

Pakistan-India trade outlook

Prime Minister Imran Khan's speech, defiant in explicitly stating that Pakistan would retaliate if India takes any action against Pakistan's sovereignty, and conciliatory in offering resolution of all pending issues through talks including terrorism as well as a commitment to take action against the Pulwama perpetrators if India shares actionable proof about any wrongdoing was rejected by the Indian government.

The Indian ministry of external affairs issued a statement in response to Prime Minister Khan's speech maintaining that, "India's democracy is a model for the world, which Pakistan would never understand. Pakistan should stop misleading the international community and take credible and visible action against the perpetrators of Pulwama terrorist attack and other terrorists and terror groups operating from areas under their control."

Less than a day after the 14 February attack Jaish-e-Mohammed (JeM) claimed responsibility. On 22 February Financial Action Task Force (FATF) placed Pakistan amongst countries with strategic deficiencies urging "it to move quickly to meet a May 2019 deadline if it wishes to be de-listed (from the grey list)...it (Pakistan) does not demonstrate a proper understanding of the Terror Financing risks posed by Da'esh, AQ, JuD, FiF, LeT, JeM, HQN, and persons affiliated with the Taliban" - grey listing with obvious negative tourism and foreign direct investment implications.

FATF also required Pakistan to show further progress on ten implementation measures including "demonstrating that law enforcement agencies are identifying and investigating the widest range of TF activity and that TF investigations and prosecutions target designated persons and entities, and persons and entities acting on behalf or at the direction of the designated persons or entities." The same day, the National Security Council under the chairmanship of the Prime Minister reviewed the 2014 concrete sequenced National Action Plan (NAP) that largely remains unimplemented, and "decided to accelerate action against proscribed organizations" and ordered a notification banning JeD and FIF. One would hope that a valuable lesson has been learned: that it is in Pakistan's national interest that there be no further delay in implementing NAP which would enable the country to meet the FATF action plan to address Pakistan's 'strategic deficiencies'.

Saber-rattling between the two nuclear powers is not new however this time Modi's India made two decisions with economic implications for Pakistan. First the decision to stop water flows to Pakistan from the three Eastern rivers - Ravi, Beas, and Sutlej - assigned to India as per the Indus Water Treaty. This decision is not violative of the 1960 World Bank brokered treaty, so maintains India, while Pakistan may argue that as water from these rivers has been flowing into the country for the past 60 years any diversion may be construed as a hostile act and violative of the treaty. A tweet by Indian Water Resources Minister Nitin Gadkari on 21 February falsely claimed that this decision was taken in the aftermath of the 14 February attack: "under the leadership of the honourable PM Sri @narendra modi ji, our govt. has decided to stop our share of water which used to flow to Pakistan. We will divert water from Eastern rivers and supply it to our people in Jammu and Kashmir and Punjab...the construction of dam has started at Shahpur-Kandi on Ravi river... Moreover, UJH project will store our share of water for use in J&K and the balance of water will flow from 2nd-BEAS Link to provide water to other basin states."

According to an Indian official the decision to ensure 100 percent use of water from the Eastern rivers was taken two months ago prompting India to begin constructing more dams which are expected to be completed in six years. In other words the claim made by Gadkari's in his tweet is patently false.

The question is if this decision, irrespective of when it was taken, presents a serious threat to Pakistan's already looming water crisis given: (i) an International Monetary Fund recent report ranked Pakistan in third place globally facing an acute water shortage, (ii) a United Nations Development Programme and Pakistan Council of Research in Water Resources warning that Pakistan will reach absolute water scarcity by 2025, and (iii) researchers (local and international) predicting Pakistan would become the most water stressed country in the region by 2040.

India's use of the water from the three Eastern rivers is around 33 million acres feet (MAF) with about 95 percent actually being used by India. This implies Pakistan is receiving around 1.65 MAF from these rivers. One acre foot equals 325,851 gallons and it takes 27154 gallons of water to irrigate one acre land with one inch water. Hence 1.65 MAF irrigates significant acreage of irrigated farm land and therefore the Indian decision would have a significant impact on our farm output in downstream areas of the Eastern rivers.

India also decided to withdraw Most Favoured Nation (MFN) status given to Pakistan in 1996 when India joined General Agreement on Tariffs and Trade (GATT) though Pakistan never reciprocated (instead granting India Non-Discriminatory Market Access). MFN does not imply special treatment to goods imported from a country but merely that there will not be any discriminatory tariffs on any product imported from a country compared to that same product being imported from any other country. However India employs vigorous non-tariff barriers to Pakistani imports limiting them to around 350 million dollars while her exports to Pakistan are around 1.8 billion dollars. Those who argue that GATT may express reservations after the withdrawal of MFN status to Pakistan need reminding that after Pulwama India may invoke Article 21 b (iii) which allows "contracting parties (India) to take any action which they consider necessary for the protection of essential security interests."

Pakistani imports from India through the imposition of 200 percent regulatory duty, in reciprocity to India's decision, may not imply that Pakistan's imports would decline as Indian products may find their way either through smuggling along our large porous border and/or through a third country.

Currently more than 300 trucks carrying cement, fruits and vegetables, Pakistan's major export to India, are stalled at Wagah border after India increased duties by 200 percent making it unfeasible for India to import from Pakistan. Shipments of 170 containers by sea have also come to a grinding halt.

To conclude, the economic costs of India's decisions are greater for Pakistan than for India however there is a significant segment of India's population that would witness a raise in prices as India seeks alternate sources to meet its import needs of cement, food and vegetables. Additionally while Pakistan has not made any announcement with respect to cessation (or continuation) of India's land access to Afghan products through Pakistan yet it is a possibility that in the event that tensions rise further this may come under consideration which would not only be to the detriment of Afghanistan's economy but also take the entire region to an era of 'cold war' which would benefit neither country.

ANJUM IBRAHIM