

3rd Annual Conference on
“Strengthening Research and Promoting Multi-level Dialogue for Trade normalization between
India and Pakistan”
February 2-3, 2015

The Third Annual Conference on Normalising India-Pakistan trade was witness to intense and passionate deliberations on the future prospects and challenges facing bilateral India-Pakistan trade relations. Although the discussions were emotionally charged, a number of pragmatic suggestions emerged for the way forward in India Pakistan relations; some of which envisioned improved bilateral relations in a wider context of ultimately facilitating inter and intra regional integration in the long term. The crux of the discussions was that although the issue of Pakistan granting MFN to India is imperative, the major push for bilateral trade will be brought about by focussing on strengthening people to people connectivity, improving availability of information, augmenting the use of technology and ICT to address barriers, and enhancing physical connectivity. The underlying debate throughout was whether increasing trade dependence would be the means to establish peaceful relations or whether business cannot flourish without first resolving the political and security issues.

Former Finance Minister of India Mr Yashwant Sinha delivered the keynote address. He admitted that India-Pakistan economic ties had been a victim of politics and felt that unless they are delinked from politics, we cannot expect any dramatic improvements. He noted that the state of infrastructure for bilateral trade was far from adequate, but felt that trade between the two countries can go up significantly if the necessary measures were put in place. For this he suggested measures such as improvements in infrastructure, enhancing transport connectivity, customs facilitation and increasing people to people connectivity by each easing the visa regime, improving telecommunication links, information sharing, specialized trade fairs etc. He also suggested that both countries could consider trading in their own currency. Mr Sinha also stressed the need to have pressure groups in both the countries. He urged for the need for India to promote an asymmetrical relationship with its neighbour without insisting on reciprocation, as this would create confidence in not only in Pakistan but the entire neighbourhood. He ended on a positive note opining that "Trade and economic relationship between India and Pakistan can be medicine that will cement cracks in political relationship".

In his special address, Abdul Basit, Pakistan's High Commissioner to India admitted that although Pakistan has desired to have a normal relationship with India, it is not able to become a reality due to the deep distrust between the two countries. Citing the fact that the significant growth in trade volumes in last decade has not consequently improved the political environment, he noted with pessimism that experience shows that it is not possible to completely put the political and sensitive issues on the backburner and continue with promotion of trade and cultural relations. However, he felt that both countries must continue to engage with each other on all fronts and approach all issues with sincerity and seriousness of purpose. He also pointed out that given that the trade balance is heavily in India's favour, India needs to take some decisive measures whereby Pakistan's exports to India are enhanced and thereby build the needed confidence

Details of the session-wise deliberations are as follows:

India Pakistan Trade Normalisation: Prospects and Challenges

This session was chaired by Dr Ishrat Husain (Dean & Director, IBA). Nisha Taneja (Professor, ICRIER) presented an overview of positive developments that occurred in 2013-14, largely in the area of energy trade. Analysing items that were newly exported since Pakistan changed its import policy in 2012, she inferred that there has been a very negligible shift of trade from informal to the formal channel, even though some items from the negative list were found to be traded formally. Abid Suleri (Executive Director, SDPI) noted that the resilience of trade flows even after the current border episodes indicates the presence of cross-border demand and strong business interests on both sides. Muchkund Dubey (President, Council for Social Development) pointed out that Pakistan need not hold back granting MFN to India in the fear market disruption since they can use safeguards available in the WTO; and urged India to unilaterally declare free trade with Pakistan. A. M. Gondane (J.S, MEA) suggested that the best way to increase trade is to encourage investment flows. Lt. General S. A. Hasnain (Visiting Fellow, Vivekananda International Foundation) stressed on the vital role of civil societies in putting the necessary pressure on the Governments to take trade facilitating measures. Dr Akbar Zaidi (Political Economist, Pakistan) opined that the three most vital measures vital for cementing bilateral are easier access to visas, more flights, and access on mutual mobile roaming. Neelam Deo (Director, Gateway House) cited China's growing trade with countries it has disputes with to illustrate that trade can flourish despite political disputes.

