2nd Annual Conference on Normalizing India-Pakistan Trade New Delhi

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Summary of Proceedings

The Second Annual Conference on Normalising India-Pakistan trade centred round the broad issues of enhancing trade in goods and barriers to trade, and sectoral trade in four major products: automobiles, agriculture, pharmaceuticals and energy.

In his *keynote address*, Dr. G.C. Chadha, President, South Asian University, stressed the role of trade in building mutual trust and goodwill. While highlighting the importance of harnessing the abundant human capabilities in both countries, he spoke of the need to gear up production processes to meet domestic consumption needs. To enhance trade, he suggested that policy makers need to think of improving the technology intensity of exports of both nations, implement agreements between the two nations, and encourage trade in services.

Mr. Rajeev Kher, Special Secretary, Ministry of Commerce and Industry, Government of India and the *Chief Guest* at the event, emphasised the need to build value chains in specific sectors that may be of interest to both nations. These value chains should integrate production, processing and marketing. Additionally, he stressed the need to standardise, harmonise, and increase services trade between India and Pakistan.

Dr. Ishrat Husain, Dean and Director, IBA (and Former Governor, State Bank of Pakistan) and Mr. Sharat Sabarwal (former Indian High Commissioner to Pakistan) delivered special addresses at the event. Dr. Husain's basic message was that economics and trade should be given a chance to cement better relations between India and Pakistan, without either country having to abandon their respective stance on political matters. He cautioned against Indian imports flooding the Pakistani domestic market and stressed the need to resolve disputes on the visa regime and ensure harmonisation of standards. He outlined three broad areas of reform with respect to India-Pakistan relations. These were:

- Be*hind the border reforms:* that involve resolving bureaucratic hassles within each country, easing India's trade restrictiveness in tariff, non-tariff and para-tariff barriers, and removal of statutory regulatory orders in Pakistan to create a level playing field
- *Across the border reforms:* that involve deepening business facilitation, customs documentation and harmonisation of product standards, and logistics and infrastructure development within each country
- *Overall trade facilitation reforms:* that involve easing the FDI regime, improving telecommunication connectivity, raising efficiency of the banking and financial sector, linking railways, roads, highways, ports and airports to form multi-modal transport network; as well as promoting educational exchanges and providing access to healthcare facilities

In his *special address*, Mr. Sharat Sabharwal spoke of some of the developments on the bilateral trade agenda and about his own experiences as a high commissioner in Pakistan from April 2009 until June 2013. He felt that while several bilateral measures had been taken to liberalise trade between the two countries, the negative list continues to pose restrictions. He also pointed out that Pakistan and India are placed in a very unique geographic location where the countries can act as a bridge to Central Asia, West Asia and beyond on one side; and on the other side, to South East Asia and beyond.

Details of the session-wise deliberations are as follows:

1. Enhancing Trade in Goods

The session was chaired by Dr. Abid Suleri (Executive Director, Sustainable Development Policy Institute, Pakistan). Among the participants, Professor Nisha Taneja (Professor, ICRIER, New Delhi), presented the findings of a trade perception survey and made some policy recommendations for enhancing trade in goods between India and Pakistan. Dr. Syed Turab Hussain (Associate Professor, Dept. of Economics, Lahore University of Management Sciences, Pakistan) described the present economic situation in Pakistan as bleak, with the country facing a particularly severe energy crisis. However, he felt that there were opportunities to spur industrialisation in the country by importing cheap raw materials from India. He presented the findings of a stakeholder consultation which focused on three sectors in which Pakistan faces a threat from Indian imports viz. automobile, pharmaceutical and agriculture sectors. Dr. Selim Raihan (Professor, Dept. of Economics, University of Dhaka, Bangladesh) presented the global computable general equilibrium (CGE) model and discussed the bilateral gains to India and Pakistan from MFN and the extent to which trade between the two countries would pull-up the regional trade in South Asia. The presentation highlighted that trading on MFN basis offered greater benefits to the two countries as compared to the current trade regime. In terms of sectoral impact, the CGE model showed that MFN with trade facilitation would increase India's exports of chemical, rubber and plastic, food processing, mineral fuels, metals, machinery and equipment, textiles, leather products, dairy, and fishery products to Pakistan while Pakistan would benefit from increased exports to India in sectors such as wool, wheat, textiles, apparels, leather products, metals, machinery, chemicals etc.

