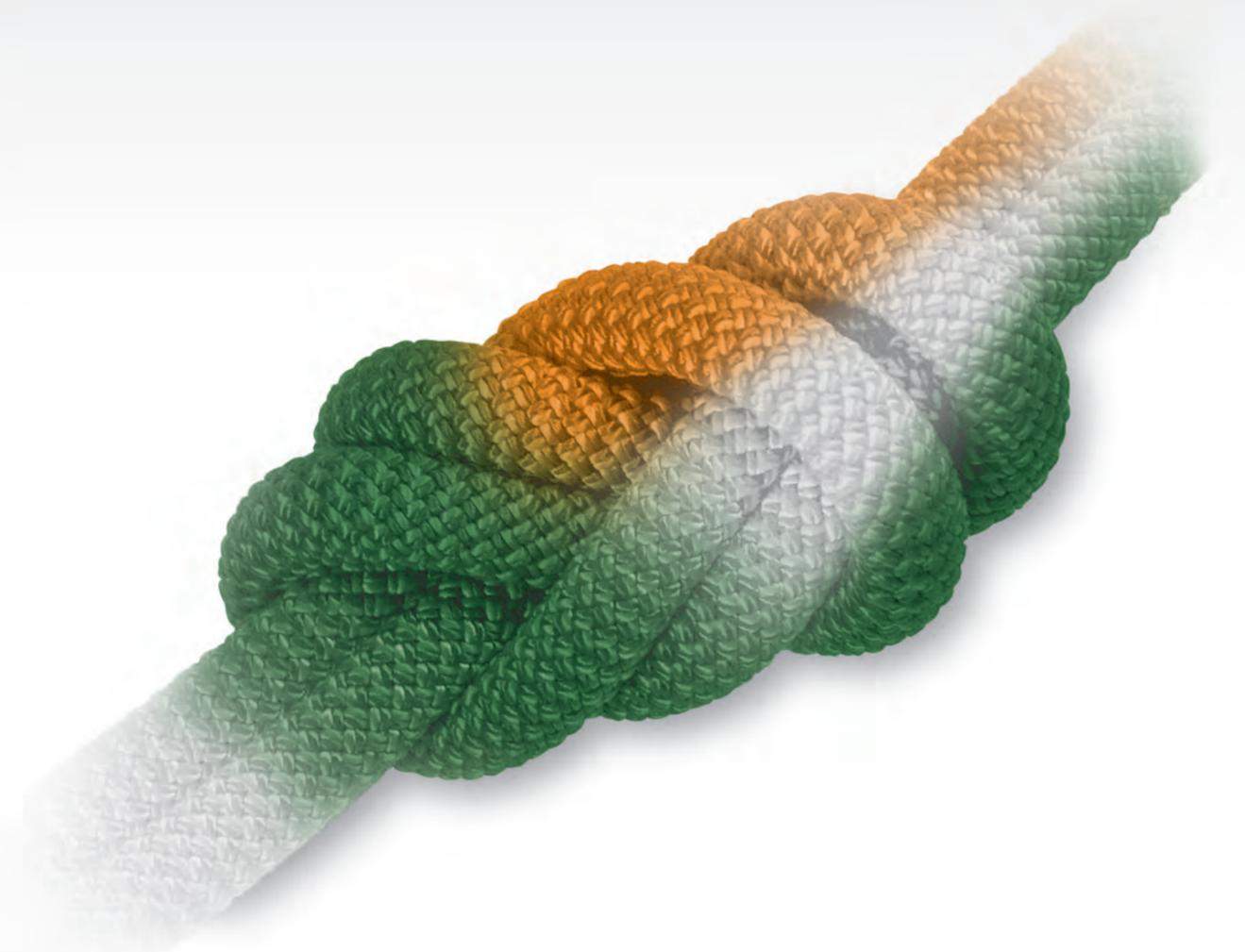


PUNJAB BOARD OF INVESTMENT & TRADE (PBIT)

Implications of Trade Liberalization between Pakistan & India



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PUBLICIS

Working Paper for Conference on
Pakistan-India Trade Potential
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A night-time image of Pakistan India border floodlit almost throughout its length
(EOS/NASA, picture taken on 21 Aug 2011)

Section I

Introduction

Pakistan faces formidable economic challenges today. Never in our history has the economy grown slower or inflation increased faster than in the last four-year period. Given the unprecedented recent increase in government borrowing from domestic as well as international sources, a persistently high budget deficit and the worsening energy crisis, it is expected that Pakistan's economy will continue to face fiscal, monetary and structural constraints hampering its growth. Compared to Pakistan, other South Asian economies, which have traditionally lagged behind Pakistan in GDP growth, have recently grown more rapidly and have experienced lower levels of inflation.

