

Annual Conference: 2014
Normalization of India-Pakistan Trade
Presentation on : Barriers to Trade

By

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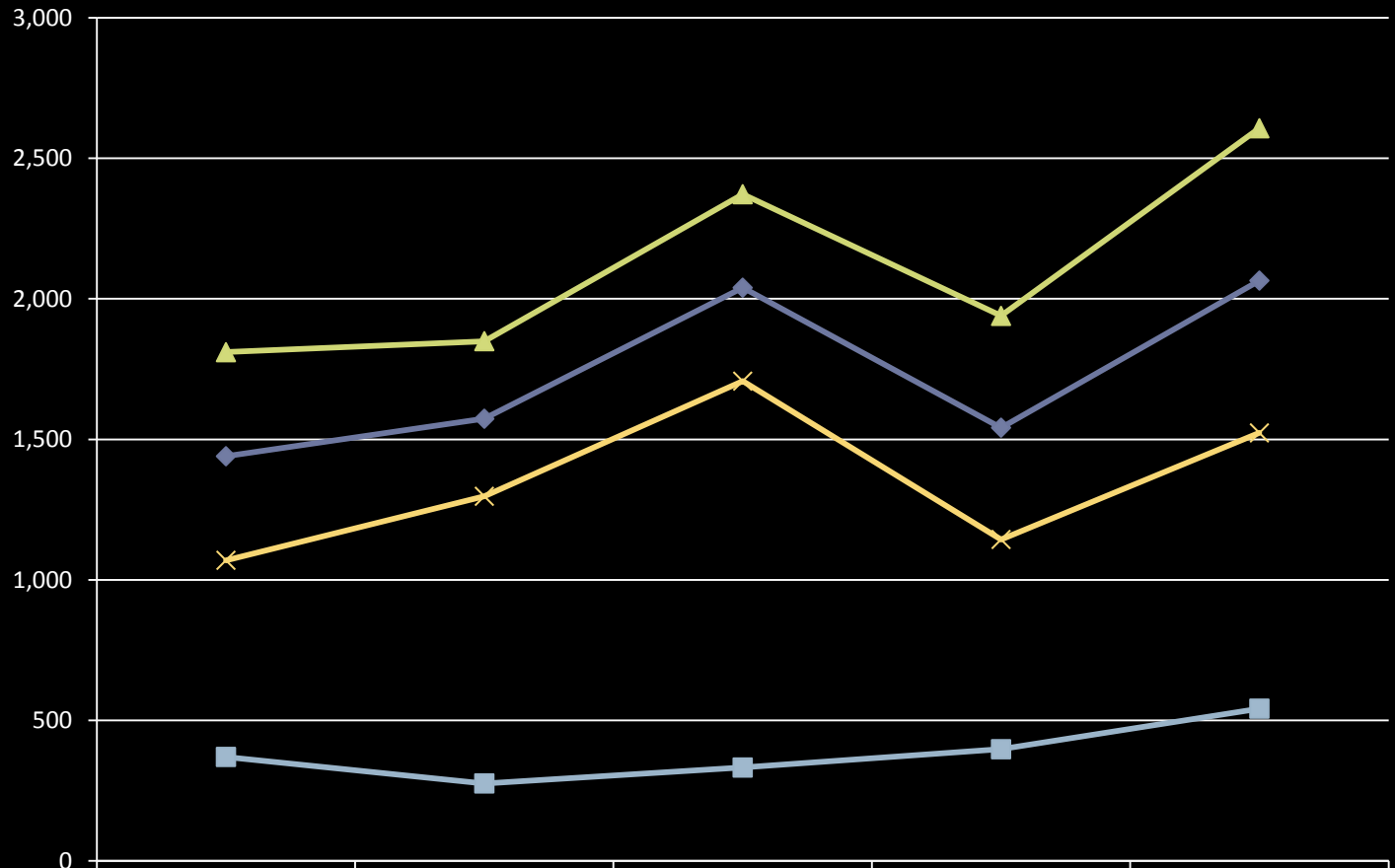
21-22 January 2014.

Plan of Presentation

- India-Pakistan Bilateral Trade Flows
- Trade Barriers & Trade liberalisation Plan
- Pakistan's Apprehensions
- India's Apprehensions
- Ground Reality
- The Way Forward

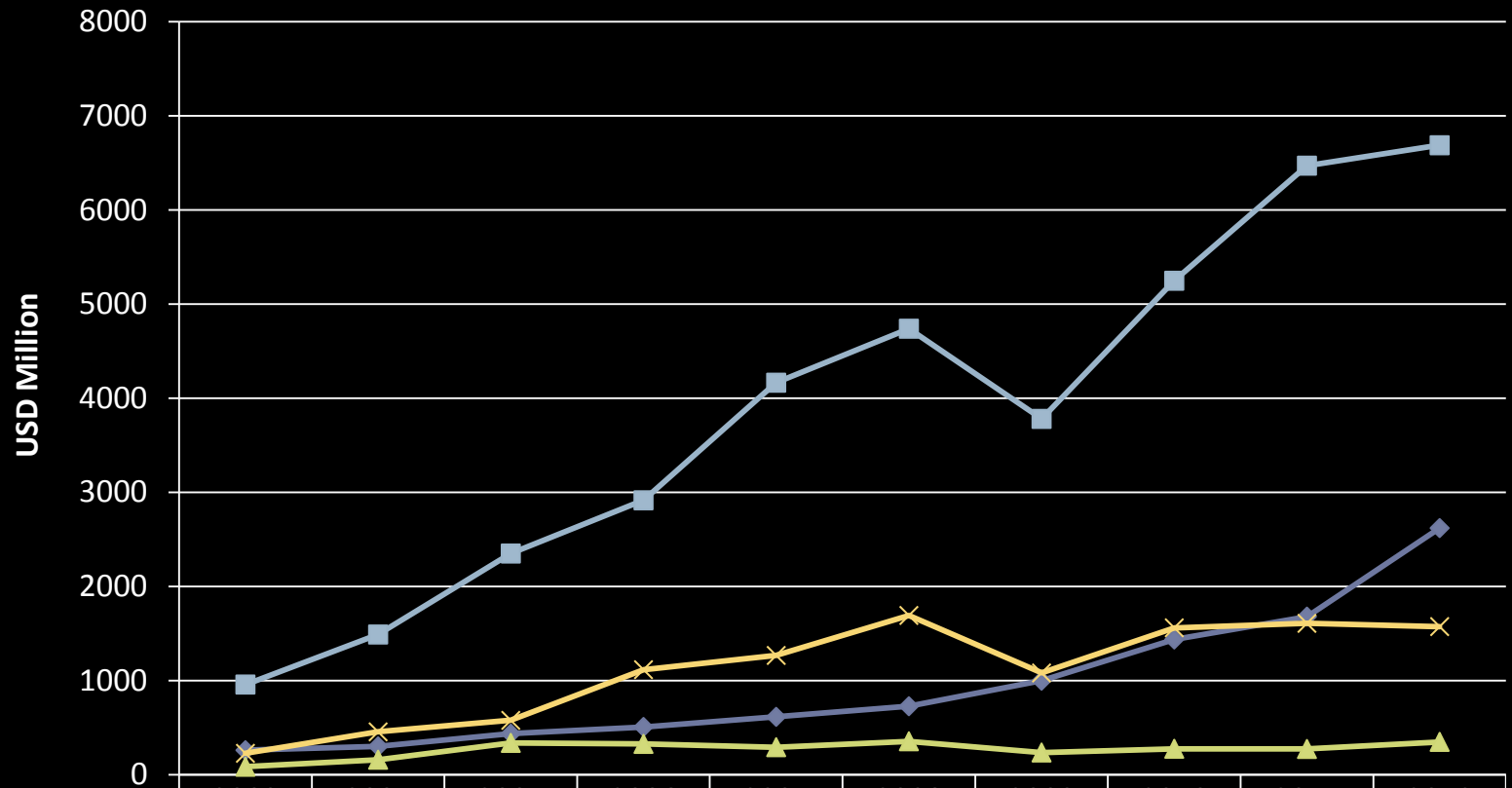
Bilateral Trade Flows

India Pakistan Trade (US \$ Million)



