



**INDO – PAKISTAN  
ECONOMIC COOPERATION**

**HARNESSING INDIA  
PAKISTAN TRADE POTENTIAL**

**SAARC Chamber of Commerce and Industry**



INDO – PAKISTAN  
ECONOMIC COOPERATION

**HARNESSING INDIA  
PAKISTAN TRADE POTENTIAL**

Muhammad Iqbal Tabish\*  
Mujeeb Ahmed Khan\*\*

\*Muhammad Iqbal Tabish, an economist by profession is the incumbent Secretary General of SAARC Chamber of Commerce & Industry and advisor to UNESCAP

\*\*Mujeeb Ahmed Khan, originally a civil Servant, Government of Pakistan currently Heads the Research and Policy Analysis Wing, Trade Development Authority of Pakistan

# Acknowledgment

We have taken efforts in completion of this report on Indo-Pakistan. However, it would not have been possible without the kind support and help of many individuals and organizations including Mr. Mohsin S. Khan, Dr. Ishrat Hussain and Dr. Ayub Mehar Khan, Peterson Institute for International Economics, State Bank of Pakistan and Friedrich Naumann Stiftung (New Delhi), FPCCI and FICCI. I would like to extend my sincere thanks to all of them.

I am highly indebted to my co-author Mr. Mujeeb Ahmed Khan for his hard work and guidance and constant supervision as well as for providing necessary information regarding the project & also for their support in completing the project.

I would like to express my gratitude towards members of SAARC CCI including President Annisul Huq, Immediate Past President Mr. Tariq Sayeed, Mr. Vikramjit Singh Sahney, Snr. Vice President, (India), Mr. Iftikhar Ali Malik, Vice President (Pakistan) for their kind co-operation and encouragement which help me in completion of this project.

My thanks and appreciations also go to my colleagues Mr. Zubair A. Malik, Mr. Zulfiqar Ali Butt and Ms. Nafeesa Hashmi, Mr. Bader Munir, Ms. Sumaira Khurram, Dr. Rajiv Kumar, Secretary General FICCI and Syed Masood Alam Rizvi, Secretary General, FPCCI in developing the project

Last but not the least; I extend my sincere gratitude to Mr. Siegfried Herzog, Regional Director and Mr. Subodh Kumar, Senior Program Executive FNSt and all people who have willingly helped me out with their abilities.

**Muhammad Iqbal Tabish**

**Mujeeb Ahmed Khan**

# Executive Summary

Pakistan- India bilateral trade has been dominated by the protectionist mindset, fundamentally emanating from the political divide between the two nations, equally prevalent at both sides of the border. Although both sides have taken certain initiatives every now and then, be it in the form of ‘Track two Diplomacy’ or ‘People to People contact’ or the SAFTA; but have not been able to set aside their political differences and move towards a fair and open bilateral trade regime, which is an imperative in today’s economically interdependent world.

The opportunities for furthering bilateral trade and investment are profound, and virtually untapped. While Pakistan stands to gain much from entering the fast growing Indian market, (almost one-sixth of the entire world) India too perceives benefits from access to natural resources and trade routes from Asia to Europe via Pakistan. Yet Pakistan-India trade continues to remain at low levels year after year. Pakistan accounts for less than 1% of India’s trade, while India accounts for less than 5% of Pakistan’s trade.

There is quite a substantial amount of literature available on the topic of bilateral trade between India and Pakistan which clearly demonstrates the importance that these two countries have not only in the regional sphere, but also in the global context. This position paper clearly spells out the potential gains as empirically substantiated by researchers and research organizations using economic modeling tools and discusses ways and means to enhance the bilateral trade between the two countries.

This position paper is an honest attempt to build upon the existing research and surveys by; candidly proposing policy options to the decision makers in both the countries. The issues of Non-Tariff Barriers in India and the continued denial of MFN status by Pakistan have not only been discussed at length in this paper, but precise short-term and medium term remedial measures, encompassing; trade facilitation, infrastructure, government policy and other areas of bilateral cooperation have also been identified.

# Overview of Pakistan-India Bilateral Trade Relations

Soon after independence, India was Pakistan's biggest and most important trading partner. In 1948-49, Pakistan's exports to India were 56 per cent of her total exports and her imports from India were 32 per cent of its total imports. After the Indo-Pak wars in 1965 and 1971 trade was almost negligible for a period of nine years. (1965-1974).

Bilateral trade resumed in 1975-76, following the 1974 protocol for the restoration of commercial relations on a government to government basis, signed by the two countries after the 1971 war. But trade still remained at an insignificant level (\$ 132 million) till 1995. Since 1996, trade between the two countries has been at much higher levels than before. In that year India granted MFN status to Pakistan. Pakistan in turn increased its list of permissible items to 600, which in 2008 was increased to 1938 items at 8-digit level of H.S. Code. Since 1996, even though trade between the two countries has been fluctuating, the level of trade has been higher than that achieved in 1996 which stood at US \$ 180 million in that year.

As a consequence of innate hostility, the natural trends of economic relations between the two countries remained more or less severed at the official levels for many years. Political issues between the two countries have generated so much heat that relations remained cool at best of times. Interest groups on both sides have exploited the situation maintaining the level of tension where normal economic activity could not be easily revived. Nevertheless, the current size of bilateral trade (\$ 2.2 billion in 2009-2010) through legal channels and trade amounting to an estimated \$ 3.0 billion to \$ 3.5 billion through third country, are quite indicative of economic complementarities between the two neighboring countries.

Despite restrictive government policies; historic, ethnic and economic forces have created fresh channels of trade. Presently, according to certain estimates; Pakistan and India indulge in informal trade to the tune of US\$ 13 billion per annum through traditional avenues like; cross border smuggling and personal baggage. This figure gives further credence to numerous studies and reports by international as well as regional organizations which estimate the potential of formal bilateral trade between the two countries to be approximately US\$ 12 billion.

It is quite interesting to note that trade between India and Pakistan remained suspended for a longer period of time immediately before and after the wars in 1965 and 1971 as mentioned earlier. As far as economic potential of trade is concerned it is tremendous and can also be gauged through the size of trade being channelized through third countries like Dubai in particular and Singapore in general. On account of political sensitivity and a restrictive visa regime particularly from the Indian side, the businessmen in Pakistan usually meet their Indian counterparts in third countries instead of paying regular visits to each other. This further establishes the fact that economic relations have been dependent upon the level of diplomatic relations between the two countries.

All studies on India-Pakistan trade have so far demonstrated that the relaxation of constraints in the way of bilateral trade would benefit both the countries. The theoretical argument is that countries in relative geographical proximity tend to trade with each other than with more distant countries owing to lower transport and communication costs. Gravity models have been used to test this hypothesis empirically. Batra (2006) using an augmented gravity model showed that all three gravity effects were statistically significant for India-Pakistan trade. An ICRIER study (2004) showed a much higher volume - about \$10-11 billion (Pakistan 55 percent textiles; India 90 percent non-textiles). Ijaz Nabi and Anjum Nasim (2001) estimated that trade between India and Pakistan could increase by a factor of three if trade relations were characterized by MFN status and maximum tariff rate of 50 percent. State Bank of Pakistan (2006) study came to the conclusion that bilateral trade could multiply by five times if the MFN status is granted and non tariff barriers are removed. Naqvi and Schuler (2007) estimated that the trade between the two countries could jump from \$2.5 billion in 2007-08 to \$ 5-10 billion or 2 to 4 times its current basis, Net welfare gains are positive in every single scenario - conservative to optimistic.

# Indo-Pakistan Economic Cooperation & SAARC

Since Pakistan and India account for more than 90 percent of South Asia's gross domestic product (GDP), low bilateral trade is an important constraint for the growth of South Asia's exports to the rest of the world as well as for the expansion of intra-regional trade. As a result of politics and suspicion overriding economics, South Asia remains the least integrated region in the world. South Asia's intra-regional trade amounts to just over one percent of the region's GDP as against 2.7 percent for the Middle East and Africa, and 7 percent for Latin America and East Asia. The rate for Europe and Central Asia is a staggering 16 percent.

In the 1980s, the South Asian countries took the bold step of establishing the South Asian Association for Regional Cooperation (SAARC), which was meant to promote trade and economic cooperation among member states, besides other goals. Over a period of more than two decades that SAARC has been in place, it unfortunately has not been able to break away the shackles of mistrust and misunderstanding between the two leading member states. Resultantly, the SAARC has been unable to promote intra-regional trade, which is an insignificant 5% as compared with 67% intra-regional trade in EU, 62% in NAFTA, 30% in ASEAN and 22% in COMESA.

It is an undisputed fact that the normalization of relations between the two countries holds the key to the Economic development of the entire South Asian Region and its peoples and hence; has been the topic of numerous debates, research papers and conferences.

The SAARC member countries including Pakistan and India concluded a landmark treaty SAFTA on January 6, 2004 with a pledge to allow free trade among member countries by eliminating trade barriers and scale down their tariffs in two phases to 0-5 percent from January 1, 2016. The treaty allows free cross-border movement of goods within the region, with the provision for a list of sensitive items for member countries to safeguard national interests.

SAFTA is likely to contribute significantly to intra-regional trade along with a scope for enhanced trade between India and Pakistan—particularly in transportation equipment and engineering goods, including IT products. Complete elimination of tariffs under SAFTA may increase the intra-regional trade by 1.6 times the existing level.

The liberalization of bilateral trade between the two countries would not only lend impetus to the integration of both the economies but would also be seen as a good omen by other nations. The potential advantages of trade liberalization for Pakistan appear to be large. Going well beyond the immediate creation of trade flows, the advantages of dismantling tariff and non-tariff barriers include the potential for boosting productivity and economic growth, and can also extend to promoting regional cooperation in all areas.

