



Benefits of More Trade Between South Asian Rivals

Mohsin S. Khan argues that India and Pakistan have much to gain from putting aside their hostilities and increasing economic cooperation and trade.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Mohsin Khan, senior fellow at the Institute is here to talk about the possibility of increased trade on the Asian subcontinent, a subject he has studied over the years. Thanks for joining us, Mohsin.

Mohsin S. Khan: You're quite welcome, Steve.

Steve Weisman: At the time of their independence, India and Pakistan traded heavily with each other. But that trade has diminished, certainly as a percentage of their overall trade. There have been efforts as you've pointed out in your paper, to restart trade. What has happened since the announcement by the leaders of India and Pakistan a few years ago, to improve trade relations?

Mohsin S. Khan: I think the point you're making is very correct. At the time of their independence they were the largest trading partners of each other, India and Pakistan.

Steve Weisman: Let's remind our listeners and readers, what year that was.

Mohsin S. Khan: That was in 1947. So in '48 and '49 trade was huge between the two countries. Seventy percent of Pakistan's trade was with India, sixty plus percent of Indian exports went to Pakistan. Now that dwindled over the years, slowly and steadily and then finally it had come to a stage where, in 2003/2004 total official trade was something like \$300 million, a really paltry amount.

Since then, there's been an increase. I'll come back to the famous meeting between the leaders in 2005. There's been an increase since that meeting and trade is now about \$2 billion, between the two countries. But it's still a very small percentage of Indian trade certainly, and it's actually a very small percentage of Pakistan trade as well.

But nevertheless, it was a jump from three hundred million within two years to two billion, and that was a direct consequence of this meeting between the then President Pervez Musharraf and Prime Minister of India, Dr. Manmohan Singh. This was in April 2005, where they discussed trade relations and ways of trying to take a small set of steps, to improve trade relations and increased trade. I think that's where we are now.

There is a lot of unofficial trade that goes on, principally via Dubai, estimated about \$2 billion to \$3 billion, which if there were good bilateral trading relations, this would become official trade.

Steve Weisman: Do you mean illicit trade or contraband or just genuine trade that goes unrecorded?

Mohsin S. Khan: No, what happens is that rules of origin in fact are hidden. So for example, Indian exports to Pakistan would go via Dubai and they would show up in Pakistani import data, as imports from Dubai and vice versa.

Steve Weisman: So Indian and Pakistani merchants want to increase trade, and may see opportunities. But political constraints are keeping them from going in that direction?

Mohsin S. Khan: I think that strained relations at the political level between the two countries tend to put a damper on attempts to improve the relations and increased trade. That's certainly an important factor. But at the same time, within each country, there is opposition. There's not only overt, direct, political opposition, but it can be red tape, bureaucratic inertia, et cetera. These are various things that hinder trade between the two countries. And the argument that I wanted to make in the paper was a two fold one. First of all, trade between the two countries is unnaturally small. So trade by itself is a good thing for these countries to do.

Steve Weisman: For both countries.

Mohsin S. Khan: For both countries, exactly. You know, I mean, if you are a businessman in say, Lahore in Pakistan and you wanted to trade with a businessman in India located in Amritsar, it's very complicated. Yet, in both countries, these two cities are probably the largest...well for Lahore, Amritsar is the largest, nearest city and vice versa.

Steve Weisman: Yes, I mean you could drive over from one to the other.

Mohsin S. Khan: It's 22 miles actually.

Steve Weisman: In less than an hour, right.

Mohsin S. Khan: Exactly, and so there were some small steps taken after 2005 to do this, and sure enough we saw a sudden jump from three hundred million to two billion. I think a lot more can be done in the short term, building on the Musharraf-Manmohan Singh meeting. And that's one thing I argue in the paper, which is that there are short term measures that will not require parliamentary approval or will not require going to the legislators, etc. They're already there. It's just a question of implementing them and expanding on them.

Steve Weisman: Mohsin, when you were at the IMF, you studied trade flows. When Americans think of trade in the developing world and in the top tier developing countries, they think of it as trade with the United States and Europe. But I think the IMF and the WTO have studied... there's a tremendous potential generally, for increased trade among countries in the developing world.

