

# THE MARKET ACROSS THE BORDER

Relevant for: International Relations | Topic: India - Pakistan

In his speech on July 26, after his electoral victory, Pakistan Prime Minister-elect and Pakistan Tehreek-i-Insaf (PTI) chief Imran Khan conveyed a sense of hope when he spoke of the need for harmonious relations with neighbouring countries, including India. He also laid emphasis on better bilateral trade relations. Given the immense potential and the peace dividend that comes with it, it was no wonder that the statement was largely welcomed by trade circles in Pakistan and India.

Over the last five years, the bilateral trade trajectory has been volatile. From a high of \$2.70 billion in 2013-14, it fell to \$2.40 billion in 2017-18. During this time, while Pakistan's exports to India were (and have been) fairly consistent, India's exports decreased. Overall, India still manages to have a significant trade surplus with Pakistan (about \$1.4 billion in 2017-18). Interestingly, these figures reflect only the direct trade between the two countries. Indirect trade (largely routed through a third country like the United Arab Emirates) is estimated by much research to be up to 10 times more — exemplifying the existence of a huge bilateral trade potential, provided the tariff and non-tariff barriers are addressed and steps taken towards increasing awareness and building confidence among the trading communities.

In a highly integrated and interdependent global economy, regional value chains provide opportunities for India and Pakistan to diversify their exports and imports and intensify their integration into the global economy.

In an attempt to explore potential areas of increasing trade between India and Pakistan, a study by the Bureau of Research on Industry and Economic Fundamentals (BRIEF), New Delhi, looked at developing bilateral, product-specific, regional value chains. This included sectors such as textile and clothing, sports goods and surgical equipment. In textiles, while there is an existing bilateral engagement, there is potential for raw materials (raw cotton, fabric dye), grey fabric (polyester, chiffon, nylon), blended fabric (cotton-polyester-viscose blend for denim) and stitched clothes (track suits and sports wear) from Indian hubs such as Surat (Gujarat) and Tiruppur (Tamil Nadu) to Pakistan's major production centre at Faisalabad and its Lahore and Karachi markets. Similarly, from Pakistan, there is a huge demand for *salwar-kameez-dupatta* made of lawn fabric and wedding attire (*shararas*). Given Pakistan's expertise here, the demand in India for Pakistani fabric and designs as well as the cost benefits attached with trading between India and Pakistan, there is significant scope for collaboration. The market opportunity for these few high-demand products alone is about \$2.3 billion.

Similar potential exists in sports goods. Pakistan's sports goods manufacturing sector is emerging as an original equipment manufacturer for major global brands. Sialkot is a global manufacturing hub for professional-level goods such as footballs, hockey sticks, quality leather goods, and weightlifting and cycling gloves, some of which is imported by India. Also, footballs manufactured here were used in the FIFA World Cup. However, manufacturers in Sialkot require quality raw materials or semi-finished products to produce these goods. India can play a key role here in exporting raw material and semi-finished goods such as latex, rubber, and football bladders, which would work out to be more economical for Sialkot than sourcing them from other countries such as Thailand. In terms of finished goods, sportswear made of lycra is in demand in Pakistan. The market opportunity here is \$1.1 billion.

Value chain development in surgical instruments is another area. Pakistan's surgical instruments

manufacturing industry, again based in Sialkot, is noted for its expertise. Pakistan is a major supplier of these instruments to the U.S., Germany, France and Belgium. India, on the other hand, is a large medical market which imports these instruments from these developed countries at high rates. Direct imports from Pakistan to India in this area would ensure considerable cost benefits in terms of economics and logistics. For example, forceps, clamps and surgical scissors can be imported from Pakistan in considerable volumes. To strengthen value chain linkages, India can potentially increase the supply of stainless steel to Pakistan, a major raw material used in instrument manufacturing, or even import semi-finished products. In India, dispensaries and clinics in Tier 2 and 3 cities, which are often unable to afford even re-useable surgical instruments, will benefit from the availability of cheaper and new instruments from Pakistan. The market opportunity in this sector is about \$804 million.

Before Independence, Sialkot and Jalandhar were a unified manufacturing hub which was divided after 1947. Most of the skilled labour force moved to Sialkot. This has given it the historical edge in manufacturing in these sectors.

Incremental steps towards bridging the gap between actual and potential trade is a must. First, it is important to alleviate fears, misconceptions and the trust deficit in the trading community. Second, business-to-business linkages need to be formed and strengthened between actual traders. While this can be initiated at the level of product-specific industry associations (for example at Jalandhar and Sialkot), this must also be taken up by national chamber associations. Third, South Asian Association for Regional Cooperation (SAARC) business traveller visas must be implemented in practice. Though announced by Prime Minister Narendra Modi at the SAARC summit in 2014, there has been a delay in its implementation.

There also needs to be focus on other issues such as key items in the textiles and clothing sector, border infrastructure and security, improved connectivity by sea and air, enhanced people-to-people contact and educational exchanges.

It is important to recognise that economics and politics are not completely disconnected from each other.

Engagements at the political level will be an important factor to reinforce economic ties between the two countries. Mr. Khan's speech makes us optimistic about the future.

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