Against this backdrop, the federal government has recently decided to award Most Favoured Nation (MFN) status to India. In a step towards increased liberalization, Pakistan has changed its trade regime from a "positive list" of 1938 items allowed to be imported from India to a "negative list" of 1209 items that cannot be imported from India while simultaneously opening up trade in thousands of other items. Table 1 summarizes the major items on the negative list. As Pakistan awards MFN status to India at year's end, it is expected that even this list will be phased out and a sensitive list may be issued. What are the implications for Pakistan with the opening up of market to Indian exporters? Who will gain and who will lose from this trade? What, if any, industries should we protect from trade with India, and for how long? What can be done to take advantage from the opportunities that increased Pak-India trade will offer? These are some of the questions that need to be answered as we open up our market for Indian imports and hope to get access for our exports to India.

The Punjab Board of Investment and Trade (PBIT) has thus organized this conference and this publication acts as a companion paper for it. The rest of this paper is organized as follows: Section II presents a brief history of Pak-India trade. Section III lists all the physical, tariff and non-tariff barriers to trade. Section IV identifies opportunities for Pakistani exports, lists some Indian imports that substitute more expensive imports from elsewhere and also talks about informal trade between the two countries. Section V describes some general fears of the local industry, and specifically lists the opportunities and threats for Agriculture, Cotton & Textile, Manufacturing Automobile and Pharmaceutical sectors.



Section II

History of Pakistan India trade relationship

Following independence, India was Pakistan's largest trading partner. For almost two decades there was plenty of trade and cross border movement. The trade links ceased after the Indo-Pak conflict of 1965. After many years of muted trade relations, Pakistan opened up formal trade with India in the eighties by introducing a positive list of 46 items. The list kept on expanding over time and a significant increase in the positive list came in 2005-06. Around 2,000 items were on the positive list before the negative list was introduced. The timeline of expansion of the positive list is presented in Table 2.

India granted Pakistan MFN status in 1996. Since then, India has been demanding a similar status from Pakistan. However, recently Pakistan did not grant that status to India owing mostly to strategic considerations but also due to pressure from the local industry. There has also been fear of India erecting nontariff barriers against Pakistan's exports.

The bilateral trade statistics are a further reason of concern for some in Pakistan. There hasn't been a considerable increase in Pakistan's exports after it was granted MFN status by India. On the other hand, Pakistan's expansion of positive list has been followed by significant increase in import from India. Figure 1 shows the bilateral trade volume between India and Pakistan. An interesting, but not surprising, fact is that the expansion of the positive list also impacts trade flows from Pakistan towards India. This is an indicator of the fact that opening up of imports from a particular country is also likely to increase the exports to that country.

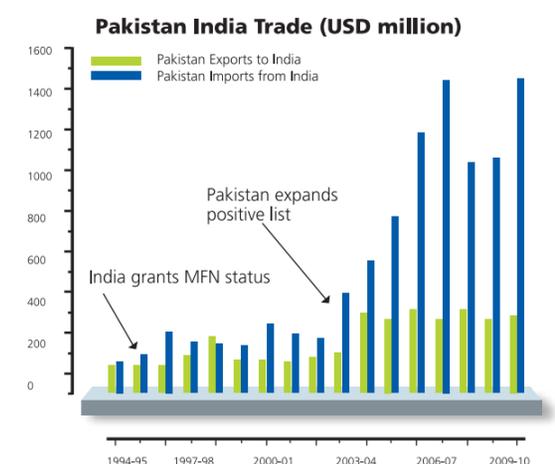


Figure 1: Bilateral Trade Flows between Pakistan and India

The current bilateral trade stands at nearly US\$2 billion, of which only US\$300 million represents Pakistan's exports. India's top exports to Pakistan include cotton, sugar, edible oil, vegetables, tea, and chemicals. Whereas, Pakistan's exports to India include dry fruit, cement, chemicals, scrap, and textile products. Table 3 details Pakistan's current exports to India and table 4 lists Pakistan's current imports from India.

Section III

Restrictions to trade between India and Pakistan

Trade between Pakistan and India is limited by the many barriers that exist. Some of these are general restrictions imposed on all imports by both countries whereas others are country specific. It is normally believed by business people and policy makers in Pakistan that India has many Pakistan specific non-tariff barriers that hinder the exports of our goods across the border.

However on closer examination it turns out that India does not have many Pakistan specific barriers. Most analysts believe that the biggest barrier between the two countries is the presence of a very restrictive visa regime. If business people are not allowed to travel to the other country then trade activity will remain constrained. Table 5 lists some of the constraints on trade between the two countries. Other restrictions to trade include the lack of land routes, limited railway transport, cumbersome custom procedures, absence of air linkages and barriers to financial transactions.

VISA REGIME

Visa regime applied by both countries is the greatest restriction to increasing trade between the two countries. The visa process takes a long time and does not have a transparent evaluation procedure for applications. It is therefore difficult for businessmen to plan visits and send staff for negotiations and other business purposes. In addition, the visa issued is generally a single-entry city-specific travel visa with police reporting requirements. However, recently both countries have started issuing multiple entry business visas. There has also been an announcement by both countries

regarding an agreement to ease the visa regime and issue one year multiple entry visas for the business people.