Trade liberalization will unambiguously benefit Pakistani consumers, since product prices fall and consumer choice increases with reduced trade barriers. Increased trade flow that stem from the lifting of import prohibitions from India would lead to additional customs revenue for Pakistan. Within the protective walls of regional economies, both countries can achieve specialization in various sub-sectors of the economy. Moreover, the strengthening of bilateral/regional trade would provide a cushion to the economies of both countries from the financial or stock markets' shocks.

According to research by Zareen Naqvi (2008) both India and Pakistan still use tariff and nontariff barriers to protect their domestic producers even after reforms have led to overall economic liberalization. India is ranked 102 out of 125 countries on the World Bank's Trade (MFN) Tariff Restrictiveness Index (TTRI) and Pakistan stands at 103rd place. India's trade regime is much more restrictive than other large emerging economies like Brazil, China, Mexico and Russia or compared to neighboring countries in South Asia. India's ranking on the Ease of Doing Business indicators are also quite low with the latest ranking at 133rd out of 183 countries compared to Pakistan's rank at 85th place for the year 2010.

# Indo-Pakistan Economic Cooperation & SAARC

In a number of sectors, specific tariffs and regulatory duties outside statutory MFN tariff rates are levied by India. Potential textile exports from Pakistan are subject to specific duties which can go as high as 50-100% in equivalent terms. The Pakistani exporters of textile and garments say that these are important barriers in their ability to access the vast Indian markets. According to Taneja 's survey (2007) of Indian exporters doing business with Pakistan, very few NTBs in Pakistan restrict trade. India's, The World Bank's frequency coverage ratio of non tariff barriers of 51 percent was one of the highest in the world. In comparison, Pakistan's ratio was much lower at 29 percent. It also uses its stringent domestic standards whereas Pakistan applies normal international standards.

India – a much bigger economy accounting for more than 80 percent of Gross Regional Product, imbued with self-confidence and aspirations to become an economic power – should demonstrate a greater degree of generosity by removing these tariff and non tariff barriers unilaterally . A wider offer to its neighboring countries in terms of opening up the markets and trade and removing barriers to mobility would be of ultimate benefit to India. It is advisable for India to establish asymmetric relationships with its neighbors and provide more concessions to them and expect less from them in return.

Given the large and growing size of its effective market the economic losses to India would be miniscule while political good will and returns would be substantial over time. Pakistan, Bangladesh, Sri Lanka will be much better off economically if they are able to penetrate the buoyant Indian market. Friendly, peaceful and irritant-free neighbors would aid rather than hinder India in moving towards its long term goals. A region with the highest number of people living below the poverty line would surge ahead.

# Bringing Down The Barriers

Many previous attempts to improve economic ties between India and Pakistan unfortunately have been derailed by periodically heightened political tensions between the two countries—be it Kargil in May 1999, the terrorist attack on the Indian Parliament in December 2001, or the Mumbai attacks in November 2008. Although successive Indian and Pakistani governments have often repeated the desire for peaceful relations, reaching a comprehensive agreement that settles outstanding disputes still seems far off. But this does not mean that steps toward better economic relations cannot be taken. Indeed, there was a major breakthrough in trade relations at the meeting between then President Pervez Musharraf of Pakistan and Prime Minister Manmohan Singh of India in New Delhi in April 2005 (Joint Communiqué 2005). A number of trade-related issues were discussed at this meeting, and several key decisions were taken to move the process along but could not see the light of day of implementation.

While Pakistan continues to shy away from according the MFN status to India and continues to trade through a ‘Positive List’ approach, India on the other hand; maintains a number of Non Tariff Barriers which, it is thought, constitute barriers to its trade with Pakistan.

For the first time in the history of Pakistan – India bilateral trade talks, there is, amongst other commitments, a clear affirmation by both sides to ‘remove the Non-Tariff Barriers (NTBs) and all other restrictive practices which hamper bilateral trade’, as embodied in the Joint Statement (Annex -1) issued at the conclusion of the 5th round of Talks on Commercial and Economic Cooperation between the Commerce Secretaries of India and Pakistan, held on 27 -28 April 2011 in Islamabad.

Consequently, the Ministry of Commerce, Government of Pakistan commissioned the Trade Development Authority of Pakistan to conduct a survey of the Pakistani exporters trading with India, with the view to identify and ascertain, Pakistan specific Non Tariff Barriers maintained by India. The results and findings of the survey will serve as the basis for further consideration in the meeting of the Pakistan-India Joint Working Group, scheduled for September 2011.

The Trade Development Authority of Pakistan in consultation with the Ministry of Commerce devised a 23 point questionnaire for the purpose of conducting the required survey and the TDAP was entrusted with holding intense sector specific consultations for filling the questionnaires. At the end of the exercise; 100 firms were interviewed and a report was submitted to the Ministry of Commerce in June 2011. The Analysis and Conclusions that were presented in the report were based on:

- Detail study of the responses of the questionnaire.
- Report of the Trade Wing of Pakistan’s High Commission in New Delhi.
- Report of the Research Wing of the FPCCI.
- Interviews and desk research conducted by the Research and Analysis Directorate of the Trade Development Authority of Pakistan.

The report acknowledges that; the issue of NTBs has been at the forefront of discussions between the Pakistani and Indian counterparts for quite some years now. It has time and again been claimed that India maintains certain ‘Pakistan specific Non-Tariff Barriers’ which are stunting Pakistan’s exports to India, while the numerous studies, reports and interviews conducted during the last one year can all be said to contain two common elements. i.e.

- i- The so called Pakistan specific NTBs claimed are fundamentally Non-Tariff Measures employed by the Indian Government across the board.
- ii- The overwhelming number of issues alluded to by Pakistani Exporters pertain to; Infrastructural issues at port of entry, bureaucratic and administrative mishandling, psychological barriers emanating from bilateral political issues, visa restrictions and surveillance of visitors to India, Banking restrictions, investment restrictions and restrictive trade routes, which constitute the real Pakistan specific non – tariff barriers to its trade with India.

It was also observed that even when companies have complained of existence of a Non-Tariff Measure to be

# Bringing Down The Barriers

Pakistan specific in nature, it had turned out to be a question of the 'mind set' of the particular administrative officials in dealing with Pakistan specific consignments. Needless to say this mindset stems from the hostile political relations between the two countries which have metamorphosed into an unwritten rule of business in the Government agencies of the two countries. The NTBs thus identified in the report have been summarized below:

1. The Bureau of Indian Standards (BIS) Certification requirement for products like CEMENT though being cumbersome and expensive in nature, is a requirement of the Indian Government across the board for all countries and has a validity of 1 year. The stipulated period of certification procedures for renewal is between 3 to 4 weeks. But in the case of Pakistani companies exporting Cement to India, it has taken more the 6 months. (M/S DG Khan Cement, L/S Lafarge and M/S Lucky Cement).
2. The OEKOTEX and SGS testing and certification requirement is mandatory for all imports of FABRICS and GARMENTS into India and therefore Pakistani exporters are subjected to the same. In certain cases the Indian authorities have been known to not accept lab reports from certain labs. Some such cases have been reported by not only Pakistani exporters but also by some EU exporters as well. In fact the EU has already reported this to the relevant Committee on the ongoing work on NTBs at the WTO.
3. Imports of FRUITS AND VEGETABLES in India are subjected to Quarantine rules and also require an Import Permit from the Director General of Foreign Trade, Government of India. This too is an across the board requirement for all countries.
4. There are testing requirement for all imports of leather and leather products into India and SGS is an acceptable agency for such testing and certification. FINISHED LEATHER has an added certification requirement from the Veterinary Department of India.
5. There is lack of infrastructure on Indian side of border at Wahga where only two trucks can be ported for loading or unloading at a time while 30-40 trucks can be handled at a time on Pakistan's side. As a result, exporting through trucks is not the preferred mode because in case of rain, and with no covered area available for customer clearance, damage to imported goods is imminent. Demurrage charges are excessive in India. A 10-hour window is given to importer to off-load for custom clearance and then re-load on to local transport. The activity of off-loading, custom clearance, and reloading never transpires within the 10 hours and as a result the importer almost always pays demurrage charges. No trade through Container loads is allowed.
6. There is no warehousing facility on either side of the border. There is no cold storage facility available at the border, even though perishables are very often traded. The trade only takes place between 9:00 a.m and 3:00 p.m, after which the gates are closed.
7. There are several bottlenecks on the rail route, such as the unavailability of necessary equipment including rail wagons, rakes etc. and insufficient infrastructure, such as custom house agents, sheds and weighing and x ray machines. Furthermore; Inter-change between Pakistan and Indian Railways takes place only on Sundays; at least for Soda Ash, this inhibits flexibility and trade volume.
8. No cargo trains are allowed through the Sindh route, even though a considerable amount was spent on widening the gauge of tracks. If this route is opened, it will save a huge amount of freight on both sides as compared with ocean freight to shipping lines which takes almost ten days for loading and unloading. Whereas trains would allow cargo to reach dry ports within 24 hours at lower handling cost.
9. Currently there is no direct banking arrangement between the two countries. The payments are made either by informal channels or through an international bank using third country banking channels. This increases cost due to additional service charges and longer time consumed on such transactions.
10. The biggest NTB in promotion of Pakistan's exports is; India's Pakistan – specific visa regime. The business visa regime is unpredictable, city specific and limited to very few days stay with single entry. Encouragingly, for the first time a process of dialogue has been initiated between the Interior Secretaries of the two countries to seriously consider proposals from both sides in order to facilitate business travel.
11. The Indian security regime for Pakistani goods and passengers has also been identified as a major NTB which results in harassment of travelers as well as delay in clearance of goods.