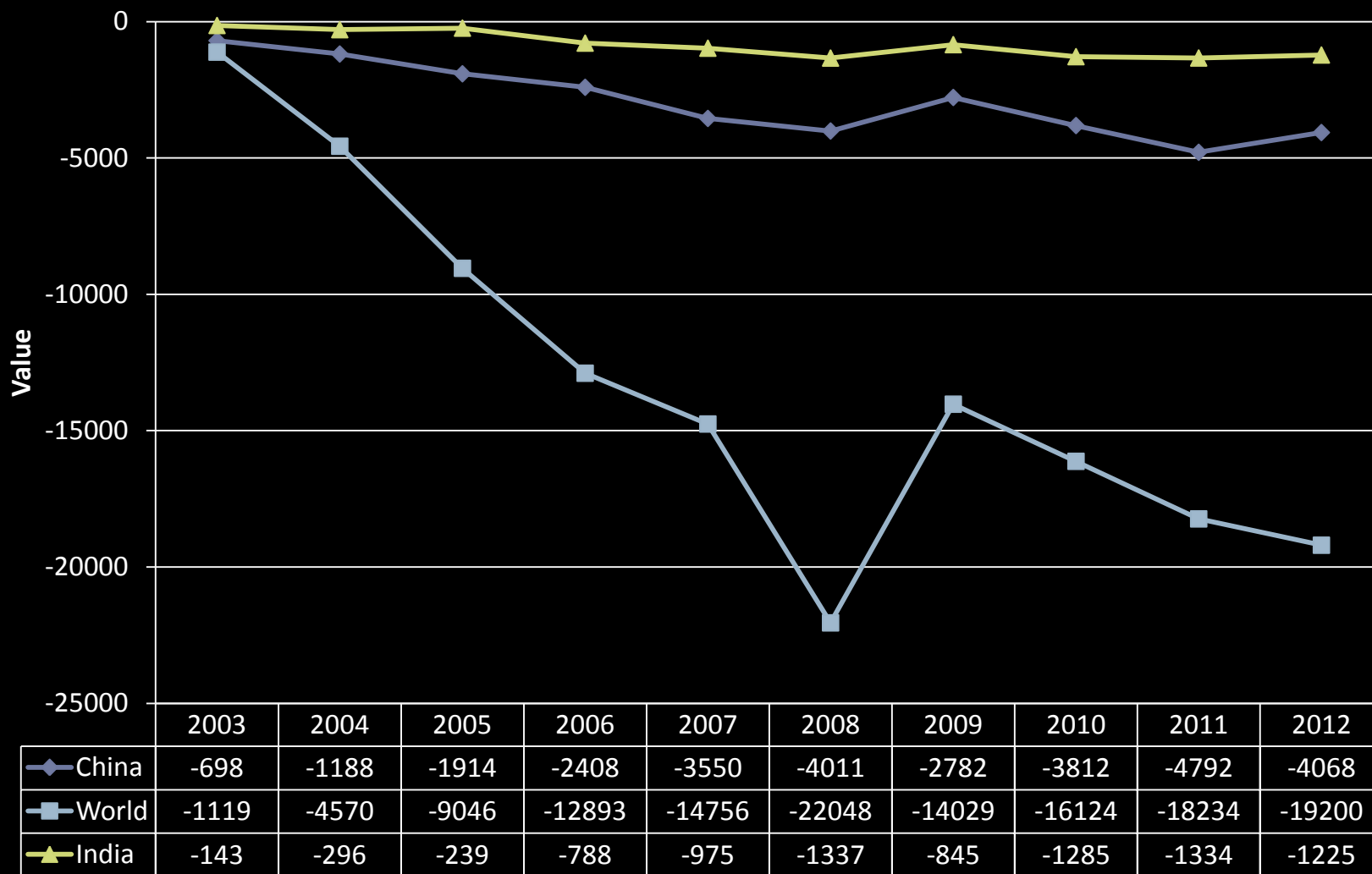
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
EXPORT	1,440	1,573	2,040	1,542	2,065
IMPORT	370	276	333	398	542
TOTAL TRADE	1,810	1,849	2,372	1,939	2,607
TRADE BALANCE	1,070	1,297	1,707	1,144	1,523

Pakistan's Trade with India and China (USD Million)



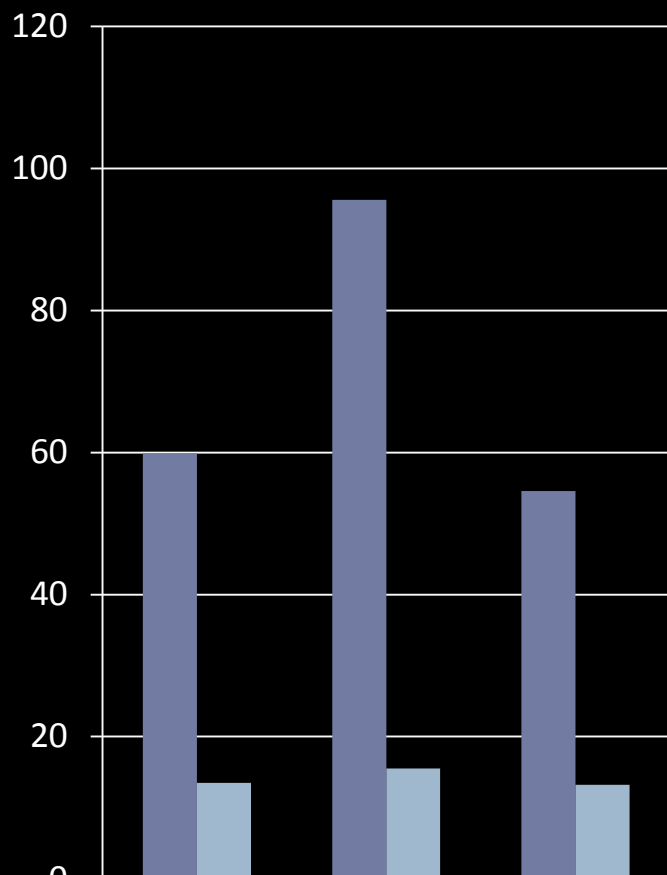
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Export to China	260	301	436	507	614	727	998	1436	1679	2620
Import from China	957	1489	2349	2915	4164	4738	3780	5248	6471	6688
Export to India	84	158	337	327	292	355	235	275	273	348
Import from India	226	454	577	1115	1266	1691	1080	1560	1607	1573

PAKISTAN'S TRADE DEFICIT WITH CHINA, INDIA AND WORLD (USD MILLION)



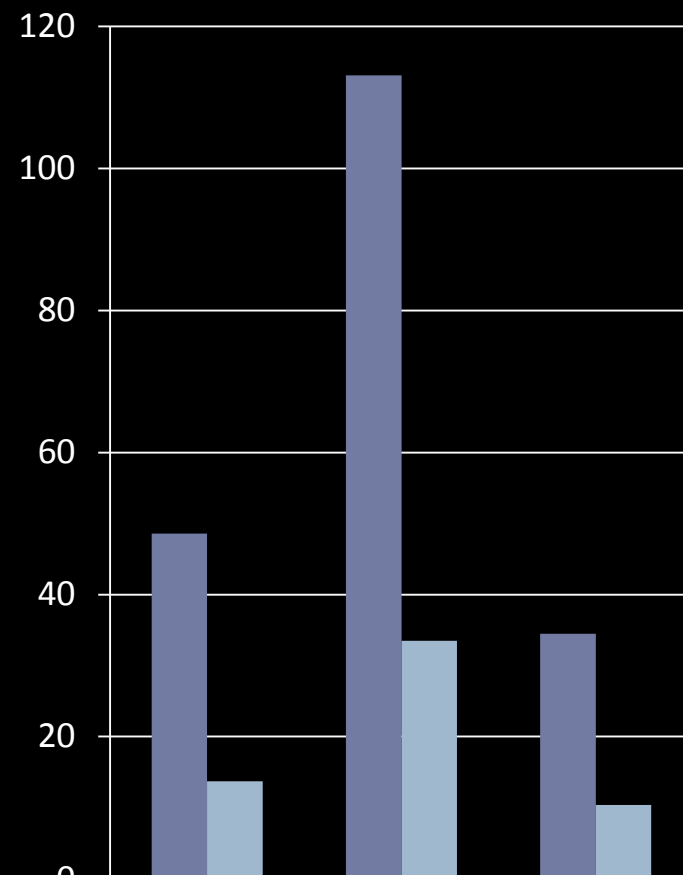
Tariff Barriers: Trade liberalisation Plan