The discussants for the session were Dr. Manzoor Ahmad (Regional Trade Advisor, USAID Pakistan), Dr. Sanjib Pohit (Senior Principal Scientist, National Institute of Science, Technology and Development Studies, New Delhi) and Dr. Deb Kusum Das (Associate Professor, Ramjas College, University of Delhi). The discussion included challenges to increased trade in goods like visa restrictions, lack of banking facilities, few border crossings, infrastructural impediments, lack of proper storage facilities, Indian duty structure especially para-tariffs, etc. Apart from restrictive trade policy and transport bottlenecks, the large volume of bilateral informal trade, (which varies from half a billion dollars to about a billion dollars) indicates that the two countries have a lot to do in terms of liberalising their trade regime.

The key policy suggestions put forward by the panellists are as follows:

- To raise awareness of trade policy, Chambers of Commerce and governments should disseminate information on policies governing India-Pakistan trade, particularly those related to road and rail transport. To do so, a dedicated web portal may be designed exclusively for India-Pakistan trade. This would be useful to track the latest developments on trade policy and bridge the information gap that sometimes impedes trade.
- To make meeting product standards easier, information on regulatory regimes should be made available to traders. For key commodities, flow charts exhibiting import and export processes, procedures, documents, regulatory requirements, and information on relevant authorities should be displayed on the web portal. As India and Pakistan are members of International Laboratory Accreditation Co-operation (ILAC), efforts should be made to accept each country's test certificates.

- To improve perception of market access, encouraging interaction of traders via a web portal can help them find new trading partners. Additionally, an increase in the number of exhibitions and participation in them could encourage new entrants and entrepreneurs to enter India-Pakistan trade market.
- For business facilitation, the visa regime needs to be improved, with measures to ensure no city-specific visas, exemption from police reporting, and provision of multiple entry visas. Improvement of communication channels is a necessity – in particular, facilitating the use of mobile phones in the other country's territory.
- On expanding trade regimes, which require more specialised logistics services, large logistics service providers should be encouraged; particularly from the private sector in Pakistan where logistics services are largely handled by National Logistics Cell.
- Further deepening of trade liberalisation between India and Pakistan is needed, including removal of NTBs, pruning the sensitive lists, removal of quantitative restrictions, etc. In addition to rationalising import duties, it was suggested that policy makers could eliminate all kinds of quantitative restrictions, regulatory duties, para-tariffs, and other restrictive measures that have been restricting trade in the past.
- The CGE modelling simulation showed that improved trade facilitation would increase the volume of trade between India and Pakistan by reducing the transaction costs of trade, making exports more competitive, and imports less expensive. Thus, there is a need to support trade facilitation to compliment trade liberalisation (e.g. resolving delays in payments for imports by introducing online banking, acceptance of digital signature on cross-border trade documents etc.)
- There is potential for creating regional supply chains in the area of textiles, clothing, leather, and processed food products. Thus, allowing FDI to narrow the trade gap and to promote the supply chains could be considered.
- India Pakistan relations should be looked at in a broader regional context. Sustainability and stability of India-Pakistan trade can come only through greater participation in value chains, sectoral integration and trade facilitation.

2. Trade in Automobile Industry

The session was chaired by Mr. Suhail P. Ahmed (Vice Chairman, House of Habib, Pakistan and Founder Chairman, Pakistan Association of Automotive Parts & Accessories Manufacturers). Dr. Vaqar Ahmed (Deputy Executive Director at the Sustainable Development Policy Institute, Pakistan), discussed the present state of the automobile industry in Pakistan and the nature of existing trade with India. He highlighted the apprehensions of the Pakistani automobile manufacturers - stemming from the high tariff rates on two wheelers in India, the possibility of 'dumping' of Indian automotive products, and the prevailing high level of emission standards for export to India. Mr. T. S. Vishwanath (Principal Advisor, APJ-SLG Law Offices, New Delhi) made a clear distinction between the auto-component sectors and the automobile sector. While the auto-component industry in Pakistan is open to imports from India, the automobile sector is not. Dr. Biswajit Nag (Associate Professor, Indian Institute of Foreign Trade, New Delhi) threw some light on the localisation strategy of the Pakistani automobile industry. The critical issue is that Pakistan's automotive industry is divided in its opinion about opening up to India; with Suzuki and Indus Motors favouring such a move but Atlas Honda standing against it. The discussants for the session were Dr. Sanjay Kathuria (Lead Economist, Regional Trade Integration, World Bank, Washington DC), Dr. Meenu Tewari (HUDCO Chair Professor, ICRIER, New Delhi) and Dr. Saikat Sinha Roy (Associate Professor, Dept. of Economics, Jadavpur University, Kolkata).