Mohsin S. Khan: Absolutely correct.

Steve Weisman: And this would be a good example of that, of course, also an example of the obstacles as you say.

Mohsin S. Khan: It's a good example of that. The increase in trade between the two countries is good in itself. Models that try and estimate what trade should be between countries in theory should use these models. And the numbers that I've seen say that trade could be five or ten times larger than it is. So we're talking about ten to twenty billion in trade between the two countries. That's a good thing in itself. But I go on further, Steve, and argue that in fact, there is yet another benefit to be derived from the trade relations, which is: it can help in building relations more broadly between the two countries. And in my view if you develop vested interest or constituencies interested in trading with each other, I think you could develop vested interest for much larger liberalisation, and you could develop vested interest for exchanges of other kinds, and maybe even I daresay, a lowering of the tensions between the two countries.

Steve Weisman: Of course, anyone who has studied the India-Pakistan relationship, which I have had the opportunity to do, looks at it as one of the most obsolete of the world's rivalries, especially since now both countries have a common concern about terrorism in their neighbourhood. So why can't they do more together?

Mohsin S. Khan: I think you know, there have been some very serious attempts to overcome that distrust. But you know they sort of either fizzle out, or something happens to trigger a change you know, whether it's Kargil or the attack on the Indian Parliament in 2001.

Steve Weisman: Kargil, just to explain was the Pakistani intervention in northern India in...

Mohsin S. Khan: That was 1999. And I think these are the sort of things that come up to in fact throw any kind of peace movement off course. So I think this is going to be a long haul. Both countries or leaders claim that they want peace and you'd have to take them at their word. But that's a long time coming. What I am suggesting is that, look, you can take small steps. I mean, in some ways some people might view my paper as being a bit too ambitious because it's got a long list of things that they can do, or they should do.

But Steve, I mean it's not all or nothing. I mean, you do some of the things, you'll get somewhere and you could build on those steps. And some of these things are very easy. I'll give you an example.

Steve Weisman: Yes, I was about to ask.

Mohsin S. Khan: Issuance of visas. At the moment, visas -- by both countries -- are issued single entry, city specific and you have to report to the police station on entry and on departure to register, if you're a national of the other country. Now to me, it just seems incredible in this day and age to have this sort of system, whereby a businessman wanting to set up a business relationship with somebody else across the border, has to go through these steps in order to do that.

This is a Ministry of Interior or Ministry of Foreign Affairs issue. It's an executive order that could be taken care of immediately, by issuing multiple entry visas for the entire country, not city specific, and eliminating the requirement that you have to report to the police. It could take five minutes to do if the will is there.

Steve Weisman: What sort of goods might flow back and forth?

Mohsin S. Khan: This is something that people raise in ...well usually it's raised in Pakistan a lot, in terms of opposition to trade with India, and that was that India would simply swamp Pakistan with its manufacturing because we all know that India is way ahead of Pakistan on the manufacturing front. I think that that feeling has disappeared, wherein Pakistanis have realized that they do have a comparative advantage in some areas. Textiles is one of them, agricultural products is another one, agro industry is another one, leather and so on, and so forth.

So it's true, that Indian manufacturers will have a negative impact on certain Pakistani manufacturing. But the Pakistanis on the other hand, also have an advantage in certain goods, so that they would do well, as well. So I think that realization has set in into the Pakistani businessman's mind.

Steve Weisman: It's summertime, and anyone who has lived in South Asia knows that the delicacy of this season is mangoes.

Mohsin S. Khan: Absolutely.

Steve Weisman: Both the Indians and Pakistanis, all claim that their mangoes are the superior ones. Maybe we would see under your proposal or test, of whose mangoes are best.

Mohsin S. Khan: Whose mangoes are better, yes that's...

Steve Weisman: And by the way, whose mangoes are better?

Mohsin S. Khan: Oh well, I mean, I wouldn't get into that. But you know, I'm a Pakistani and so you'd probably know the answer. [Laughter]

Steve Weisman: [Laughter] Mohsin, thanks very much for joining me today.

Mohsin S. Khan: You're quite welcome, Steve. Thank you very much.

