

Expanding India-Pakistan Bilateral Trade in Goods

Dr Manzoor Ahmad

Trade between India and Pakistan has shown improvement recently despite many pitfalls and difficulties. Some experts forecast that the volume of annual bilateral trade will increase from the current \$2.37bn (formal trade) to over \$10bn in the next 5 years. This four-fold increase will require an increase of about 33 per cent per year. Is such a rapid expansion in bilateral trade achievable? This expansion would be possible if appropriate policies are put in place and a few key requirements are met.



These requirements are implementing trade facilitation measures, building regional supply chains and protection of vulnerable local industries. The importance of each of these is described below.

Trade Facilitation

The SAFTA negotiations, initiated in 1996, have so far focused exclusively on reducing tariffs. However, as various studies have demonstrated trade facilitation or simplification of rules and procedures for clearance of goods are more effective in increasing global trade. In the case of Pakistan and India, the five steps outlined below can facilitate trade and reduce transaction costs by at least 15 per cent¹.

1. **Risk management** has to be the corner stone for improving trade facilitation. For efficient flow of trade at the border, each country's customs and border agencies should concentrate on high-risk consignments, and allow the rest to go through without multiple checks.
2. Introduction of a **single window** operation whereby importers and exporters submit documents at a single point to fulfil all regulatory requirements would be another major step. It should also be possible for importers and exporters to have their documents processed in advance of their arrival at the border.
3. **Harmonization and simplification of documents** can result in greater efficiency. The same documents used for exporting a consignment could be accepted for import on the other side. Also, either electronic or paper copies of documents should be accepted pending the receipt of the original through banking channels to significantly reduce consignment clearance time.

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¹ <http://www.oecd.org/trade/trade-facilitation-agreement-would-add-billions-to-global-economy-says-oecd.htm>

4. **Automation** should replace the currently used manual processes, wherever possible. This would not only result in greater efficiency, but will also substantially reduce corruption.
5. **Availability of information** and **binding advance rulings** on tariff classification, origin/preference and valuation issues are proven effective trade facilitation tools used by many other countries.

Most of the above measures can be adopted easily, without considerable expense. In fact, these measures would reduce the number of scanners and weighing machines required to keep pace with the increase in bilateral trade, thereby resulting in overall cost savings. These savings could then be invested in improving the infrastructure and opening new trade channels.

Trade Routes

India and Pakistan share a long land border where a number of pre-existing land crossings can be made operational easily. This would reduce the pressure on the Wagah-Attari port, and decrease transaction costs.

At present only **A** Wagah-Attari is open for cross-border movement of goods. Only 137 items are currently permitted to be imported into Pakistan through this route, while India allows import and export of all items via this route.

Other land crossings that can be re-opened are:

- B** Lahore – Patti (Burki road)
- C** Kasur – Ferozpur (Ganda Singh)
- D** Sahiwal – Fazilka (linking Southern Punjab)
- E** Munabao – Khokhrapar rail (linking Sind)



Source: Map data ©2012 AutoNavi, Google

All successful regional trading blocs allow for round-the-clock trade flow. While working hours for clearance of goods across the Wagah-Attari border have increased over the last twelve months, the two countries should now work together towards 24/7 operations at the port.

In addition, the Karachi-Mumbai direct shipping route should be made operational as well.

Improving Infrastructure

At present, at the Wagah-Attari border, goods have to be manually off-loaded from one country's trucks at the border crossing and then loaded onto trucks on the other side. Upgradation of port handling equipment, including the use of forklifts, would greatly increase efficiency. The two countries should use joint scanning and weighing facilities, and use the savings to build facilities for cold storage, handling of chemicals and establishing testing laboratories at the port.

Building Supply Chains

Gone are the days when most of the trade used to be in finished goods. On average, more than 50 per cent of the world's imports and exports today consist of intermediate goods. There are many areas where building supply chains between Pakistan and India can result in a win-win situation.

However, unlike trade facilitation where top down approach has often worked, for developing supply chains, a bottom-up approach is far more productive.

