

Working paper



Regional Trade Report 2013

Pakistan Business
Council



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Pakistan Business Council - Regional Trade Report 2013

Pakistan Business Council: Regional Trade Report 2013

Executive Summary

This report builds on the April 2011 Pakistan Business Council report on regional trade. The last report made a case for liberalizing Pakistan-India trade and recommended specific measures to that effect. It is gratifying that there has been much progress on bilateral trade since the last report and several key recommendations have been implemented.

In September 2012, the PBC decided to prepare a follow up report to help consolidate the momentum for liberalization. The PBC set up a new panel, retaining many members on the panel of the last report and inducted academics, additional industry representatives and policy makers.

The panel decided¹ that the main message of this report would be consistent with the 2011 report of moving to a WTO consistent (MFN based) trade with India and would recommend safeguards and other measures for a smooth transition to the new regime. The report would contextualize Pakistan-India trade in Pakistan's quest for a new growth driver anchored in regional trade. It would emphasize the importance of strengthening Pakistan's capacity to get maximum advantage of the opportunities presented by the liberalized bilateral trade regime. It was agreed that six working groups would be formed to make specific and operational recommendations to the government and that the working groups would invite experts to their discussions as needed. This report is the outcome of those deliberations.

An overarching recommendation of the panel concerns **disruptions in bilateral trade**. A smooth transition to normal trade must be guided by a jointly shared Pakistan-India vision of a prosperous South Asia. This necessitates unfettered access to each other's markets to identify opportunities and strike business deals. Disruptions caused by travel bans and suspension of trade routes would do little to encourage Pakistani firms to develop supply lines in India. The recent incident on the LOC in Kashmir and the subsequent set back to the normalization process has adversely affected business confidence. The potential gains from bilateral trade in terms of regional economic vibrancy, strengthening of economic growth in India and Pakistan, creating much needed productive jobs and peace and stability are too large to be disrupted by short term non-economic gains.

The report discusses the challenging issues of **non –tariff barriers and subsidies** and emphasizes the need for technical capacity to both understand the complexities as well as respond in terms of specific policy instruments such as countervailing duties and regional trade liberalization (SAFTA) in the context of the global trade regimes of India and Pakistan. The negative impact of an MFN based Pakistan-India trade on Pakistan's agriculture may well require countervailing duties if analysis shows Indian farm subsidies to be considerably higher than those in Pakistan.

A **safeguards** issue discussed in the report is trade based on negative lists. It is recommended that products be placed on the **negative list** depending on the impact trade liberalization has on broad citizen welfare (overall GDP and employment) rather than on lobbying strength. It is argued, furthermore, that movement in the overall trade deficit is a much better measure of the impact of trade liberalization than the **bilateral trade** deficit so that undue focus on the latter must be avoided.

¹ The panel organized a video conference on October 30, 2012 to agree on the approach of this report.

Small and medium enterprises have to be facilitated to benefit from Pakistan-India trade and thus become vocal stakeholders in the liberalization process. SME's in garments, footwear, food processing, auto parts, metal products and IT have considerable potential to benefit from liberalized bilateral trade if they can identify market niches in India by acquiring specialized local knowledge, participating in trade fairs and cutting business deals. This requires both easy travel as well as access to commercial bank branches to facilitate quick cross border transactions. Industry associations and chambers will need to organize themselves for collective efforts that lower transaction costs and facilitate travel.

Pakistan-India bilateral investment regime needs to be announced at the earliest and investment procedures simplified. Investment from India up to \$25 million should be allowed in a non-discriminatory fashion; larger investments may be subjected to greater scrutiny. Cross border acquisitions help transfer management expertise and technology and should be encouraged. Cross border IT and wind power joint ventures hold great promise and should be promoted.

For **regional connectivity and trade facilitation**, the pending international conventions need to be ratified. The national trucking modernization policy and the customs convention on international transportation of goods needs to be implemented. Pakistan-India bilateral transit and transport agreement should be negotiated and implemented. Manpower shortage and limited storage capacity at the Wagah border crossing have to be addressed to avoid long delays. Modern scanning facilities should be acquired and customs procedures modernized. Additional land crossings will need to be opened up and private logistics companies incentivized.

Intra-industry transactions, investment and technology flows, and exchange of skilled manpower will be key in realizing the vision of regional prosperity and this will require a conducive bilateral **visa regime**. An institutional framework for improving the visa regime, including regular meetings between the home secretaries under the "Dialogue Process", is needed. All bona-fide businessmen, irrespective of earnings, should be exempt from reporting. Check posts for entry/exit of Pakistan and India nationals should be increased and additional business destinations such as Hyderabad and Bangalore opened up. Technical experts, journalists, researchers, academics and students should be granted long term, multiple entry visas. The frequency of flights needs to be increased and more destinations allowed including direct flights between Delhi and Islamabad. Telecommunication should be upgraded including international roaming facilities.

In conclusion, a WTO consistent Pakistan-India trade will help make Pakistan a regional trade hub. Sustained welfare improvements for the citizens arise when the economy transitions from a transportation hub of goods and energy to a manufacturing hub that creates high productivity, high wage jobs in multiple regional growth nodes. Key to that transition are skilled workforce, modern infrastructure (ports, roads and energy), substantially improved governance for service delivery and a development framework that promotes investment and manufacturing over consumption. Reforms to that end need to be implemented for citizens to realize the full benefits of liberalized Pakistan-India trade in a vibrant economic region.

Dr. Ijaz Nabi, Country Director, International Growth Center, and LUMS, Panel Chair

Mr. Bashir Ali Mohammed, Chairman, Gul Ahmed Group, Panel co-chair

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This report has been prepared by Dr. Ijaz Nabi, Country Director IGC Pakistan, with assistance from Ms. Hina Shaikh, Country Economist IGC Pakistan, and contributions by the panel working groups. International Growth Center's support in preparing this report is gratefully acknowledged.

Objectives of the Report

This report builds on the April 2011 Pakistan Business Council report on regional trade. The last report made a case for liberalizing Pakistan-India trade and recommended specific measures to that effect. It is gratifying that there has been much progress on bilateral trade since the last report and several key recommendations have been implemented.

In September 2012, the PBC decided to prepare a follow up report to help consolidate the momentum for liberalization. The PBC set up a new panel, retaining many members on the panel of the last report and inducted academics, additional industry representatives and policy makers.

The panel organized a video conference on October 30, 2012 to agree on the approach of this report. It was decided that the over arching stance of this report should be consistent with the 2011 report of moving to a WTO consistent (MFN based) trade with India. Having previously established the need to liberalize trade with India, this report would contextualize Pakistan-India trade in Pakistan's quest for a new driver anchored in regional trade. The report would emphasize the importance of strengthening Pakistan's capacity to get maximum advantage of the opportunities presented by the liberalized bilateral trade regime. It was agreed that six working groups would be formed to make specific and operational recommendations to the government and that the working groups would invite experts to their discussions as needed.

The working groups subsequently met in Lahore (November 14, 2012) to discuss the approach they would take on their topic. It was decided that the discussion under each topic would include a brief overview of the importance of the topic to Pakistani firms, how redressal of the issues that arise will affect competition vis-à-vis India and also strengthen firms' international competitiveness in general and conclude with specific recommendations. This report is the outcome of those deliberations.

Dr. Ijaz Nabi, Country Director, International Growth Center, and LUMS, Panel Chair
Mr. Bashir Ali Mohammed, Chairman, Gul Ahmed Group, Panel co-chair

Panel Members of PBC 2013 Report

1. Mr. Abid Imam, Assistant Professor, Department of Law and Policy, Lahore University of Management Sciences
2. Mr. Abrar Hasan, Chief Executive Officer, National Foods
3. Lt Gen. Ali Kuli Khan Khattak, Chief Executive Officer, General Tyre & Rubber Company of Pakistan Ltd.
4. Mr. Almas Hyder, Chief Executive Officer, Synthetic Products Enterprise Ltd
5. Mr. Asad Sayeed, Senior Researcher, Collective for Social Science Research
6. Mr. Babar Badat, Managing Director, Tranfreight Corporation (Pvt) Ltd
7. **Mr. Bashir Ali Mohammad, Chairman, Gul Ahmed Group Panel Co-Chair**
8. Ms. Hina Shaikh, Country Economist, International Growth Center
9. **Dr. Ijaz Nabi, Country Director, International Growth Center Panel Chair**
10. Mr. Imran Ashraf, Managing Director, Hilbro Instruments Pvt.
11. Mr. Khalid Mahmood, Chief Executive Officer at Getz Pharma Pvt. Ltd
12. Mr. Mohammad Ali Tabba, Chief Executive Officer, Lucky Cement
13. Ms. Naheed Memon, Chief Executive Officer, Kings Clothing & Ace Travels
14. Dr. Naved Hamid, Professor of Economics, Lahore School of Economics
15. Mr. Naveed Khawaja, Chief Operating Officer at English Biscuit Manufacturers Private Limited
16. Mr. Sajid Minhaas, Central Chairman, Pakistan Ready Made Garments Manufacturers and Exporters Association
17. Mr. Shahid Malik, former Indian Ambassador
18. Mr. Suleman Ghani, Commerce Secretary
19. Syed Hyder Ali, Chief Executive and Managing Director, Packaged Ltd.
20. Syed Yawar Ali, Chairman, Nestle Pakistan Ltd.
21. Dr. Turab Hussain, Assistant Professor, Department of Economics, Lahore University of Management Sciences
22. Mr. Umer Mansha, Chief Executive Officer, Nishat Textile Mills

Working Groups of the PBC 2013 Panel Report

Visa regime, travel, technology and skills exchange

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2. Mr. Sajid Minhaas, Central Chairman, Pakistan Ready Made Garments Manufacturers and Exporters Association
3. Mr. Almas Hyder, Chief Executive Officer, Synthetic Products Enterprise Ltd
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5. Mr. Khalid Mahmood, Chief Executive Officer at Getz Pharma Pvt. Ltd

Trade infrastructure and trade facilitation at the land borders

1. Mr. Babar Badat, Managing Director, Tranfreight Corporation (Pvt) Ltd **(Group Coordinator)**
2. Mr. Mohammad Ali Tabba, Chief Executive Officer, Lucky Cement
3. Ms. Naheed Memon, Chief Executive Officer, Kings Clothing & Ace Travels
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5. Syed Hyder Ali, Chief Executive and Managing Director, Packaged Ltd.

Payment systems and investment regime

1. Ms. Naheed Memon, Chief Executive Officer, Kings Clothing & Ace Travels **(Group Coordinator)**
2. Mr. Umer Mansha, Chief Executive Officer, Nishat Textile Mills
3. Syed Hyder Ali, Chief Executive and Managing Director, Packaged Ltd.
4. Mr. Bashir Ali Mohammad, Chairman, Gul Ahmed Group

NTB's and FTA's

1. Dr. Turab Hussain, Assistant Professor, Department of Economics, LUMS **(Group Coordinator)**
2. Mr. Suleman Ghani, Commerce Secretary
3. Syed Yawar Ali, Chairman, Nestle Pakistan Ltd.
4. Mr. Abrar Hasan, Chief Executive Officer, National Foods
5. Dr. Naved Hamid, Professor of Economics, Lahore School of Economics
6. Mr. Abid Imam, Assistant Professor, Department of Law and Policy, Lahore University of Management Sciences
7. Lt Gen. Ali Kuli Khan Khattak, Chief Executive Officer, General Tyre & Rubber Company of Pakistan Ltd.

Strengthening SME clusters

1. Mr. Sajid Minhaas, Central Chairman, Pakistan Ready Made Garments Manufacturers and Exporters Association **(Group Coordinator)**
2. Dr. Naved Hamid, Professor of Economics, Lahore School of Economics
3. Mr. Almas Hyder, Chief Executive Officer, Synthetic Products Enterprise Ltd
4. Mr. Imran Ashraf, Managing Director, Hilbro Instruments Pvt.

