



India and Pakistan – Finding Avenues of Investment for Economic Cooperation

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Introduction

South Asia remains one of the least integrated regions in the world. Pakistan and India account for almost 92 percent of South Asia's GDP, 85 percent of South Asia's population, and 80 percent of South Asia's surface area, whereas India-Pakistan bilateral trade accounts for only 20 percent of the regional trade.

South Asia's two largest economies barely trade with each other, whereas they share 3,323 km of land border that demarcates the Indian states of Punjab, Rajasthan and Gujarat from the Pakistani provinces of Punjab and Sindh. In addition to the Attari-Wagah land border, which is the major road and rail crossing between India and Pakistan, three more land routes, namely, Khokhrapar-Munabao, Muzaffarabad-Srinagar, and Poonch-Rawalakot, have been used for bilateral trade exchange between the two countries. Three land custom stations handle the overland trade between the two countries.

Though there has been a positive momentum that has given birth to significant synergy between India and her eastern neighbours, there has been significant lack of trust between India and Pakistan, regarding opening to any form of dialogue, which would

smoothen out the ripples that have been created due to various policies adopted, actions taken and comments made by India's western neighbour.

Pakistan's release of Zakiur Rehman Lakhvi, a mastermind behind the Mumbai terrorist attacks in 2008, the Pakistani support and constant communication with groups and organisations that are working against Indian interests and incessant violation of the Ceasefire Agreement have forced India to suspend any dialogue with Pakistan. But the Pakistani High Commissioner also stressed on leaving the diplomatic "door ajar" so that whatever was possible could be achieved.ⁱ However, for a meaningful dialogue to take place, Pakistan will have to take into account India's sensitivities and not act according to its whims.

There has been considerable perception gap in terms of India's role in the South Asian region, which is manifested in paradoxical viewpoints. First, the origin of SAARC itself is considered to be a grouping of India's neighbours to tackle the challenges of geographical proximity, and on several dimensions, the challenges of asymmetry, given India's size. There have been continued apprehensions against India's so called "big brother" role in the region due to its asymmetric size both in terms of population and economic and military might. As argued, due to these factors as well as India's shared land and maritime boundaries with other South Asian neighbours, and significant ethnic, linguistic and cultural spill-overs with the neighbours, the Indian footprint is visible across the continent. It is this asymmetry, which influences the perceptions and attitudes that shape the neighbourhood policies of India and South Asian neighbours.ⁱⁱ

Secondly, the contrasting views are expressed in terms of India taking the leadership role in SAARC by taking unilateral steps to engage with her neighbours in a more substantive manner and with larger financial commitments than before. This is a dilemma, which is best addressed, indeed, by India's greater role in the region, sharing India's recent economic dynamism and prosperity. History is replete with instances when India's pious intentions to take her neighbours along the path of shared prosperity within the framework of peaceful coexistence cannot be doubted by any measure.ⁱⁱⁱ

The trade that has existed between India and Pakistan has been no different. Marred with deficit of trust, lack of understanding, suspicion about each other's intentions, and a never ending enmity between the two countries, India and Pakistan have shared an off and on relationship since independence. Presently, the Indian government's initiative of building a stronger neighbourhood, will not see the light of the day, if some serious positive efforts of addressing the issues of harbouring terrorist groups are not addressed by Pakistan.

Pakistan-India Trade Flows 1998-2014 (Figure in USD Million)

Years	Indian Imports- Pakistani Exports	Indian Exports- Pakistani Imports	BOT	VOT
1998	188	135	53	323
1999	96	115	-19	211
2000	62	171	-109	233
2001	70	230	-160	300
2002	50	177	-127	227
2003	84	226	-142	310
2004	158	454	-296	612
2005	337	577	-240	914
2006	327	1115	-788	1442
2007	292	1266	-974	1558
2008	355	1691	-1336	2046
2009	235	1080	-845	1315

2010	275	1560	-1285	1835
2011	273	1607	-1334	1880
2012	348	1573	-1225	1921
2013	542	2065	-1523	2607
2014	428	2031	-1603	2460

Source: Ali, Mujahid and Rehman, 2015, p. 363^{iv}

Indian Investments in Pakistan

Indian investment in Pakistan can benefit from several country-specific advantages. The common culture and language between the two countries can immensely facilitate business cooperation. The language spoken is the same in the two Punjabs; and in the two main cities of the two countries, Karachi and Mumbai, Sindhi is spoken. There is a certain sense of connect with people across the border. Smooth communication channels help in business interactions by reducing entry and transaction costs. Indian companies are acquiring international firms to obtain resources that are not available in India or are cheaper in the foreign country, and to obtain greater access to the global market. Such investments increase the competitiveness of the firms and catalyze the growth of exports and transfer of technology. There is a general expression of interest by large Indian business houses, such as the Tatas and Godrej to invest in Pakistan. Companies, such as Dabur, already operate via Dubai to cater to the Pakistani market.^v From the Pakistani side, the reluctance to grant MFN status to India, which has now been renamed as Non-Discriminatory Market Access is a big hindrance to trade.