Some sectors where both countries can easily establish supply chains are described below:

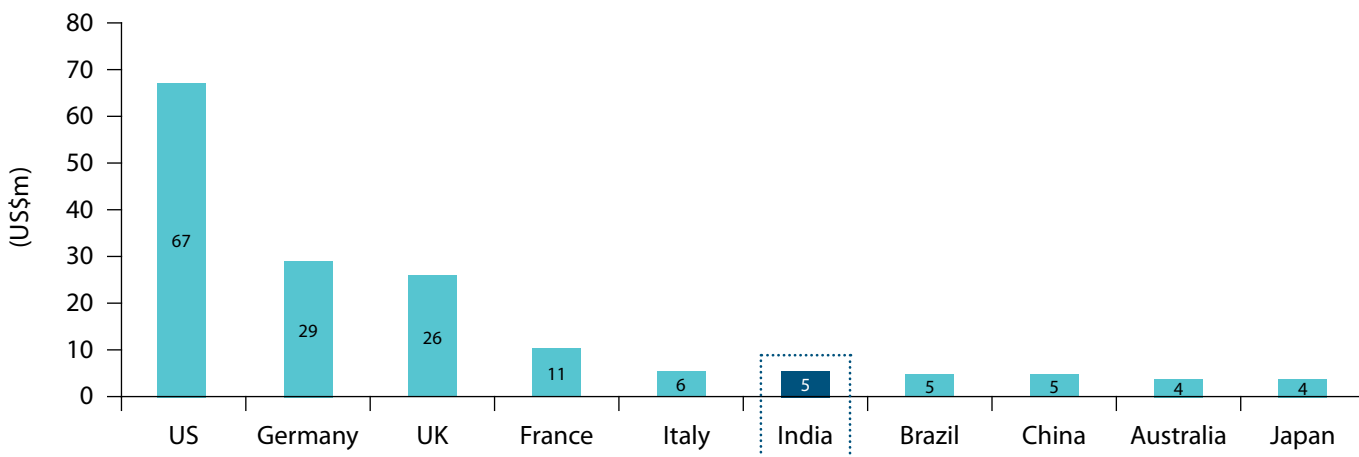
Electric Fans

Pakistan has successfully built a fan industry to meet all of its domestic demand. However, it has not made headway in the Indian market, which currently imports electric fans worth \$71 million² in addition to its own production. Electric steel sheets are the most important raw material in the production of electric fans. Pakistani fan manufacturers incur high freight costs while importing this raw material from Europe and the Middle East. If Pakistan were to allow duty-free import of electric steel and plastics from India, and in return, India were to allow duty-free import of fans from Pakistan, this would increase the bilateral trade by \$150-\$200 million annually.

Surgical Goods

Pakistan is a major exporter of hand-held surgical goods. Pakistan’s surgical-instrument industry has shown a steady growth in exports in recent years, reaching \$300 million in 2011-2012. However, the industry generates revenues that are far lower than its potential. Access to the Indian market would allow Pakistani manufacturers to improve efficiency and the industry could grow significantly. Pakistan’s surgical-instrument manufacturers satisfy international quality requirements and have flexible manufacturing processes that can cater to different specifications. But Pakistani manufacturers lose revenues to middlemen in Germany who rebrand and market the instruments with substantial mark-up. Pakistan has the opportunity to grow its industry significantly through exporting to the growing Indian market. The proximity of Pakistan’s major surgical goods manufacturing hub, Sialkot, to the Indian border can allow manufacturers to establish direct contacts, and eliminate middlemen. Lower cost raw material such as high-grade stainless steel, imported from India can be another advantage.

Pakistan’s Top 10 Countries for Surgical Goods Exports



Source: Surgical Instruments Manufacturers Association of Pakistan (2012)

Plastics and Chemicals

There is also potential for enhanced trade in chemicals and plastics. Polyethylene and polypropylene are crucial raw materials for many industries making plastic goods, particularly those located in Punjab. Currently 600,000 tons of these substances, worth about \$1bn, are mostly imported from the Middle East via sea and then transported up-country by road. Less than 10 per cent of these imports are from India, although Indian petrochemical plants are located near Lahore. If these materials are sourced from India the Pakistani manufacturers will have to bear lower freight and inventory costs. In return, India will get the benefit of importing quality plastic goods such as water coolers, bottles and parts at lower costs.

Moreover, Pakistan has recently enhanced its PVC production whereas India is unable to meet its own demand. Pakistan can export its surplus quantity of 70,000 tons of PVC to India. Pakistan also has surplus capacity for inorganic chemicals

² Includes both consumer and industrial fans. 2010 year-end figures

such as soda ash, caustic soda and hydrogen peroxide, where exports have been increasing recently. For example, Pakistan's exports of soda ash increased almost five-fold from 2,420 tons to 12,007 tons during June 2012 to Feb 2013 compared to the same period last year. Similarly, exports of caustic soda have doubled during this period from 5,000 tons to 10,000 tons. This is a healthy sign for Pakistan's chemicals industry, which was not considered as a potential exporter until 2 years ago. However, not all Indian requirements are met through cheaper sources in Pakistan. On the other hand, there is a huge demand in Pakistan for organic chemicals and dyes, which can be met by imports from India. Thus, trade in chemicals would be mutually beneficial for both countries.