Progress since the 2011 date and capacity of bilateral trade regulators

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1. Mr. Amin Hashwani, Director Hashoo Group of Companies
2. Mr. Babar Badat, Managing Director, Transfreight
3. Mr. Ehsan Malik, Chairman and CEO, Unilever
4. Dr Hafiz Pasha, Dean Beaconhouse University, Convener P.M's Economic Advisory Council
5. Dr. Ijaz Nabi, Co-Chair, Dean LUMS, Member, Prime Minister's Economic Advisory Council **Panel Co-Chair**
6. Mr. Imran Aslam, President Geo TV
7. Mr. Jahangir Tareen, Member National Assembly, former Minister of Industry and Special Initiatives General (retired) Ali Kuli Khan, Chairman, General Tyres
8. Mr. Khalid Mahmood, CEO, GETZ Pharma
9. Mr. Khurram Husain, Business Editor, Express News
10. Mr. Shahid Hussain, CEO, Service Industry
11. Mr. Suleiman Ghani, former Secretary Commerce
12. Syed Babar Ali, Chair of the Panel, Pro- Chancellor LUMS, former Finance Minister **Panel Chair**
13. Mr. Shaukat Elahi Sheikh, Managing Director, Nagina Group

Pakistan Business Council – Regional Trade Report 2013

Section I: The Importance of Regional Trade²

Pakistan needs growth rates of 7 percent or more for the next 4 decades to ensure that its GDP doubles every 10 years and there is significant improvement in its per capita income³. Given that Pakistan has averaged similar growth rates for several decades in the past, this is not such a tall order. In order to achieve this growth, however, Pakistan must look for a growth driver that can deliver sustained high growth for several decades and also improves regional equity thus contributing to political stability.

It is well documented that international trade in goods and services is an important driver of overall GDP growth in Asia. Post World War II Japan transformed its economy and improved the living standards of its citizens via trade led economic growth. South Korea's spectacular GDP growth rates in the 1960's, '70 and 80's were also anchored in its export led growth strategy. Starting in the mid '60's and continuing over the next three decades, Southeast Asia (Hong Kong, Singapore, Malaysia, Thailand and Indonesia) replicated the trade-led growth strategy with great success. Most recently China has experienced unprecedented high GDP growth rates driven by rapid expansion of China's global trade.

South Asia (as represented by Pakistan and India, the two largest economy in South Asia - see Figure 1), on the other hand, was mired in low GDP growth up to the 1990's when India broke out of the old mould and opened up its economy to the world. Starting in the early 1990's trade to GDP ratio in India began to climb and so did economic growth. In contrast, Pakistan's export performance weekend starting in the 1990's, trade to GDP share stagnated, and GDP growth faltered. Pakistan's annual GDP growth rate, higher than India's up to the 1990's, lost momentum and has been lower than India's since then (Figure 2)⁴. Political and macro/fiscal difficulties in Pakistan contributed to this reversal and manifest themselves in the erosion of international competitiveness and weak export performance.

A striking feature of East Asia's rapid trade expansion is the impressive growth of intra-East Asian trade. For example in 2010, ASEAN accounted for 6.9 percent of world exports of which 25 percent were within ASEAN. By contrast, SAARC contributed 1.8 percent of world exports and only 5.8 percent of SAARC exports were within the region⁵. Thus, expansion in regional trade is often associated with growth in global trade, and as in the ASEAN region, intra-industry regional trade can be a driver of a region's global trade expansion.

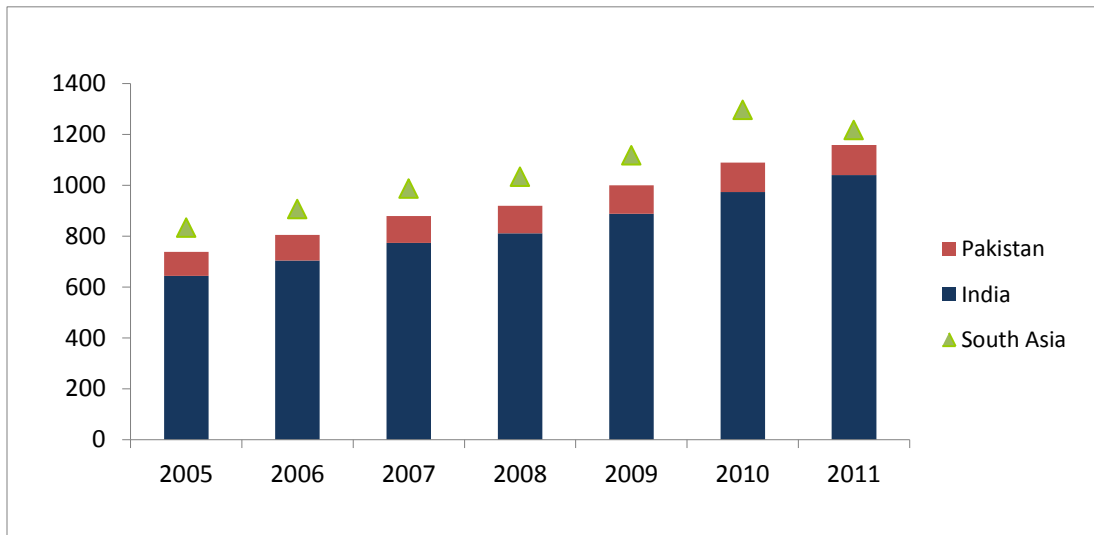
² The discussion in this section is based on Ijaz Nabi (2012) "Pakistan's Quest for a New Growth Vent: Lessons from History", The Lahore Journal of Economics, Volume 17, SE. Lahore School of Economics, Pakistan.

³ Nabi, I. & Javaid, K. (2011) Regional Trade Panel Report. DPRC Working Paper

⁴ India's average export volume and export value growth in 2000-10 were 10.5 percent and 19.9 percent respectively compared to Pakistan's 5.8 percent and 9.6 percent (World Development Indicators, 2012).

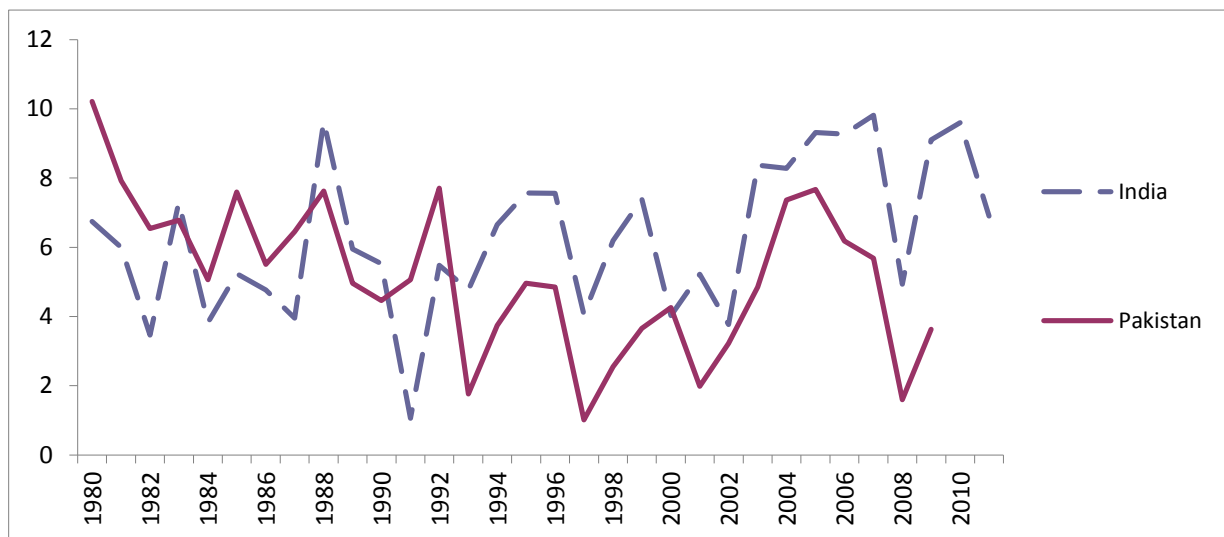
⁵ World Development Indicators, 2012

Figure 1: India, Pakistan and South Asia GDP (2000 US\$ bln)



Source: World Development Indicators 2012

Figure 2: GDP Growth in India and Pakistan 1980-2008 (%)



Source: World Development Indicators, 2012

Pakistan is now part of a dynamic region. China is undergoing a major restructuring to deepen growth beyond the pacific coast to Western China across Pakistan's land border in the North. The rising Chinese middle class constitutes a huge consumer market for Pakistan's products. Also China's high savings could be a deep pool of investment for Pakistan. An economy of a billion plus people with the potential to grow at 10 percent for more several decades beckons from our Northern land border.

To the East, dismantling of the cumbersome regulatory framework and spectacular growth in the Information Technology (IT) sector has given India a 'techi' shine that is attracting world's attention. India is on an impressive growth trajectory of 7 to 8 percent growth per annum and is now recognized as a major emerging economic power. In short, another economy with a billion plus people, high savings and rising living standards lies beyond Pakistan's long Eastern land border.

Across the North-Western border, beyond troubled Afghanistan and our own volatile tribal belt, are the newly independent Central Asian Republics (Turkmenistan, Uzbekistan, Kazakhstan, Kirgizstan and Tajikistan). Rich in natural resources no longer siphoned off by the Soviet behemoth, the Central Asian Republics are engaged with the world to exchange their mineral wealth for goods and services that satisfy growing consumption and rising living standards of their citizens.

Beyond the Western Border lies Iran, rich in oil and natural gas that would be sold to energy poor South Asia in exchange for skilled manpower and consumption goods.

Figures below show the changing economic profile of countries beyond Pakistan's land borders in terms of growth in the size of GDP (Figure 3), mineral wealth (Figure 4) and rapid increase in imports by resource rich Central Asia (Figure 4 and Table 1). Other indicators such as population and the size of crude oil and currency reserves are presented in the Annex (Figure A-2 to Figure A-5). It is striking that little of the increase in central Asian imports comes from South Asia. In turn, this underscores the absence of the traditional East-West trade corridor that would have enabled South Asia to take a much larger share of Central Asian imports compared to the current pattern.

Given the growth potential of the dynamic region it is located in, Pakistan's growth strategy has to be anchored in regional trade. This requires re-establishing the historical role of Pakistan as a connector of markets in the East to those in the North and West and connecting all three to Pakistani ports on the Arabian Sea. This economy and citizen welfare focused concept of strategic depth would be far more sustainable than one based on domination via military might. In effect, Pakistan needs to tap into 'lucrative markets outside its borders in the neighborhood in a manner that creates several internal growth nodes viz., Karachi, the Arabian Sea coastline of Sind and Baluchistan, Lahore and Peshawar'. The creation of a strong and interdependent market for products, labor and financial flows between the border with India on the East and the Indus river on the West has already led to the formation of an integrated *Indus Basin Market* that enjoys perhaps the best connectivity of any sub-region in South Asia. *The National Trade Corridor (NTC)* that links Peshawar, through Lahore to Karachi and Port Qasim, 'handles the

major part of Pakistan's external and internal trade' (World Bank, 2006, 8). This connectivity has aided Pakistan's growth spurts, sharing the welfare gains of that growth across a wide region

