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% (a)

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

(a) (OECD Trade Policy Paper No. 144) - 04/03/2013
Trade routes that can be easily made operational

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

Source: Wagah - Attari border, dawn.com
Three key requirements for expanding trade

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Reducing supply chain barriers has a larger effect than removing tariffs

Increase in global trade and GDP (trillion US$)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Trade (Trillion US$)</th>
<th>GDP (Trillion US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambitious scenario</td>
<td>2.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Modest scenario</td>
<td>1.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Tariffs</td>
<td>1.1</td>
<td></td>
</tr>
</tbody>
</table>

Countries improve trade facilitation halfway to global best practice
Countries improve trade facilitation halfway to regional best practice
All tariffs removed globally

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:

- **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\(^{(a)}\)

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(a) Includes both consumer and industrial fans. 2010-year end figures

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Non tariff barriers – Customs valuation of mist fan

Pakistan fan production cost margins

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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 top 10 countries for surgical goods exports

<table>
<thead>
<tr>
<th>Country</th>
<th>(US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>67</td>
</tr>
<tr>
<td>Germany</td>
<td>29</td>
</tr>
<tr>
<td>UK</td>
<td>26</td>
</tr>
<tr>
<td>France</td>
<td>11</td>
</tr>
<tr>
<td>Italy</td>
<td>6</td>
</tr>
<tr>
<td>India</td>
<td>5</td>
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<tr>
<td>Brazil</td>
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<tr>
<td>China</td>
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<tr>
<td>Australia</td>
<td>4</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
</tr>
</tbody>
</table>

Pakistan’s surgical goods cost margins

- Raw materials (35.0%)
- Forging & shaping (1.5%)
- Milling & machining (5.9%)
- Rough grinding (4.6%)
- Final grinding, packing & other (53.0%)

Top ten destinations

- US 41%
- EU 44%
- Asia 9%
- Other 6%

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

**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)
- 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)
- 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