



## **Expanding trade in goods** *– ICRIER Annual Conference on Normalizing India-Pakistan Trade*

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# Three key requirements for expanding trade

1. Improving Trade Facilitation
2. Building Supply Chains
3. Special arrangements for sensitive sectors

# Trade Facilitation – Removing red tape

**Adopting the following measures would reduce transaction costs by up to 15.7%<sup>(a)</sup>**

- 1) Risk management
- 2) Streamlining border procedures
- 3) Harmonization and simplification of documents
- 4) Automated processes
- 5) Information availability

<sup>(a)</sup>(OECD Trade Policy Paper No. 144) - 04/03/2013



# Trade routes that can be easily made operational

- At present only **A** Wagah – Attari is open for limited trade (Annex G items)
- Other land crossings that can easily be re-opened:
  - B** Lahore – Patti (Burki road)
  - C** Kasur – Ferozpur (Ganda Singh)
  - D** Sahiwal – Fazilka (linking Southern Punjab)
  - E** Munabao – Khokhrapar rail (linking Sind)
- Open direct shipping routes
  - Karachi – Mumbai



Source: Google Maps

# Trade Facilitation – Improving infrastructure

- Port handling equipment including fork-lifters
- Joint scanning and weighing could reduce equipment needed
- Facilities for cold storages, liquid handling, chemicals handling, fumigation
- Establish testing laboratories at ports



Source: Wagah - Attari Border, [tribuneindia.com](http://tribuneindia.com)



Source: Wagah - Attari border, [dawn.com](http://dawn.com)