MFN Simple Average Import Duties: Pakistan



	All goods	Agricultural goods (AOA)	Non-agricultural goods
Final bound	59.9	95.6	54.6
Applied 2012	13.5	15.5	13.2

MFN Simple Average Import Duties: India



	All goods	Agricultural goods (AOA)	Non-agricultural goods
Final bound	48.6	113.1	34.5
Applied 2012	13.7	33.5	10.4

Tariff Liberalization Plan

- **The Joint Statement at the end of the 6th Round Table on Commercial and Economic Cooperation (RTCEC) stated that the move to full normalization of trade relations would be sequenced.**
- **In the first stage, Pakistan will transition from the current Positive List approach to a Negative List. The consultation process on devising this Negative List was almost complete. It stated:**
- **A small Negative List shall be finalized and ratified by February, 2012. Thereafter, all items other than those on the Negative List shall be phased out. The timing for this phasing out will be announced in February 2012 at the time the List is notified and it is expected that the phasing out will be completed before the end of 2012.**
- **Following the visit of Commerce Minister Shri Anannd Sharma to Pakistan in February 2012, Pakistan side notified its Negative List on 20th March 2012.**
- **Thereafter, both sides agreed move towards preferential trading arrangement under the SAFTA process.**

Tariff Liberalization Plan

- **The 7th RTCEC reiterated that the road map for liberalized trade drawn in earlier Ministerial meetings would be “scrupulously” adhered to.**
- **Both sides developed a long term plan of trade liberalisation. It was noted that Pakistan now had 936 tariff lines at 6-digit under its SAFTA Sensitive List, as against 614 tariff lines at 6-digit of India. It was agreed that after Pakistan has notified its removal of all restrictions on trade by Wagah-Attari trade route, India would bring down its SAFTA Sensitive List by 30 % before December, 2012 keeping in view Pakistan’s export interests.**
- **As Pakistan transitions fully to MFN status for India by December 2012 as agreed earlier, India would thereafter bring down its SAFTA Sensitive List to 100 tariff lines by April, 2013. As India notifies the reduced Sensitive List, Pakistan, after seeking approval of the Cabinet, will also notify its dates of transition to bring down its SAFTA Sensitive List to a maximum of 100 tariff lines within the next five years (2017). Before the end of year 2020, except for this small number of tariff lines under respective SAFTA Sensitive Lists, the peak tariff rate for all other tariff lines would not be more than 5%.(para 12).**

Pakistan's Apprehensions

Pakistan's Apprehensions

- **Under the previous Pakistan People's Party government, considerable progress was made at official level meetings in transiting to MFN regime. There appeared to be acceptance of this principle across a wide spectrum of stakeholders for moving forward along this direction.**
- **However the impending Pakistan elections delayed the process. After the new government led by Nawaz Sharif was formed in May 2013, expectations of a forward movement towards trade normalization emerged. However the unfortunate incidents across the line of control on the India Pakistan border in January 2013 proved to be a dampener. Also in the meanwhile several stakeholders began to express the view that a level playing ground should first be created before the process of trade normalization could be attained. Several lobbies have becoming prominent supporting this apprehension.**

Pakistan's Apprehensions

The influential farmers lobby has been most vocal in opposing free trade with India. Their contention is that Pakistan's agriculture would suffer from highly subsidized farm imports from India. In November 2012 the president of the Basmati Grower's Association warned that his members faced "economic suicide". Further, head of Farmers Associates Pakistan, a lobby group, threatened to literally block Indian agricultural products from entering Pakistan.

It is contended that the farmers of Pakistan have not been taken on board while taking the decision to grant India MFN. Such a decision should not have been hastily taken without prior cost-benefit analysis in the two countries' respective agricultural subsidies

Several lobbies have also emerged in the industrial sector. The pharmaceutical industry fears that India's abundance of cheap pharmaceutical intermediate raw materials and large economies of scale will marginalize Pakistani products, while chemical/synthetic fiber sector worries that India will dump its large fiber surplus in Pakistani market.

Pakistan's Apprehensions

Pakistan's automotive manufacturers are also apprehensive that Indian auto parts would flood the Pakistani market and disrupt the local industry. An expression of such a concern is that nearly 400 products out of a total of 1209 products in Pakistan's negative list are contained in this sector.

Deeply embedded in Pakistani businessmen and policy makers is the alleged concern on a plethora of non-tariff barriers imposed by India on Pakistani products. The imposition and application of standards in India is perceived as a major non-tariff barrier by Pakistani exporters. Pakistan has an export interest in textiles and agricultural products which also happen to be sectors where import restrictions/standards are more vigorously applied by India. Even though technical barriers to trade (TBT) and phyto- sanitary (SPS) measures were not discriminatory across trading partners, Pakistan's exports were negatively affected by this owing to more stringent application of such regulations