Figure 3: Rapidly growing economies across Pakistan's land borders

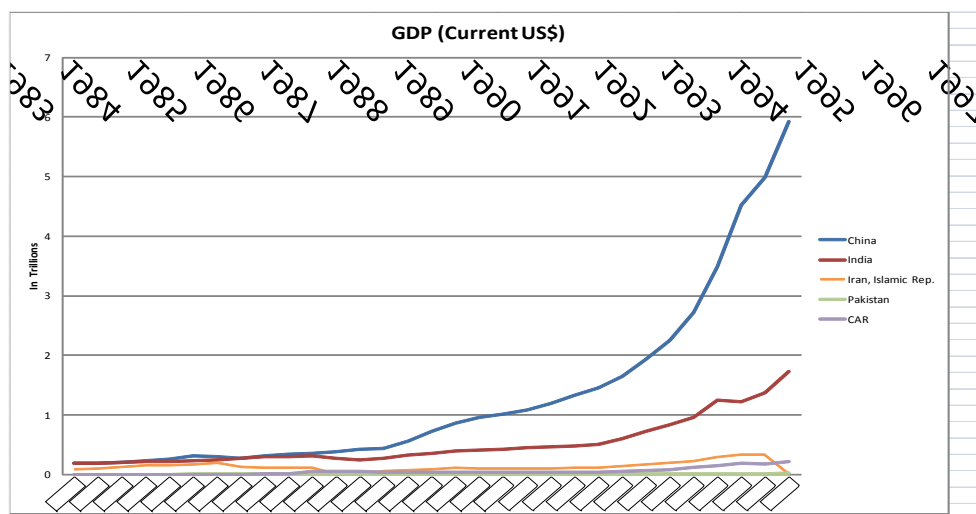


Figure 4: Gas Reserves in Countries across our Land Borders

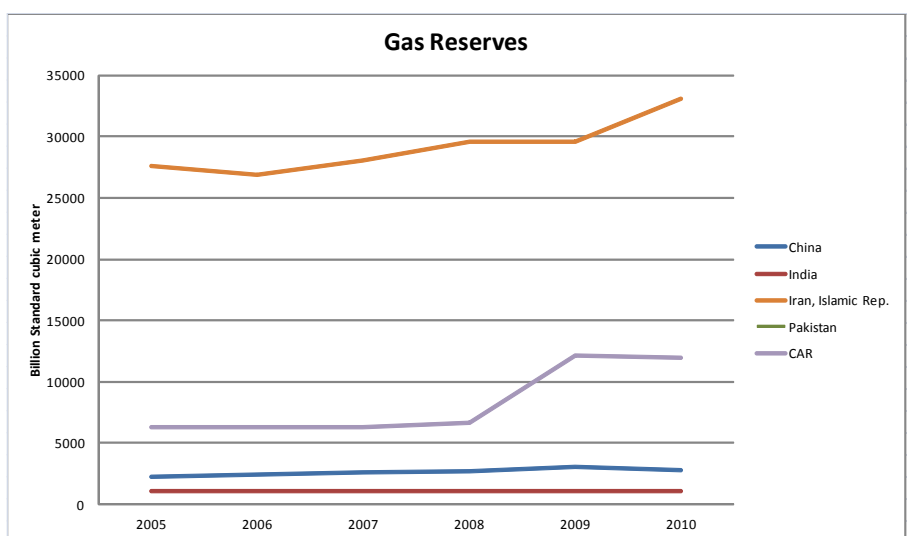


Table 1: Regional Sources of Central Asian Imports

Country	Amount Imported 2008 (USD billion)	Major Imports	Import Partners	Trading Partners
Kazakhstan	37.53	Machinery and equipment, metal products, foodstuffs	Russia, Germany	China,
Kyrgyzstan	3.476	Mineral products, machinery & electrical equipment, chemical products, foods & beverages, textiles	China, Kazakhstan	Russia,
Tajikistan	3.2	Fuels, electric power and aluminum oxide	Russia, Kazakhstan, Uzbekistan, China	
Turkmenistan	5.291	Machinery and transport equipment, chemicals and foods	United Arab Emirates, Azerbaijan, United States	
Uzbekistan	6.5	Machinery, chemicals and plastics, foods and metals	Russia, South Korea, Germany, China	

Source: Country Profiles of the Federal Research Division, the Library of Congress and the 2009 CIA World Fact-book, UN data: <http://memory.loc.gov/frd/cs/profiles/>; <https://www.cia.gov/library/publications/the-world-factbook/> and <http://data.un.org/>

Reopening the historical East-West trade routes to trade in goods and energy will give a renewed strength to the Indus Basin market by increasing manifold the flow of economic transactions. Regional trade will allow Pakistan to develop important economic zones⁶ and hence several growth nodes. Given Pakistan's abundant and young work force and a policy regime that promote international competitiveness, the regional growth nodes based on trade in goods and services will be the precursors to the sub-regions becoming dynamic manufacturing hubs. This will help restore the economic and cultural vibrancy of the sub-regions and will promote political stability

Section II: Pakistan India Bilateral Trade

Overview of Pak-India Trade

Regional trade, of which trade with India would be a significant component, is thus important for Pakistan to become a regional economic hub. Without normalizing Pakistan-India trade, the Indus Basin would be a T-junction rather than a cross roads of economic transactions. This would circumscribe the welfare gains from regional trade⁷. This also coincides with India's long-term strategic interest, which is to help create a large Asian market to provide productive employment to its huge labor force. That, in turn, requires strengthening Pakistan to be an

⁶ Peshawar, Upper Sindh, Central Punjab and Karachi

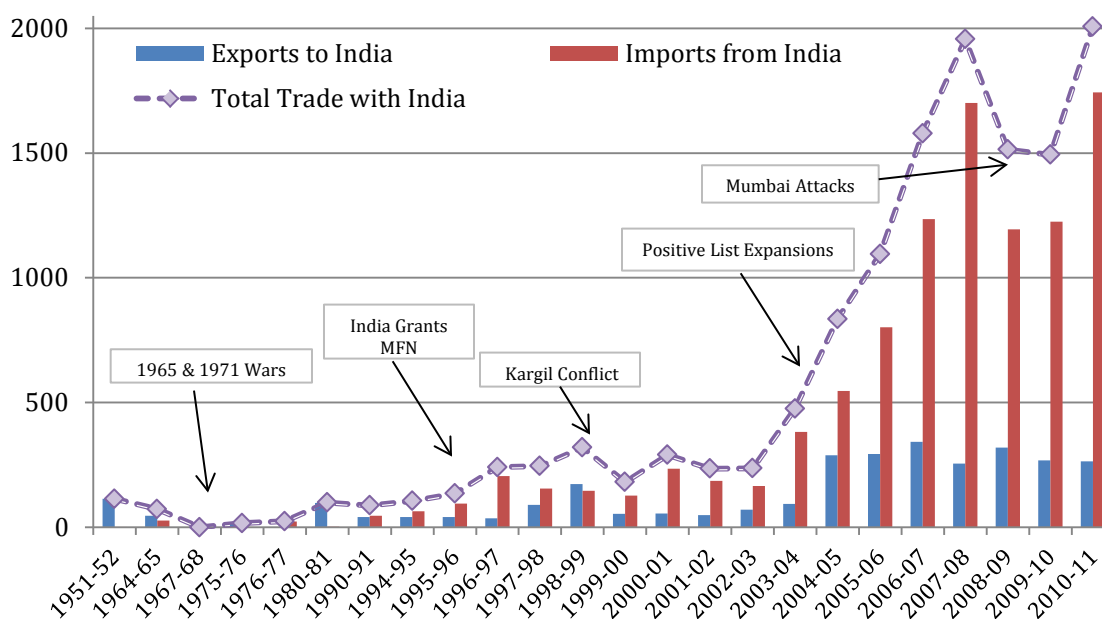
⁷ Pakistan's Quest for a New Growth Vent: Lessons from History, Ijaz Nabi, 2012

effective regional hub that connects the Asia-wide market. Trade with India in the regional context thus presents an opportunity for Pakistan to harness India's growing economic capability to its advantage, bridge the income gap and then over take India's growth rate, as it did in the 1960's and the 1970's.

The historical trajectory of Pakistan's trade with India is shown in Figure 5. India was Pakistan's most important trading partner soon after partition in 1947 and remained so till the early 1950's. In 1966, India devalued its Rupee and Pakistan did not, which increased India's trade deficit with Pakistan. India put a ban on imports from Pakistan, which led to Pakistani entrepreneurs establishing global trade links. Bilateral trade was suppressed for several decades and slowly eased up but was regulated by a highly restrictive positive list. Bilateral trade increased in the late 1990's with the expansion of the positive list and in 2007-08 crossed US\$ 1.5 billion. Trade was curtailed for two years following the Mumbai incident but was back up to the previous peak in 2010-11. A striking feature of bilateral trade is that whereas Pakistan enjoyed a trade surplus in the initial years after independence, in recent years the bilateral trade balance has been in favor of India. With the switch to negative list based trade, bilateral trade is poised to surge to new heights. Recent studies show that bilateral trade could be as high as US\$ 10 billion.⁸

However, given the unresolved political tensions, the bilateral trade trajectory will be jagged. Moreover, given the complex regulations that govern trade in both countries, trade disputes will arise and will require a better understanding of the nature of disputes to take a rational approach to their resolution.

Figure 5: History of Pakistan-India Trade (millions of US\$)



Source: Gopalan, S., Malik, A. and Reinert, K. 2012. *Pakistan-India Trade: Economic Opportunities and Policy Challenges*, Paper prepared for the International Growth Center (IGC) Pakistan

⁸ The studies predict likely trade volume utilizing Gravity models.

Table 2: Trade between Pakistan and India, 2000-01 to 2011-12

	Pakistani Exports to India		
Year	Exports (US\$ million)	As percentage of exports	As percentage of Indian imports
2000-01	56	0.8	0.1
2006-07	344	2.6	0.1
2009-10	268	1.9	0.1
2010-11	264	1.0	0.1
2011-12			

	Indian Exports to Pakistan		
Year	Exports (US\$ million)	As percentage of exports	As percentage of Pakistani imports
2000-01	238	0.4	2.7
2006-07	1,236	1.1	5.1
2009-10	1,226	0.9	4.2
2010-11	1,734	0.9	4.9
2011-12			

Source: State Bank of Pakistan (as presented in Pasha, H.A, & Imran, M. (2012). *The Prospects for Indo-Pakistan Trade. The Lahore Journal of Economics*. 17: SE: pp. 293-313)

Trading Tales: Three Case Studies of Pakistan-India Trade Experience

An Indian Importer (Mr Pradeep Sehgal, partner SINOCEM) SINOCEM, established in 2001 and headquartered in Amritsar, distributes chemicals throughout Northern India. Annual turnover is US\$ 35 million of which imports from Pakistan (US\$ 20 million of chemicals) are a large share.

Mr Sehgal's first visit to Pakistan was in 2001 at the invitation of Lahore Chamber of Commerce. The first business deal was in 2008 importing soda ash from Olympia (Munoo group). Trade was allowed only via railway. SINOCEM initially imported 1000 tons of soda ash per month limited by railway wagon capacity. Railway freight was a major bottleneck. In 2011, trade was allowed via road transport. This reduced freight time considerably. SINOCEM's imports from Pakistan increased to 2500 tons per month and then to 4000 tons per month in 2012. Now the imports include Soda Ash, Hydrogen per Oxide and Caustic soda. It took a year but the firm eventually received clearance from the Ministry in Delhi for back-to-back loading of liquids, which is essential for chemicals. This will facilitate growth of imports of chemicals considerably. SINOCEM is planning to set up a packaging plant close to the border to facilitate onward distribution in India. SINOCEM imports in the future could be as high as US\$ 100 million a year. Showing ingenuity and demonstrating potential spillovers from bilateral trade, SINOCEM bought an abandoned railway station in Gujrat, Pakistan, close to the manufacturing unit, to haul

chemicals, and developed close relations with DESCON chemicals (a part of DESCON group) to set-up a re-packaging factory near Amritsar.

Mr Sehgal considers having a local, well-connected and knowledgeable partner critical for the success of his venture. On 'establishment's' attitude, he said that on the Indian side senior officials are supportive but 'working level' people can cause difficulties. He found the Pakistani 'establishment' very supportive but 'working level' people have the same mindset as in India.

A few other Amritsar based entrepreneurs are looking at possibilities. One imports Gypsum and processes it to plaster of Paris just across the border.

A Pakistani exporter (Mr Imran Ashraf, CEO Hilbro Instruments)

Hilbro, established in 1989 and headquartered in Sialkot, manufactures and exports surgical and medical instruments to Europe, USA, Japan, Asia and Africa. Annual turnover is US\$ 10 million (employing 1000 workers) of which exports to India are US\$ 240,000.

Mr. Ashraf first visited India as a member of Pakistan Minister of Commerce delegation to a SAARC exhibition in Delhi. He was allotted a small stall at the exhibition and this introduced Mr. Ashraf to Indian buyers. The first business deal was in 2006 with a Delhi based distributor, Dental Instruments traders and distributors and involved export of dental, oral and orthodontist instruments. It was a single US\$ 2000 consignment sent via Pakistan International Airlines (PIA) air freight on a Lahore-Delhi flight. There were no customs or freight problems in either Lahore or Delhi. In 2012, Hilbro exports increased to US\$ 20,000 a month via air freight and the firm now exports to four Delhi based companies supplying them with both dental and general surgical instruments. The Delhi based dental instruments company is large and has many suppliers but one of the surgical instruments distributors is small and Hilbro is its largest source. The instruments are being sold in government hospitals and private clinics/hospitals with Made in Sialkot, Pakistan written on them. They are competitive because of quality as they conform to much tougher European, US and Japanese standards. Given the rapid growth in the Indian health services including medical tourism, the potential for growth is substantial and could be as high as US\$ 2 million for his firm alone. He does not believe there is much export of surgical instruments to India by other Sialkot based firms. Hilbro plans to partner with an Indian surgical instruments importing company to set up a small manufacturing plant (about 50 workers initially) in India to export processes instruments that would be finished in the Indian plant. Visa is a big issue as are Pakistan-India political tensions that introduce uncertainty and cloud business prospects.

A Pakistani Importer (Mr Khalid Mahmood, CEO GETZ Pharma Pvt. Ltd.)