# Managing The MFN Issue

The question of granting MFN status to India is perceived to be a long standing demand from India, whereas in reality it is an integral part of the commitments undertaken by both countries under the WTO agreements. Nevertheless, Pakistan has been citing certain exemptions under the WTO rules which allow it to not grant MFN status to India. Furthermore; “Strategic considerations” have been used to advocate to the business community of Pakistan for the denial of MFN to India. Additionally, certain Pakistani manufacturers and businesses have also been preoccupied with the ‘dooms day’ scenario that; the granting of MFN status to India will ‘flood’ Pakistan’s markets with Indian goods and that it would mean a complete obliteration of Pakistani industry.

The fact of the matter is that; under Art. I of General Agreement on Tariffs and Trade 1994 (GATT), all WTO members are bound to grant Most favoured Nation (MFN) treatment to all the other members with respect to trade in goods. This makes it mandatory upon Pakistan to grant MFN status to India, as the non-compliance constitutes a violation of the WTO Agreement. Though, India has not taken the matter to the WTO Dispute Settlement Body and if Pakistan is waiting to respond when India does take the MFN matter to Geneva, then it seems that Pakistan is ill advised, as in all likelihood the decision would be against it. Additionally, by not taking the MFN matter to Geneva, India has already scored a ‘Moral victory’ which is already tilting the global opinion in favour of India’s trade policies.

The idea of protecting the domestic economy from the ‘infiltration’ of Indian products appears to be based on an assumption that all Indian goods are more competitive than the domestically produced goods. However, if Pakistan is apprehensive of a possible infiltration of exports from India, it can take measures, under WTO provisions against such imports to protect the local industry. Art. XIX of GATT provides that where, a country finds that a product is being imported “in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers” it can impose safeguard measures to restrict such imports for temporary periods. We have the example of US imposing safeguard measures against foreign imports in order to protect its domestic steel industry.

Furthermore; Opening the borders for trade does not suggest an unrestricted flow of Indian products. All the Indian imports into Pakistan will remain subject to the tariffs already in place. It can also be argued that if the Indian goods remain cheaper than their domestic counterparts even after paying the import duties, then why not allow them? Does it not auger well for the ‘Consumer Protection’ outlook for the people of Pakistan? Nevertheless; if on the other hand it is felt that the Indian imports into Pakistan are increasing due to unfair practices like; price undercutting etc, then Pakistan is free to again resort to restrict the imports of specific products by increasing tariffs under various provisions of the WTO e.g. Anti-dumping duties, Countervailing and Anti-subsidies etc.

The substitution of Pakistan’s imports with cheaper Indian products should be more than welcome since this may benefit in two ways: first, the low cost of imports and secondly, lesser time involved. The findings of Trade Diversion theory on Indo-Pakistan Trade relations suggest that Pakistan can save valuable foreign exchange of \$ 1.5 billion to \$ 2.0 billion in case Pakistan diverts the imports of such items (Chemicals, Steel, machinery, industrial equipments, plastics etc;), which are not locally manufacture and have to be imported from far-flung markets like Brazil, Mexico, Australia, Germany, since these products are available from India at competitive

# Managing The MFN Issue

prices and substantially cut-down the transaction time and cost.

Finally; the 'strategic consideration' argument of not granting MFN status to India should be revisited. It must be appreciated from the numerous examples around the globe that how economic cooperation and integration has transformed arch rivals into partners of growth and entwined them into a combined force against the menace of unemployment, poverty and hunger, which are the true enemies of human civilization.

Evidences from history and statistical data reveal that the changed global economic scenario has brought about radical changes in the socio-political relations of the nations, which have eventually been shaped into sound economic cohesion instead of pursuance of politically motivated policies. The volume of trade between India and China, which was only \$ 1.0 billion in the 1990s, has increased to more than \$ 60 billion after conversion of friendly relations through signing of the Sino-Indian Bilateral Peace and Tranquility Accords.

Another example is; the 60 years old China-Taiwan fray, which eventually ended up with agreement on direct air, sea and postal links on 4th November 2008, was in fact as the result of vertical growth in trade, which witnessed tremendous increase from \$ 8.1 billion in 1991 to more than \$ 100 billion in 2010. Similarly USA-Vietnam rivalry ended with US-Vietnam Bilateral Trade Agreement on December 10, 2001 helped increase in trade from less than 1.0 billion in 1990s, to \$ 16 billion in 2010. USA is now the leading investor in Vietnam. The Germany – France example is of course an ideal situation, wherein two nations who have fought two world wars against each other are now not only completely economically integrated but are also the driving forces behind the reunification of the European region. These examples provide enough evidence as to how economic diplomacy serves as an effective tool to mitigate political tension and transform rivalry into friendship.

..

# Roadmap For Increase In Bilateral Trade

Before undertaking more long-term fundamental reforms, both countries need to build public support for trade liberalization. Initial steps should focus on bilateral measures that can be accomplished relatively easily—by executive order rather than via legislation and with minimal resource implications—and that would meaningfully increase trade while gaining support for bigger and bolder steps down the line. While a few of the measures proposed here fall under the ambit of the World Trade Organization (WTO) and have to be handled in a multilateral setting, most would involve only bilateral agreements between the two countries.

## Short-term Measures

Many of the short-term measures proposed here were agreed in principle at the Musharraf-Singh meeting. However, the agreements were limited in scope and, even so, were not implemented. Since the issues are well known and have also been highlighted in the Report on NTBs by the Trade Development Authority of Pakistan, and will also be discussed in the forthcoming meeting of the Secretaries of Commerce of both the countries in September 2011; it should be possible to move ahead rapidly on expanding and implementing the measures if the political will is there. The specific short-term measures, mainly relating to trade facilitation, could include:

- Easing restrictions on visas, specifically, allowing multiple-entry visas for at least 500 businessmen, eliminating requirements to report arrival to the police at each place of stay, eliminating city-specific visas, and speeding up the approval processes;
- Signing a protocol to permit Indian/Pakistani ships to lift cargo for third countries and eliminating the reciprocal requirement that ships touch a third-country port before bringing in imports. The third-country port restriction particularly affects trade of high-bulk, low-value goods, such as coal, tar, and cement, making their transportation via sea commercially unviable. Also allowing sea shipments in addition to the current Mumbai-Karachi route;
- Eliminating the reciprocal requirement that rail wagons carrying goods across the border return empty, increasing the frequency of rail traffic, and improving the coordination between the railway authorities. We suggest restarting the old Sindh-Rajasthan rail link;
- Based on 2006 composite dialogues, both countries need for resumption of Rail Service between Khokhrapar and Monabao, bus service between Srinagar and Muzaffarabad, religious visits to Lahore and Nankana Sahib, new shipping protocol, deregulation of air services and joint registration of Basmati rice.
- Opening additional bus routes. The Musharraf-Singh meeting in April 2005 yielded a commitment to increase the frequency of the cross-Kashmir bus service via the Srinagar-Muzaffarabad route. However, the bus service is only weekly and restricted to passengers who have relatives on the other side of the border;
- Increasing air links between the two countries. Currently, the only air links agreed are Lahore–New Delhi, Karachi–New Delhi, and Karachi–Mumbai. There is no direct air link between the two capitals (Islamabad–New Delhi) and other important commercial cities
- Increasing the number of customs posts where “sensitive” items can be cleared and eliminating requirement for 100 percent verification; and are cleared smoothly
- Governor Reddy (Reserves Bank of India) and Governor Dr. Ishrat Hussain (State Bank of Pakistan) signed an agreement for opening of branches by two Indian banks in Pakistan and two Pakistani banks in India in 2005. This agreement has not yet been implemented. Without banking services, opening of letters of credit, cross border transactions of funds, trade cannot take place.
- Technical barriers to Trade (TBTs), Sanitary and Phyto Sanitary Measures (SPS) that are in fact, acting as powerful deterrents to exchange of goods should be rationalized and simplified. These are, in fact, non-tariff barriers that hinder the flow of goods.

## Medium-term Measures

The short-term measures outlined above should provide the stepping stones to move to more fundamental reforms in trade relations between the two countries. Over the medium term, the key measures would be for Pakistan to grant MFN status to India, which India has already provided to Pakistan, and allow transit trade from India. These measures could be complemented by India by reducing tariff rates on goods of particular

# Roadmap For Increase In Bilateral Trade

interest to Pakistan and removing nontariff barriers, including in agriculture. The authorities should also seek to agree on steps to harmonize—or at least make more transparent—customs procedures and product standards. To the extent that regulations or government practices constrain FDI and services trade, an end to these constraints should be negotiated. Eliminating double taxation would also boost the attractiveness of cross-border investments. These steps would greatly expand the scope of integration, with potentially large efficiency gains on both sides.

The South Asian Free Trade Agreement (SAFTA), which came into effect in January 2006, provides a framework for removing some obstacles to trade, but its implementation alone is not likely to dramatically improve economic integration. SAFTA calls for tariff rates within the region to decline to zero by 2012, but it is highly unlikely that this target will be met. Currently, tariff rates in India are significantly higher than those in Pakistan. In particular, India's high tariffs on agricultural products and textiles severely discourage Pakistan's exports to India. The Pakistanis believe that these tariffs are implicitly targeted at their country, whose potential exports would mainly include these two items (e.g., cotton yarn and fruits and vegetables).

Finally, infrastructure in both countries needs to be significantly improved and harmonized: Roads need to be expanded and upgraded, and ports need to be modernized. Both countries are seeking ways within their overall fiscal constraints to move rapidly on these fronts. Improving regulatory frameworks for key infrastructure sectors would help attract the private sector to participate in improving infrastructure in both countries. In addition, the scope for trade in energy appears to be sizeable, and eventually both countries could work on developing a joint energy grid.