Special Arrangements for Sensitive Sectors

There are legitimate concerns in both countries about the possible effects of opening up of trade in the sensitive sectors. As the example below will show, even in these areas there is potential for trade normalization and building supply chains for mutual benefit.

Industry associations from sensitive sectors should be encouraged to seek bilateral agreements, following examples of those countries that have successfully managed trade agreements. A gradual reduction in tariff and non-tariff trade barriers would allow sensitive industries to adapt to regulatory changes.

One such bilateral arrangement that is worth emulating is the automobile trade arrangement between Argentina and Brazil. In 1999, the two countries introduced a common auto tax regime where they linked duty-free exports from Brazil to its duty-free imports from Argentina in the automobiles sector. Argentina's auto production had been in decline and the number of units being produced had fallen to about 100,000. Today, Argentina is producing one million units a year with Brazil buying four-fifths of the total production. Argentina's automobile exports are now equivalent to 13 per cent of its total exports. Similarly, the 1965 auto-pact between US and Canada played a major role in promoting bilateral trade between the two countries.

Currently Pak-Suzuki's plant that used to produce Alto, its best-selling car, is shut as the parent company in Japan has moved its engine manufacturing unit to India. A well-managed auto agreement could include import of CKD (completely knocked down) kits from India and export of Pakistan's Suzuki Alto to India. Similarly, tractors assembled in Pakistan are 20-25 per cent cheaper than those in India, but they do not meet Indian emission standards. If Pakistani assemblers were to import engine parts from India, the Indian emission standards could be met, which would allow tractors from Pakistan to be exported to India.

Conclusion

To boost Pakistan-India bilateral trade and to realize its full potential, trade facilitation measures have to be implemented urgently, and sub-regional supply chains need to be built. The needs of sensitive sectors also have to be addressed, so that they do not hold up the trade normalization process. Building intra-regional supply chains in specific sectors would allow greater bilateral trade expansion and allay the fears of sensitive industries. Measures that foster development of intra-regional supply chains can be presented as win-win situations, and together with trade facilitation measures these would help improve the overall trade environment.

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India-Pakistan Energy Cooperation: Rethinking Opportunities and Newer Approaches

Dr Mahendra P Lama



Energy Security has been a dominant driver of geopolitics in the India-Pakistan subregion. It emerges against a backdrop of four challenges:

- first, the demand for energy is steadily increasing, and a protracted energy deficit could lead to political instability and conflict;
- second, per capita energy consumption in the region remains comparatively low, and accessibility and quality of energy supplies have emerged as a crucial public interest issue;
- third, disruption of power and other energy supplies have affected both human (food, livelihood, employment and economy) and national security. It has adversely affected productive activities, social development and the investment climate;
- finally, major reforms in the electricity, gas and petroleum and coal sectors have been taking place in the last two decades to deepen sustainability and spread the benefits of these reforms across socio-economic categories and geographical locations.

Concurrently, the rich concentration of energy resources in this sub-region could in fact be major instruments of development. No single country in this region can tackle energy security on its own. Hence, co-operation on both cross-border basis and inter-regional framework is the only way forward for a durable solution to the energy insecurity issue.

The advantages of cross-border exchanges of energy are very well established, as seen in regional groupings such as the Nord Pool in Northern European and the South African Power Pool (SAPP). Cross-border energy trade can lead to effective utilisation of natural resources, an increase in the reliability of supply, savings in capital and operating costs, optimal use of available generating capacity, and mutual support during contingencies. It can also address the widely discussed issue of seasonality –both in terms of generation and daily usability. It can also bring about large scale transformation in sectors, thereby contributing to economic growth, and providing impetus for large scale power plants that are only viable in the regional context (i.e. large scale hydro & coal).

For India and Pakistan, energy co-operation will act as the single most effective confidence building measure (CBM) which will bring about participation of multiple stakeholders, and substantially promote market integration in energy related goods and services.

Reinforcing Factors

There are six reinforcing factors that will promote energy exchanges between India and Pakistan and other SAARC countries in the near future.

First, as the demand for energy in South Asia soars, adding to costs of energy imports and deficits and tremendous public pressure, no South Asian country can resolve energy security by itself. Hence, cooperation with the immediate neighbouring countries is necessary.

