

Pakistan-India investment liberalization

BR RESEARCH (November 30, 2012) : On August 1, at the behest of the Indian government, that countrys Department of Industrial Policy and Promotion (DIPP) "permitted investments from Pakistan in sectors/ activities other than defence, space and atomic energy", reported the Press Information Bureau, Government of India. The Reserve Bank of India followed soon after with amendments to Indias Foreign Exchange Management Act, FEMA. The amendment introduced to FEMA on September 7, provides legal cover to "overseas direct investment by Indian parties in Pakistan". Simply put, the easing of bilateral investments has so far been limited to direct investment in the form of joint ventures or similar bilateral agreements with Indian firms. Still, India has been the first mover in the realm of liberalising investment flows between the two countries, following its trend over the granting of MFN status on trade. This has stoked debate in Pakistan, to follow suit and redouble efforts to liberalise trade, in a sustainable manner. At a consultative meeting on "Trade Normalisation and FDI Prospects for India and Pakistan", arranged in Karachi on Thursday by SDPI, views from academia and private sector highlighted the sense of expediency bubbling under the erstwhile furtive responses of the GoP on bilateral trade liberalisation. "India has moved faster on the front of bilateral trade and investment liberalisation" noted senior financial journalist, Khurram Husain. Majyd Aziz urged Pakistani companies to form JVs with Indian counterparts, while business magnate S M Munir called on both governments to ease cross border movement of people. On the other hand, Dr Shahida Wizarat cautioned of Indias complex regulatory structure and the ad hoc changes in the rules of the game through executive orders. Interestingly within the private sector, views on easier trade and investment terms with the neighbour state are divergent. Business groups in central Punjab lean closer to easing terms with India, while businesses down south, sourcing raw material from the North appear more hesitant over the move. Director IBA Ishrat Husain pointed out that the potential consumer surplus from economic integration is compelling, while businesses in Pakistan must evolve to compete and inculcate entrepreneurial skills. While the participants mulled over the role of government in ensuring a smooth and sustainable transition towards freer movement of goods and people; it is ironic that the chair reserved for the Chairman of Trade Development Authority of Pakistan remained empty through the daylong conference. Soon, news arrived that the Chairman has been relieved of his duties. Frequent changes in the bureaucracy have got the Babus too busy fending for their postings to be able to hold meaningful negotiations with Indian counterparts. Research on the likely impact of trade and investment liberalisation is severely wanting. Whats more, so far GoP has made little effort to graduate from rhetoric to policy responses. Perhaps the head of the Economic Unit of SDPI, Dr Vaqar Ahmad hit the nail on the head, pointing out "frequent changes in key policy making positions impede the formulation of institutional memory".