The specific medium-term measures toward greater economic integration between India and Pakistan could include:

- Pakistan should follow WTO rules and reciprocate by providing MFN status to India and abolishing the positive list approach while India should reduce its tariffs on agriculture commodities, textiles and other goods that are of potential value to Pakistan. Both countries should apply MFN duty rates to items on the sensitive lists.
- Both countries should reactivate SAFTA and agree on a phasing out of the sensitive list over next few years. A restrictive list would nullify all the potential gains of preferential trade access.
- Trade facilitation through expeditious border crossings, streamlining documentation requirements, border agency coordination, opening of new border crossings, quick custom clearance, Electronic Data interchange, telecommunication, improved transport links, shipping protocols, easing visa restrictions for businessmen should be carried out immediately. Railway, air and road connections between the two countries should be increased.
- Domestic tax, tariff and subsidy policies that distort incentives for production and trade should be substituted in both the countries by more neutral policies.
- Institutions to manage and facilitate trade integration such as setting standards, quality control, technical regulations, material testing should be strengthened and made user friendly. India should significantly lower tariff rates for goods of particular interest to Pakistan (e.g., textiles, leather, and onyx) and remove nontariff barriers.
- Pakistan should allow transit trade from India. WTO rules require Pakistan to allow transit trade for all goods to and from third countries (including Afghanistan and the countries in Central Asia).
- Both countries should also allow trade in information technology (IT). Despite India being well ahead of Pakistan in this field, both countries could engage in mutually beneficial business-to-business links. Since IT trade does not involve movement of goods, it would be easier to move ahead quickly in this area. For example, Pakistan could allow large Indian IT companies to set up call centers and other IT-related firms, taking advantage of the existing (and growing) English-speaking workforce in Pakistan.
- Both countries should harmonize their customs procedures, including more standardized and transparent documents and inspection procedures and product standards. Also, sanitary and safety laboratory inspections in one country should be accepted in the other.

# Roadmap For Increase In Bilateral Trade

- Obstacles to FDI flows, other than restrictions based on national security grounds, in both directions should be eased and obtaining government approval streamlined. Each country's companies should be allowed to float shares in the securities markets of the other, and double taxation on corporate and individual incomes should be removed
- Harmonisation in legal regulations for investor protection, contract and IP Rights enforcement, labour relations, would promote relocation of industries within the region as the expanded market size and mobility of goods and services would result in economies of scale. Locations for inputs, components, raw materials with low transaction costs would confer comparative advantage to final finished goods.

The above outlined measures, if implemented sincerely, can open a new vista for the two countries in the 21st Century. It is high time political leaderships of India and Pakistan demonstrate courage and conviction.

# Conclusion

With new governments in both India and Pakistan, there is once again a window of opportunity to improve economic ties. While the measures for reducing trade barriers proposed in this position paper, generally have the support of businessmen on both sides of the border, it is critical to build constituencies in each country for greater bilateral trade liberalization. The success of the confidence building short-term measures and the resulting growth in trade would give a major impetus to the creation of vested interests that would support more far-reaching liberalization of trade between the two countries. Only then will the political and bureaucratic opposition to increased India-Pakistan trade be diminished.

Trade will of course not solve all the problems between the two countries, but it could be an important catalyst in the lowering of tensions. And a lowering of tensions between India and Pakistan—an inevitable benefit of strengthened economic ties—would improve the security climate for investment and economic development in both countries. It is clearly in the interest of both countries, and the world for that matter, to find a political resolution to the India-Pakistan problem, and increased trade can be the starting point for this objective. In the case of India-Pakistan trade relations, good fences do not make good neighbors!

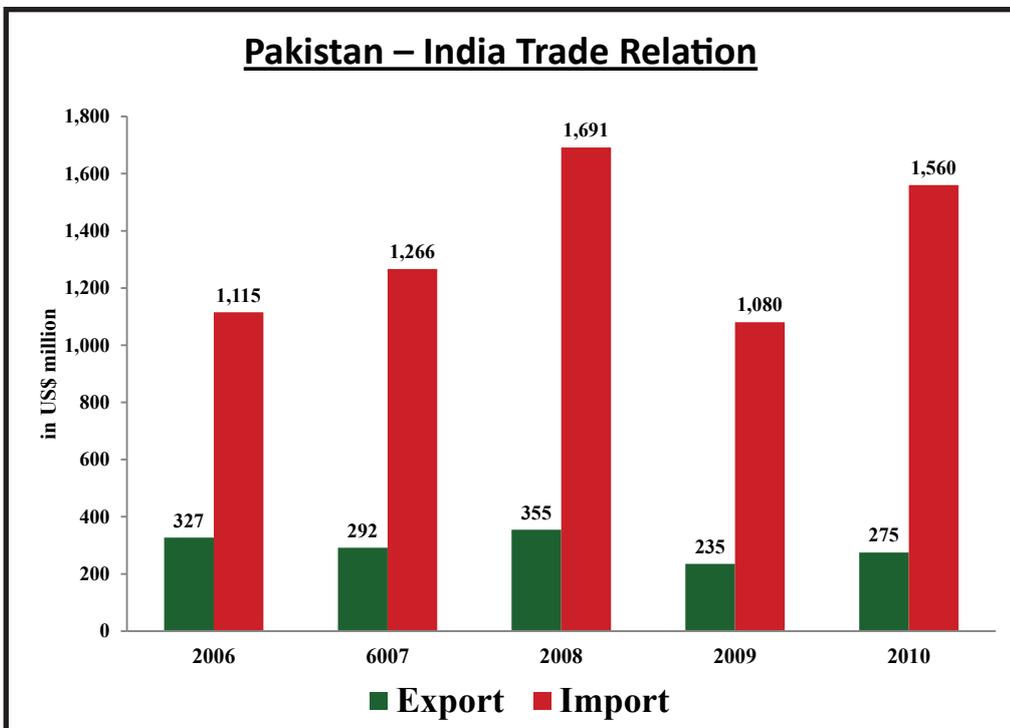
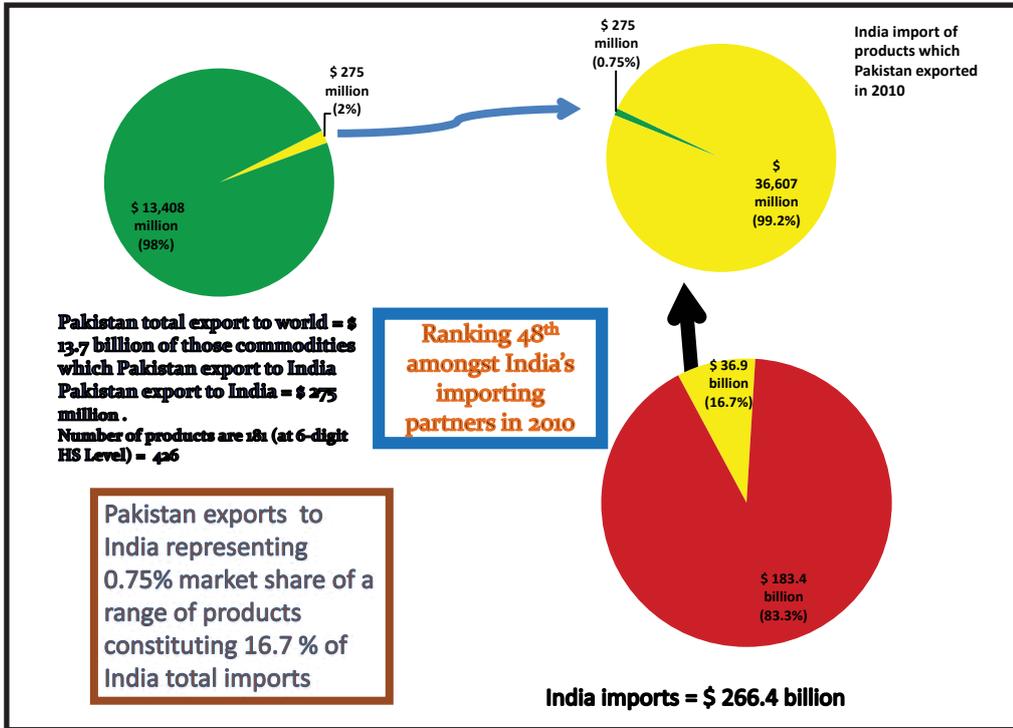
The exchange of visits between Commerce Secretaries of India and Pakistan, which resulted in the adoption of the April 2011 communiqué, provides a viable future agenda for facilitating economic cooperation, which need to be implemented with positive and changed perception by both sides. The proposed forthcoming visit of Pakistan's Commerce Minister shall further enhance the pace of bilateral dialogue. This visit is being perceived as a sincere commitment from Pakistan, which is hoped to be equally reciprocated by Indian side and further strengthen the Confidence Building Measures at other levels. Using trade as a tool to mitigate political tension between two neighboring countries is a welcome move; however, a greater political will with a changed mindset shall remain the key to success of all such endeavors.

It is an imperative that both; India and Pakistan work towards achieving an economically interdependent relationship, which is a proven and sure shot recipe for Peace. The much talked of 'Asian Century' rhetoric can only be truly realized if it is preceded by peace, harmony and stability, specifically in the Asian sub-continent region.