Second, the political leadership of South Asian countries has expedited the process of energy exchange as indicated by the declarations at various SAARC Summits.

Third, efforts to promote regional energy co-operation of the last decade, such as training programmes and capacity building projects conducted at various levels for governmental institutions and private agencies in different SAARC countries, have

created a platform for national power companies, independent power producers, international agencies, investors and other stakeholders to be more active in the field.

Fourth, a large number of studies on energy co-operation have been conducted by eminent universities, think-tanks and groupings (such as SANEI) based in all countries across South Asia, and their policy recommendations have been brought forward.

Fifth, major power sector reforms have taken place in both India and Pakistan. In India, the Electricity Act 2003 and Integrated Energy Policy 2006 have helped towards development of a power market through increased competition, introduction of more players and protection of consumer interest. India's first national level power exchange, Indian Energy Exchange (IEX), has facilitated trading of more than 6.7 billion units or Rs. 45 bn in value terms since its launch in June 2008 covering 25 states and 4 union territories. Similarly, Pakistan has a well laid out commercial framework for independent power producers (IPPs) and offers fiscal concessions in sectors that include 100 per cent foreign ownership, a maximum 80 per cent equity contribution, concessionary import duty on plant and equipment not manufactured locally, and exemption from income tax (including turnover tax and withholding tax on imports of specified items).

Sixth, large-scale infrastructure development in the energy sector has taken place in both countries. The laying of transmission systems in India has led to the development of inter-state and inter-regional exchanges. The present capacity of the inter-regional exchange of 38,650 MW is expected to almost double to 75,000 MW by 2017 with significant capacity addition to the transmission lines.

Possibilities for Bilateral Power Trading

Among the whole gamut of energy cooperation issues, this article highlights the possibility of cross-border "power trade". India-Pakistan 'power-exchange' could be done via three options that have been described in detail below.

Bilateral Power Trade

Cross-border power trade already takes place widely between India and Bhutan, via long term power purchase agreements (PPAs) for three critical hydro-power projects, and to a certain extent between India and Nepal. Further, there are three far reaching projects underway between India and Bangladesh.

However, particularly relevant is the 1,320 MW coal-based unit at Rampal being built by Bangladesh-India Friendship Power Company, a joint venture of Bangladesh Power Development Board and National Thermal Power Corporation, India, scheduled for completion in 2017 at a cost of \$1.5bn. This is a path-breaking project that circumvents various stages such as assessment of potential, negotiations and implementation, thereby highlighting a path for several such exchanges in the future.

Pool-based Exchange

Pool-based mechanism involves pooling surplus power generated by individual plants in the participating countries and transporting it to deficit ones by a coordinated exchange mechanism, through calculating consumer surplus depending on demand and consumer categories. The approach can support the development of a competitive long run market equilibrium in regional power trade.

India recently introduced the concept of Regional Power Trading System to help various regions of India in reducing power deficit by transferring surplus power from another region. This power pool within India can be enlarged to cover neighbouring countries. A sub-regional power trading corporation (SRPTC) could be established to launch a market mechanism in power trade between India-Pakistan. The process of setting up an "Indo-Pak-SRPTC" could be facilitated by assessing and understanding the nature, direction and extent of intra-country power exchange between India and Pakistan. The SRPTC could then maintain and disseminate information, and provide market feedback to individual power producers (agents) and consumers and ultimately lead to a regional power pool for power trading in the region.

Wheeling Facility

Border regions of India and Pakistan have significant scope for both power generation and marketing. The surplus generated by hydro plants in Bhutan and Nepal coincides with seasonal peak demands in supply short countries-India and Pakistan. Further, hydro power plants are can adjust supply to demand more easily than the fossil-based systems in India and Pakistan, resulting in more efficient use of resources.

There are distinct advantages for Pakistan to import power from Bhutan and Nepal both because of lower tariffs and supply reliability. India will play a critical role in providing exclusive wheeling facility for captive use to Pakistan, allowing it to use India's newly developing comprehensive transmission lines to buy power from anywhere in India on a sustained commercial basis.

In addition, the countries neighbouring SAARC member states in Central Asia and Iran have abundant natural resources—hydropower, gas, coal and oil. Pakistan could use this proximity to its advantage by importing electricity from Central Asia and Iran via Afghanistan, and provide transit to India and other SAARC countries.

Latest Bilateral Initiatives between India and Pakistan

India's proposed power import from Pakistan in 1998 was an impressive step, but after intense negotiations between the Power Grid Corporation of India Limited (PGCIL) and Water and Power development Authority (WAPDA) and feasibility studies, the negotiations broke off on the issue of tariffs. Nonetheless, the negotiations indicated a high potential for energy exchange between India and Pakistan.