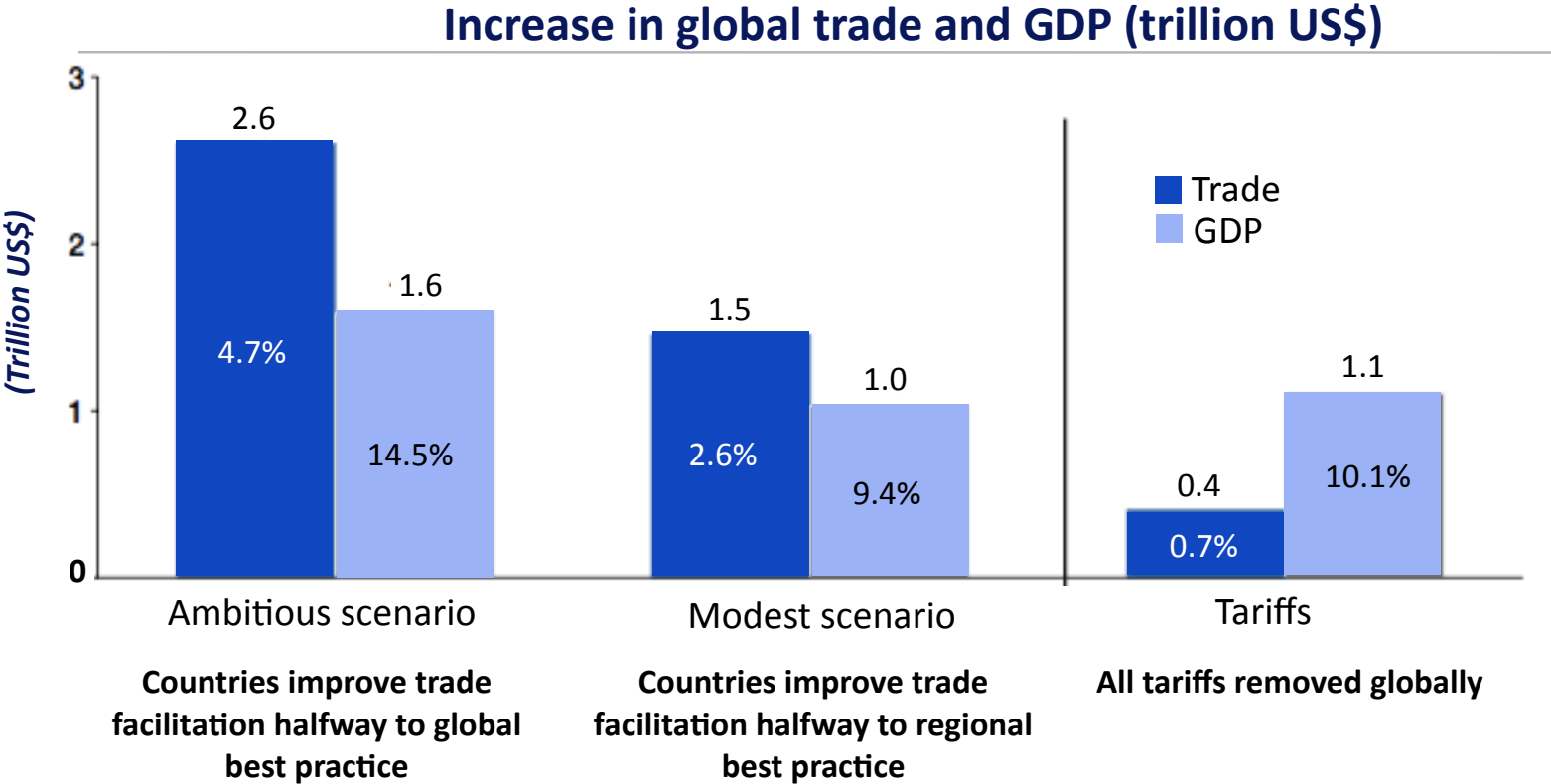
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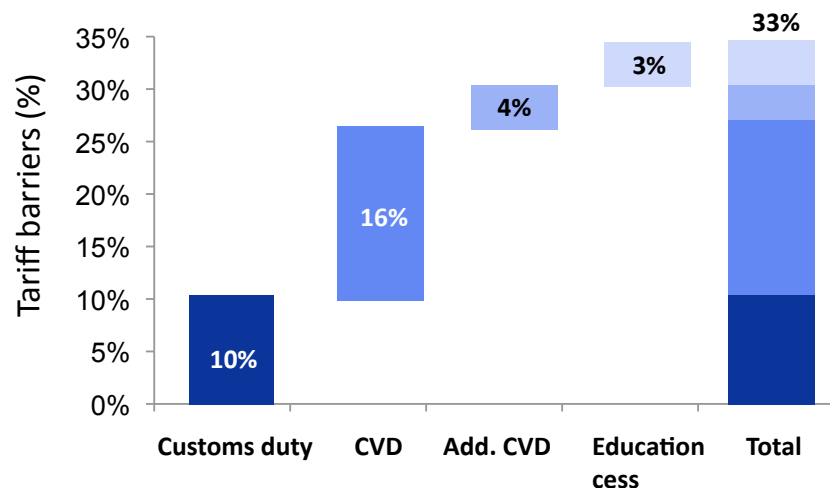
# Reducing supply chain barriers has a larger effect than removing tariffs



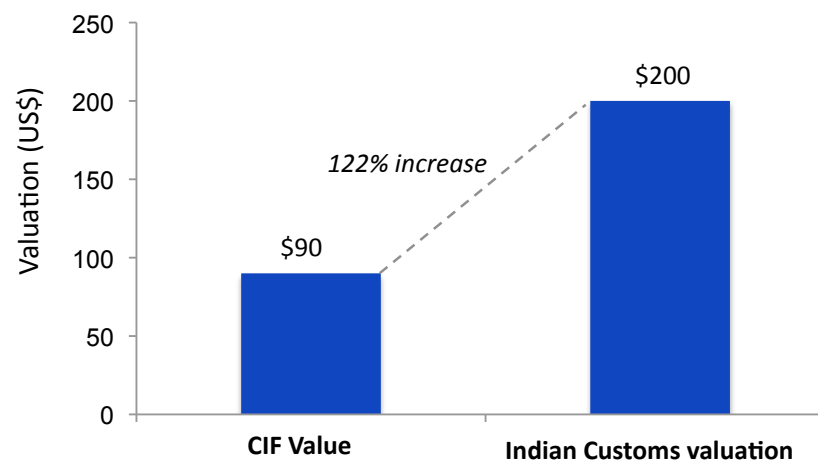
*Note: based on export value; includes only the effect of "Border Administration" and "Telecommunication and Transport Infrastructure"*  
*Source: Ferrantino, Geiger and Tsigas, The Benefits of Trade Facilitation – A Modelling Exercise; World Economic Forum*  
*Based on 2007 baseline*