# Bibliography

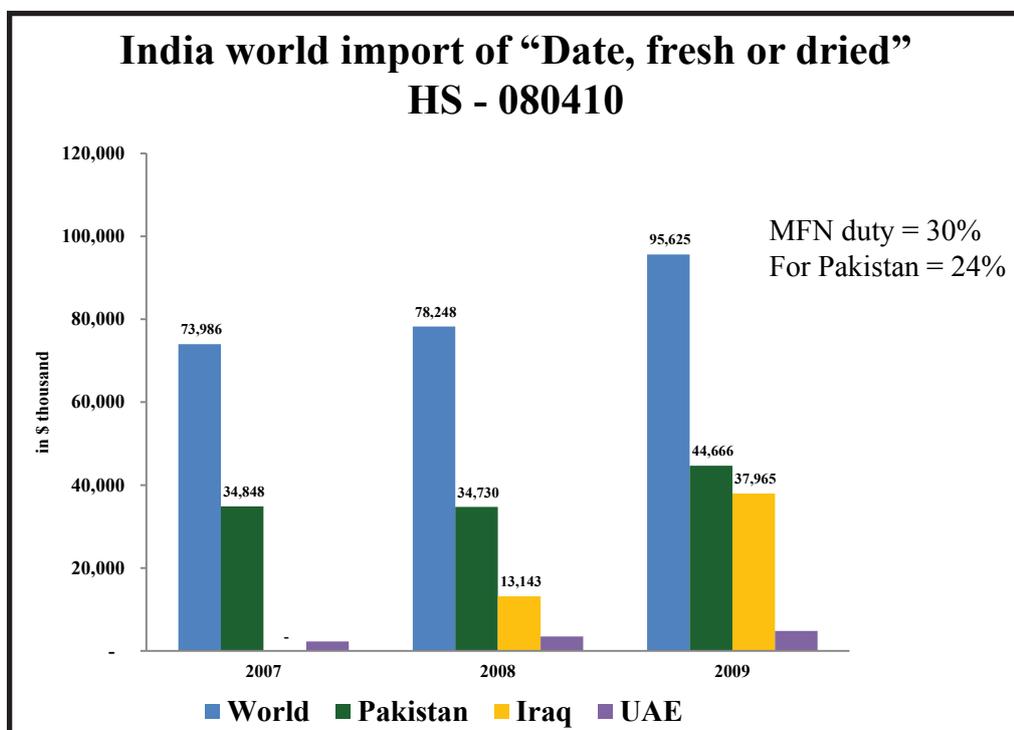
1. Batra, Amrita (2004) “India’s Global Trade Potential: The Gravity Model Approach” Working Paper 151, ICRIER, New Delhi
2. Batra, Amrita (2006) “India’s Global Trade Potential” Global Economic Review Vol 35 No.3
3. Bhandara, J.S. (2003) “How desirable is the SAFTA? A quantitative economic assessment “ The World Economy
4. Chaturvedi, Sachin (2007) “Trade Facilitation measures in South Asia” FTAs in ESCAP United Nations, New York
5. Confederation of Indian Industry. 2005. Pakistan India Partnership: A Prosperous South Asia. New Delhi.
6. Federation of Pakistan Chambers of Commerce & Industry: Pak- India Economic Cooperation: Challenges and prospects, Karachi, 2011
7. Hirantha, S.W. (2004) From SAPTA to SAFTA: Gravity Analysis of South Asian Free Trade, European Trade Study Group ETSG
8. Hufbauer, Gary Clyde, and Shahid Javed Burki. 2006. Sustaining Reform with a U.S.-Pakistan Free Trade Agreement. Washington: Peterson Institute for International Economics.
9. Husain, Ishrat (2011) India-Pakistan Trade , The News, Karachi
10. In Trade, Finance and Investment in South Asia, ed. T. N. Srinivasan. New Delhi: Social Science Press
11. Joint Communiqué. 2005. Meeting of President Pervez Musharraf and Prime Minister Man Mohan Singh, April 18, New Delhi. Available at <http://pakistantimes.net>
12. Kemal, A. R., M. K. Abbas, and U. Qadir. 2002. A Plan to Strengthen Regional Trade and Cooperation in South Asia.
13. Khan, S. R., F. H. Shaheen, M. Yusuf, and A. Tanveer. 2007. Regional Integration, Trade and Conflict in South Asia. Working Paper. Islamabad: Sustainable Development Policy Institute.
14. Mukherjee, I. N. 2005. South Asia Free Trade Area and Indo-Pakistan Trade. Paper presented at the 20th Annual General Meeting, Pakistan Society of Development Economists, and Islamabad.
15. Murshed. S. M., and D. Mamoon. 2008. The Consequences of Not Loving Thy Neighbor as Thyself: Trade, Democracy and Military Expenditure Explanations Underlying India-Pakistan Rivalry. MPRA Paper
16. Nabi, Ijaz and Anjum Nasim ( 2001) Trading with the Enemy in Regionalism and Globalization eds Sajan Lahiri London: Routledge
17. Naqvi, Zareen and Philip Schuler eds ( 2007) The challenges and potential of Pakistan-India trade : The World Bank, Washington D.C
18. Naqvi, Zareen (2008) Pakistan-India Trade Potential and Issues unpublished
19. State Bank of Pakistan (2006) Implications of liberalizing trade and investment with India, Report of the Research and Economic Policy Department
20. Taneja, N. 2006. India-Pakistan Trade. Working Paper 182. New Delhi: Indian Council for Research on International Economic Relations
21. Taneja, Nisha( 2007) “ Pakistan-India Trade: The view from the Indian exporters” in Naqvi and Schuler (eds)

# Appendix Statistics

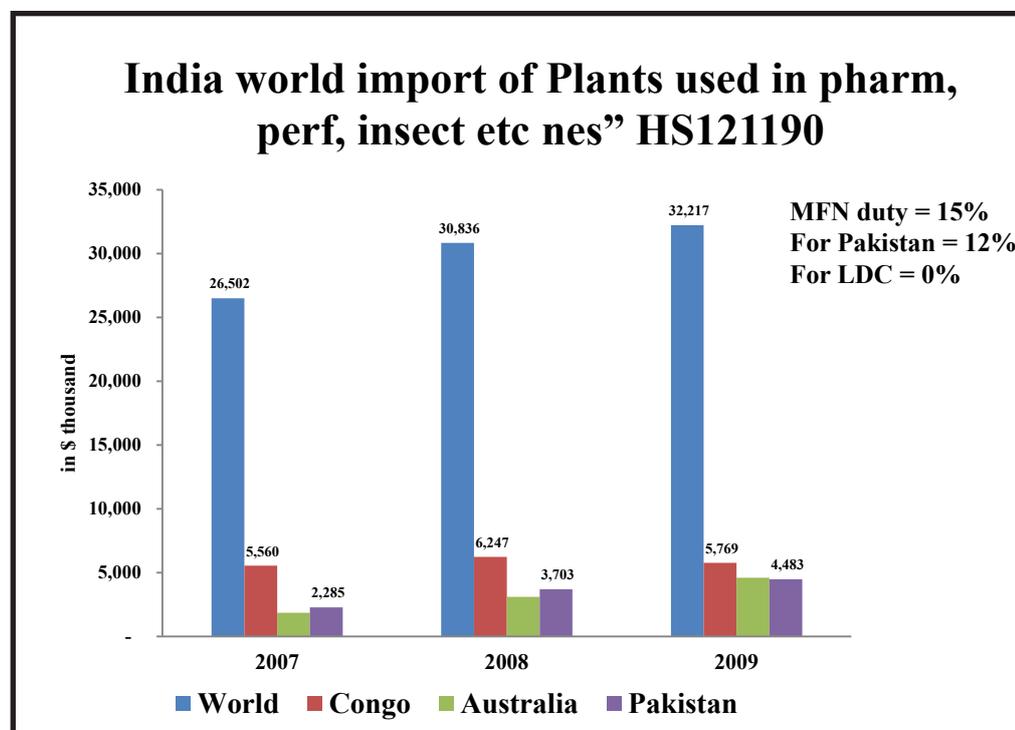
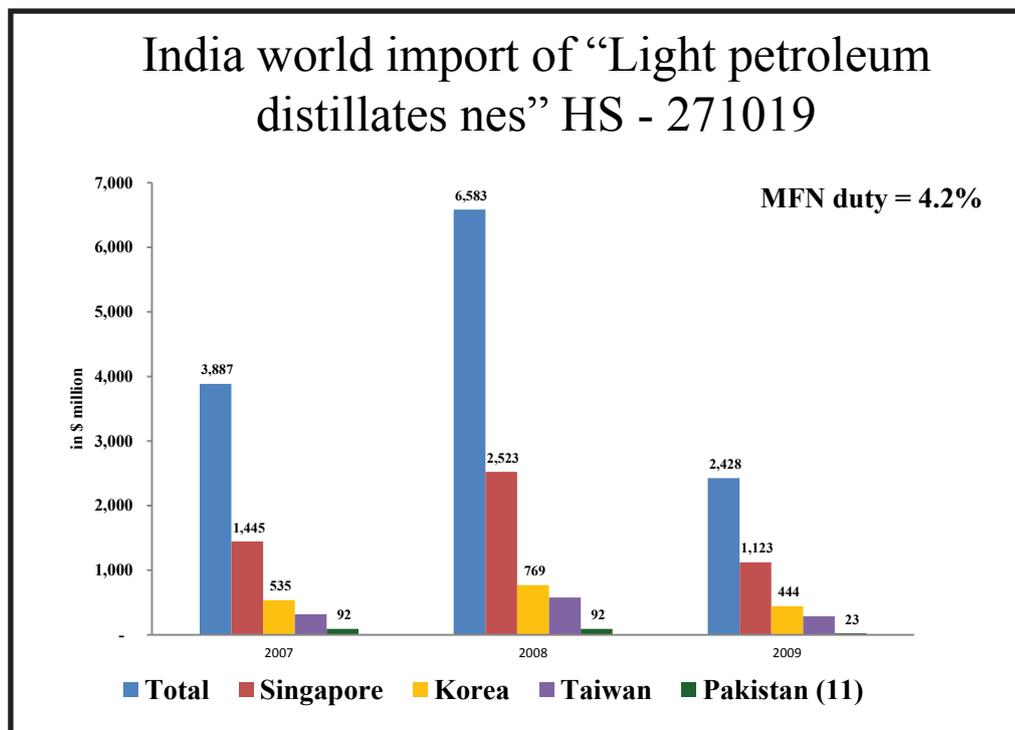