The key recommendations that emerged from this session were:

- Improving transport connectivity is vital. Particularly, rail connectivity needs to be improved urgently. Also, frequency of direct flights needs to be increased, opening up aviation to private airlines could be considered along with allowing them to fly to many cities in both countries
- Trade Facilitation is very vital. Within this, emphasis should be on improving procedures, setting up a consultation mechanism, granting transit facilities to each other and following international standards like the TIR convention. Both countries should also unilaterally pursue the trade facilitation agenda under the recently signed Trade Facilitation Agreement.
- There is need to strengthen border institutions for efficient implementation of transport protocols.
- Coordination among different Government departments and other stakeholders is required.
- Telecommunication channels should be improved
- Regional co-operation infrastructure projects such as the East-West Economic Corridor and the Middle East Regional Cooperation Project would help in promoting trust and regional economic cooperation between India and Pakistan

Informal Trade: Why Does it Continue to Persist?

This session was chaired by Professor Nisha Taneja. The context of the discussion was set by Dr Taneja's presentation of main findings of ICRIER's study on informal trade between India and Pakistan, and by Dr Vaqar Ahmed (Deputy Executive Director, SDPI, Pakistan) who highlighted results of a survey on informal trade by SDPI. The ICRIER study estimated informal trade to be about US\$ 5 billion, while

SDPI estimated Pakistan's informal imports from India were around US\$ 1.8 billion. It was estimated that even though the indirect route is eleven times longer and four times costlier than the direct route, it is three times more efficient. The major items imported informally from India into Pakistan were found to be textiles, jewellery, auto parts, among others. ICRIER's study showed the biggest reason for informal trade is Pakistan's negative list, while issues like difficulty in meeting standards and harassment by custom officials were not perceived as major problems. According to Dr Ahmed, the main reason for informal trade was not just the negative list but also high customs duties and sales tax imposed on the formal route. Manoj Pant (Professor, JNU) opined that the reason for informal trade was the uncertainties of organized trade emanating mainly from the MFN issue. Manab Majumdar (Assistant Secretary General, FICCI) opined that informal trade exists because there are a number of economic incentives to engage into informal trade. Bipul Chatterjee (Director, CUTS) felt that informal trade is taking place because the poor rules of origin regime between India, Pakistan, and U.A.E., and between India, Pakistan and Afghanistan. Ram Upendra Das (Professor, RIS) showed that the trade theory that explains India-Pakistan informal trade is infact the traditional theory of Comparative Advantage

The following were the policy recommendations that emerged from this session to address informal trade:

- Increase transparency to enable clarity of the policies that are currently very complicated.
- Address the information asymmetry, so that traders are able to meet each other and exchange information on the demand, prices, etc.
- Create an innovative dispute resolutions mechanism
- Undertake major tariff reduction once MFN trade is in operation
- Increase the number of items allowed through the land route
- Address non-tariff barriers on both sides of the border to reduce incentives to trade informally
- Create a trade investment nexus
- Testing and allied facilities are absolutely necessary at the land routes or border posts.
- Business associations and Chambers of Commerce should play a greater role in disseminating information and creating awareness that formal trade is not difficult.
- Expedite banking cooperation between India and Pakistan
- Customs cooperation and mutual recognition of standards

Non-Tariff Barriers: Real and Perceived

This session was chaired by Dr Sanjay Kathuria (Lead Economist, World Bank). Selim Raihan (Executive Director, SANEM) pointed out that India and Pakistan are not trading in many commodities for which they have full export capacity since many of them face NTMs. He suggested the need for a monitoring tool and creating benchmarks to monitor the progress of the reduction in NTBs in South Asia. He noted that reduction in NTMs and consequent reduction in transaction costs would not only increase trade many times but also lead to larger welfare gains. Majyd Aziz (Former President, Karachi Chamber of Commerce and Industry) gave a business person's perspective, stating the biggest barriers are the lack of bank branches in each other's countries, arbitrary method for calculating import duties in India and lack of clarity in the manner in which NTMs are implemented in India. Syed Turab Hussain (HoD of Economics, LUMS) observed that a majority of the perceived non-

tariff barriers were in fact informational, and once traders are aware of the requirements then fulfilling them will incur initial costs that will go down in the long run. Muhammad Irfan Tarar (Minister Trade, Pakistan High Commission) highlighted that the biggest impediment to bilateral trade is the lack connectivity of people on both sides of the border. T. S. Vishwanath (Principal Adviser, APJ-SLG Law Offices) noted that most of the standards regarding which India often receives complaints on are not country- specific but applicable to all countries and therefore in line with national treatment. I. N. Mukherjee (Former Professor, JNU) noted that arguments and cross arguments against complaints of non-tariff barriers are both defensive and offensive.