GETZ Pharma, established in 1995 and headquartered in Karachi, manufactures a range of branded generic medicines to treat cardiovascular and metabolic diseases, Hepatitis C, ulcers and other infectious diseases. The medicines include interferons, insulins and antibiotics among others. The annual turnover is US\$ 110 million of which US\$ 35 million is exports destined for many Southeast Asian, Central Asian and African countries and Afghanistan. GETZ Pharma is the largest exporter of medicines from Pakistan for the past seven consecutive years. It employs

4,500 workers worldwide (3200 in Pakistan), and 83 percent of the workforce is highly skilled consisting of graduates, Masters, PhDs medical doctors, MBAs and accountants.

Mr Khalid Mahmood first visited India in 1996 to explore importing a molecule, Omeperazole, to manufacture RISEK capsules prescribed for treating GERD, Reflux, Dyspepsia and ulcers of the stomach, conditions sharply on the increase in Pakistan. The molecule was initially imported from Europe till it was discovered that the European company imported it from India and re-labeled it under its own brand name, and in the process charged about 8 times higher prices. As a result of purchasing the raw material for this drug directly from the Indian manufacturer (after extensive testing for quality), Getz Pharma was able to reduce the market price of the capsule from Rs 39 per capsule to Rs 12 per capsule and sales jumped ten-fold. In 1997, imports from India, for the company were US\$ 25000 and by 2012 had shot up to US\$ 20 million. Imported raw materials have to be climate controlled and are sent by air freight or by sea. Road/rail freight would be a lot cheaper but climate control is not assured and thus over land import is not feasible. Import by air and sea is trouble free.

The potential of benefitting from India's expertise in pharmaceuticals is considerable. Of the US\$ 1 trillion global market for medicines, half consists of generic medicines. Of the generics, nearly US\$ 50 billion are researched and developed in developing countries with India accounting for US\$ 20 billion. Both China and India are good sources for the three core aspects of pharmaceutical manufacturing viz., raw material, machinery and CRAMS (Contract Research and Marketing Services). The last is critical in this knowledge intensive manufacturing activity. GETZ Pharma benefitted from Indian technical expertise to improve its manufacturing processes, quality assurance and cost effectiveness via two to three week visits by Indian consultants to its Karachi factory to train Pakistani pharmacists, chemists and engineers. Cultural affinities and cost competitiveness made such consultancies highly attractive and explain GETZ Pharma's success in Pakistan and in the international markets. The consultancy visits declined sharply after the Mumbai incident and have not resumed. GETZ Pharma's case shows how trade with India benefits Pakistan's global trade balance even though the bilateral (Pakistan-India) trade balance worsens. Raw material, machinery and technology transfer from India is one-tenth the cost compared to European sources. Indian imports increase the international competitiveness of Pakistani pharmaceuticals and thus contribute to export earnings and improve the trade balance further.

Some Insights from the Case Studies

- A major bottleneck in promoting Pakistan-India trade is freight infrastructure, especially Pakistan railways without which the full range of the benefits of geography can be realized.
- Senior members of the policy establishment are generally supportive while working level officials are trapped in an obstructionist mindset mainly for kickbacks.
- Ease of travel is critical for small businesses to seek out profitable opportunities, acquire local knowledge and develop partnerships based on trust.
- Indian technical expertise can help Pakistan improve its overall trade balance even as the bilateral balance deteriorates.

- Internationally competitive Pakistani exporters see India as a huge market
- Political tensions must not be allowed to disrupt business travel and supply lines.

Section III: Progress Since the Previous PBC Report

Recommendations of the PBC April 2011 Report

Recognizing the importance of regional trade to Pakistan's growth outcomes, and trade with India's centrality to regional trade, PBC's Regional Trade Panel Report of April 2011 had made several recommendations to the government to spur India-Pakistan bilateral trade. The salient recommendations are reproduced below:

Most Favored Nation (MFN) status: Give India MFN status. The immediate implication of this is to allow trade with India based on the usual negative list (prohibiting of trade in explosives, goods that pose risk to the environment and health etc.) rather than a positive list (only goods on the list can be imported).

MFN status to India must be accompanied by setting up a bilateral commission to address the issues that are closely tied up with India and Pakistan having a normal economic relationship that results in sustained benefits. The commission would focus on:

1. Goods and services related Non-Tariff Barriers (NTBs): Use the WTO framework for addressing Indian (and Pakistani) NTBs and then bring these into the strategic regional trade policy framework outlined above. Develop institutional capacity (National Tariff Commission) to address non-tariff barriers and anti-dumping complaints with a view to promoting trade rather than hindering it.
2. Land routes: The maximum benefits from a more liberal trade regime with India will come from land routes that minimize response time to market forces; open up as many land routes as possible, building on the old road and railway networks all along the border from the Kashmir region to the Arabian Sea.
3. Travel: Travel (visa, air/road/railway transport) must be facilitated to promote competitive trade in goods and services that benefits small and medium sized firms, to tap into the large pool of Indian skilled workers, gain access to Indian farm and other technology and encourage cross border tourism.
4. Cross border investment flows: The regulatory framework must facilitate cross border investment flows rather than hinder it.

Progress

Progress since the PBC 2011 report has been impressive. Pakistan granted India MFN status in February 2012, 16 years after India gave Pakistan MFN, but will maintain, as a short term

measure, a negative list of 1206 items. Recently, both countries have agreed to relax the visa regime, which is a major NTB. Three trade related technical agreements have also been signed: the Customs Cooperation Agreement, Mutual Recognition Agreement and the Redressal of Grievances Agreement. These agreements are expected to reduce the present tedious customs procedures in both countries. The mutual recognition of quality and standard certifications would reduce trade costs substantially as would the proposed platform for resolution of bilateral trade disputes. Another major development is the inauguration of an integrated check post at Attari near Lahore in April of the same year. This launches the journey towards a normal, WTO consistent, trade relationship between the two largest economies of South Asia. For the first time, India also announced that it would allow foreign direct investment (FDI) from Pakistan. Two more changes are on the anvil, the opening of more trade routes, and the removal of tariff and nontariff barriers, a long-standing demand by Pakistan. The number of positive policy decisions taken in this short phase are shown in the table below

Table 2: Important Developments since PBC's 2011 report

Date	Important Developments
April 28, 2011	Commerce secretaries of India and Pakistan issue a joint statement with the objective of boosting trade
September 26, 2011	Pakistan Commerce Minister assures progress on MFN status to India, seeks removal of NTBs
November 02, 2011	Pakistan Cabinet approves MFN status to India, but later retracts and gives in-principle approval for 'trade normalization' with India
November 13, 2011	Pakistan Commerce Secretary visits India, assures a shorter negative list and removal of positive list
February 29, 2012	Pakistan announces transition from positive list to negative list and says the negative list would be removed by December
March 20, 2012	Pakistan notifies negative list with India, banning 1,209 items and opening more than 7,500 tariff lines
April 13, 2012	ICP inaugurated at Attari
September 8, 2012	India and Pakistan sign on a liberalized visa accord that was approved by the Federal Cabinet on October 30, 2012
September 21, 2012	Pakistan and India sign three technical agreements on redressal of trade grievances, mutual recognition and customs cooperation

Source: Maini, T. and M. Vaid (2012) "Indo-Pak Trade: A Visit to Historical Relations." *CUTS International Briefing Paper* 5 and authors' own research

Pakistan's decision to grant MFN status to India is consistent with the commitment (under SAFTA⁹) made earlier to scale down its customs duties to between zero and five percent on 5,873 products that could be sourced from South Asian countries. Pakistan has replaced its positive list allowing only around 2,000 different items to be imported from India with a negative list that bans just 1,209 goods, but allows trade in all others; the negative list is also eventually to be phased out. India has reduced its sensitive list under SAFTA by 30 percent from 878 to 614 tariff lines. After getting the MFN status from Pakistan, India has committed to further slashing the sensitive list to 100 tariff lines by April 2013. Similarly Pakistan will also shorten its sensitive list in the coming years.

Trade is set to expand rapidly with Pakistan having agreed to allow trading of up to about 6,000 different products through the land border route, compared with just 137, such as fruits, vegetables, livestock, dry fruits and paper, at present. Tangible gains have already been realized, in less than a year since the resumption of the composite dialogue. Cross border trade reached Rs 15 billion in 2010-11 (from just Rs 6.5 billion in 2007). With the more recent developments on facilitating bilateral trade, and without disruptions due to non-economic reasons, trade between Pakistan and India will quadruple to US\$ 10 billion within the next few years.

Clearly, events since the last PBC report in 2011 have moved fast. The last two years have been highly productive in terms of improving economic relations between Pakistan and India and have given trade a new momentum since the signing of SAFTA in 2004 (which became operational in 2006).

Section IV: Pakistan-India Trade - Issues Going Forward

Trade Disruption

As mentioned earlier, India was Pakistan's main trading partner after partition in 1947. Trade was first disrupted in 1949-50 when India imposed a trade block on Pakistan because of differences in exchange rate policy¹⁰. This gave Pakistani entrepreneurs an opportunity to look for alternative trading partners and over the next several years developed global trading partners. MFN trade with India will require re-orienting the supply chains to potentially more profitable Indian sources. This necessitates unfettered access to each other's markets to identify opportunities and strike business deals. Disruptions caused by travel bans and suspension of trade routes would do little to encourage Pakistani firms to develop supply lines with India. The curtailment of economic transactions following the Mumbai attacks was costly and some businesses that were beginning to tap into Indian technical and management

⁹ <http://dawn.com/2012/03/12/no-clear-roadmap-for-pakistan-india-trade/>

¹⁰ Budget speech by Finance Minister Mr Ghulam Mohammad, made on 13-3-1950

expertise were badly burnt. The recent incident on the Line of Control (LOC) in Kashmir and the subsequent disruption of the normalization process has also adversely affected business confidence. The potential gains from bilateral trade in terms of regional economic vibrancy, strengthening of economic growth in India and Pakistan, creating much needed productive jobs and peace and stability are too large to be disrupted for short-term non-economic gains.

Bilateral Trade Deficit

India's GDP at US\$ 1.8 trillion is US\$ 211.09 times larger than Pakistan's¹¹. Furthermore, there are 300 million middle class Indians concentrated in five mega cities. In contrast, there are 40 million middle class Pakistanis concentrated in two mega cities. In 1947, most of the pre-partition manufacturing base was in what is now India. It is no surprise therefore that India exports many products that Pakistan imports from the rest of the world. Comparatively, we export fewer products to the rest of the world that India imports. At the four-digit level, the trade complementarity index¹² between Indian exports and Pakistani imports is 0.42 and that between Pakistani exports and Indian imports is a much lower at 0.082. MFN based trade with India, given the advantage of geography and lower transportation cost, thus will result in trade diversion and a trade deficit in favor of India at least in the short run. However, such trade diversion will have the benefit of improving our overall trade deficit. The saving in Pakistan's overall import bill could be US\$ 1 billion¹³.

Non-Tariff Barriers¹⁴

Both Pakistan and India have non-tariff barriers that restrict trade over and above the scheduled tariffs. NTB's in India consist of sanitary and phytosanitary (SPS) measures applied to food imports, complex import licensing and permit schemes, sampling, testing and labeling requirements, quarantine of animals and plants, specification of ports and import agencies, pre-shipment inspection of metal scrap and textiles. India also uses anti dumping and countervailing duties. The overall trade restrictiveness index (OTRI) compiled by the World Bank (Table 3), based on tariffs and NTB's, takes the high value (the highest in Asia) of 46.7 for India with NTBs accounting for 24.5 percent of the index value (the highest in South Asia).

Pakistan, in contrast relies mainly on tariffs to regulate trade. The OTRI for Pakistan is 22.2 with NTBs accounting for 5.1 percent of the index value. Pakistan's SPS legislation is outdated and not enforced, import of some products (pharmaceuticals, agricultural and engineering products) require clearance from relevant ministry, there are import restrictions on health, safety, security, religious and environmental reasons, state trading agencies (such as TCP) dominate import of agricultural. There is little use of anti-dumping and countervailing measures.

¹¹ GDP figures at current prices extracted from World Development Indicators (reported for 2011)

¹² See Hafiz A. pasha and Muhammed Imran (2012), "The Prospects fro India-Pakistan Trade", Lahore Journal of Economics.

¹³ The State Bank of Pakistan (2006). Implications of Liberalizing trade and investment with India". Karachi.

¹⁴ The discussion in this section is based on Pasha, Hafiz A. and Muhammad Imran (2012). "The Prospects for India-Pakistan Trade". The Lahore Journal of Economics, Lahore School of Economics , Volume 17.

Other NTB's maintained by both countries that limit bi-lateral trade are the highly restrictive visa regime, limited trade routes, limited capacity for transport on overland routes, generally poor trade facilitation on the single land route (Wagah-Attari) and poor banking channels.