# Appendix Statistics

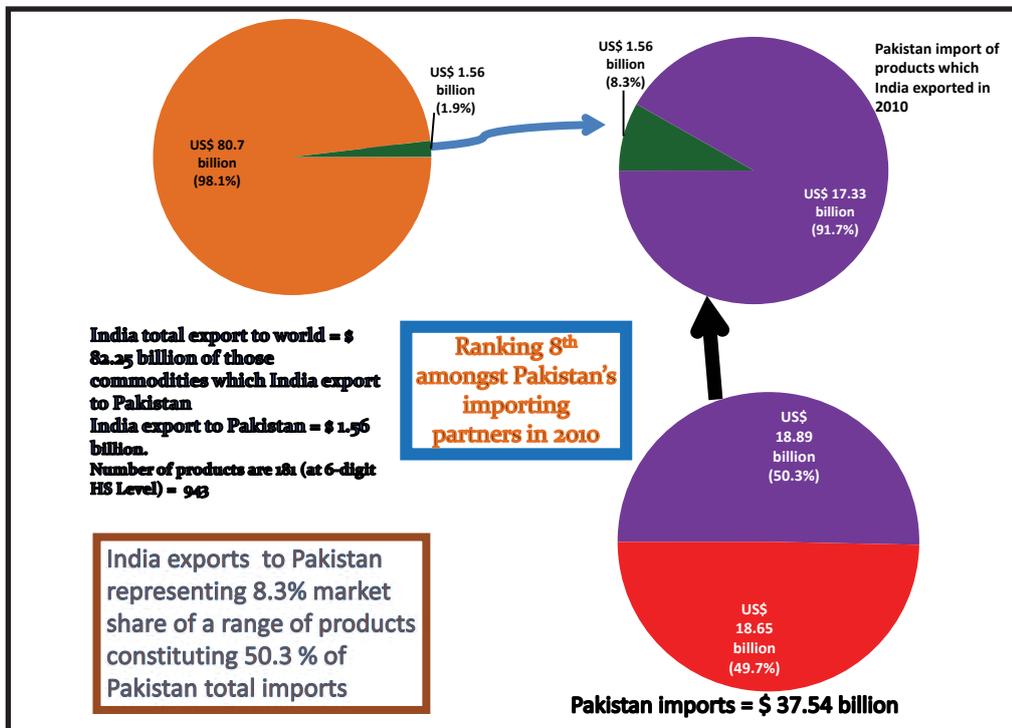
Pakistan's exports to India - Top 20 items at 6-digit HS level				
Values in \$ thousand				
HS code	Product label	2008	2009	2010
TOTAL	All products	354,637	235,323	274,983
1080410	Dates, fresh or dried	35,383	44,616	44,162
2252329	Portland cement nes	54,654	20,349	28,028
3271019	Light petroleum distillates nes	91,748	22,569	26,343
4290315	1,2-dichloroethane(ethylene dichloride)	0	2,987	12,282
5291736	Terephthalic acid and its salts	0	21,642	10,843
6283620	Disodium carbonate	0	5,024	9,379
7780110	Lead refined unwrought	691	3,183	7,855
8520932	Twill weave cotton fabrics, >/=85%, more than 200 g/m2, dyed	11,512	5,582	6,258
9390120	Polyethylene having a specific gravity of 0.94 or more	0	809	6,155
10390110	Polyethylene having a specific gravity of less than 0.94	0	346	5,718
11630539	Sacks & bags, for packing of goods, of other man-made textile materials	245	1,371	5,649
12740400	Waste and scrap, copper or copper alloy	1,096	2,692	4,259
13520942	Denim fabrics of cotton, >/=85%, more than 200 g/m2	2,149	3,483	4,257
14510320	Waste (other than noils) of wool/of fine animal hair, ex garnettd stock	888	351	4,218
15410719	Leather "incl. parchment-dressed leather" of the whole hides and skins	2,207	2,150	3,894
16410799	Leather "incl. parchment-dressed leather" of the portions, strips or s	276	1,697	3,731
17520812	Plain weave cotton fabric, >/=85%, >100 g/m2 to 200 g/m2, unbleached	95	1,099	3,666
18901890	Instruments and appliances used in medical or veterinary sciences, nes	2,653	2,365	3,584
19520811	Plain weave cotton fabric, >/=85%, not more than 100 g/m2, unbleached	485	3,469	3,432
20121190	Plants & pts of plants (incl sed & fruit) used in pharm, perf, insect etc nes	3,016	3,900	3,421
	<b>Sub total</b>	<b>207,098</b>	<b>149,684</b>	<b>197,134</b>
	<b>% of total</b>	<b>58.40</b>	<b>63.61</b>	<b>71.69</b>



# Appendix Statistics



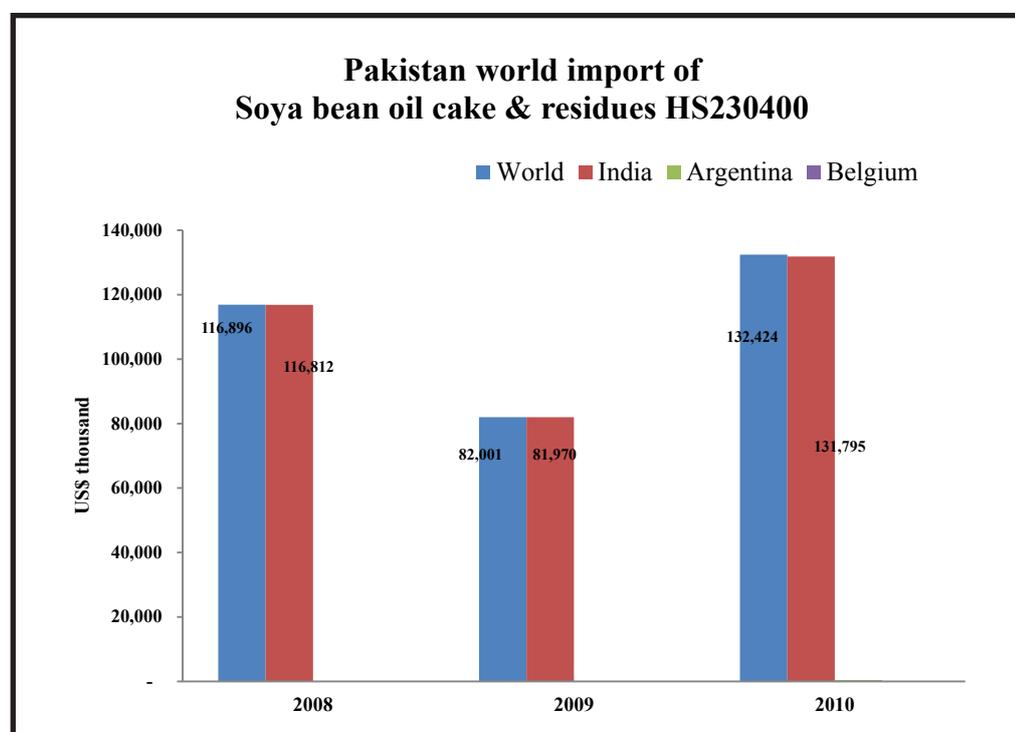
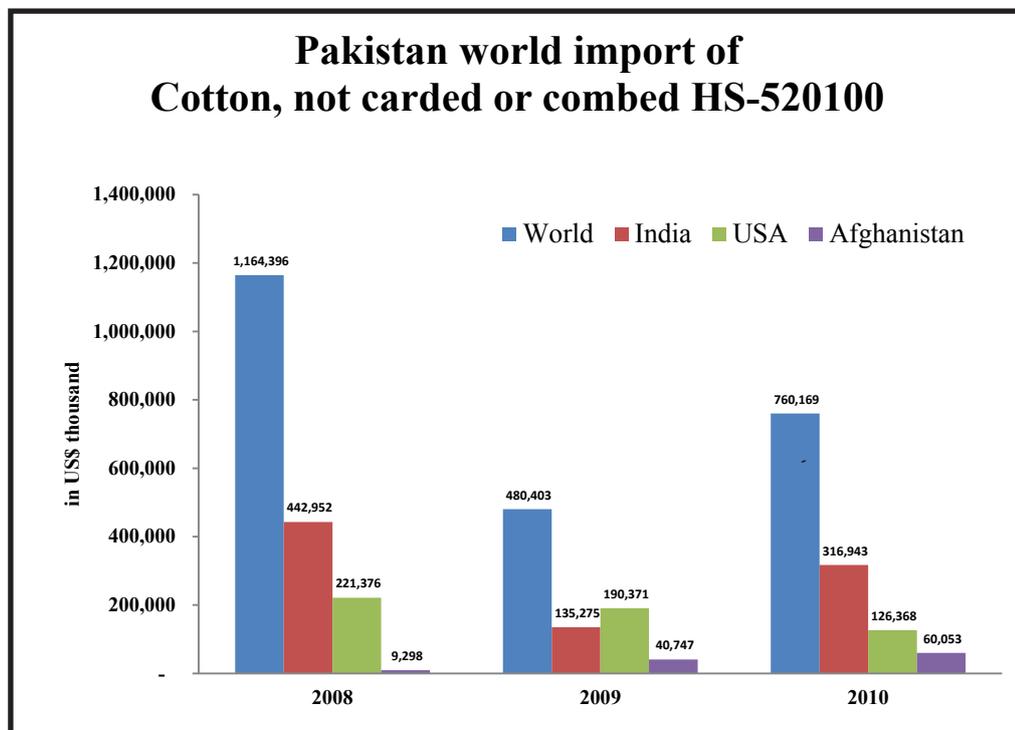
# Appendix Statistics