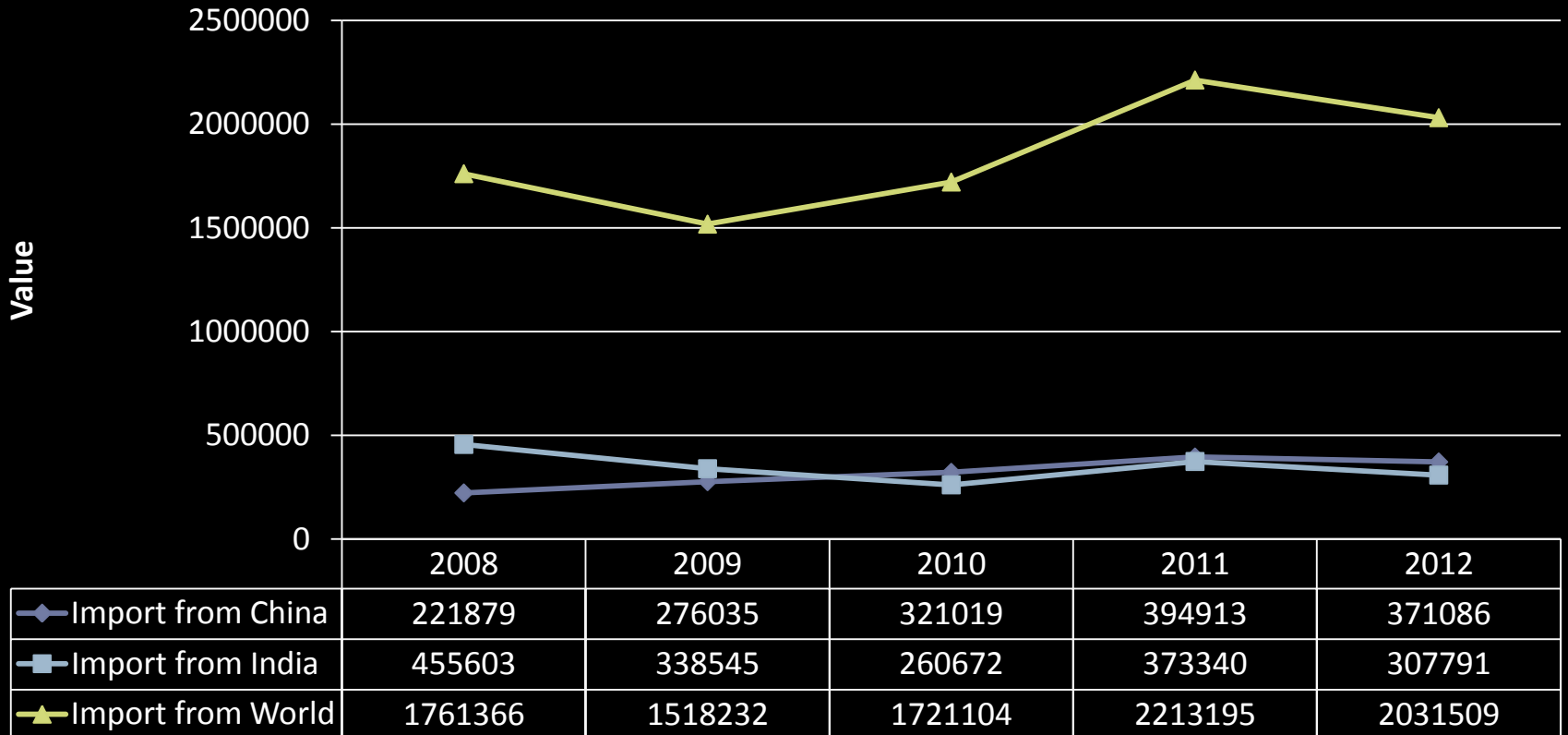
India's Apprehensions

Anomalies in Negative List Approach (2011)

1	Products earlier in positive list but denied access under negative list.	31	
2	India's exports to Pakistan for products under 1: India reporting	17	(Value USD 17.9 Mn.)
3	Pakistan's imports from India for products under 1: (Pakistan reporting)	16	(Value USD 16 Mn.)
4	Products under Pakistan's SAFTA sensitive list kept in its negative list for India)	279	
5	Exports of India to Pakistan in products under 4 (India reporting)	87	Value USD 39.5 Mn.
6	Pakistan imports from India in products under 4 (Pakistan reporting)	67	Value USD 35.4 Mn.

India Losing Level Playing Field in Non-Agricultural Products to China and Rest of the World

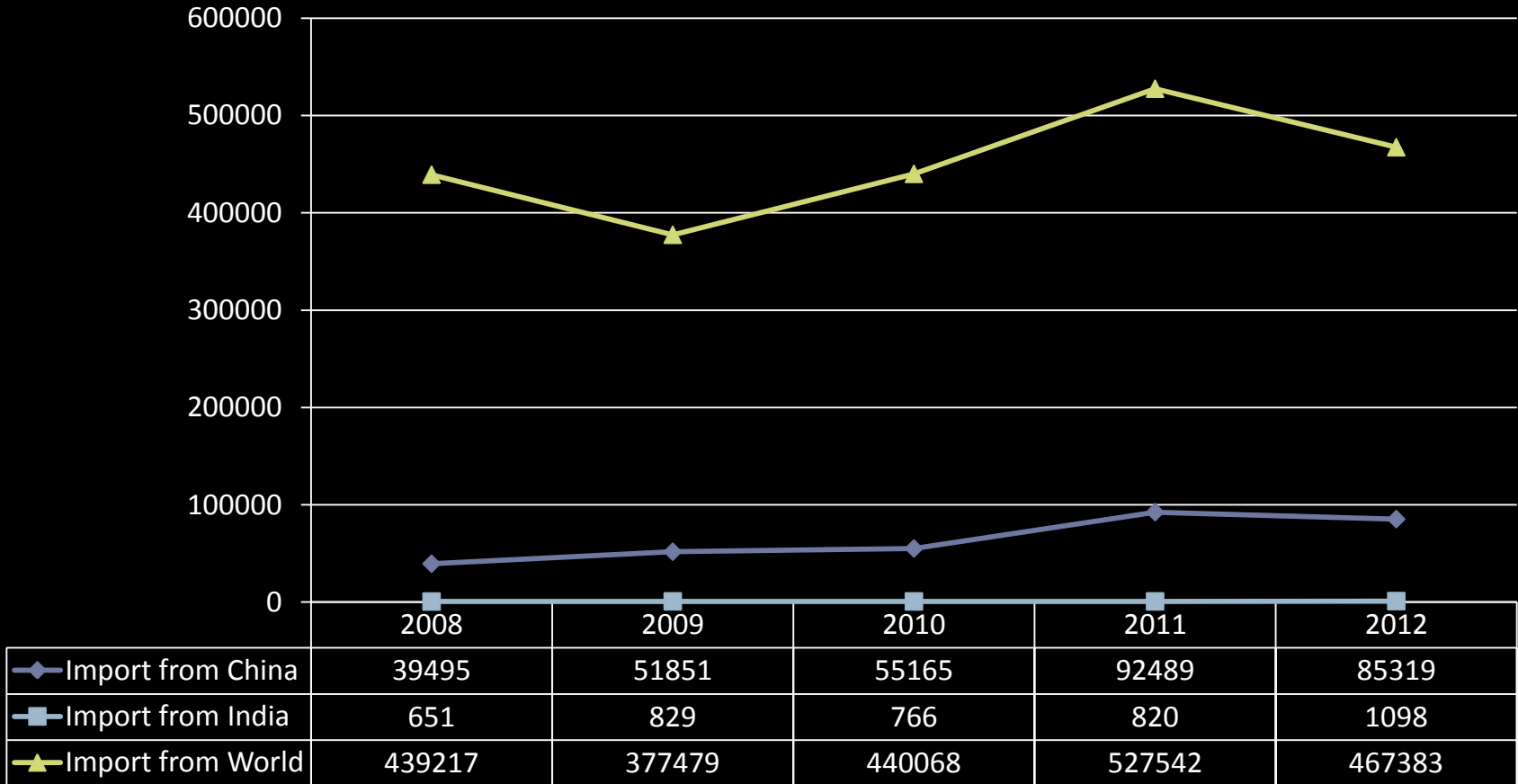
Pakistan's Import of Organic Chemicals from China, India and World (USD '000)



PAKISTAN OFFERS CHINA DUTY-FREE ACCESS ON 118 PRODUCTS UNDER THIS CATEGORY. 30 PRODUCTS UNDER THIS CATEGORY ARE INCLUDED UNDER PAKISTAN'S NEGATIVE LIST FOR INDIA.

India Losing Level Playing Field in Non-Agricultural Products to China and Rest of the World