The key suggestions to increase automotive trade include the following:

- On the issue of high emission standards of the Indian auto industry, automobile manufacturers in Pakistan should analyse the cost of compliance and channels to finance the adoption of higher emission standards to work towards meeting these.
- Given that there is tremendous local capacity for boosting production in the auto- components sector in both countries, it should be explored further and be made the basis of achieving economies of scale and scope by building value chains across South Asia. This may be achieved through FDI. In the broader context of creating production networks, an investment agreement could provide some insurance and stability to private sectors on both sides.
- Efforts should be made to create a level playing field for both nations, with the private sector being allowed to decide the products to trade in.
- To ensure greater standardisation of products, flow of technology across borders should be encouraged.
- There should be focus on bilateral negotiations in the auto sector.
- An assessment of complementarities in the sector at the 8-digit level will enable identification of complementarities not only in trade but also in production capacities.
- Manufacturing hubs across borders, if set up, can lead to agglomeration economies. This will also create more jobs and increase value addition as both countries have an abundant labour force to utilise.

3. Trade in Agriculture

The session was chaired by Dr. Ashok Gulati, (Chairman, Commission for Agricultural Costs and Prices, New Delhi). Among the presenters, Dr. Usman Khan (Faculty, Lahore University of Management Sciences, Pakistan) presented the perspective of Pakistani farmers and the main issues in opening up India-Pakistan trade in Agriculture. Professor Anwarul Hoda (Chair Professor, Trade Policy and WTO Research Programme, ICRIER, New Delhi) discussed the options available to protect producer's interest in Pakistan, given the high level of domestic support to agriculture in India. Dr. Ramesh Chand (Director. National Centre for Agricultural Economics and Policy Research, New Delhi) presented the trends, composition and future directions for bilateral trade in agricultural products between India and Pakistan. The discussants for the session were Mr. Syed Yawar Ali (Chairman, Nestle Pakistan Ltd. and Member, Pakistan Business Council), Mr. Tariq Bucha (President, Farmer's Association, Pakistan) and Professor Simrit Kaur (Professor of Public Policy, Faculty of Management Studies, New Delhi).

The key recommendations put forward were the following:

- To enhance trade in the agricultural sector, it was felt that following the NAFTA model could be considered. This involves having a separate agreement on agriculture between India and Pakistan.
- Trade in agriculture between India and Pakistan should be promoted on grounds of food security, price stability and peace building initiatives.
- It is important to identify in which products India and Pakistan enjoy a comparative advantage. The emphasis should be on the possibility of developing value chains by combining the resources of the two nations.
- There is a certain amount of discomfort in Pakistan with regard to domestic support levels for agriculture in

India. To handle the issues arising from this, the panellists suggested Pakistani producers and government to consider the following:

- Introduce special agriculture safeguards, which are automatic in application if certain price or volume triggers are met
- Introduce a transitional tariff rate quota, which may be terminated after a certain number of years
- Introduce a tariff rate quota, which may be progressively liberalised but retained permanently thereafter
- Have both special agricultural safeguards and tariff rate quota to protect the interests of Pakistani farmers

4. Trade in the Pharmaceutical Sector

The session was chaired by Dr. B.N. Goldar (Professor, Institute of Economic Growth, New Delhi). Dr. Vaqar Ahmed (Deputy Executive Director, SDPI) and Dr. Manoj Pant (Professor, Jawaharlal Nehru University) presented their papers on issues relating to pharmaceutical trade between India and Pakistan. Dr. Vaqar Ahmed focused on how the Pakistan pharmaceutical industry has grown in the past two decades both in size and value, reduced its dependence on exports over the years, developed comparative advantage in alternate and veterinary medicines and surgical goods, and achieved adequacy for supply chain integration to facilitate trade between India and Pakistan. Keeping in view the complementarities in the pharmaceutical sector, more than half of Pakistan's import demand from other countries could be fulfilled by India. He also pointed out that FDI in the pharmaceuticals industry could considerably enhance trade in the sector.

Dr. Manoj Pant raised three main issues in his presentation: changes in pharmaceutical policies and the contrast between Indian and Pakistani pharmaceutical sectors, the reasons why Pakistan needs to scrap the negative list, and the dynamics of India-China-Pakistan trade in pharmaceuticals. Using 'intra-industry trade' and 'trade complementarity' indices, he demonstrated the huge potential for trade between the two countries. Since China has become a major supplier of pharmaceuticals in Asia and Pakistan has a free trade agreement with China, the substitutability of Chinese and Indian pharmaceutical items was also examined. Dr. Pant concluded his presentation by saying that although FDI policies are extremely liberal in both countries; investments will only come about after trade develops in the pharmaceutical sector. The discussants for the session were Dr. Aradhna Agarwal (Policy Director, Wadhwani Foundation, New Delhi) and Dr. Aparna Sawhney (Associate Professor, Centre for International Trade and Development, School of International Studies, Jawaharlal Nehru University, New Delhi).