Minerals: Except for oil, gas, and nuclear minerals regulated at the federal level, minerals are regulated at the provincial level. The Federal and Provincial governments jointly set out Pakistan's Mineral Policy in 1995 (Board of Investment, Pakistan 1995), providing the appropriate institutional and regulatory framework and an equitable and internationally competitive fiscal framework. The enforcement of the Mineral Policy has

paved the way to expand mining sector activities and attract international investment in this sector. Taking advantage of geographical closeness, provincial governments, especially that of Gujarat, Punjab and Rajasthan, can make attempts of making investment advances in the minerals sector in the provinces of Pakistan.

Pharmaceuticals, Textiles, Transport, and Energy: Indian **pharmaceutical products** are cheaper than Pakistani pharmaceutical products and Pakistan's pharmaceutical regime is not strictly regulated for domestic production, and there is significant scope for collaboration in bulk drugs and expansion of formulation and health products. The major Indian pharmaceutical player, Biocon, has licensed BioMAb-EGFR to enter the Pakistan market through a licensing arrangement with Ferozsons Laboratories, Pakistan. Biocon has granted an exclusive license to Ferozsons Laboratories Limited for marketing BioMAb-EGFR in Pakistan.^{vi} Such collaborations should be encouraged and sought for. Though there is a negative vibe towards the fear of Indian pharmaceuticals flooding Pakistani markets, there needs to be a sense of maturity between the pharmaceutical industries of both India and Pakistan, regarding means and methods of finding a path of mutual benefit and understanding.

Cross-border "power trade" could be done via bilateral power trade, pool-based exchange, a wheeling facility, or through electricity trading, where Pakistan has been experiencing one of its worst energy crises this year, and will be open to avenues that would make energy accessible. The dialogue between the grid connectivity between Lahore and Amritsar should be brought back to the fore, making attempts to ease out the ripples in the collaboration. Pakistan has been making attempts to make the energy sector lucrative for Indian investors by offering incentives, such as customs and sales tax exemption in Special Economic Zones, zero import duty on machinery for energy plants, etc., which should be expanded to make the sector attractive for investors.

Pakistan presently acquires high technology machinery for its **textile** production from Germany. There is significant scope of complementarities with India; Pakistan's designs and fabric with Indian marketing skills. As the market destination for both India

and Pakistan remains mostly the same, it would be beneficial for both the textile markets to go ahead with joint ventures (JVs), than by competing with each other.

Healthcare: Owing to relatively efficient health system, India has emerged as an important destination for the provision of medical services due to affordable treatment costs and advances in medicine. Though there is the presence of a strict visa regimen between the two countries, there has been a rise in the visas being issued by the Indian High Commission every year. As mentioned in a report, the Indian High Commission in Islamabad issued 1,992 medical visas to Pakistani citizens during 2008-10. In addition, 2,917 visas were issued to medical attendants during the same period.^{vii} Cross border investments in hospitals also remain to be a lucrative venture for Indian health industry, as they have already entered other markets in the South Asian region through joint ventures with a local partner, wholly owned subsidiaries, or management contracts.

There is an immediate need to examine the regulatory regime governing investment flows between India and Pakistan, the existing barriers to investment in Pakistan, and the need for banking channels to facilitate investment flows between the two countries.

Pakistan's Investment Packages^{viii}

Policy Parameters	Manufacturing	Agriculture	Infrastructure and Social	Services including IT and Telecom
Government permission	Not required except for specified industries	Not required except for specific licenses from concerned agencies		
Remittance of capital, profits, dividends, etc.	Allowed			

Upper limit of foreign equity allowed	100%			
Minimum investment amount (US\$ million)	No	0.3	0.3	0.15
Customs duty on import of PME	5%	0%	5%	0-5%
Tax relief (IDA, % of PME cost)	50%			
Royalty and technical fees	No restrictions on payment	Allowed as per guidelines. Initial lump sum up to \$100,000; max. rate 5% of net sales; initial period 5 years		

Hurdles in Investing in Pakistan

There remain to be some major bottlenecks in facilitating Indian investors to invest in Pakistan. The basic reasons are as follows:

- a) *Issue of Law and Order*
- b) *Lack of Political Stability*
- c) *Pakistan's Economic Performance*
- d) *Lack of Transparency of the Regulatory System*
- e) *Corruption*
- f) *Infrastructure*
- g) *Tax Structure*
- h) *Banking and Financial Services, and*
- i) *Restrictive Visa Regime*

Though the hurdles cited above remain to be a dampener for Indian investors, but one can seriously state that similar bottlenecks are there in India, when Western, European or

Far Eastern investors think about investing in India. Evaluating the mutual similarity of the bottlenecks regarding investments, dialogue should be initiated with the assistance of federal and provincial governments, business houses and organisations and chambers of commerce and industries from both sides to assess them, evaluate and come to a mutual understanding where they can initiate, taking advantage of their geo-spatial location.

