and Pakistan has persisted for seven decades despite a long history of confidence building measures (CBMs) between the two countries.
\n
- It ranges from no war pacts, agreements for non-interference in bilateral affairs, regular communication through establishment of military and heads of state hotlines and economic CBMs.
\n
- However, a CBM announcement is followed soon after by some conflict escalation.
\n
- Pakistan’s intention recently to take forward the bilateral relationship to a “talk and trade” mode was soon followed by the killing of Indian security personnel at the border.
\n
- Hence the talks were called off even before they started.
\n
- The CBMs, military or economic, have therefore not altered the fundamental nature of the India-Pakistan bilateral relationship that is beset with hostility and conflict.
\n
- Since these are two largest economies of the region, the conflict-ridden relationship dominates the South Asian landscape.
\n

\n\n

How does it translate into the economic sphere?

\n\n

\n
- India-Pakistan conflicts has to be seen in multiple dimensions such as the one within these countries, with third country (as with Afghanistan), in the spill over effects of civil conflicts and in the anticipated conflicts.
\n
- While actual conflict endangers trade transactions, expectation of conflict further raises risks of trading within the conflict-prone region.
\n
- This increases the trade/ transaction costs through -
\n

\n\n

\n
1. increased possibilities of currency instability
\n
2. breach of contract
\n
3. low institutional credibility
\n
4. increased government restrictions
\n

\n\n

\n
- These pave the way for increased tariff, para tariff and non-tariff barriers between the governments, thus greatly reducing the scope for profitable trade.
\n
- Studies have shown that both actual and anticipated conflict, reduces trade by over 65% in general and by 75% in South Asia.
\n
- Conflict costs will impinge on common borders which negates the positive impact of geographical contiguity and the cost is higher if the trading pair is also in strategic rivalry as are India and Pakistan.
\n
- Furthermore, when countries make an attempt to establish trading arrangements in spite of unresolved and enduring conflict, the outcome of these is close to null.
\n
- Both **SAPTA**, the SAARC Preferential Trading Arrangement, and **SAFTA,** the South Asian Free Trade Area Agreement, were rendered ineffective on account of the persistent conflict between India and Pakistan.
\n
- In case of SAPTA, the intensification of the bilateral tensions and the war in Kargil led to the suspension of the fourth round of negotiations in 1999.
\n
- In case of SAFTA, Pakistan’s stance of a short positive list of tradable commodities for Indo-Pak trade violated the spirit of the agreement and prevented its effective implementation.
\n
- Goods imported under the sensitive (negative) list maintained under the SAFTA are liable to import tariffs, which make these goods costly.
\n
- Shifting items from the sensitive list to the positive list would do away with duty impediments, thereby boosting trade.

\n
- India decided to reduce the number of items in the sensitive list for SAARC countries, especially Pakistan, when the latter planned to grant India the most-favoured-nation (MFN) status in 2012.
\n
- But neither the granting of the MFN status to India nor a more politically acceptable non-discriminatory market access (NDMA) for India has happened till now, though India had accorded the MFN status to Pakistan in 1996.
\n

\n\n

What should be done?

\n\n

\n
- The World Bank Report says intra-regional trade in South Asia has the potential to increase three times its present levels.
\n
- The trade between India and Pakistan has the potential to increase from its current insignificant $2 billion to $37 billion.
\n
- Global Economic Review also predicted that the ratio of potential to actual trade between India and Pakistan to be the highest among South Asian nations.
\n
- But the present bilateral relations remain a challenge that may not be easy to overcome in the short or medium term.
\n
- Thus, it may be wiser to focus on alternative formulations like sub-regional such as the BBIN (Bangladesh, Bhutan, India, Nepal) or inter sub-regional initiatives such as the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation).
\n
- With India in the lead, these arrangements can take forward the interested partners from South Asia on a more feasible and profitable path of economic integration and trade enhancement.
\n

\n\n

\n\n

Source: Business Standard

\n