Much of Pakistan's 500KV primary transmission system – extending from Jamshoro in the south to Tarbela and Peshawar in the north – runs near the adjoining border of India and may not require complex transmission extensions between the designated substations like Dinanath (Lahore) in Pakistan and Patti (Amritsar) in India.

The new negotiations have been initiated again after almost 15 years, though the situation has changed. Pakistan now desperately requires power, and India and other neighbouring countries both within and outside SAARC are potential sources of import. A group of experts on energy have met thrice; and the fifth round of Secretary level talks on commercial and economic co-operation between India and Pakistan, on 27-28 April, 2011, at Islamabad had been held primarily to facilitate exchange and trade in electricity of 500 MW from Indian power market on commercial terms.

To facilitate these, a set of proactive actions are urgently required:

- i. Provide the policy and institutional framework for increasing co-operation in power trade. This would mean inter-governmental agreement on bilateral/regional power trade; regional power trade co-ordination committee; setting up of focal groups to work on options for the future power market, regional power trade operating agreement and energy sector strategy.
- ii. Develop grid interconnection infrastructure that would allow cross-border dispatch of power through a building block approach. This should include essential physical power interconnection; harmonization of transmission planning, design and operational practices (performance standards) and power infrastructure database design and implementation.
- iii. Initiate cross-border investment on a project-based approach. This would include establishing a sub-regional infrastructure investment fund under the guarantee cover or funding from multilateral institutions such as the World Bank or ADB.
- iv. A comprehensive discussion and long term policy outlines on tariff structure for regional/bilateral electricity trade should be put in place for power exchange between India and Pakistan, and between South Asia and Central Asia.

Events

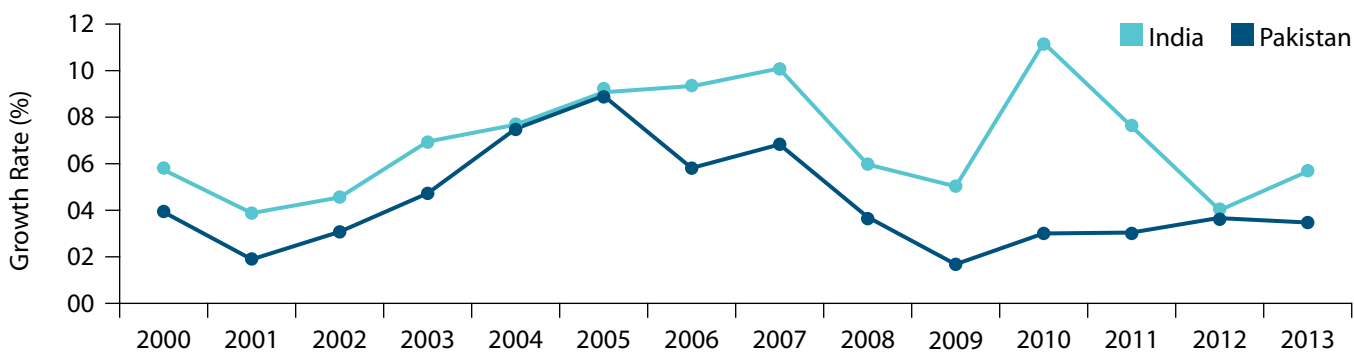
The project's first **Annual Conference** titled **Normalizing India-Pakistan Trade Relations** was held on **14-15 March 2013** at **New Delhi**. The Inaugural Address was delivered by Shri Pawan Kumar Bansal, Union Minister for Railways, India. Special addresses were delivered by Dr. Salman Shah, former Finance Minister, Pakistan and Mr. S. R. Rao, Commerce Secretary, India. Speeches and presentations from the annual conference are available at our website: www.indiapakistantrade.org



Economic Indicators

Annual growth rate (GDP)

Annual GDP growth rates: India and Pakistan



Annual GDP growth rates: India and Pakistan														
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
India	5.71	3.89	4.56	6.85	7.66	9.05	9.39	10.08	6.19	5.04	11.23	7.75	3.99	5.68
Pakistan	3.91	1.97	3.11	4.73	7.48	8.96	5.82	6.82	3.69	1.72	3.07	3.04	3.68	3.51

Source: World Economic Outlook Database, April 2013

Notes: Latest actual data for India: up till 2012; data for 2013 is an estimate.
Latest actual data for Pakistan: up till 2011; data for 2012 and 2013 are estimates.



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