Pakistan’s Flip-Flop on Trade with India

What is the issue?

- Pakistan’s double U-turn on resuming trade with India highlights the internal differences within Ministries, between business and political communities.
- All these hint at the reality that the shadow of politics looms over trade and economy.

What is the recent trade decision that was reversed?

- Pakistan’s Economic Coordination Committee (ECC) recently decided to import cotton, yarn, and 500,000 metric tons of sugar from India.
- Pakistan’s new Finance Minister Hammad Azhar announced this decision.
- The media dubbed it as a political breakthrough.
- But the ECC’s decision was based on Pakistan’s immediate economic needs and not on bilateral trade.
- It was only about importing three items - cotton, yarn and sugar.
- It was not designed as a political confidence-building measure to normalise relations with India.
- Despite this, a day later, Pakistan’s cabinet overruled the decision.
- It was also made clear that as long as India did not review the unilateral steps it took on August 5, 2019, normalising relations with India would not be possible.
- The Finance Minister accepted the cabinet’s decision as the working of “economic and political interface in a democracy.”
- It was left with the Prime Minister and the cabinet to “endorse, reject or modify” the ECC’s proposals.

Why was the ECC’s decision inevitable?

- For the textile and sugar industries in Pakistan, importing from India is imperative, practical and is the most economic.
- **Textile industry** - Yarn, cotton cloth, knitwear, bedwear and readymade garments form the core of Pakistan’s textile basket in the export sector.
- In 2020, there was a steep decline in the textile sector due to disruptions in supply and domestic production, as well as a sharp decline in cotton production.
- Notably, Pakistan is the fifth-largest exporter of cotton globally.

- The cotton-related products (raw and value-added) earn close to half of the country's foreign exchange.
- The projected decline means Pakistan's cotton export would reduce, creating a domino effect on what goes into Pakistan's garment industry.
- So, for the textile industry, importing cotton yarn from India is an immediate need; otherwise, it would impact their export potential.
- Pakistan's textile industry has thus not taken the cabinet's decision kindly.
- **Sugar Industry** -For the sugar industry, the problem stems from different issues - the availability for local consumption and the steep price increase.
- The sugar industry has prioritised exports over local distribution.
- But there was increased government subsidy.
- Also, a few related administrative decisions resulted in the sugar industry attempting to make a considerable profit by exporting it.
- However, by early 2019, the sugar prices started increasing, and in 2020, there was a crisis due to shortage and cost.
- The subsidies, cheap bank loans, a few administrative decisions, manipulation and greed, especially by the sugar mill owners, meant high cost paid by the consumers.
- As a result, importing sugar from India would be cheaper for the consumer market in Pakistan.
- Clearly, the crises in cotton and sugar industries played a role in the ECC's decision to import cotton, yarn and sugar from India.
- It would not only be cheaper but also help Pakistan's exports. This is also imperative for Pakistan to earn foreign exchange.

What does the cabinet's decision imply?

- **Politics** - For the cabinet, the interests of its own business community and its export potential have become secondary.
- This implies the supremacy of politics over trade and economy, even if the latter is beneficial to the importing country.
- However, Pakistan need not be singled out; this is a curse in South Asia, where politics play supreme over trade and economy.
- The meagre percentage of intra-South Asian Association for Regional Cooperation (SAARC) trade would underline the above.
- Trade is unlikely to triumph over politics in South Asia; especially in India-Pakistan relations.
- **Kashmir link** - Another aspect is the emphasis on Jammu and Kashmir by Pakistan to make any meaningful start in bilateral relations.
- The latest statement by Pakistan's cabinet is that unless India rescinds the decision of August 5, 2019 in J&K, there would be no forward movement.
- This position hints at Pakistan's precondition (revoking the August 2019

decision) to engage with India.
- Pakistan has been saying that the onus is on India to normalise the process.
- It is perhaps New Delhi’s turn now to tell Islamabad that it was willing, but without any preconditions, and start with trade.

Source: The Hindu