Table 3: Trade Restrictiveness in Asian Countries

Country	OTRI *	Percentage increase in OTRI due to NTBs
South Asia		
Bangladesh	23.8	0.8
India	46.7	24.5
Nepal	16.1	0.0
Pakistan	22.2	5.1
Sri Lanka		
East Asia		
China	21.2	9.9
Malaysia	39.7	30.0
Philippines	34.5	30.5
Thailand	22.8	8.1
Rest of Asia		
Turkey	15.1	2.7

**Overall Trade Restrictiveness Index (OTRI) calculates the equivalent uniform tariff of a country's tariff schedule and NTB's that would maintain the overall import level. Source: World Bank as cited in footnote 8.*

South Asia Free Trade Agreement (SAFTA)

Pakistan and India have agreed to move on to the SAFTA regime by the 1st of April 2013. This regime entails a maximum tariff of 5 percent on all product lines with the exception of items on a time bound sensitive list, which would expire after five years.

Moving from MFN based trade to a preferential trading regime requires a careful assessment of costs and benefits. A preferential trade regime lowers tariffs (to 0 under a free trade regime) among member countries while maintaining higher WTO consistent tariffs with the rest of the world. Such preferential trading arrangements make economic sense when there is a high level of intra-industry trade and investment among trading partners that result in many cross border transactions with negligible impact on net tariffs. In the absence of such economic linkages, a preferential trade regime would induce the import of final and intermediary goods from the

preferential trading area that would be uncompetitive under the WTO regime and thus would result in harmful trade diversion.

The current SAFTA was drafted and signed in 2004 and ratified by Pakistan in 2009, but is an agreement with limitations as to its general framework and level of detail. It is not robust when contrasted with the agreements in other regional trade blocs that have led to the same level of integration that SAFTA purports to achieve, particularly in view of its aggressive tariff liberalization program.

Under the SAFTA agreement, Pakistan can maintain a 600 item sensitive list for the next five years. Locally manufactured goods items in which Pakistan does not have a comparative advantage relative to India, and all agricultural goods in Pakistan that could be disadvantaged because of heavy Indian agricultural subsidies, should also be clearly identified so that these are placed on the list. Inclusion of Pakistan's potential exports to India on the Indian sensitive list would defeat the purpose of trade liberalization and is likely to result in a large bilateral trade deficit. This could potentially strengthen the anti-trade lobby in Pakistan and subvert future trade and economic links between the two countries.

Agriculture

Although free trade in agriculture can help in mitigating supply shortages and the resulting price hikes, the large input subsidies given by the Indian government to agriculture gives Indian farmers an unfair advantage over their Pakistani counterparts and is therefore a major cause of concern. A comprehensive assessment of the subsidies received by Pakistani and Indian farmers is needed. This will allow a rational approach to using WTO sanctioned countervailing measures (if permissible under SAFTA) or would need to include agricultural items on the time bound sensitive list. Currently none of the agricultural products are on the negative list.

Protection and Trading Lists¹⁵

Countries provide protection to domestic economic activity via a number of interventions. For example, until recently, Pakistan's trade regime vis-a-vis India was different from the standard MFN based trade regime with most countries. Trade was based on a positive list of 1870 tariff lines or 27.3 percent of the total 6857 tariff lines. Thus trade with India was highly restrictive providing India specific protection to a range of economic activities in Pakistan.

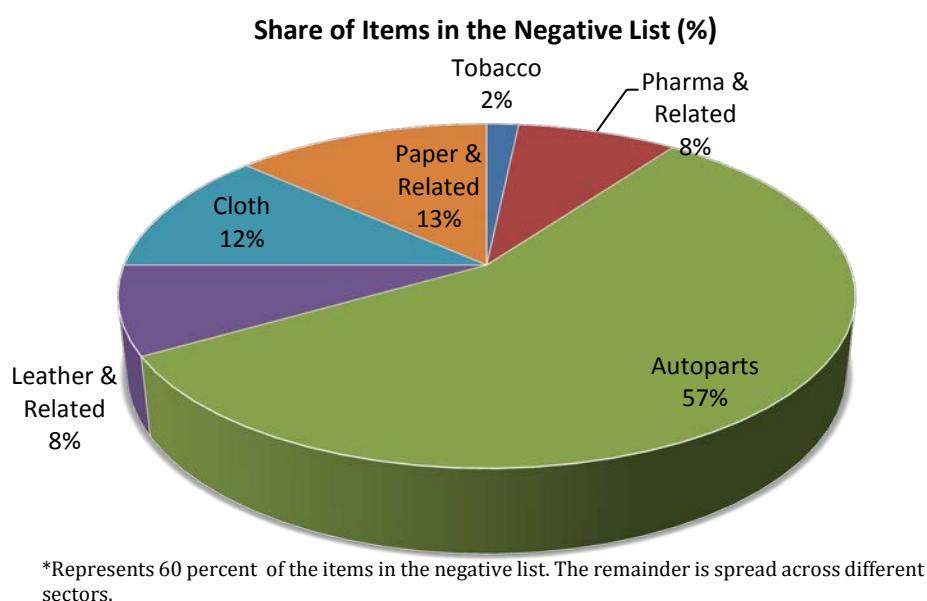
India's trade regime, on the other hand, is MFN based vis-a-vis Pakistan (India gave Pakistan MFN in 1996) but is much more restrictive globally compared to Pakistan's (see the discussion above on NTBs).

In February 2012, Pakistan gave India MFN status and announced an interim negative list of 1206 items. This was a major step towards normalizing trade with India. Compared to the previous positive list based trade in only 27.3 percent of Pakistan's total tariff lines, the negative

¹⁵ The discussion in this section is based on Gopalan, S., A. Malik and K. Reinert (2013), "Pakistan-India Trade: Economic Opportunities and Policy Challenges", a paper sponsored by International Growth Center, Pakistan program.

list allows trade in 87 percent of the tariff lines. The negative list is based on the need for short term protection to businesses that might be adversely affected in the transition. Nearly 60 percent of the negative list consists of manufacturing products (manufacturing accounts for only 20 percent of Pakistan's GDP and 14 percent of total employment). Figure 5 shows that auto parts are a third of manufacturing items in the negative list while auto parts are less than 3 percent of the economy. The sector employs 0.2 million workers, which is a relatively small proportion of the overall work force.

Figure 5: Composition of the Negative List



Source: Gopalan, S., A. Malik and K. Reinert (2013, see fn. 15) computation based on the GOP negative list.

What goes on the negative list?

Revealed Comparative Advantage

Punjab Board of Investment and Trade (PITAD) report¹⁶ (2012), follows the approach taken by the earlier Ministry Commerce 1996 report¹⁷ and takes the Revealed Comparative Advantage¹⁸

¹⁶ "The Implications of Trade Liberalization Between Pakistan and India" PITAD. 2012.

¹⁷ Ministry of Commerce, Government of Pakistan, (1966). Pakistan-India trade: Transition to the GATT Regime. See also, Nabi, I, and Nasim, A, (2001) *Trading with the enemy: A case for liberalizing Pakistan-India trade* in S. Iahiri (Eds), *Regionalism and Globalization: Theory and Practice*. London; Routeledge.

¹⁸ Revealed comparative advantage (RCA) is an index that measures the share of a product in the total exports of a country divided by the share of world exports of that product in total world exports. A comparative advantage is "revealed" if $RCA > 1$. If RCA is less than unity, the country is said to have a comparative disadvantage in the commodity or industry. Indian and Pakistan relative RCA can be calculated and Pakistani products whose RCA is lower than India's are put on the negative list.

approach to identify the industrial sectors that should be given protection. Pakistan appears to have a revealed comparative disadvantage in most of the 926 product lines examined in the study including Auto Parts (302), Iron and Steel (105), Pharmaceutical products (91), Minerals, Chemicals & Polyester (93). On the other hand, the Textile and Garment sector (117) is the major contributor to the list of product lines in which Pakistan has a comparative advantage. The report recommends that 639 products be retained on the negative/sensitive list with most of them belonging to the finished goods and luxury and non-essential goods category. Note that this report does not include a study of the agricultural sector, significant parts of which may merit protection.

Short Run Impact on Output and Employment

A more direct approach to determining the negative list is to assess the impact Indian imports would have directly on products manufactured in Pakistani. If Indian imports (allowed post MFN at tariff rates applicable to the rest of the world) displace a lot of Pakistani output and workers, the product merits protection. The annex discusses this approach and the sensitivity analysis underpinning it at length. In summary, the output and employment impact of importing a product from India depend on a) how much Indian import displaces import of the product from the rest of the world and b) by how much the production of Pakistani product decreases because more of that product is available from outside. The numerical calculation of the impact requires making assumptions on responses by suppliers from abroad and Pakistani producers (and are discussed in the annex). The results, at the more aggregate sectoral level are reported in Table 4 and show that output and employment loss associated with tobacco and leather products is high and they merit protection, and therefore inclusion in the negative list, in the short term. The impact on auto parts and pharmaceuticals, on the other hand, is relatively small. Note that the reported results assume high elasticity of substitution i.e. they are biased towards giving higher negative impact than would be expected. The impact of moving to the SAFTA tariff regime (i.e. 0 tariffs) is also reported. Clearly, the impact is higher when Indian imports are subjected to a preferential (0) tariff compared to the rest of the world. However, given the benefits to Pakistani consumers, such impacts make a case for protection only in the short term.

Table 4: Output and Employment Impacts of Pakistan's Granting MFN Status to India in Selected Negative List Sectors

Sectors	Existing Employment ¹⁹	Output Loss		Employment Loss	
		<i>High Elasticity</i>	<i>SAFTA+</i>	<i>High Elasticity</i>	<i>SAFTA+</i>
Auto parts	180,000	1.6%	3.0%	2,880	5,400
Tobacco	312,500	24.9%	42.2%	77,813	131,875
Pharmaceutical	100,000	2.5%	3.9%	2,500	3,900
Leather	250,000	10.7%	18.5%	26,750	46,250

¹⁹ Existing employment data was obtained from secondary sources from various years as follows: Auto parts (Rohail 2008); Tobacco (Aslam 2000); Pharmaceutical (Aamir and Zaman 2011); Leather (Dawn 2012)

The impact analysis can be extended to agricultural products as well. The impact is assessed assuming low, high and extra high elasticity of substitution. The last captures exceptionally high response by Indian farmers because of the subsidies they enjoy. Under the worst scenario, output loss of Pakistani farmers is 18.1 percent (Wheat), 13.6 percent (Cotton), 4.5 percent (sugarcane), 21.5 percent (Maize) and 19.1 percent (Rice). This is a substantial loss in the short run but will not be sustained for two reasons: the Government of India is unlikely to subsidize for too long Indian farmers if the beneficiary of the subsidy is the Pakistani consumer and b) Pakistani farmers, especially in the canal irrigated areas will, at long last, cultivate high value crops on their fertile soils.

Table 5: Results of Pakistan's Granting MFN Status to India in Selected Agricultural Sectors (millions of 2010 US\$ except for MFN tariff, with percent changes in *parentheses*)

	Pakistan's output		
	<i>Low</i>	<i>High</i>	<i>Extra</i>
Wheat	-199.8 (-5.9)	-566.1 (-16.6)	-616.2 (-18.1)
Cotton	-124.9 (-4.5)	-346.1 (12.4)	-378.2 (-13.6)
Sugarcane	-24.0 (-1.6)	-61.2 (-4.2)	-66.2 (-4.5)
Maize	-26.3 (-6.5)	-78.3 (-19.3)	-87.1 (-21.5)
Rice	-115.9 (-5.9)	-336.1 (-17.2)	-370.5 (-19.0)

Note: See Annex Table A-1 for elasticities used in low and high scenarios. The "Extra" results for Pakistan's output assume that the price elasticity of supply in India is increased to 2.0, and the elasticity of substitution is increased to 4.0.

Small and Medium Enterprises

The Pakistan Economic Survey reports that SME share in GDP is 40 percent and the sector has continued to grow robustly (7.5 percent in 2009-10) despite overall slow growth. Information on

the profile of SME's is based on the 1988 Census of Establishments and is somewhat dated. It shows that SMEs dominate (in terms of number of firms) in activities that are resource based, and involve low and medium technologies. Within resource based activities, most SMEs are in textiles, food and footwear. In low technology activity, they are concentrated in apparel and in medium technology activity, in metal products²⁰. They also account for the bulk of employment in these activities. A survey conducted by the Lahore University of Management Sciences (LUMS) (Small Medium Entrepreneurs (SME) Pulse, 2003) shows that regardless of the sector, 90 percent of the firms are micro enterprises employing up to 9 workers, less than 10 percent employ 10-19 workers and 3 percent or less firms employ between 20-100 workers. The survey also shows that SMEs have a poor track record as direct exporters. Firms employing less than 5 workers export very little, but export activity rises with employment size.