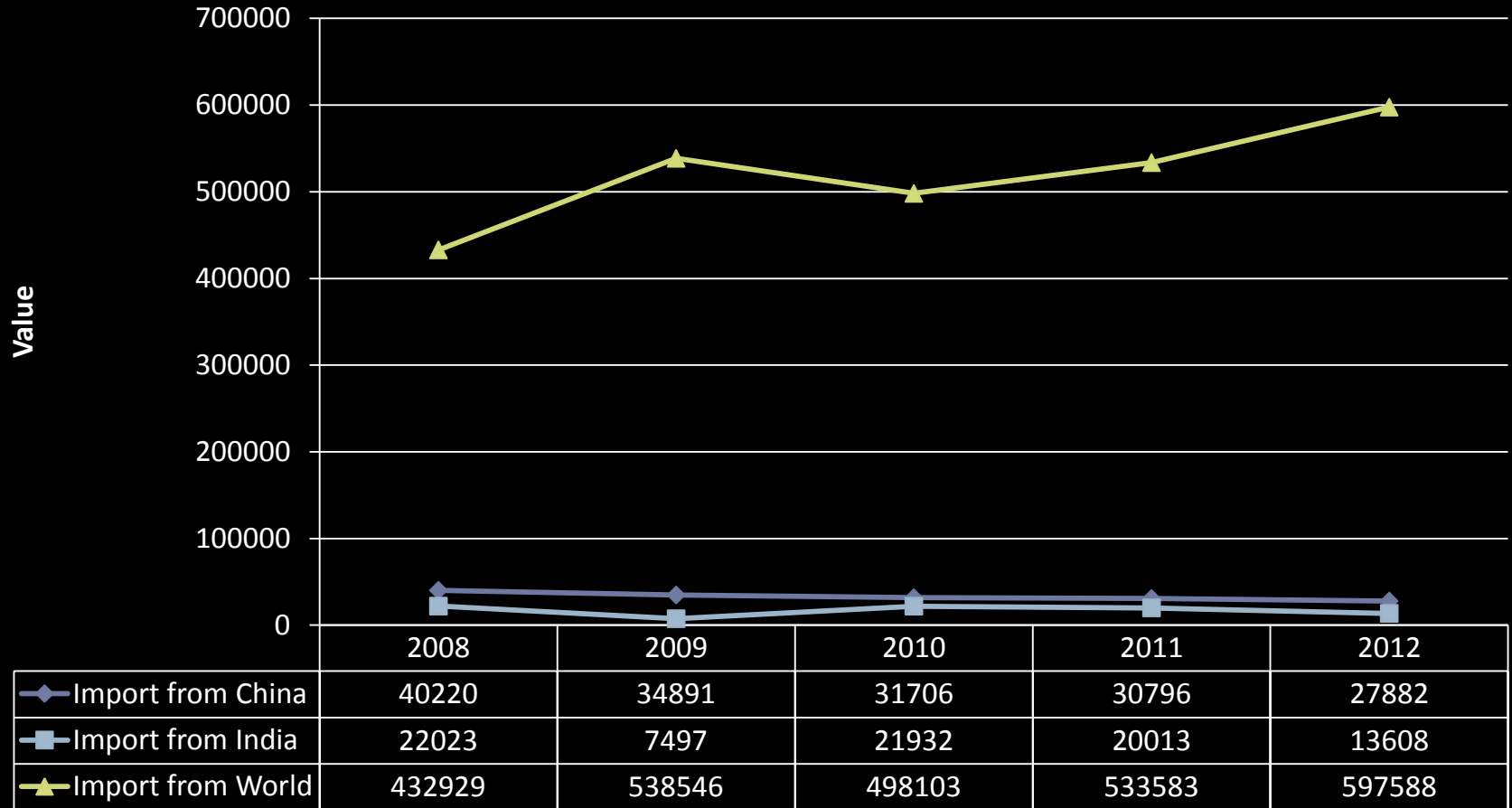
Pakistan's Imports of Paper and Paperboard from China India and World (USD '000)



94 products under this group have been placed under Pakistan's negative list.

India Losing Level Playing Field in Non-Agricultural Products to China and Rest of the World

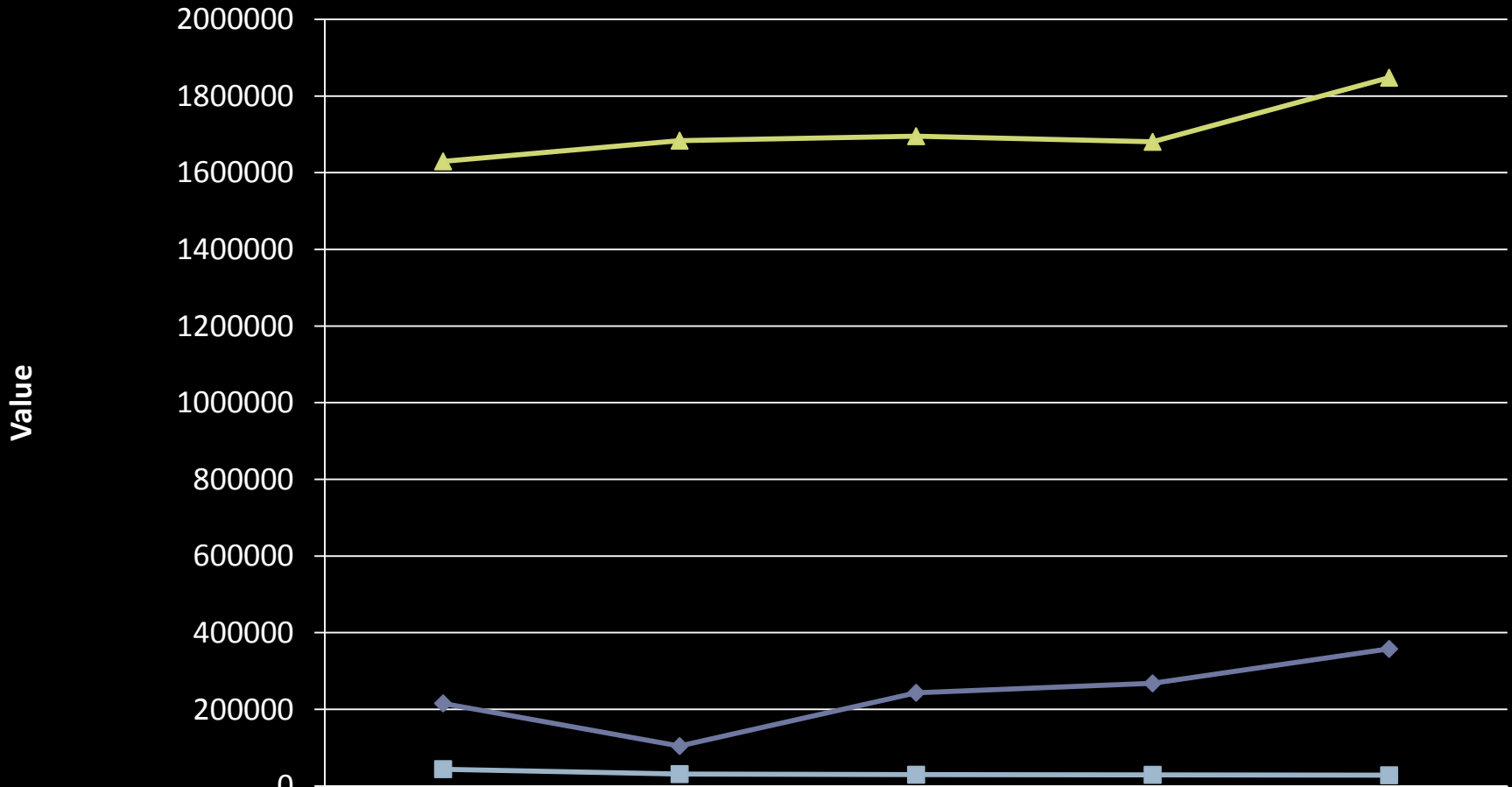
Pakistan's Import of Pharmaceuticals from China, India and World (USD '000).



23 products under this group are in Pakistan's negative list for India.

India Losing Level Playing Field in Non-Agricultural Products to China and Rest of the World