Key Recommendations are as follows:

- Eliminate the negative list in pharmaceuticals and put in place trigger mechanisms, if need be, to deal with the influx of pharmaceutical items.
- Pakistan should consider further policy liberalisation to open up trade in pharmaceuticals with India, given that it is already importing Chinese medicines. Trade could take place in medical equipment, intermediates for manufacturing pharmaceuticals, machinery, etc. that are currently not produced in Pakistan.
- There is a need to exploit the comparative advantages that Pakistan has in alternative medicines, veterinary medicines and surgical instruments by increasing the level of imports from Pakistan into India.
- Collaborating at the level of pharmaceutical R&D and technology transfer can play a crucial role in facilitating growth, particularly in Pakistan.
- Joint ventures between India and Pakistan can provide a way to deal the issues of non-compliance that Pakistan faces at present with international standards, such as Federal Drug Authority (FDA).

- R&D collaborations in biotechnology, which is an upcoming industry in the pharmaceuticals sector, would help in enhancing trade between the two countries.
- Pakistan should deregulate its domestic prices and instead regulate quality.
- To root out fear of spurious drugs, Pakistan should follow the Bangladeshi model - it should allow imports only from firms that also export to North America and Europe.

5. Barriers to Trade

The session was chaired by Dr. S. D. Muni (Senior Visiting Scholar, Institute for Defence Studies and Analyses, New Delhi). Among the speakers, Dr. I. N. Mukherji (Former Professor of South Asian studies, JNU and Consultant, UNESCAP, New Delhi) spoke about the two countries' perceptions on the existing trade barriers and the present trade liberalisation plan. Dr. Huma Amir (Chairperson and Asst. Professor, Department of Marketing, Institute of Business Administration, Pakistan) presented results from personal interviews with SMEs in Karachi and Lahore on their perceptions about trade with India. Dr. Ather Elahi (Assistant Professor and Research Fellow, Centre for Business and Economics Research, Institute of Business Administration, Pakistan) spoke about issues in trade financing that impeded India-Pakistan trade. These included the lack of confidence among banks in the borrowers' ability to repay and in accepting foreign accounts as collateral. Rahul Mediratta (PhD. Candidate, Northwestern University) drew attention to the role of media in covering any India-Pakistan related events and their impact on promoting the negative or positive aspects of India-Pakistan relations. Any positive reporting is believed to help create an environment that facilitates growth in trade between the two nations. The discussants for the session were Dr. Ram Upendra Das (Senior Fellow, Research and Information for Developing Countries, New Delhi) and Mr. Pardeep Sehgal (Partner, Sinochem Impex, Amritsar).

Key Suggestions put forward were:

- Pakistan should completely do away with the negative list in non-agricultural products to create a level playing field for trade with India.
- If Pakistan's agricultural sector does in fact face any measure of threat from Indian imports, then instead of granting MFN status to India, Pakistan could go in for planned liberalisation in this sector through measures such as implementation of tariff rate quotas.
- Pakistan's apprehensions, that its domestic industry faces the threat of cheap imports from India, should not stand in the way of removing trade barriers for India, since it has already faced such competition from Chinese imports.
- Trade associations representing SMEs should be involved with the governments on both sides to enable traders to voice their concerns directly to the authorities.
- The banking system in both countries needs to be improved so that it can facilitate trade across borders. Training bank officers about policies pertinent to India-Pakistan trade, improving transparency, and trade in local currencies are a few measures that can be adopted.
- The role of media in shaping opinions should be given consideration. Under-reporting of trade related activity may be a barrier to trade normalisation as it could lead to poor awareness, and may even limit the extent to which public pressure can be brought to bear on governments to improve trade relations.
- The nature of trade barriers that exist at the border (rail/road port) differ from those which exist at the sea route, and hence need to be addressed through separate policies.
- It is important to identify informal trade as a barrier to growth of formal trade.