Given this profile, how can firms (the vast majority of which are micro-enterprises) benefit from Pakistan-India trade liberalization? The panel sub-group on SME clusters attempted to answer this question by focusing on export oriented medium enterprises in the garments sector. The consensus was that there are unlikely to be major garments exports to India, at least in the first few years. However, there are likely to be a number of indirect benefits such as the possibility of sub-contracting to major Indian brands or doing business through buyers for international brands/buying houses based in India, bringing in technical experts (trainers, designers, etc), access to IT solutions/software solutions for SMEs. Another benefit would be in terms of importing trimmings and possibly certain fabrics from India because of lower cost and especially reduced time compared to importing from other countries.

Foreign Direct Investment (FDI) and Payments system

Pakistan's savings to GDP ratio is 22 per cent in Pakistan, compared to 38 per cent in Bangladesh, 34 per cent in India and 25 per cent in Sri Lanka. Domestic credit provided by the banking sector as a percentage of the GDP stands at 43.3 (compared to India's 75.1) while gross fixed capital formation is 11 percent²¹ (compared to India's 30 percent). The population growth rate of 1.8 percent (compared to 1.3 for India) makes the low saving and investment rate even more worrying. India's high savings rate is reflected in surplus cash held by Indian companies that has enabled them to make acquisitions abroad.

FDI into Pakistan is also on a downward trend. According to the State Bank of Pakistan (SBP), foreign investment in Pakistan plummeted by 67 percent in the first quarter of 2012. The overall FDI inflow during the first quarter of FY 2012 was US\$ 287 million while the outflow was US\$ 200 million, with only the oil and gas exploration sector recording a positive net inflow. Even the telecommunications sector, that received high FDI until recently, registered a net outflow of US\$ 100.9 million. Overall FDI inflows have been falling for the last four years. Figures from the SBP show that net FDI from July to September 2012 was just US\$ 87 million, compared with US\$ 263 million in the same period last year.

²⁰ "Towards a Prosperous Pakistan: A strategy for Rapid Industrial Growth", 2005, Ministry of Industries, Production and Special Initiatives, Government of Pakistan

²¹ World Bank Indicators

There are no restrictions on FDI into Pakistan. Historically foreign investment regime in Pakistan has been liberal since Ayub Khan's industrialization policy. India on the other hand has allowed FDI from Pakistan only in August 2012 and has recently also lifted restrictions on Indian companies investing in Pakistan.

Presently SBP, Board of Investment, Securities and Exchange Commission of Pakistan (SECP) and the Ministry of Interior administer all matters pertaining to FDI from India. The process is simple. Any Indian company wishing to register a business in Pakistan, needs to file documents with SECP which then seeks clearance from the Ministry of Interior and, having received it, registers the company. To invest in the Capital markets of Pakistan, an Indian citizen has to open a Special Convertible Rupee Account (SCRA) with a commercial bank. Here again prior approval is required from SBP. Once SCRA account is opened there is no restriction by the SECP or the stock exchanges on investing in the capital market. Indian investors can freely trade in the shares quoted on the Stock Exchanges in Pakistan and debt instruments such as T bills, Federal Investment Bonds (FIBs) etc. There are also no restrictions on opening Letters of Credit (LCs) for import from India.

With the recently liberalized legal regime and cash surplus with Indian firms, substantial FDI flow can be expected. Sector specific FDI from India, such as in energy, steel and software, would be encouraged by creating a conducive investment climate in those sectors.

Trade Infrastructure and Trade Facilitation at the Land Borders

Despite the advantage of geography, Pakistan is not well connected with its neighbors, including Western China, Central Asia and Afghanistan. Its ports can provide the closest access to sea for these sub-regions. In fact, Karachi's (and other ports on the Arabian sea coast) gateway potential can be optimized by creating a vertical connect between the coastline wharfs and the markets of the region. A trade connect with India represents access to a market twice that size.

Box 1: A Case of Poor Trade Facilitation

Until recently, overland trade could take place only on railway and there was much delay and payment of 'speed money' that erodes the advantage of geography. Moving a railway wagon from Lahore to Amritsar, a distance of 50 Kilometers, could take 60 to 90 days: 15 to 20 days to have a wagon allocated in Lahore ['speed money' up to Rs 5000 per wagon]; wagon loaded, customs inspected and sealed in Lahore but attaching the wagon to the rake and moving it to Mughalpura station also causes delay and involves 'speed money' up to Rs 5000 per week per exporter to stay in the good books of officials who allot the engine to move the rake to the border. The rake is then moved to the border and on to Amritsar where it should reach by 5 pm on the working day (for security clearance) or it is sent back to the border for delivery the next day. Delays are often caused by the poor condition of Pakistan railway engines. Customs clearance in Amritsar is on the same day (for chemicals 'speed money' is fixed at Rs 900 per

ton).

Status of the transport nodes

Sea (Shipping Services): Pakistan does not have any container shipping company. With a coast line of around 1100 km it has three Ports i.e. Karachi Port, Port Qasim and the more recent Gwader Port. Karachi Port has two container terminals, Port Qasim has one container terminal and Gwader Port is still in its infancy.

Air (Air freight Services): The national airline operates a freight service, however there are no dedicated freighters. There are seven international airports however the absence of organized logistics centers at the airports is felt strongly.

Land (Road Transport Services): The trucking business is in the informal sector and there are hardly any companies of size in the sector. Total number of trucks is around 2,50,000 trucks.

Railways: There are eight inland dry ports. The network connects all the dry ports across the country; however the railways carry only 3 percent of the national freight.

Waterways (Rivers & Canals): This node would be seasonal i.e. operating when the water levels in the rivers and canals are high. Furthermore the existence of dams and barrages limits the use of waterways to short stretches and would require extensive work to create bypasses.

Pipe Lines (Oil & Gas transport): Although Pakistan has cross-country pipelines to carry its oil from the south to north and to carry gas from the mid-west to the rest of the country; it does not have cross border capabilities. Regional countries offer potential for this but here the decisions are not based on economics alone.

Transmission lines (Electricity): Here again Pakistan has an established national distribution system but no cross border transmission capabilities.

Visa Regime

The centrality of the ease of travel to benefit fully from MFN based trade is inescapable. This is clearly illustrated in the three case studies presented in Section II. For small Pakistani firms, India will be an opportunity rather than a threat if they can make market niches in India which requires local knowledge and building trust with counterparts. The greatest benefit will be in promoting intra-industry trade that will result in partners in both countries benefiting from liberalized bilateral trade and will not be a zero-sum game. Such intra-industry trade will inevitably involve exchange of technology and skilled manpower. The potential gains from trade in services (tourism for pleasure and for religious and medical reasons) will be stunted as will the benefits that accrue from exchange of academia, research community and students. Easier

travel (utilizing more refined tools for addressing security concerns) is therefore central to realizing the benefits of normalizing Pakistan-India trade.

Section V: Recommendations of this Report

Specific Recommendations

Safeguards

- Move to the SAFTA regime after undertaking significant and considered amendments to the agreement and/or entering into ancillary agreements that would be sheltered under SAFTA, so that South Asian trade framework has the robustness to facilitate South Asian regional integration.
- The manufactured goods in which Pakistan has a comparative advantage vis a vis India need to be identified. The government in its negotiation with India should try and ensure that these potential exports are not on the 100 item (HS six digit level) sensitive list of India agreed upon under the SAFTA agreement.
- For Pakistani exports to increase, it is imperative to clearly identify the sector specific NTBs that range from quality standards, phyto sanitary measures, para tariff measures, state taxes etc.²² NTBs on different goods can best be identified by current exporters who export to India.²³
- A comprehensive assessment is needed of the subsidy regime in Pakistan and India, especially those in agriculture, to take a rational approach to WTO sanctioned countervailing measures.
- There is a need to implement in letter and spirit the recent Agreements viz., Redressal of Trade Grievances Agreement, Mutual Recognition Agreement and Customs Cooperation Agreement, relating to Non Tariff Barriers. These Agreements are expected to substantially facilitate the bilateral trade mechanism.

²² For details on NTBs see the report titled "Indian NTBs faced by Exports from Pakistan" circulated during the meeting.

²³ See Table 7 in the report "Implications of Trade liberalization between Pakistan and India" by the PBIT. The Table lists sector specific NTBs – this information can be used for the final recommendations. The report was sent to all the meeting participants.

Facilitating the SME's

- Easier travel will be the key to taking full advantage of liberalized Pakistan-India trade. Therefore visas would be needed for SME owners/managers in Pakistan, for Indian representatives of buying houses, participants of trade fairs etc and long-term visas for Indian suppliers of skills (trainers, designers, software developers, etc.)
- PREGMA (Pakistan Readymade Garments Manufacturers Association) and other SME associations should be able to open offices in India to facilitate their members traveling to India and supporting them by arranging visas, getting information on Indian firms and suppliers/buyers, helping with dispute resolution/payments, etc. Freedom to rent premises and hire local staff is critical.
- Pakistan Embassy must recognize these offices and be responsive to their requests.
- Finally for SMEs, having branches of Indian Banks in Pakistan to facilitate payments/trade would greatly facilitate the benefits of bilateral trade liberalization.
- Similar focus groups need to be set up for other clusters of SME activity (metal products, automotive parts, footwear, food processing) to maximize the benefits for SMEs as a whole.

Payment systems and investment regime

- India has removed restrictions on inbound and outbound investments with respect to Pakistan but the procedures still require clarification and need to be simplified. The bilateral investment regime needs to be announced at the earliest.
- Investment from India should be welcomed and the remaining procedural impediments removed. Investments up to US\$ 25 million should be allowed in a non-discriminatory fashion. Larger investments should be subject to a case based policy regime.
- Acquisitions should be viewed positively as they would enable management and technology transfer.
- India is a major player in global IT. Pakistan's software industry is still at a nascent stage, though the country has strong potential to emerge as a major software exporting and training center. India and Pakistan could enter into joint ventures to tap the global software market. Prospects for success in this sector appear good, as the basis for India's comparative advantage in IT – low-cost and highly qualified English-speaking technical personnel – can be replicated in Pakistan (see box 2 on examples of joint ventures in IT).
- India's IT training market has also grown significantly; several Indian training institutions have set up centers outside of India, including in other South Asian countries. India and

Pakistan could enter into collaborative arrangements to set up training institutes in Pakistan, which would enhance Pakistan's technical workforce.

- A potential area for a joint venture or direct investment is wind power plants in Thar. Although the development of wind power in India began in the 1990s and India is a relative new comer in comparison to Denmark or the United States, India has the fifth largest installed wind power capacity in the world. According to experts in alternative energy development, both Rajasthan in India and Thar in Pakistan respond to the same turbine types because the ambient wind conditions are similar. Hence Pakistan will greatly benefit from joint ventures in Wind Power.
- In the case of FDI initiatives, banks play an important role when it comes to raising finance and facilitating transactions in the host country. In the absence of formal banking channel between Pakistan and India, trade payments are made through the Asian Clearing Union (ACU), a clearing-house to facilitate payments for intra-regional transaction. Reciprocal commercial banks would be very beneficial to the SME sector. Multinational banks are seemingly adept and comfortable at taking cross border exposure.

Box 2: Proposed initiatives to enhance Investments and Collaborative work

E-Land Collaborative City

To be setup as a visa free economic corridor, E-Land is a collaborative Technology Park/City located on a practical and feasible Indo-Pak border location. Ideally, the Indo/Pak border should be the centerline of this technology park. In the long-term there could be at least a couple of e-Lands. Immediately, the Punjab border near Lahore/Amritsar seems to be the most suitable.

- Employers and employees from both Indo/Pak and other countries can cane up their facilities in e-Land and take advantage of employing labor from both India and Pakistan.
- Both India and Pakistan can contribute their parcels of land and mark this as a visa free economic corridor between India/Pakistan.
- Contracts inked in e-land are to be given full legal and banking protection in both countries and a guaranteed payment mechanism should be established to ensure this.
- To build e-Land, alliances can be sought between private or public/private entities. Multiple investors and investment choices can be evaluated. Ideally, an international body (such as the ADBP, IFC, UN, etc.) can be granted lease of the land as a confidence building measure for a consortium to come in and build, own, and operate this facility.