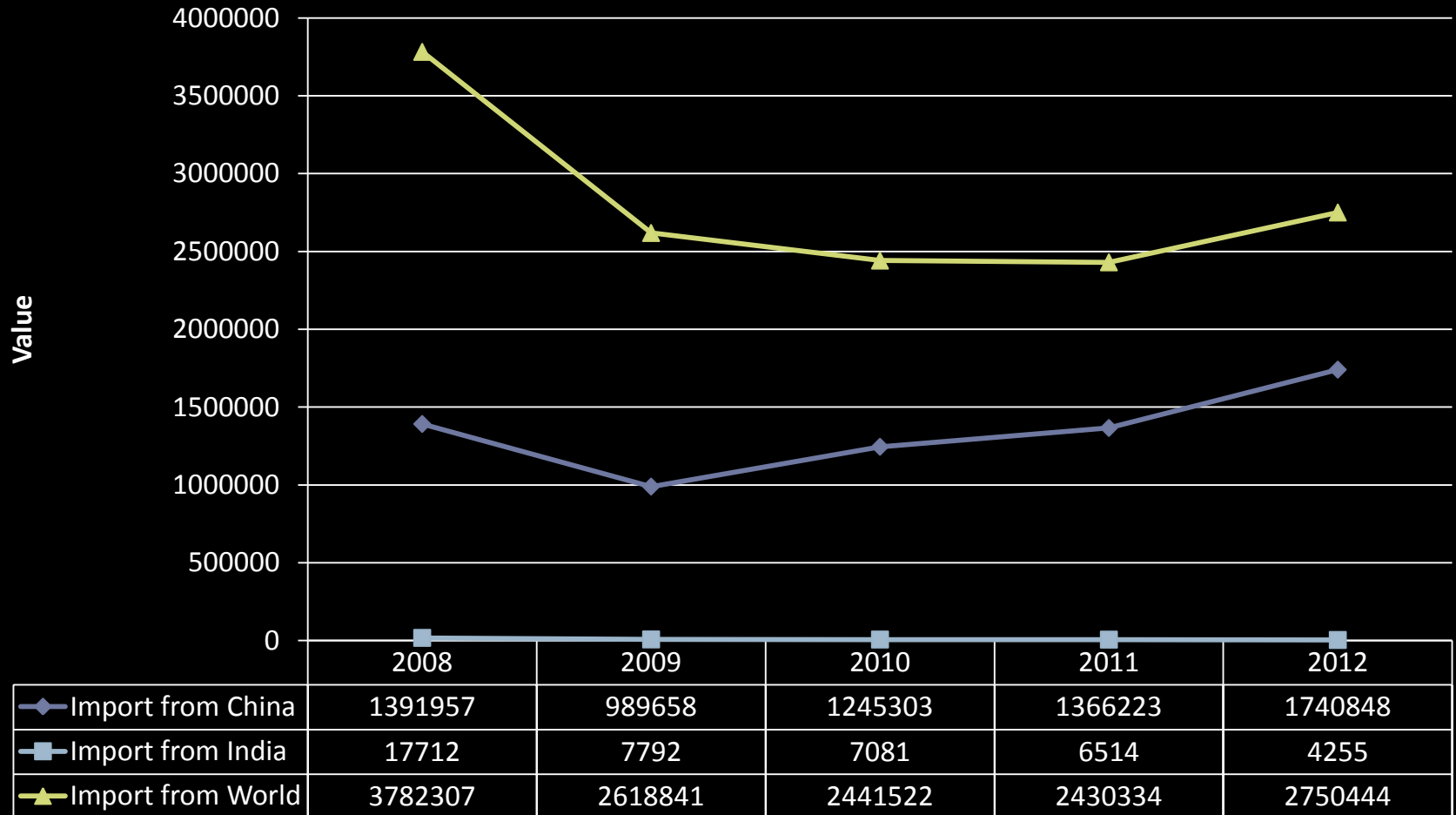
Pakistan's Imports of Iron & Steel Products from China, India and World (USD '000)



	2008	2009	2010	2011	2012
◆ Import from China	215664	104272	243235	267888	357720
■ Import from India	44062	31189	29497	29234	28117
▲ Import from World	1629421	1683493	1695234	1680472	1847687

India Losing Level Playing Field in Non-Agricultural Products to China and Rest of the World

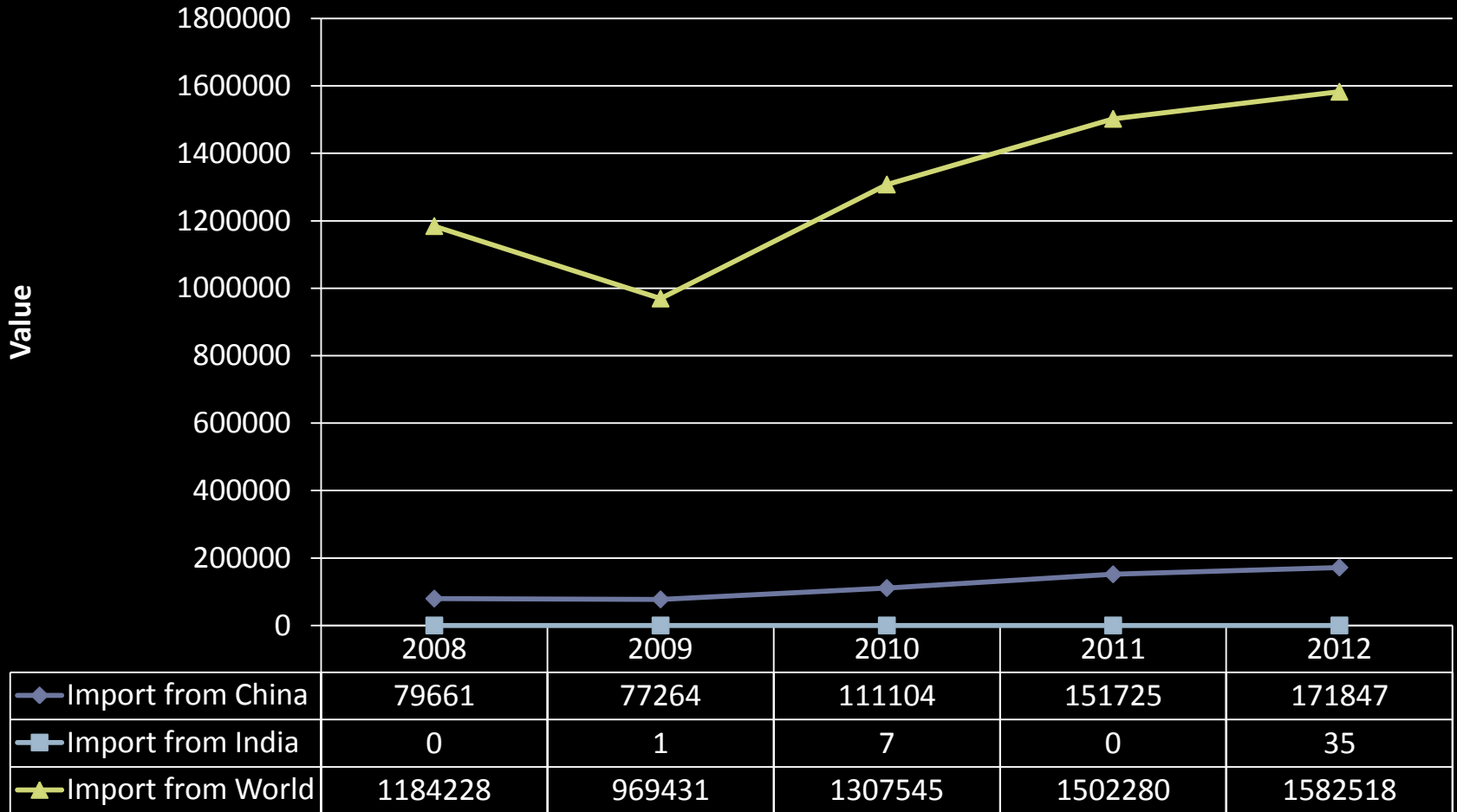
PAKISTAN'S IMPORT OF ELECTRICAL MACHINERY & EQUIPMENT (HS 85) FROM CHINA, INDIA AND WORLD (USD'000)