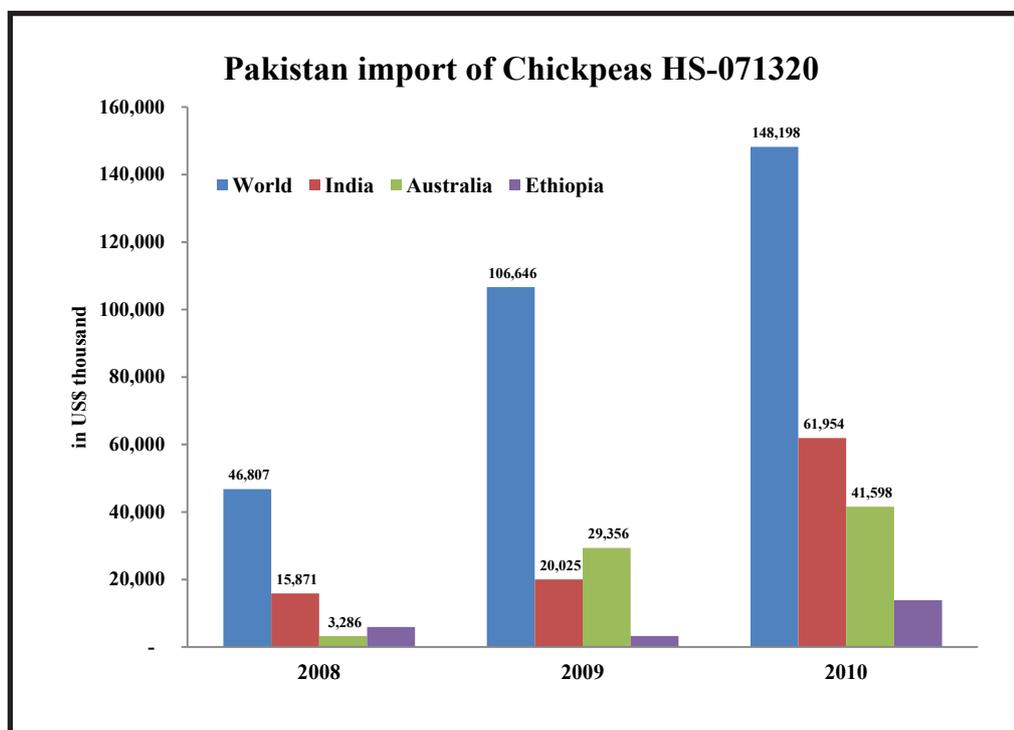
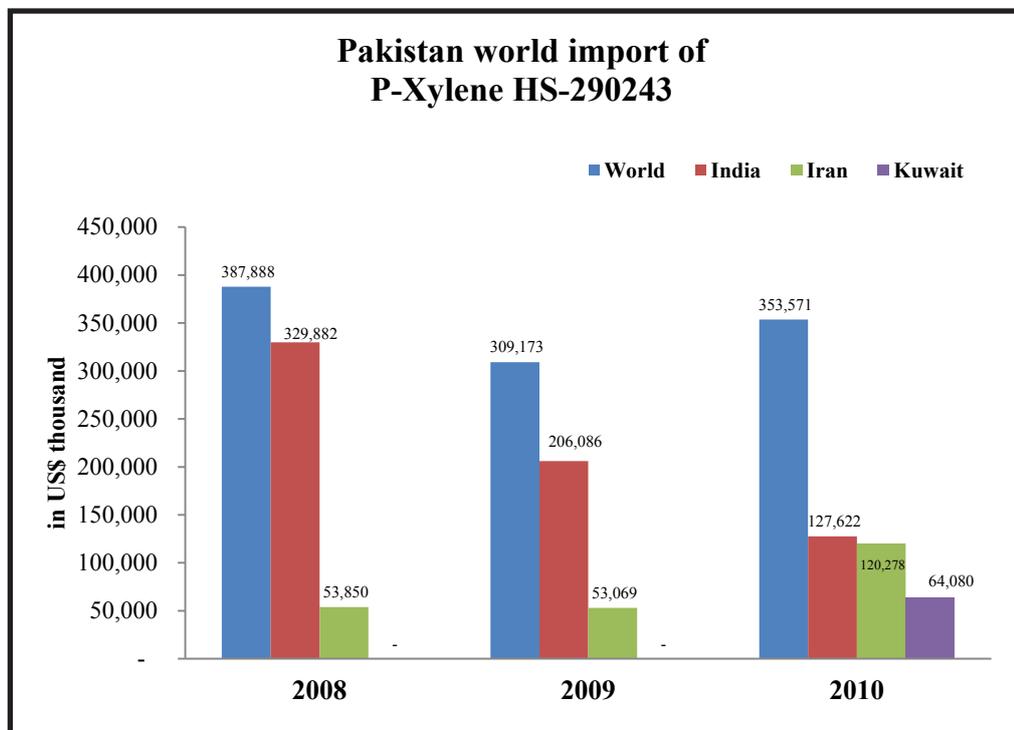
Pakistan's top 20 import items from India (in US\$ million)				
HS code	Product label	Years		
		2008	2009	2010
<b>TOTAL</b>	<b>All products</b>	<b>1,691,476</b>	<b>1,080,404</b>	<b>1,559,921</b>
520100	Cotton, not carded or combed	442,952	135,275	316,943
170199	Refined sugar, in solid form, nes	-	22	156,684
230400	Soya-bean oil-cake&oth solid residues,whether or not ground or pellet	116,812	81,970	131,795
290243	P-xylene	329,882	206,086	127,622
071320	Chickpeas, dried, shelled, whether or not skinned or split	15,871	20,025	61,954
070200	Tomatoes, fresh or chilled	21,051	42,626	39,868
090240	Black tea (fermented) & partly fermented tea in packages exceedg 3 kg	12,546	8,245	26,047
890800	Vessels and other floating structures for breaking up	-	-	25,427
390210	Polypropylene	65,067	31,725	25,209
290241	O-xylene	20,373	17,462	20,529
320416	Reactive dyes and preparations based thereon	14,374	16,651	18,520
890590	Floating docks and vessels which perform special functions	-	-	17,661
731100	Containers for compressed or liquefied gas of iron or steel	22,619	6,556	15,766
720230	Ferro-silico-manganese	11,526	13,435	15,016
381700	Mixed alkylbenzenes and mixed alkyl-naphthalenes produced by the alkyla	4,563	8,426	14,472
090420	Fruits of the genus Capsicum or Pimenta, dried, crushed or ground	18,422	224	14,262
401120	Pneumatic tires new of rubber for buses or lorries	8,081	10,063	14,178
293499	Nucleic acids and their salts, whether or not chemically defined; hete	9,602	10,171	13,483
550410	Staple fibres of viscose, not carded or combed	3,299	4,515	13,372
070310	Onions and shallots, fresh or chilled	3,952	68,854	13,087
	<b>Sub-total</b>	<b>1,130,992</b>	<b>682,331</b>	<b>1,081,895</b>
	<b>Sub total as % of total</b>	<b>66.86</b>	<b>63.16</b>	<b>69.36</b>