Collaborative Working

Set up an enterprise jointly in a third country and bring back work exploring multiple levels of partnerships, different models and strategies. Under such an arrangement

- Indian and Pakistani companies could outsource work through their international subsidiaries.
- Indian and Pakistani companies can barter HR for HR, HR for Other Services. For example after adjusting for the exchange rate difference and for the salary/operations expense difference between the two countries, India outsources 10 jobs to Pakistan in return for Pakistan outsourcing 6 jobs to India. No money would need to be exchanged.
- Identify companies that may already be doing this and see if we can promote this under the Aman Ki Aasha (AKA) promotions as case studies, white papers.
- Look into the possibility of creating an AKA-IT B2B portal or even something as simple as a messaging bulletin board where companies register, post projects, and identify business partners.

Source: Pakistan Software Houses Association for IT and ITES (P@SHA) (initiated by a number of software houses in an attempt to create a functional trade association for the IT industry in Pakistan)

Trade Infrastructure and Trade Facilitation at the Land Borders

- In order to support seamless connectivity, Pakistan needs to ratify and sign accession to several international conventions. Implementation of the national trucking modernization policy and Customs Convention on the International Transportation of Goods under Cover of TIR Carnets (TIR Convention), 1975 is essential.
- Pakistan and India should also move ahead with the negotiation and implementation of transit and transport agreements.
- Indian government needs to enhance the much-needed manpower at the border. So that all the goods are offloaded and delivered to customers in time.
- India must also enhance its storage capacity at the borders so that exports from Pakistan can be enhanced.
- For now, the only point of trade along the India-Pakistan border is the Wagah crossing, between Amritsar and Lahore. Opening of additional land routes should be considered.
- Logistics infrastructure should be developed on both sides of the border by encouraging and incentivizing the private sector logistic and freight companies

- Customs facilitation needs to be improved by enhancing the efficiency of the customs procedures. Currently, the procedures are basic and time consuming. Modern scanning facilities should be introduced on both sides of the border.

Visa Regime, Travel, Technology and Skills Exchange

- There must be an institutional framework for periodic review of the visa regime between the two countries. It took nearly 4 decades for a new visa policy to come into effect; the last visa regime was signed in 1974. The annual meetings of the interior/home secretaries of Pakistan and India, under the 'Dialogue Process' can provide such an opportunity.
- All bona-fide businessmen, irrespective of their earnings or annual turnover, should be granted EPR (Exempt from Reporting) visas. Under the new visa policy this facility is reserved for businessmen with an annual turnover of Rs 30 million or annual income of Rs 5 million or equivalent.
- The check-posts for entry/exit for nationals of either country should be increased. All airports/check-posts receiving international flights should be included. Hyderabad and Bangalore are important business centers in India. At the moment however, only Mumbai/Delhi and Chennai in India, and Karachi/Lahore and Islamabad are included for air journeys.
- There are no direct flights between India and Islamabad, or vice versa. The current frequency of flights between Karachi/Mumbai/Delhi and Lahore/Delhi is also not sufficient. Against an average of 23 flights per week between New Delhi and other SAARC capitals, the frequency between Pakistan and India is very low. With liberalized visa policy more people are expected to travel between the two countries. It has been agreed at the last commerce secretaries' meeting that a joint working group would be formed to work out a more liberalized regime for commercial flights and to ensure economic viability of the air routes.
- There is a need for improved telecommunication links between the two countries, particularly keeping in view the requirement of the business community, including international roaming facility. The last round of commerce secretaries' meetings agreed to set up a sub-group to look into it. This should be expedited.
- More land routes for trade between the two countries are needed. We understand that a summary for removal of restrictions on trade through land route is under consideration. This is a positive development. All permissible items from India should be allowed through the land routes. There is also a need to further strengthen the infrastructure on both sides for improved land routes. In this regard, the decision to harmonize customs procedures, efficient laboratory facilities, provision of scanners, weigh bridges, cold houses, containerized services and automation of business process is a welcome

development. However, there is a need to monitor the timely implementation of these facilities. If required, the involvement of the private sector in this endeavor should be examined by the governments on both sides.

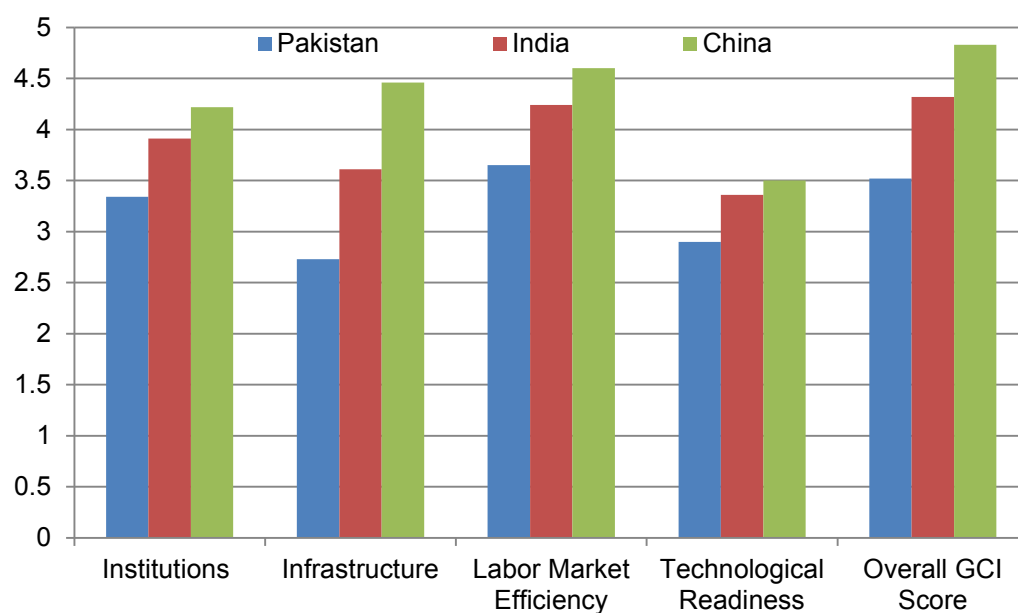
- There is a need to upgrade and modernize the railway network for more efficient flow of trade traffic between the two countries. Issues like number of rakes for interchange must be resolved at the earliest. As decided in the commerce secretaries' meeting in April 2012, permission to allow High Capacity Wagons from Pakistan, which can carry three times more load than regular wagons, should be seriously examined by the Indian Railways.
- Technical experts from India (trainers, designers, etc.) should be allowed to come on a long-term basis e.g. six months to a year. A special category of visas for trainers, designers, technical experts, academics, students, etc. should be included in the visa protocol between the two countries. This should be done as an addendum to the newly approved visa policy through exchange of letters between the two countries, rather than waiting for the next meeting on the subject.

Concluding Remarks: Strengthening International Competitiveness

Reopening the historic East-West trade routes and connecting the energy rich economies of Central Asia with the fast developing economies of India and China will bring rich reward to Pakistan as the regional trading hub. Modernization of the North-South corridor will deepen and enlarge the land mass and population base (stretching to Central Asia and Western China and India) that seeks access to the Indian Ocean via multiple ports along Pakistan's Makran coast on the strategic Arabian sea. Pakistan will benefit initially as the transport hub facilitating this access. Sustained welfare improvements for the citizens of a regional hub arise when it transitions from a transportation hub of goods and energy to become a manufacturing hub that creates high productivity, high wage jobs in multiple regional growth nodes. Such a transition requires strengthening Pakistan's international competitiveness as a manufacturing base. Key to this is a skilled workforce, modern infrastructure (ports, roads and energy), substantially improved governance to improve service delivery and a development framework that promotes investment and manufacturing over consumption. Several bodies of work have been completed recently that detail ongoing/proposed reform in each of these areas²⁴. This body of work needs to be distilled to draw up an agenda of reform for the medium term to strengthen Pakistan's international competitiveness and thus make the transition from a transportation hub to a manufacturing hub that sustains high growth and creates employment opportunities that improve living standards across Pakistan.

²⁴ These include: (Planning Commission ()), "A New Growth Framework, Nabi (2010), "Economic Growth And Structural Change in South Asia: Miracle or Mirage", Education and Skills, Governance reform, National transport corridor, Fiscal Reform, Industrialization, Provincial economic reports and clusters by World Bank, Beaconhouse report).

Figure 6 Global Competitiveness Index 2012 – Comparison of Key Indicators



Source: Computed from Global Competitiveness Report 2012

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Annex

Estimating the impact of imports on domestic production

A product, for example men's formal shirts, qualifies for the negative list if the import of Indian men's formal shirts lowers output and employment in the production of men's shirts in Pakistan. The path of the impact can be traced as follows²⁵:

Before the granting of MFN to India, total available men's formal shirts in Pakistan, consists of those produced in Pakistan and those imported from the rest of the world at the MFN tariff rate. No men's shirts were imported from India because they were not on the positive list, in other words the tariff rate was prohibitive. With liberalization, men's shirts made in India are also available in Pakistan at the same tariff rate as those produced in the rest of the world.

The first impact of importing shirts from India at MFN rates is on Pakistan's import of shirts from the rest of the world (ROW). That depends on how much Indian shirts displace ROW men's shirts. The second impact is on Pakistan's manufacture of men's shirt following the potentially increased availability of shirts (i.e. Indian shirts plus ROW). See Figure A-1 below on the nested aggregation structure).

These substitutions depend on elasticities first between Indian men's shirts and ROW men's shirts imported in Pakistan. If the elasticity of substitution is high between aggregate imports (after Indian shirt are allowed in) and Pakistan made men's shirts, the negative impact of allowing the import of Indian shirts is high and if that results in loss of many jobs, a case is made for including men's shirts made in India in the negative list.

The numerical calculation for determining inclusion in the negative list would be straight forward if estimates of elasticity were available. In the absence of data, a sensitivity analysis can be done assuming low and high elasticity of substitution. A range of elasticities is presented in Table A-1 to carry out the analysis.

²⁵ This discussion is based on Gopalan, Malik and Reinert (2012), "Pakistan-India Trade: Economic Opportunities and Policy Challenges", International Growth Center.

Annex Figure A-1: The Nested Aggregation Structure

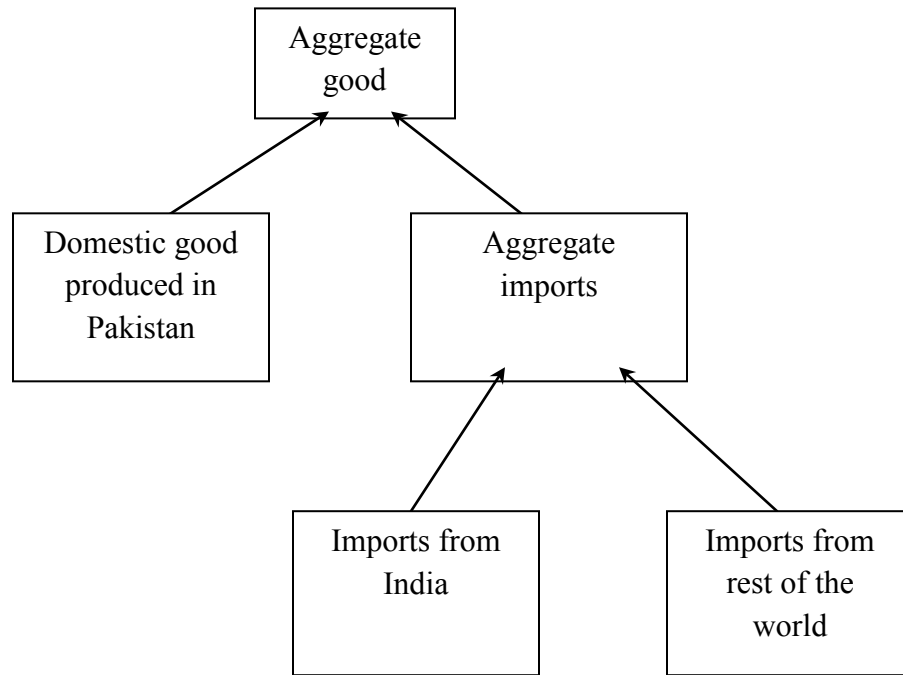


Table A-1: Elasticities in the Model

Elasticity	Meaning	Low Value	High Value
ϵ	Price elasticity of demand for aggregate good	0.5	1.5
σ	Elasticity of substitution at both levels	0.5	3.0
τ	Price elasticity of supply in Pakistan	0.5	1.5
μ	Price elasticity of supply from India	0.5	1.5