106 PRODUCTS IN THIS CATEGORY ARE IN PAKISTAN'S NEGATIVE LIST FOR INDIA

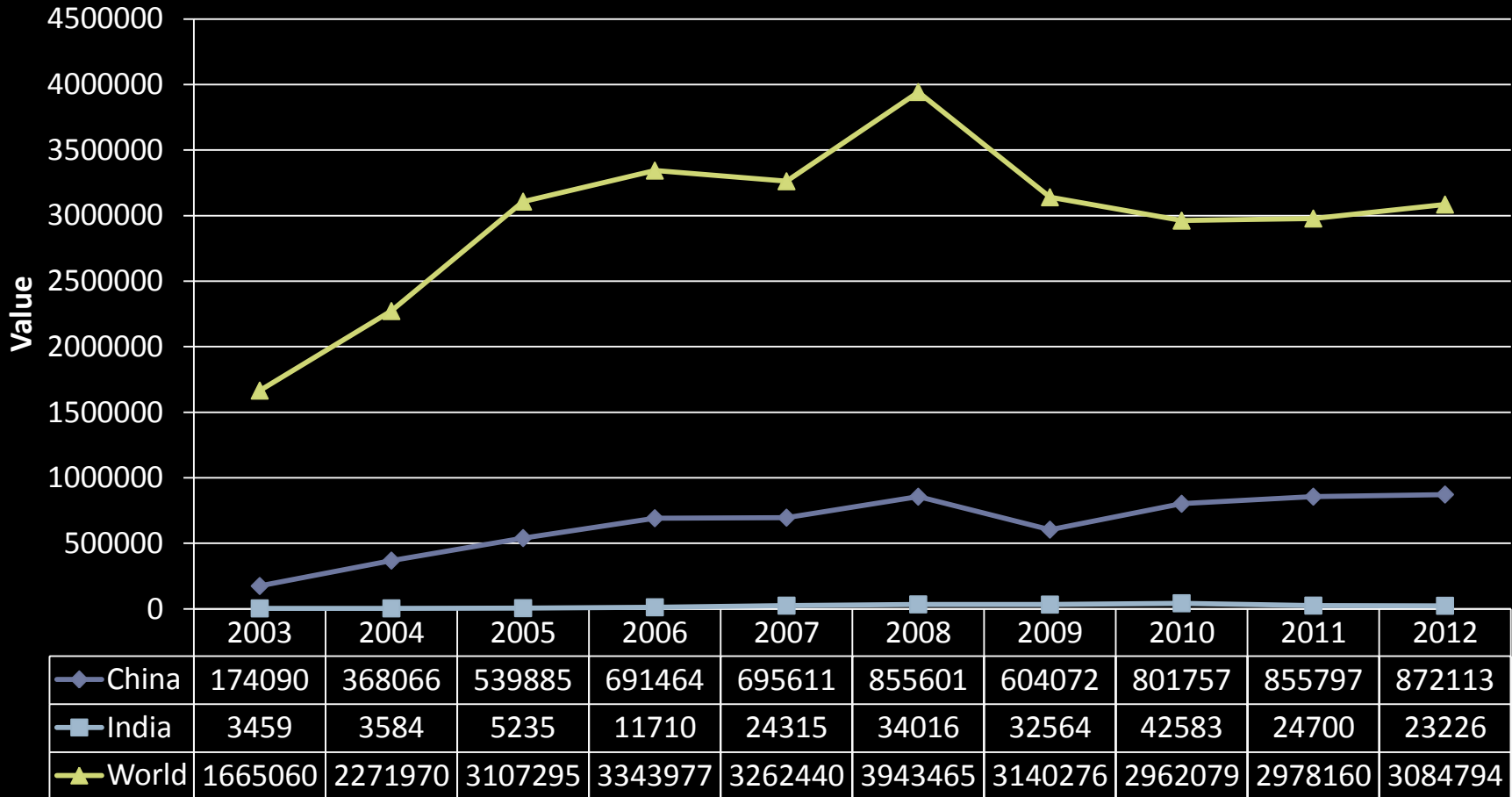
India Losing Level Playing Field in Non-Agricultural Products to China and Rest of the World

Pakistan's Import of Vehicles (Other than Railway/tramway) (HS 87) (USD '000)



180 products in this category are in Pakistan's negative list for India

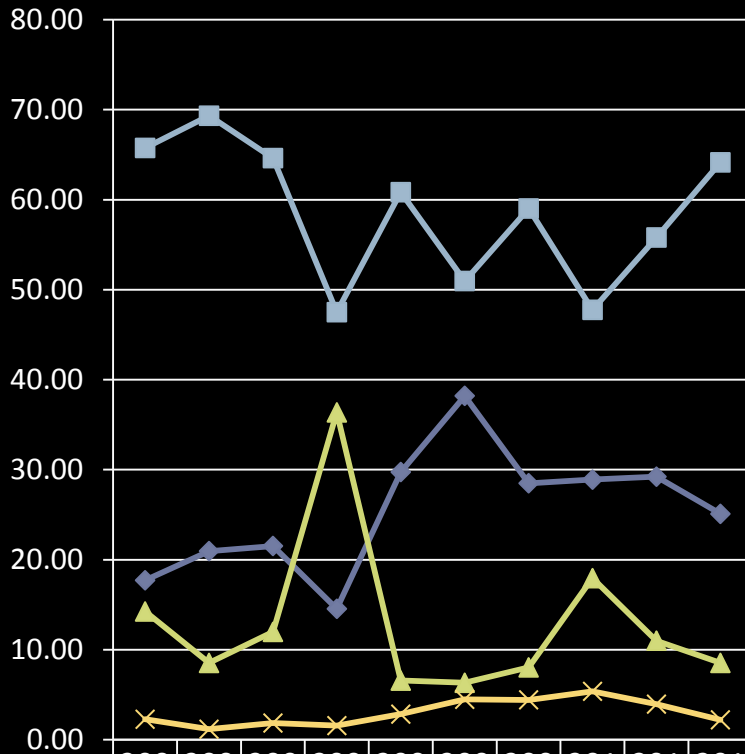
Pakistan's Import of Nuclear Reactors, Boilers & Mechanical Appliances from China, India and World (HS 84) (USD '000)



Pakistan has offered China duty-free access on 268 products under this category while keeping 197 such products in its negative list for India.

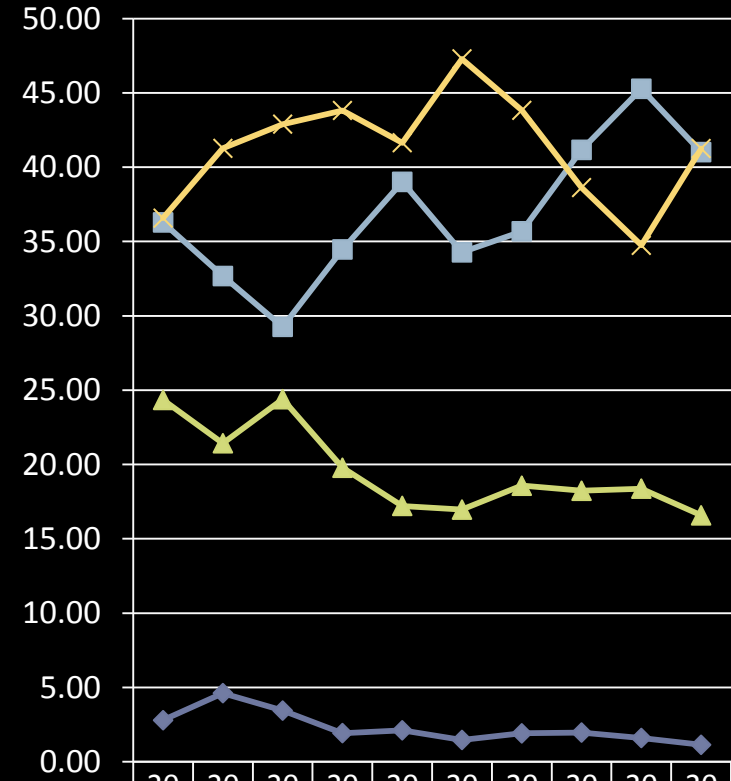
Structure of Pakistan's Imports (Percent of Total Imports)

India



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Raw Materials	17.72	20.96	21.53	14.55	29.75	38.21	28.50	28.90	29.23	25.10
Intermediate Goods	65.75	69.35	64.62	47.51	60.84	50.97	59.02	47.77	55.80	64.15
Consumer Goods	14.25	8.54	11.99	36.37	6.57	6.33	8.04	17.96	11.01	8.54
Capital Goods	2.28	1.17	1.86	1.57	2.84	4.49	4.44	5.38	3.96	2.21

China



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Raw Materials	2.80	4.62	3.45	1.93	2.12	1.47	1.91	1.97	1.60	1.14
Intermediate Goods	36.29	32.68	29.26	34.47	39.03	34.27	35.69	41.17	45.28	41.02
Consumer Goods	24.32	21.43	24.40	19.78	17.21	16.97	18.57	18.23	18.38	16.58
Capital Goods	36.57	41.27	42.90	43.82	41.68	47.29	43.83	38.63	34.74	41.26

Pakistan imports mainly capital and intermediate goods from China. In marked contrast Pakistan imports mainly intermediate goods and raw materials from India. The share of consumer and capital

Ground Reality

Ground Reality

It appears that the ground reality on Pakistan's apprehensions is somewhat more complex. According to Kugelman (2013), some food producers "actually relish the prospect of acquiring foodstuffs from India because they believe such products will be of higher quality than their own, and hence generate greater profits." Another surprising source of support he cites is Pakistan's textile industry which is optimistic of capturing a sizeable share of the Indian market. With India opening up to allow private investment from Pakistan, some Pakistani home textile and bed ware manufacturers have already explored joint venture options with Indian partners

After initial opposition to opening up with India, not only has the harsh opposition from Pakistan's auto industry diminished, on the contrary, business opportunities from trade in auto parts with India is becoming visible. Car assemblers of Pakistan are willing to import parts that are completely knocked down (CKD), but are opposing imports of completely built up units. The imports of major car parts from India at competitive rates could bring down substantially the cost of producing cars. Suzuki and Toyota have affiliates in both the countries and with trade in auto parts being permitted, these companies can source car components from whichever of their affiliates or their vendors produce them cheaper. Auto part makers in Pakistan have expressed interest in setting up joint ventures with Indian auto part makers

Ground Reality

If the Negative List is lifted, a lot of imports from India, if competitive, will simply replace imports from other countries, without impinging on the domestic manufacturers.