Source: ITC

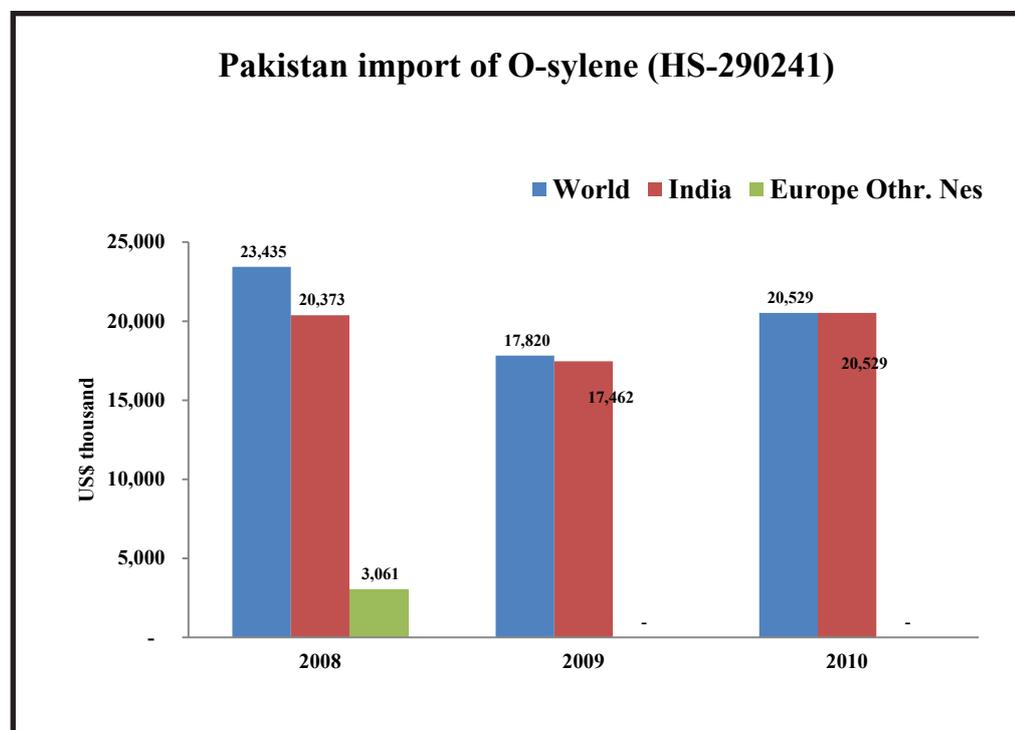
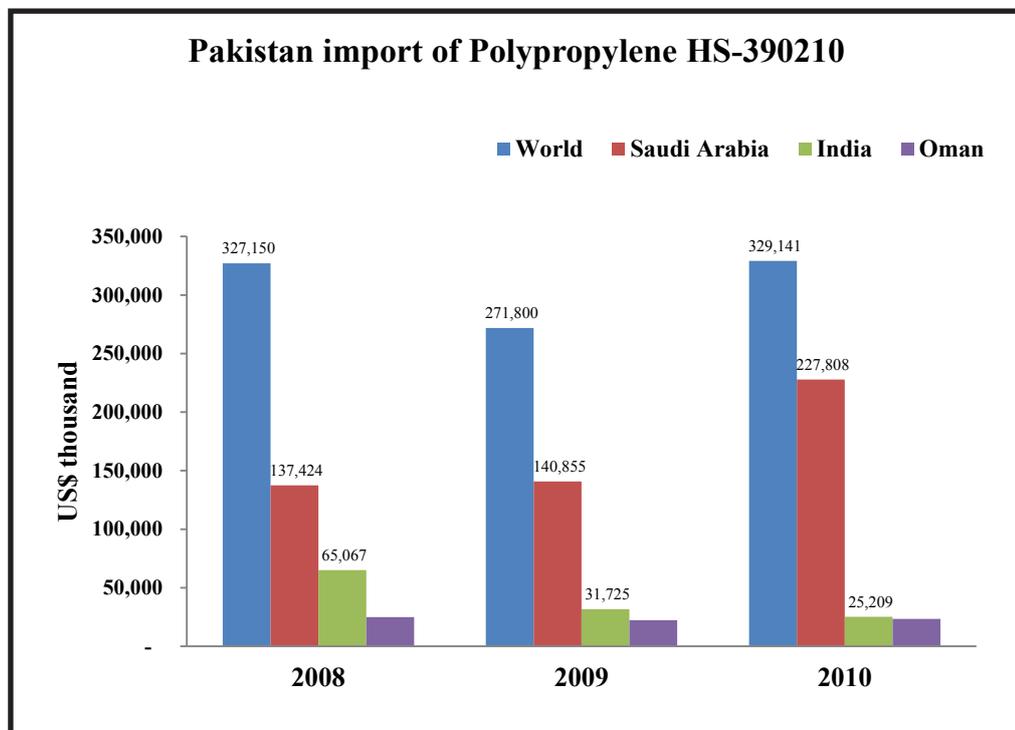
# Appendix Statistics



# Appendix Statistics



# Appendix Statistics



JOINT STATEMENT

**5<sup>TH</sup> ROUND OF TALKS ON  
COMMERCIAL AND  
ECONOMIC CO-OPERATION  
BETWEEN COMMERCE  
SECRETARIES OF  
INDIA AND PAKISTAN**

# Joint Statement

1. The 5th round of India-Pakistan talks on Commercial and Economic Co-operation was held on 27-28 April 2011, in Islamabad.
2. The Indian delegation was led by Commerce Secretary, Rahul Khullar and the Pakistan delegation was led by Zafar Mahmood, Secretary, and Commerce.
3. Both sides agreed that increase in trade and economic engagement would help not only in the mutual quest for national development, but also contribute to building trust between the two countries. The discussions were guided by the mutual desire to realize the full potential of bilateral trade. To facilitate this objective, they agreed to make efforts to create an enabling environment for trade on both sides. The two sides also agreed to encourage greater engagement between the private sectors of the two countries.
4. With this in view, the following decisions were taken:
  - (i) To build confidence, dispel misunderstandings and allay any misapprehensions, it is essential that governments in both countries support the business communities in promotion of bilateral trade. Further efforts would be made to make the bilateral trading environment more business friendly. Necessary outreach activities would be undertaken to bridge information gaps relating to the trade environment and economic opportunities.
  - (ii) To promote trade, both tariff and non-tariff barriers (NTBs) need to be reduced/removed. It was decided to establish a Working Group (WG) specifically dedicated to address and resolve clearly identified sector-specific barriers to trade. The WG would comprise technical experts and representatives of regulatory bodies directly concerned with the clearly identified barriers. The first meeting of the WG shall be held by September 2011.
  - (iii) Both sides appreciated the significant progress made in developing physical infrastructure for trade through the Wagah-Attari land route. Closer coordination needs to be ensured to open the second gate and new dedicated roads for passenger and freight traffic. The Indian side intimated that its new Integrated Check Post is expected to be fully functional by October, 2011. To facilitate the coordinated effort of both sides, it was agreed that the Joint Technical Group for promotion of trade and travel would meet in June 2011 and thereafter every month to ensure adherence to the October 2011 timeline on both sides.
  - (iv) Both sides agreed to expand trade through Wagah-Attari by inter-alia (a) increasing trading hours taking advantage of the new infrastructure (b) expeditious clearance of cargo and (c) facilitating movement of large vehicles and containerized traffic.
  - (v) It was also agreed that Pakistan side would remove its present restrictions on trade by land route as soon as the infrastructure to facilitate mutual trade is completed. The timeline for this purpose would be before October, 2011.

## Joint Statement

- (vi) It was noted that an informal and effective Customs Liaison arrangement is already operating at Wagah-Attari. It was decided to formalise the arrangements in the form of a Customs Liaison Border Committee which would meet at least once in two months to resolve any operational issue at the field level.
- (vii) For harmonization in customs procedures, facilitation of trade consignments, exchange of trade data and information, both sides agreed that the Sub Group on Customs Cooperation would meet in New Delhi before 15th June, 2011. Nodal officers shall be notified by both sides before 15th May, 2011- to establish regular direct contact by email/fax/telephone on all matters relating to delay in clearance of trade consignments, trade document requirements, and other customs cooperation. It was agreed that Pakistan would send a draft Customs Cooperation Agreement within a month.
- (viii) It was decided to undertake a new initiative to enable trade of electricity between both countries. To this end, a group of experts from both sides would examine feasibility, scope and modalities of such trading. Inter alia, the group may also address itself to issues such as suitable site(s) and routes for transmission lines, funding mechanisms and other related issues. The composition of the Group would be finalised before the end of June 2011 and the first meeting would be scheduled by October 2011.
- (ix) Both sides also agreed to work out how to initiate and substantially expand trade in all types of petroleum products. A group of experts from both sides would be set up for this purpose before 15 June 2011. The Group would inter alia discuss trade arrangements, building of cross border pipelines and use of road/rail route, including the Munabao-Khokrapar route. The Group's first meeting would be held before September 2011.
- (x) A new initiative to promote bilateral trade in Bt. cotton seeds was identified. This would help Pakistan's farmers and its textile industry by significantly raising cotton yields and ensuring better cotton security. It was agreed to take this process forward by enabling Business-to-Business contact and governmental regulatory clearances.
- (xi) Cooperation in the Information Technology (IT) sector would be encouraged through the private sector route.
- (xii) Pakistan recognized that grant of MFN status to India would help in expanding the bilateral trade relations. Both sides also agreed to remove the NTBs and all other restrictive practices which hamper bilateral trade.

# Joint Statement

- (xiii) It was informed by Pakistan side that it would take immediate necessary steps to ensure that non-discriminatory trade regime is operationalized at the earliest. The consultative process in this regard has been set in motion and information from all stakeholders including business chambers and trade bodies is being collected to replace the present “Positive list” with a “Negative list”. It was agreed that this process would be completed by October, 2011.
  - (xiv) Both sides expressed the intent to explore the possibility of entering into a mutually agreed preferential trade arrangement to further promote bilateral trade by extending tariff concessions on products of export interest to both countries.
  - (xv) Both sides agreed that facilitating grant of Business Visas was essential to expansion of trade. It was noted that during the recent meeting of the Home Secretaries, it was decided to set up a Joint Working Group to look at the Visa regime. Suitable inputs would be provided by both sides to this JWG, to realise the goal of easier access to Business Visas. In this regard the possibility of effective involvement of private sector through officially recognised joint chambers would be explored.
  - (xvi) While appreciating the need for business- to- business contact, both sides desired to create an enabling environment and encourage Chambers of Commerce and Industry on both sides to form officially recognised Joint Chambers at the apex and regional levels.
  - (xvii) Both sides agreed on the desirability of promoting bilateral investments and removing any impediments for such investments.
  - (xviii) On opening of bank branches in each other’s countries, both sides agreed that banking channels are important and the process needs to be fast tracked.
  - (xix) Trade Development Authority of Pakistan (TDAP) and its counterpart organisation, India Trade Promotion Authority (ITPO) will collaborate on trade promotional activities. TDAP will send a draft MOU to ITPO for mutual cooperation by June 2011.
5. A Joint Working Group on “Economic and Commercial Cooperation and Trade Promotion” will be co-chaired by the Joint Secretaries of the respective Departments of Commerce. Implementation of decisions taken in this round and any other trade promotion issues that may arise from time to time will be reviewed by this JWG.
  6. Commerce Secretaries of both countries would meet bi-annually to oversee the functioning of this JWG.
  7. The talks were held in a very cordial and constructive atmosphere.



## **SAARC Chamber of Commerce & Industry**

Permanent Headquarters, House 397, Street 64, I-8-3, Islamabad-Pakistan  
Tel: 0092-51-4860612-3, Fax: 0092-51-8316024, E-mail: [info@saarcchamber.org](mailto:info@saarcchamber.org),  
Website: [www.saarcchamber.org](http://www.saarcchamber.org)