# Building supply chain – Electric Fans

Pakistani manufacturers face the following export barriers:



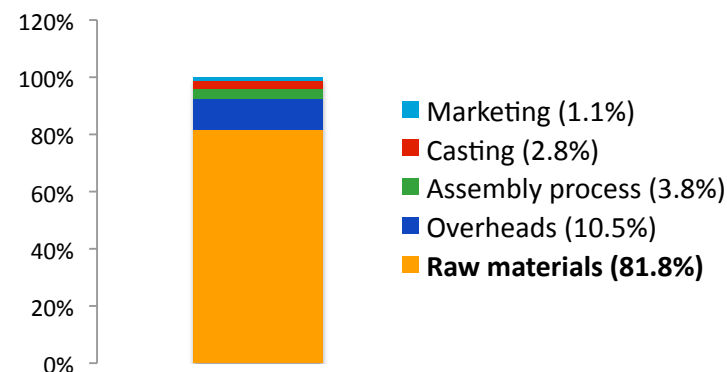
Non tariff barriers – Customs valuation of mist fan



## Raw materials

- Electric steel sheets most important raw material
- Imported steel sheet is five times more expensive
- Indian steel sheets would be more economical
  - lead to higher quality
  - reduced prices
- India is an exporter of fans but it also imports fans worth \$71m<sup>(a)</sup>

## Pakistan fan production cost margins



<sup>(a)</sup> Includes both consumer and industrial fans. 2010-year end figures

Page Source: Trade Development Authority of Pakistan (TDAP) 2011



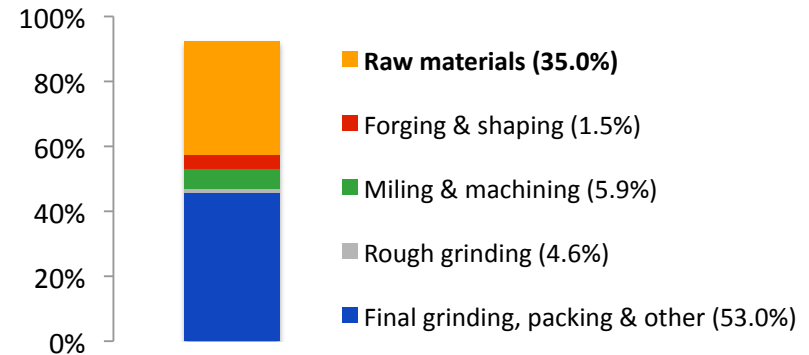
# Building supply chains – Surgical goods