Table A- 2: Positive List of Items for Import from India

Section of HC	Description	Total tariff lines	Lines in positive list	Percentage of tariff lines
I	Live animals, animal products	248	33	13.3
II	Vegetables and products	311	157	50.5
III	Animal, vegetables fats/oils	53	2	3.8
IV	Prepared foodstuffs	228	11	4.8
V	Mineral products	195	74	37.9
VI	Chemicals or allied industries	1,149	574	50.0
VII	Plastics and articles	300	93	21.0
VIII	Hides and skins, leather goods	92	45	48.9
IX	Words and articles	106	52	49.1
X	Paper and paper board	182	37	20.3
XI	Textiles and articles	929	104	11.2
XII	Footwear and personal articles	59	2	3.4
XIII	Ceramic and glass products	189	28	14.8
XIV	Jewelry, etc.	55	5	9.1
XV	Metals and articles	744	156	21.0
XVI	Machinery	1,193	353	29.6
XVII	Vehicles and transport equipment	245	15	6.1
XVIII	Optical and precision instruments	269	103	38.3
XIX	Arms and ammunition	52	-	-
XX	Miscellaneous	186	5	2.7
XXI	Works of art	72	1	1.4
	Total	6,857	1,870	27.3

HC= Harmonized code

Note: The percentage of tariff lines may not necessarily correspond to the percentage of imports

Source: Pakistan, Ministry of Commerce (2012) (as presented in Pasha, H.A, & Imran, M. (2012). The Prospects for Indo-Pakistan Trade. *The Lahore Journal of Economics*. 17: SE: pp. 293-313)

Table A-3: Pakistan's Major Imports from India, 2010/11 and 2011/12

HS Cod	Item description	July-May 2010/11 (USD million)	July – May 2011/12 (USD million)
	(> USD 50 million)		
0702	Tomatoes, fresh or chilled	41	68
0713	Leguminous vegetables	40	52
1701	Sugar	69	0
2304	Soya bean oilcake	122	202
2902	Cyclic hydrocarbons	166	191
5201	cotton	372	75
	(> USD 20 million - ≤ 50 million)		
0902	Tea	26	36
1209	Seeds for fruits	20	17
2933	Heterocyclic compounds	25	29
3204	Synthetic organic coloring matter	23	26
3817	Mixed alkyl benzenes	17	24
3901	Polymers of ethylene	3	20
3902	Polymers of propylene	23	35
5504	Artificial staple fiber	11	35
7202	Ferro alloys	25	18
7311	Containers for compressed gas	24	11
Subtotal		982	839
Total		1,367	1,144
Percentage of subtotal		72	73

Source: State Bank of Pakistan (as presented in Pasha, H.A, & Imran, M. (2012). The Prospects for Indo-Pakistan Trade. *The Lahore Journal of Economics*. 17: SE: pp. 293-313)

Table A-4: Pakistan's Major Exports to India, 2010/11 and 2011/12

HS Cod	Item description	July-May 2010/11 (USD million)	July – May 2011/12 (USD million)
	(> USD 10 million)		
0804	Dates	44	48
1006	Rice	13	1
2520	Gypsum	1	11
2523	Cement	39	33
2707	Oils from coal tar	14	0
2710	Oils from petrol	15	11
2917	Polycarboxylic acid	12	16
5201	Cotton	0	60
5205	Cotton yarn	9	11
5209	Woven cotton fabrics	8	10
	(> USD 5 million - ≤ 10 million)		
2903	Halogenated derivatives	8	7
4107	Leather	8	7
5103	Waste from wool	7	4
6305	Sacks/bags of textile material	5	5
9018	Medical and surgical instruments	5	5
Subtotal		203	230
Total		268	311
Percentage of subtotal		76	74

Source: State Bank of Pakistan (as presented in Pasha, H.A, & Imran, M. (2012). The Prospects for Indo-Pakistan Trade. *The Lahore Journal of Economics*. 17: SE: pp. 293-313)

Figure A-2: Potential for further Growth as Measured by Population Size

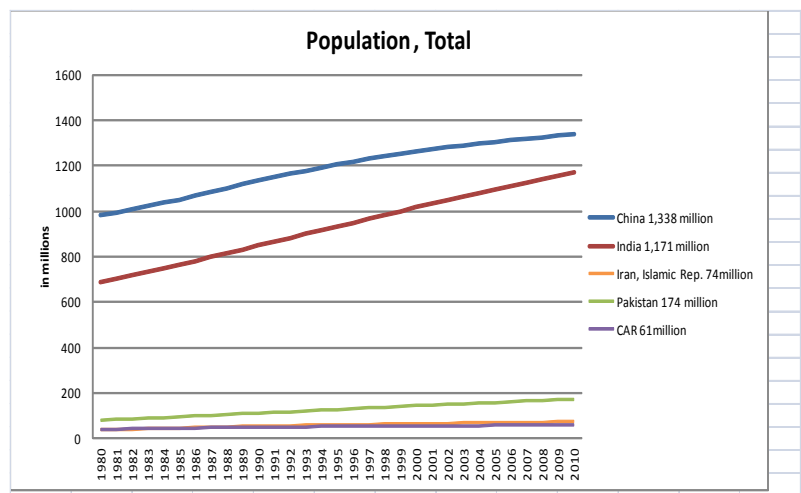


Figure A-3: Crude oil reserves in countries across our land borders

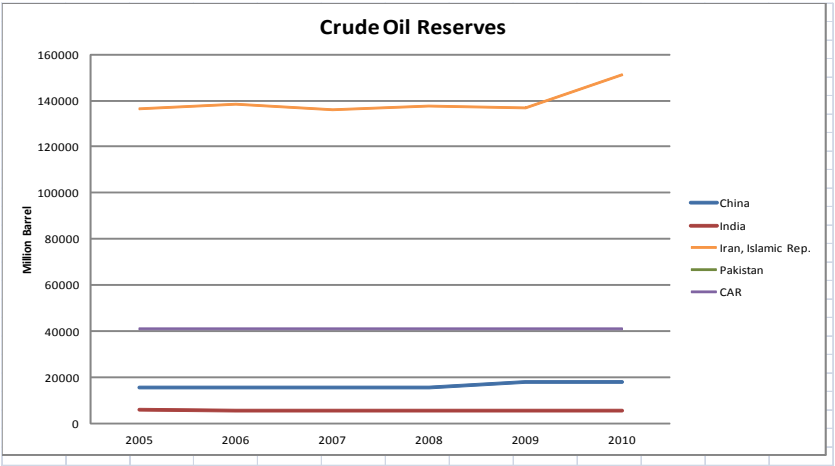


Figure A-4: Increase in Imports of Central Asian republics

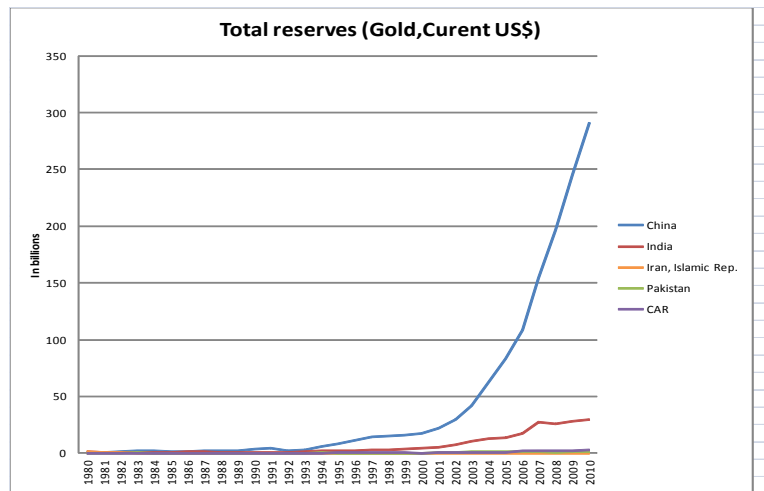


Figure A-5: International Reserves Accumulation in Countries across our land borders

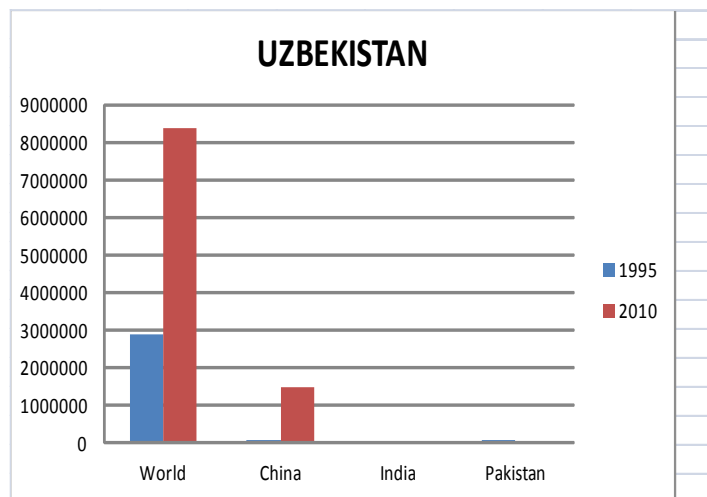


Table A-5: Simultaneously significant Indian exports and Pakistani imports, 2010/11 (at 4-digit HC level)

No.	Code	Description	Volume of Global Indian Exports	Volume of Global Pakistani Exports	Pakistan's imports from India
Included in the positive list*			(USD million)		
1	0902	<i>Tea</i>	708	311	24
2	1701	<i>Sugar</i>	1196	691	335
3	2304	Soya bean oil cake	2057	142	51
4	2902	Cyclic hydrocarbons	1594	467	185
5	2933	<i>Heterocyclic compounds</i>	600	113	11
6	3204	<i>Synthetic coloring matter</i>	1249	162	7
7	3808	<i>Insecticides etc.</i>	1140	195	25
8	3902	Polymers of polypropylene	771	435	17
9	4011	<i>New rubber tyres</i>	1,029	144	42
10	5201	Cotton, not carded or combed	2,866	1,031	406
Total			13210	3691	1103
11	2711	Petroleum products	41076	8261	
12	3004	<i>Medicaments n.e.s.</i>	5637	194	
13	5402	Synthetic filament yarn	774	392	
14	7208	<i>Flat rolled products of steel</i>	862	267	
15	7210	"	1384	283	
16	8471	Automatic data processing machines	285	103	
17	8502	<i>Electrical generating sets</i>	342	289	
18	8517	<i>Electrical generating sets</i>	3329	518	
19	8703	<i>Motor vehicles for transporting persons</i>	4211	477	
20	8704	<i>Motor vehicles for transporting goods</i>	619	142	
21	8708	<i>Parts and accessories for motor vehicles</i>	2189	120	
22	8711	<i>Motorcycles</i>	856	100	
23	9018	Medical, surgical, and dental instruments	414	125	
Total			61978	11271	

*Note that not all items at the 8-digit level are part of the positive list. Items in italics are on Pakistan's sensitive list

Sources: India, Ministry of Commerce and Industry (2012) (figures in last column); State Bank of Pakistan (as presented in Pasha, H.A, & Imran, M. (2012). The Prospects for Indo-Pakistan Trade. *The Lahore Journal of Economics*. 17: SE: pp. 293-313)

Table A-6: Simultaneously significant* Pakistani exports and Indian imports*, 2010/11 (at 4-digit HC level)

No.	Code	Description	Volume of Global Pakistani Exports X_i	Volume of Global Indian Imports M_i	Potential Diversion to India**
Included in the positive list*			(USD million)		
1	0804	<i>Dates, figs, etc.</i>	100	180	100
2	1001	Wheat	310	133	133
3	2523	Cement	496	77	77
4	3004	<i>Medicament n.e.s</i>	56	764	56
5	3907	Polyesters, primary	265	1024	265
6	4102	Leather	79	60	60
7	5007	<i>Woven fabrics of silk</i>	50	129	50
8	5201	<i>Cotton, not carded or combed</i>	519	56	56
9	5208	Woven cotton fabrics	519	159	159
10	5209	Woven cotton fabrics	936	60	60
11	5407	<i>Woven fabrics of synthetic yarn</i>	59	107	59
12	6006	Other knitted fabrics	67	112	67
13	6403	<i>footwear</i>	72	56	56
14	7113	Articles of jewelry	158	338	158
15	9018	Surgical instruments	295	1028	295
16	9506	Sports articles	342	118	118
Total			4323	4401	1769

*At least USD 50 million each

**Corresponding to $\min[X_i, M_i]$ for the i th product

Items in italics are on India's sensitive list.

Source: India, Ministry of Commerce and Industry (2012); State Bank of Pakistan (as presented in Pasha, H.A, & Imran, M. (2012). The Prospects for Indo-Pakistan Trade. *The Lahore Journal of Economics*. 17: SE: pp. 293-313)

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