6. Trade in Energy

The session on trade in energy was chaired by Mr. Zafar Mahmood (Chairman, Punjab Public Service Commission and former Commerce Secretary, Government of Pakistan). Among the presenters, Mr. Nitya Nanda (Fellow, TERI) discussed the potential of and prospects for energy trade between India and Pakistan, as well as transit issues in energy trade between South and Central Asia. Mr. Salman Zaheer (Program Director, Regional Integration, World Bank) spoke about the potential to connect the Central Asia-South Asia regional electricity markets. The discussants for the session were Mr. Rakesh Kumar (Director, Solar Energy Corporation), Dr. Prabir De (Senior Fellow, Research and Information System for Developing Countries (RIS), New Delhi) and Dr. Saon Ray (Senior Fellow, ICRIER).

The key suggestions put forward were as follows:

- For trade in power, India with its experience and technology in extracting energy from coal, can import the vast coal reserves from Pakistan (and even Afghanistan) to promote efficient and optimal utilisation of coal resources.
- In the case of petroleum products, Pakistan would benefit from imports of petrol and diesel from India; given India's well developed refining capacity. At present, Pakistan imports petrol and diesel through Karachi and then ships the products to the upper part of the country. If the import of these products from India is allowed into Lahore through the Wagah Border, Pakistan would stand to gain in terms of saving both time and cost.
- India-Pakistan energy trade and co-operation can act as a confidence building measure. It is important to build trust between the two nations for better utilisation of resources and capital assets, and for relief from power shortages in both countries.
- Infrastructure needs to be developed for trade in energy. Even though agreements may be negotiated, trade in reality cannot take place until adequate infrastructure is developed.
- The two countries should start with bilateral trade in energy, followed by building and developing a SAARC regional energy/gas grid.
- Pakistan should allow FDI from India, particularly for investment in refineries; this could be an important step towards strengthening India-Pakistan energy trade.
- Trade in energy should not be limited only to traditional energy sources. It is important to focus on the development of renewable energy solutions like shale and coal bed methane (CBMs) as well as hydro, solar and nuclear energy to ensure energy security and promote sustainable green growth.

Panel Discussion

The sectoral presentations were followed by a panel discussion, chaired by Dr. Manoj Pant (Professor, Jawaharlal Nehru University, New Delhi). The panellists were Dr. Aqdas Kazmi (Former Joint Chief Economist, Planning Commission, Pakistan), Mr. Naeem Anwar (Minister-Trade, Pakistan High Commission, New Delhi), Dr. Ijaz Nabi (Country Director, International Growth Centre, Pakistan), Dr. E. Sridharan (Academic Director, University of Pennsylvania Institute for Advanced Study of India, New Delhi), Mr. Salman Zaheer (Program Director, Regional Integration, World Bank) and Dr. Nisha Taneja (Professor, ICRIER). The key conclusions arrived at during the panel discussion are as follows:

- Trade should be seen as a way forward for maintaining peaceful relations between India and Pakistan. The economic gain is significant enough to move ahead in this direction.

- Rational concerns over security issues related to both goods and persons are a major setback to trade relations between the two nations.
- Small businessmen should be able to see the gains from liberalised trade; this can be ensured by allowing free movement of business persons across the border.
- The visa regime at present does not help resolve the market access issues. In particular, it restricts the movement of labour across borders, making trade in services between the two countries almost impossible. One way to deal with this may be if Pakistan takes an initiative towards a liberal visa regime for India, thereby putting pressure on the Indian side to take a liberal stand on its visa regime for Pakistan.
- It is extremely important that the common man is kept in mind while considering the way forward, since the consumer stands to greatly benefit through liberalised trade with India; especially in automobile and pharmaceuticals sectors due to better quality, variety and lower prices expected of imported products.
- The two countries also need to agree on policies in sectors of mutual concern and move beyond debating them to work towards developing a trade corridor with the rest of the world.
- Labour and industrial policies, that are conducive to trade growth, are needed to set up global value chains in production and manufacturing.
- For global supply chains to flourish, FDI needs to flow in both countries. Moreover, transport corridors need to be developed to connect with global trade routes.
- It may be useful to explore the possibility of collaborating on food and energy security.

In her *valedictory address*, Ms. Sujatha Singh, Foreign Secretary, Government of India, highlighted some of the developments on the India-Pakistan bilateral trade agenda that had taken place over the past two years. These included Pakistan's move from a positive list to a negative list trading regime, India's decision to remove restrictions on investment from Pakistan, and opening up of the Wagah-Attari land custom stations for all seven days of the week. The foreign secretary also acknowledged that India needs to take further initiatives to liberalise its external sector. She believed that since trade and terrorism are incompatible, the challenge that lies ahead is to create an environment where focus is on the trade and economic agenda.

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