## Increasing exports through partnerships

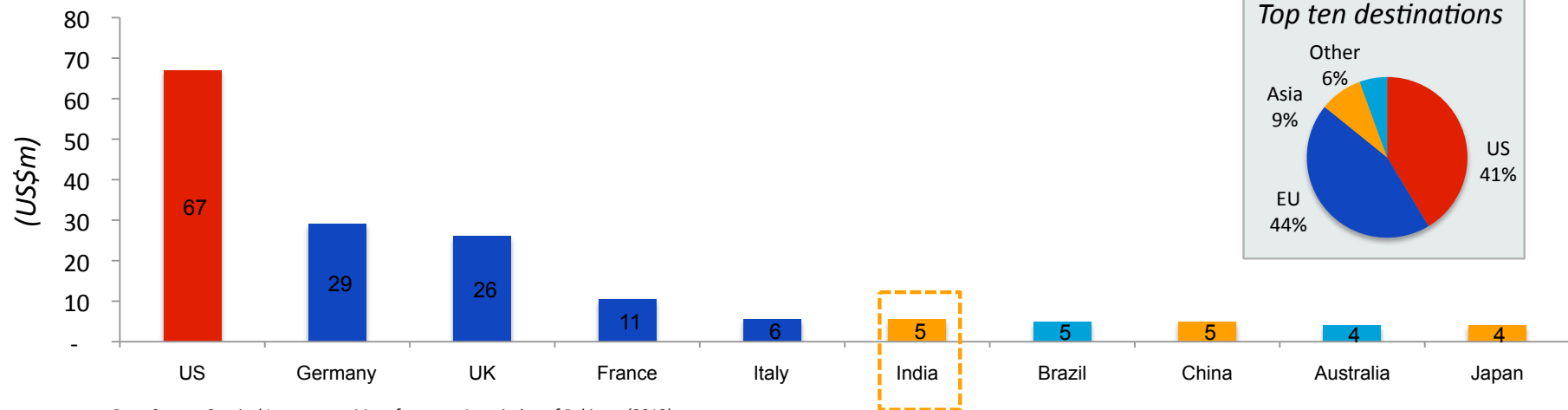
- Sialkot produces high quality surgical goods
- However its exports are still low (\$300m in 2012)
- With cheaper raw-materials and synergies through India, it can increase exports manifold
- Similar examples in **sporting goods** from Sialkot



## Pakistan's surgical goods cost margins



## Pakistan's top 10 countries for surgical goods exports

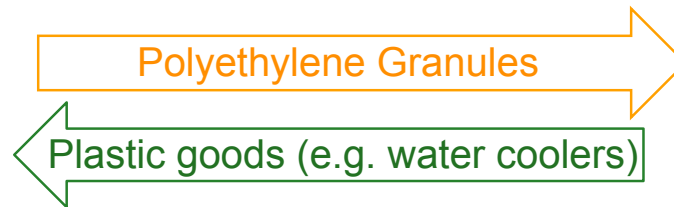


Page Source: Surgical Instruments Manufacturers Association of Pakistan (2012)

# Building supply chains – Plastics and Chemicals

## Plastics

- Pakistan imports over \$1 billion of Polyethylene (300kt) and Polypropylene (300kt)
- Less than 10% are imported from India whose petrochemical plants are located near Lahore
- Most plastic manufacturing units (over 400) located near Lahore
- India can import cheaper and quality plastic goods such as water coolers, bottles and parts



PET (Resin)

## Chemicals

- Pakistan has surplus capacity for soda ash and caustic soda
  - India currently imports these products from more expensive sources
- Huge demand in Pakistan for dyes, colouring materials and organic chemicals



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# Expanding trade in sensitive sectors

- Encourage industry associations to seek bilateral agreements similar to other countries
- Gradually reduce tariff and non-tariff barriers



# Some examples of successful managed auto trade agreements

## Argentina and Brazil Agreement (1999)

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- Established common tax regime
- Duty free exports of Brazil linked to its import from Argentina
- Argentina now producing one million units with Brazil buying four/fifths
- Automobile overseas sales are equivalent to 13% of Argentina's total exports



## US – Canada Auto Pact (1965)

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- For every US car sold in Canada, one has to be built there
- Since the Auto Pact, Canada production has quadrupled to 2.56 million units
- OEM parts production improved from less than \$500 million to roughly \$35 billion



# Building Supply Chain – Automotives



Auto parts (e.g. Suzuki Alto)

Suzuki Altos



Emission standard engines

High quality cheaper tractors



Large engine motorcycles

Smaller engine motorcycles



# Conclusions

- Bilateral trade policies are seriously flawed
  - impede economic growth
  - are opaque
  
- Can be rectified by building supply chains through
  - Trade facilitation
  - Removing tariff and non-tariff barriers
  - Making special arrangements for sensitive sectors

*“The best time to plant a tree is twenty years ago.  
The second best time is now.” Confucius*