The main recommendations suggested for dealing with NTBs were:

- NTMs and PTMs not consistent with WTO should be prohibited.
- There should be structured programs to increase the interaction between the business community and key government officials on a regular basis to exchange views in order to reduce/eliminate procedural obstacles and duplication of documents.
- Expedite and prioritize introduction of greater automation of customs clearance procedure.
- A benchmark of NTMs for priority products should be established to help monitor progress
- MoUs on mutual recognition of standards and testing should be expedited.
- Have bilateral discussions on particular products that have standards that are justified for a particular country but are in any way hurting trade.

Energy Cooperation

The session was Chaired by Ijaz Nabi (Country Director, IGC) who noted that the demand side issues are more important than supply side issues of power trade, since both India and Pakistan face large fiscal deficits largely on account of the inefficient management of energy demand. He opined that it is unlikely that cross border trade and exchange will commence until the fiscal deficit issues are addressed. Narendra Taneja (Convener, BJP Energy Cell) stressed that the energy sectors has potential to change the landscape of relationship between India and Pakistan economically, socially and even politically. He mooted the idea of building energy expressways between India and the Middle East via Pakistan that could have huge benefits. Rajiv Mishra (Power Trading Corporation) opined that energy cooperation can create the highest impact that between the South Asian countries, and mooted the idea of a SAARC power market in the long run with India at the center. For creating infrastructure for power trade between India and Pakistan, he urged for expediting the opening up of simplest and easiest route, which is a very small link of 40 kms between Lahore and Amritsar. Pradeep Mehta (Secretary General, CUTS) opined that energy trade has to be accompanied by investment and the existing investment opportunities for Indian investors in power generation that should be tapped). Mahendra Lama (Professor, JNU) highlighted that there are a number of reinforcing factors in the South Asia region that are bound to promote power trading or energy cooperation. For instance, there's a high production potential yet huge power deficits, there's an increasing realization among the leaderships in South Asia to expedite process of energy cooperation., there are a number of institutions working towards this goal across the region, there have been massive power sector reforms and lastly that India has very well laid out internal transmission systems that just require interconnections with the neighboring countries. He discussed three models for power exchanges between India and Pakistan - a bilateral power model; a pool based approach and a

wheeling facility. Nitya Nanda, Fellow, The Energy and Resources Institute (TERI) discussed the possibilities of not only import of energy resources by Pakistan from India but also of energy expertise and technology for the mapping and mining of coal resources in the Thar region. He pointed out a fact that 60% of Pakistan's export earnings going to buy only oil, indicating the need to utilize more of domestic sources of energy and thereby creating greater opportunities for energy cooperation with India.

Following were the suggested Policy recommendations for enhancing energy trade:

- MoU for opening up the Lahore-Amritsar link for power trade should be implemented.
- Implementation of policies is the key since it is currently lacking
- Internal transmission mechanisms should also be worked out by Pakistan and India before thinking of connecting to each other
- Private sector players should be facilitated
- The case of India and Bangladesh power trade could be used a guide for implementing an India Pakistan energy trade regime.

Transport Connectivity

The session was chaired by Arvind Mehta (JS (SAARC), Ministry of Commerce & Industry, India). Manzoor Ahmad (Managing Director, World Trade Advisors) highlighted that liberalization of transport services, accession to TIR Convention, opening new border routes, undertaking trade facilitation and building supply chains can greatly expand connectivity. Greater connectivity would mean more economic growth that will lead to less poverty. Joseph George (UNESCAP) discussed the importance of rail transport for the South Asian region and talked about ESCAP's work on rail connectivity. He showed that rail transport not only has advantages of containerization, bulking of cargo and circumventing transshipment that would help cut down transaction costs in the short run; but also help create inland multimodal connectivity options and extended corridors and interregional connectivity that would give substantial scale economies and reduce marginal costs in the long run. He laid down ESCAP's framework for facilitation of international railway transport in region, which involves promoting a corridor approach and places great importance on facilitating surface transport using dry ports (inland container depots). Muhammad Anwar (CEO, Custom Syndicate, Pakistan) talked about the global trade and security environment and the need to facilitate legitimate trade while ensuring border agencies meet their regulatory responsibilities. He opined that traditional approach to border management will not work in future and the need is to create models for partnership and consultation between customs and traders. Also, a comprehensive and integrated "whole of government" approach to border crossings management methods and policy development needs to be adopted.