To illustrate, parts and accessories of motor vehicles were earlier excluded for imports from India under Pakistan's Positive List, and subsequently also when these very products were brought under its Negative List.

However, it is interesting to observe that Pakistan was less averse in importing these very products from third countries. To illustrate, in 2011 Pakistan imported USD 180 million in parts and accessories of motor vehicles from the world, the principal suppliers being Thailand, Japan and China.

Similarly Pakistan has kept most of the products under electric machinery equipment and parts (HS classification 85) and vehicles of railway/tramway and rolling stock (HS classification 87) under its Negative List. However import data for 2011 again reveals that the country imported substantially from the world, particularly from China, Japan and Thailand.

Ground Reality

By keeping such products in its Negative List for Indian products, it is giving third countries a first mover in Pakistan's markets. This becomes even more apparent in the context of Pakistan's free trade agreement with China. If Pakistani manufacturers can brace up to competition from China (often identified as manufacturing hub of Asia), what prevents them from offering similar market access to India?

An analysis of the NTMs notified against India shows that some of these NTMs did not pose any barrier to entry as they are applicable to both imports as well as domestically manufactured goods, and hence in accordance with the principle of national treatment. There are also some other measures where India has already initiated corrective action but perhaps the information on such action has not been made available to other countries (eg. on labeling/customs valuation).

Ground Reality

In the 6th Round of India Pakistan bilateral trade talks held in New Delhi from November 14-16, 2011, a specific slot was allotted for discussing the non-tariff barriers perceived by Pakistan in respect of their exports to India. The discussions explained how insistence on specific standards by importers was due to the commercial considerations and not because of any Government requirement.

An Annexure attached to the 6th Round of India-Pakistan bilateral trade talks clarified all issues raised by the Pakistan side. On the issue of compulsory certification of cement, the Pakistani side was informed that Bureau of Industrial Standards (BIS) was mandated to give license within six months and inspection visit was to be completed within 1-2 months after an application is registered. 13 licenses were already operational and renewal licenses for two years were being given to all cement manufacturers who had applied for the same.

- **Regarding textile consumer protection regulation, testing labs for azo dyes in Mumbai/Delhi. are available. A certificate by accredited certification bodies/labs of the Pakistan National Accreditation Council is acceptable.**
- **Regarding marking and labeling BIS has not prescribed any mandatory standard on textiles. However marking and labeling is a national requirement**
- **Regarding SPS measures, Indian side clarified that fresh fruits and vegetables are tested at the lab at Attari and all perishables are cleared the same day and no delays were being reported.**
- **Regarding food products testing and packaging requirements, Indian side agreed to send a team for educating the exporters as and when request was made. It was clarified that “all standards were non-discriminatory viz., they applied to all countries exporting goods to India. The discussions also explained how insistence on specific standards by importers was due to commercial considerations and not because of any government requirement”.**
- **Part of the perceived problems arise from underdeveloped consume protection legislation in Pakistan. While Punjab enacted Consumer Protection Act in 2005, its several provinces have yet to enact the same. On SPS risks there is yet absence of a legal framework for quality control system in its domestic and global markets. A national level authority to deal with harmonised food safety control system is yet to take shape in Pakistan.**
- **Inadequate information is another factor**

Ground Reality

As noted earlier, the farm lobby in Pakistan is concerned about the agricultural subsidies that India applies on food, fertilizers, power and irrigation.

In reality, in 1996-97, India's domestic subsidy levels were well below the permissible *de minimis*, category both in product specific and non-product specific categories. For product specific subsidies, India's support level were negative for all the years reported by India and non product specific categories, the support level was only 1.2 percent of the total value of agricultural production in the last year reported by India. Thus the domestic support extended by India to agriculture and to farmers is WTO complaint. (Dhar 2004, Pal 2005).

Estimates made in a more recent study by Hoda and Gulati (2013), show that in recent years non-product specific support has remained below the *de minimis* level of 10 % of the total value of agricultural production, except in 2008-09 when it rose on account of unprecedented rise in fertilizer prices.

The authors' calculations for product specific investment and input subsidies show that after making allowance for inflation since 2008, the minimum support price is well below the fixed external reference price. The negative gap between the fixed external reference price and the minimum support price is large enough to allow full adjustment of the product specific investment and input subsidies

India's Market Access Potential in Agro-products in Pakistan Market (US \$ '000).

ProductCode	Product Description	India's Export to World	Pakistan's Import from World	India's export to Pakistan	Market Access Potential
1	2	3	4	5	6=(min3,4)-5
090240	Other black tea (fermented)	729,470	341,500	35,066	306,433
071320	Chickpeas (garbanzos)	224,104	184,322	41,809	142,513
170199	Cane sugar cubes-others	1,291,758	83,994	27,393	56,601
151620	Vegetable fats and oils and their f	86,895	53,106	172	52,933
091010	Ginger	55,246	51,015	616	50,398
210690	Soft drink concentrate	116,183	36,075	129	35,945

India's Market Access Potential in Agro-products in Pakistan Market (US \$ '000)

Product Code	Product Description	India's Export to World	Pakistan's Import from World	India's Export to Pakistan	Market Access Potential
1	2	3	4	5	6=(min3,4)-5
190110	Preparations for infant use, put up	33,827	46,765	25	33,802
230990	Preperations for animal feed	51,680	29,408	12	29,396
100610	Rice in the husk (paddy or rough)	23,799	29,259	0	23,799
230400	Oil-cake and other solid residues,	2,218,661	186,703	168,320	18,382
190590	Preparations of cereals others	104,184	17,950		17,950
240120	Tobacco, partly or wholly stemmed/s	479,500	17,012		17,012

India's Market Access Potential in Agro-products in Pakistan Market (US \$ '000)

Product Code	Product Description	India's Export to World	Pakistan's Import from World	India's Export to Pakistan	Market Access Potential
1	2	3	4	5	6=(min3,4)-5
110100	Wheat or meslin flour.	32,399	16,412		16,412
100510	Seed	16,924	35,270	1,645	15,279
140490	Other	23,390	16,430	2,294	14,135
150710	Crude oil, whether or not degummed	13,082	56,999		13,082
120991	Other :-- Vegetable seeds	29,205	24,723	11,852	12,871
080610	Guavas mangoes fresh	77,680	12,584		12,584

The Way Forward

Without further delay Pakistan should complete the trade liberalization process and activate all institutional arrangements set up for the same under a new timeline.

Pakistan should remove all products in its negative list for non-agricultural products to provide India a level playing ground. Increased competitiveness in its domestic market for such products would enable Pakistan access to cheaper imports resulting in savings in foreign exchange.

Pakistan's apprehension for cheaper manufactured imports is overblown having faced such competition from China, today recognized as the hub of manufacturing factory of the world.

The pattern of India's market access potential for agricultural products is overdrawn as the pattern of existing agricultural exports of India to Pakistan demonstrates. In case of agricultural products since Pakistan is less protected than India, it can design a managed trade liberalization programme for the same