Policy Recommendations

- Immediate need to address the regulatory and administrative barriers between India and Pakistan; opening up of banking services; attempting to liberalise the visa regime, especially for business officials and individuals, students and health tourists, both of which were decided upon during 2011, but later shelved; and facilitating proper communication networks between the countries, for allowing business communities from both sides to have access to each other.
- Creating awareness and aptitude among business houses about business opportunities in the other country through federal and provincial governments, business houses and organisations and chambers of commerce and industries at formal as well as informal levels, facilitating the coordination of government, economic as well as business policies. Creating knowledge kiosks and capacity hubs in industrial hubs of both countries, in the form of permanent trade centres or regular trade fairs, which would enhance the understanding of the supply and demand of the markets in India and Pakistan.
- Initiate the creation of a platform of Technical and Educational Knowledge sharing – India has developed a large public and private educational and technological institutional base, which focuses on professional and technical courses. Initiating processes where joint MoUs or JVs can be worked out between the two countries, which would facilitate students in both the countries to take advantage of each country's educational and technological prowess.
- Enhancing trade in goods as there are opportunities to spur industrialisation in Pakistan by importing cheap raw materials from India. Though there is a Pakistani fear from the imports of Indian automobile, pharmaceutical and agriculture sectors,

but with trade facilitation, there would be increase in India's exports of chemical, rubber and plastic, food processing, mineral fuels, metals, machinery and equipment, textiles, leather products, dairy and fishery products to Pakistan, while Pakistan would benefit from increased exports to India in sectors, such as wool, wheat, textiles, apparels, leather products, metals, machinery, chemicals, etc.

- Trying to minimise the role of third party countries, e.g., Dubai, as exchequers of both countries lose significant potential revenue because of such indirect investment, when Indian investments in Pakistan are done through Dubai. The aim should be to identify such investors, understand the reasons for their reluctance to invest directly in the other country and remove the causes that drive them to operate through third countries.
- Need for region wise progress by initiating small steps. The first attempt can be to tap the synergies across the two Punjabs, which share a lot in terms of culture, language, and business ethics. The success of business in these regions can pave the way for moving to other provinces and states in the two countries. During a meeting between the Chief Ministers of the two Punjabs in December 2013, the need to integrate the economies of these states was reiterated. The joint statement, the first of its kind between any two provinces of India and Pakistan, released after the meeting has proposed free movement of academics, students and interns and the promotion of community contacts and understanding through the exchange of delegations consisting of professionals and practitioners from different sectors, including agriculture, trade, industry, and commerce.^{ix}
- Make attempts to remove bias and address issues of trust deficit. With the introduction of more Pakistani goods in India and Indian goods in Pakistan, under the ambit of trade fair, mutual JVs with companies, and a bold attempt by local and national media to create confidence amongst the general masses regarding each other's products. There is also the need to understand the legal hurdles of money movement, product accessibility and fear of local markets being swamped by each other's goods, which can be resolved with the creation of joint business entities, dedicated to dissipate such trust deficit, with business groups taking more active participation than the two countries' governments.

- To keep political and dispute settlement fully separate with that of economic dialogue and cooperation. Both the countries should identify that only with an economically developing Pakistan and economic partnership between India and Pakistan, can there be any true hope for long term peace and stability in South Asia.

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ⁱ Keep the 'Door Ajar' to Achieve Whatever is Possible: Pakistan, *The Indian Express*, September 13, 2014, <http://indianexpress.com/article/india/india-others/keep-the-door-ajar-to-achieve-whatever-is-possible-pakistan/>

ⁱⁱ Shyam Saran, "The Challenge of Proximity", *Seminar*, Our Troubled Neighbourhood A Symposium on a Region, April 2008,

in turmoil http://www.india-seminar.com/2008/584/584_shyam_saran.htm.

ⁱⁱⁱ "Economic Integration for Peace Creating Prosperity", South Asia Development and Cooperation Report 2015, *Research and Information Systems for Developing Countries (RIS)*, New Delhi, p.212.

^{iv} Muhammad Ali, Noreen Mujahid and Aziz ur Rehman, "Pakistan-India Relations: Peace through Bilateral Trade", *European Scientific Journal*, February 2015, vol. 11, No. 4, p. 363

^v Palakh Jain and Samridhi Bimal, "Enhancing India-Pakistan Economic Cooperation: Prospects for Indian Investment in Pakistan", *Indian Council for Research on International Economic Relations (ICRIER)*, May 2014, p.6

^{vi} History, Biocon, http://www.biocon.com/biocon_aboutus_history.asp

^{vii} N Tarneja, M Mehra, P Mukherjee, S Bimal, and I Dayal, "Normalizing India-Pakistan trade", ICRIER Working Paper 267, 2013, New Delhi: ICRIER.

^{viii} Board of Investment, Pakistan, Prime Minister's Office, Government of Pakistan, <http://boi.gov.pk/InvestmentGuide/InvestmentGuide.aspx>

^{ix} Jawed Naqvi, "Punjab CMs set Pakistan, India agenda", *Dawn*, December 16, 2013, <http://www.dawn.com/news/1074148>.