The main recommendations that emerged to enhance transport connectivity include:

- Open new gates on existing road route
- Open up new land routes for bilateral trade
- Both countries should accede to the TIR convention norms to facilitate transport connectivity
- Promote rail connectivity to reduce transaction costs

- Undertake trade facilitation measures, including adoption of risk management, streamlined border procedures, harmonization and simplification of documents, automated processes, enhanced information availability, etc
- Specify benchmarks to guide implementation of trade related standards and adopt processes for developing, monitoring, and reviewing
- Undertake cases studies of effectiveness of customs procedures in the region

Telecommunication Networks

This was the first time that a session on prospects of trade in the Telecom sector was included in the conference series, and the emerging discussions brought out some new issues and fresh perspectives on bilateral commerce. The session was Chaired by Rajat Kathuria (Director & CE, ICRIER). V. Sridhar (Professor, IIT, Bangalore) highlighted that in most of the parameters of the telecommunication industries, India and Pakistan are almost similar indicating that the two countries have a good competition in the telecom sector. He also pointed out that since both countries have competitive IT industries but are not servicing the sub-region, there is a huge opportunity for telecom trade. Rajan S. Mathews (Director General, Cellular Operators Association of India) highlighted that both India and Pakistan will be competing for inbound FDI in telecom but to achieve economies of scale in terms of equipment and handsets, they should devise methodologies for international harmonization of spectrum. Both countries should also look at collaborating on cross-border issues of interference on spectrum usage use to be able to use the limited spectrum more efficiently and more effectively. They must also look at standards and IPR issues. Mahesh Uppal (Director, Com First (India) Pvt. Ltd) also opined that both countries need to use spectrum efficiently since they are almost entirely wireless driven markets with declining physical networks. This presents huge opportunities for both our countries in terms of spectrum sharing and trading. He also noted India since has made great strides recently in cheap handsets and cheap wireless devices, it should encourage trade in these items to Pakistan so that these opportunities can also be leveraged in Pakistan

Parvez Iftikhar, International ICT Consultant listed a number of innovative ways in which better telecom connectivity can help address existing physical barriers to bilateral India-Pakistan trade by working around the impediments. For instance, he mentioned that video-conferencing could be used for conducting visa-interviews as a substitute for frequent physical visits and frequent video conferences among chambers of commerce and other trade bodies could help create those much needed interactions across the borders. Then, an easier substitute for opening bank branches could be to launch mobile banking and e-transactions. Similarly, allowing submission of electronic bill of entry and accepting digital signatures on cross border trade documents would also reduce transaction costs. Therefore, he suggested that the aim should be to work towards building the so called information super highways

The following recommendations were made to enhance telecom connectivity:

- Remove prohibition on international roaming in each other's country networks
- Decrease terminal charge for international incoming calls
- Deregulate voice over internet protocol
- Enhance government investment in internet exchanges

- Both countries should collaborate in terms of developing IPR and standards, and need to start becoming active in the forums of the ITU and other global forums.
- Collaborate on addressing issues of interference on spectrum usage
- Create international harmonization of spectrum to achieve economies of scale
- Bring in reforms in the processes that electronic transactions
- Connect both countries with several optic fibre border crossings. The optic fibre connections between the two countries would help improve the quality of communication and also provide both the countries with several alternate routes to the rest of the world.

