**MONEY MATTERS**

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**Trade recipe for India**
*By Dr Ishrat Husain*

Indian and Pakistani commerce secretaries are going to meet this week in New Delhi to follow up on the official announcement made by Pakistan to grant MFN status to India. It is important that this meeting is a success. Pakistan's decision has not come about easily but after a long gestation period of debate, discussion, awareness raising, consultations, serious analysis and advocacy. The consensus that has been built around this issue and the support it has evoked from the stakeholders need to be consolidated. The detractors in both the countries are at work and the consensus is still fragile. Any setback - contrived or unintentional - in the bilateral relations that have been improving for last couple of years can reverse this momentum. The process forward of which this week's meeting is a critical component must be thought through carefully. A dialogue among the participants rather than across the participants listening to each other’s viewpoints rather than taking predetermined positions is absolutely essential. How can this breakthrough be sustained and lead the way for further confidence building measures?

On the positive side, Prime Minister Manmohan Singh, President Asif Zardari, Prime Minister Yousuf Gilani and PML-N chief Nawaz Sharif are sincerely committed to normalising relations between the two countries. The popular myth that Pakistan military and ISI are opposed to normalisation has been debunked by the progress that has actually been made so far. History should not blind us to the new realities of the 21st century. Indian opinion makers should remove the tainted glasses of yesteryears.

There is very little doubt in the minds of Pakistanis that India has emerged as a leading economic power during the last decade and Pakistan, which was ahead until 1990, has slipped behind for the reasons well known and amply documented. This change in the economic equilibrium calls for a fundamental review of Indo-Pakistan relations. The dark clouds of mutual mistrust, suspicion, blaming each other cannot evaporate overnight. It will take time and perceptible actions on the part of both the countries.
This article makes a few suggestions as to what India should do on its part to further this process? India, in its quest to continue its journey towards economic ascendancy needs safe and secure borders, peaceful and prosperous neighbors and a dynamic regional institutional framework in which the smaller countries can have a voice. Its aspirations will be thwarted by constant distractions caused by insecure, discordant and fearful neighbours. As the predominant player in South Asia its responsibilities, responses and behaviour must commensurate with its size and status. Past tradition of strict reciprocity, tit-for-tat or equal measured response have to give way to a more asymmetric behavioral pattern in which it shows magnanimity, large heartedness and broad mindedness by being more accommodative of the economic and political imperatives of other countries in the region . Despite this, the cost benefit calculus will favour India in the medium to long term and this is the only sure way to achieve its economic goals. The recent agreement allowing Bangladesh textiles to enter Indian markets duty free is the right beginning for this new paradigm to take roots.

In the same vein, India should reexamine its position in relation to Pakistan's recent move. Perceptions do count and matter more than reality. Pakistani businessmen do perceive that non-tariff barriers are restricting their access to lucrative Indian market. All kind of assurances that these barriers are not Pakistan specific or the bureaucratic hassles and slow speed of certification, clearances and NOCs form part of the Indian ethos just like Pakistan or interstate movement of Indian goods themselves is a nightmare crossing so many barriers and incurring so much costs and time do not soothe the nerves of the anxious exporters. Pakistani exports will at best form only one percent of the total imports of India and therefore making exceptional efforts to have expeditious border crossings, opening new border points for trade, spacious loading zones or ease of truck and rail movements, simplified customs clearances, joint certifications of products and materials, opening of banking branches and removing other difficulties faced by them would in no way hurt India but win the goodwill of an important constituency. The usual assertions and repetitions by the commerce secretaries or the external affairs officials that they do not discriminate Pakistani goods have not cut any ice before and will not fly now. Some sensitivity has to be shown by taking proposed actions so that these concerns disappear into thin air.
The above proposal will also have a much larger beneficial repercussion for India. The reorientation and business process reengineering being suggested are essential for India's active participation in the dynamic world trade. India and China both started with almost the same level of modest exports in 1980. China has now become the world's largest exporting nation with almost 10 percent share of world exports while India is struggling to reach 1.5 percent. Average tariff rates except agriculture have declined dramatically and effective protection rates are no longer worrisome. Indian businesses have acquired assets abroad and successfully set up Multinational corporations and subsidiaries in Europe, USA, Singapore and other parts of the world. So it is not that the Indian businesses are not competitive but it is that the 'barriers behind borders' in India including poor infrastructure, outdated processes, multiplicity of sequential clearances and NOCs, a negative mindset that takes pride in raising objections and preventing rather than facilitating movement  and remnants of old socialist thinking where the state can do no harm and the private sector can do no good are proving to be the major stumbling block in the way of Indian merchandise export growth. Contrast this with the information technology and IT-enabled exports where India has established its global leadership within a short span of 10 years. Indian bureaucracy was unaware of what was happening and therefore was almost hands off in the beginning and by the time they realised, the sector had grown too big and the damage to the Indian economy by their interventions would have been too severe. That is why the IT sector is thriving in the same ecosystem where the merchandise exports are much below the country's possibility frontier.

For a country that has some of the most progressive entrepreneurs, leading intellectuals, professionals, innovators and scientists, globally competitive human resources at the top end, high in demand natural resources it is not comprehensible as to why it can not carry out the needed reforms that will help it realise its potential. Perhaps a window of opportunity has arisen for India to move in this direction by reforming its trade and trade facilitation regime in relation to Pakistan and Bangladesh. Sri Lanka has already an FTA. So this pilot experiment of reforms for dismantling of 'behind the border' barriers that will apply to the regional trade in the first instance can then be replicated for the trade with the rest of the world. This would pave the way for India to overcome its weaknesses and deficiencies that have not allowed it to play the role it deserves in international trade. But an important by product of the approach suggested in this article will be that the Pakistani exporters’ perception that they face non tariff barriers would be erased thus creating a powerful lobby for peace and friendship with India. The commerce secretaries have their work cut out for themselves.

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