Visa regime: The Critical Link

This session was chaired by Sachin Chaturvedi (Director-General, RIS). The major portion of the discussions in this session was regarding the anomalies and quirks in various categories of the new visa regime that took effect in 2013. These were listed out by the three participants representing business communities from India and Pakistan - Zubair Ahmad (Former President, FPCCI), Syed Yawar Ali (Chairman, Nestle Pakistan Ltd) and Pardeep Sehgal (Partner, Sinochem Impex, Amritsar and Vice-President, Indian Importers Association). The issues presented related to restrictions on mode/route of travel, city-wise visas, validity of visa, etc. It was noted that since the multiple entry business visa eligibility criteria requires an income of US\$ 5 million or turnover above US \$30 million, it is discriminatory against the SMEs that hold the greatest prospects for trade. The requirement of allowing people above 65 to get visa on entry via Wagah border has been cited to have many inconvenient anomalies. Procedures for getting visa extensions or alterations in cities visited or changing mode of entry are complex and there is no clear information available. The three participants also discussed some of the difficulties in obtaining and travelling on the SAARC visa sticker.

They also pointed out instances where the restrictive visa regime creates barriers for enhancing business prospects. For instance, since there is no category of work visas, it is detrimental to bilateral investments as nobody is going to invest if they are not able to send their people across to work in that respective country. Then it was highlighted that although an additional flight had been started on the Delhi-Lahore route, it had to be discontinued since there were not enough passengers because of the restrictive visa regime.

Atindra Sen (Former Director General, Bombay Chamber of Commerce and Industry) stressed on the fact that easier visa norms are needed not only to help cross-border travel for businessmen but more importantly to facilitate common people to travel to each other's countries for tourism and for enhancing interactions between citizens. He suggested that even in case of resolving consular issues, one of the countries should take non-reciprocal measures to ease the visa regime. Akshay Mathur (Head of Research, Gateway House) discussed various facets of the changing nature of businesses and how they impact the visa requirements.

The participants had the following suggestions for improving the visa regime:

- Introduce SAARC business card, as suggested by PM Modi at the SAARC summit

- Conduct annual review of the visa agreement, in which the bottlenecks and ways of improving the current visa regime should be identified. There could also be an institutional mechanism to get feedback from the people who are travelling
- Introduce more categories of visas, especially student visas and work visas
- Simplify procedures involved in applying for and obtaining visas.
- Non-police reporting and non- city specific visa to be issued to businessmen who have been certified by the Chamber of Commerce without any criteria of income or turnover.
- Introduce day entry permits for businessmen
- All the information regarding extensions or alterations need to be made available on the website of the respective high commissions so that information can be taken, acted upon and also cited to officials so they can also act upon that.

Role of Media

This session had participation from eminent journalists from both countries and was chaired by Vikram Chandra (CEO & MD, NDTV). All participants admitted to the fact that the media was at least partly responsible for creating a negative perception of the India Pakistan relationship by focusing on the political and security issues. Ajai Shukla (Consulting Editor, Business Standard) opined that it is politics that really drives the bilateral relationship and the two sides can't discuss business in a vacuum. Chandan Mitra (Editor & MD, The Pioneer) also voiced similar pessimism that trade relations cannot prosper in the absence of a political consensus. Wamiq A. Zuberi (Editor & Chief Executive, Business Recorder) pointed out that in this age of commercial media where TRPs matter a lot, channels show only what sells - and "India bashing in Pakistan and Pakistan bashing in India unfortunately sells".

Salman Shah (Former Finance Minister, Pakistan) highlighted the job for the media in this India-Pakistan trade relationship is to show that the future benefits from this trade relationship are larger than the confrontation. Also, they should show that India-Pakistan's relationship has an impact on the entire region and breaking this impasse in our relationships is needed for a common regional economic future. Suhasini Haidar (Strategic & Diplomatic Affairs Editor, The Hindu) noted that this was perhaps time presenting a window of opportunity for the media to change perceptions, since there is neither any movement on the trade dialogue nor are there any big attacks or setbacks. Shujaat Bukhari (Editor-in-Chief, Rising Kashmir) pointed out the fact that the media in Sri Nagar has actually played a very important role being an equalizer and a balancer by giving neutral opinions and better understanding of the environment in both India and Pakistan. Najam Sethi (Editor-in-Chief, Friday Times) gave a brief history of relations through eyes of media, which in the current context brought out a clear message that for the media to play a positive role, there has to be a change in the narrative in both countries from the current one that presents the other as the enemy. And he opined that the narrative can change when there are strong bold leaders in both countries and enhanced people to people contact.

Some recommendations were:

- Indians should write in Pakistani newspapers and vice versa, to give people an idea about each other's countries
- The media should at least abstain from creating extra hype about negative news.