A restrictive visa regime discourages business interaction among industries and traders and hampers trade activity. To improve the trade relationship, the visa regime will need to be relaxed. Especially for Pakistan's exports, which are likely to be more intermediate goods than commodities, liberal business travel is critical.

CUSTOMS INFRASTRUCTURE

The existing customs infrastructure at the Wagah-Attari border is inadequate for handling trade between the two countries, even for the limited number of goods allowed to be traded through the land route. India has recently upgraded its road infrastructure to the border perhaps mainly because of Afghanistan transit trade possibility through Pakistan. Nevertheless, this allows greater trade possibility through the land route since infrastructure on the Indian side was often cited as a barrier to trade.

Additionally, India and Pakistan have recently inaugurated the Integrated Check Post (ICP) at the Wagah-Attari border which allows greater cargo movement and facilitates customs clearance. Pakistan is also expanding the Wagah border facilities for warehousing, storage, and transport.

More conducive arrangements to facilitate customs clearance at Lahore and Amritsar railway station would make goods movement easier.

FINANCIAL TRANSACTIONS

After an agreement between State Bank of Pakistan (SBP) and Reserve Bank of India (RBI), both allowed two banks of either country to open branches in the other. In this regard, National Bank of Pakistan (NBP) and United Bank Limited (UBL) were allowed by SBP to open branches in India. Similarly from India, State Bank of India (SBI) and Punjab National Bank (PNB) are seeking to open branches in Pakistan. However, the modalities of branch opening have not been finalized yet. Ease in financial transactions would certainly play a key role in enhancing trade between the two countries.

LAND ROUTES (ROAD)

Currently, trade is only allowed through Wagah-Attari land route. There are other road links between Pakistan and India that are not used. Lahore-Patti road (Barki road) and Kasur-Firozpur roads are two other road links that can be opened for trade. Sahiwal/Pakpattan road link with Fazilka is the third possible land route that connects south of Indian Punjab with population centers of Pakistani Punjab.

Through the only open land route for trade, very few items are allowed to flow. Between 2005 and 2009, import of only 14 items was allowed by Pakistan through Wagah-Attari route. In 2009, 109 tariff lines were allowed to be imported through the land route. The allowance has recently been increased to 137 tariff lines. This list mainly comprises of livestock, meat, vegetables/fruits, sugar, cotton yarns, flat-rolled stainless steel products, cement/clinker, chemicals (PTA, PE, PP¹), and newsprint.

A study carried out in 2006 estimated that over 80% of firms are forced to trade through the Karachi-Mumbai sea route even if they are located in the border station of Amritsar. The

situation may have slightly improved after the 2007 agreement on movement of trucks across borders. However, this arrangement only allows 100 trucks per day and even that arrangement is not being implemented properly. For trade to be enhanced, truck movement would need to be made easier and customs procedure made fluent. Allowing customs clearance at either the port of origin or port of destination could greatly facilitate trade.

Current arrangement at Wagah-Attari border requires unloading, manual transfer of items across the border, clearance and reloading in the trucks on the other side of the border. Limited border operation timings and slow customs clearance prohibits bulk trade.

LAND ROUTE (RAILWAY)

Rail link between the two countries is the most viable option for enhanced trading activity. After the 1965 war all rail links were shut. Khokrapar-Munabao rail route, which links Karachi with Mumbai, the two largest cities on both sides, remains un-operational. The rail link between Lahore and Amritsar is operational under an agreed mechanism but remains undependable and insufficient.

SEA ROUTE

Karachi-Mumbai sea route is the most common formal trade route between India and Pakistan. For the sea route, there is a reciprocal requirement that the cargo ships touch a third-country port before bringing in the goods. Moreover, neither country can lift third-country cargo originating from ports of either country.

NON-TARIFF BARRIERS

Besides the limited infrastructure, there are some perceived nontariff barriers that hamper our exports. These include certification and labelling requirements which albeit not

¹Pure Terephthalic Acid (PTA), Polyethylene (PE), and Polypropylene (PP)

Pakistan specific, are especially problematic for Pakistan due to lack of standardization and certification infrastructure.

Despite grant of MFN status by India, exports from Pakistan to India remain low. Industry in Pakistan could not gain access to market in India due to nontariff barriers imposed by India which effectively bars exports from Pakistan to India. Table 7 lists some of the sector specific nontariff barriers for Pakistan's exports to India. The list is based on various research documents and markets studies on the subject. In addition to barriers contained in Table 7, opening a branch/liaison office in India for Pakistani companies involves long approval process through the Reserve Bank of India. Moreover, India does not allow Foreign Direct Investment (FDI) from Pakistan nor allows its companies to invest in Pakistan. This limitation also prohibits any joint venture arrangements between companies based on opposite sides of

the border. However, recently India has indicated allowing FDI from Pakistan which would be a significant confidence building measure for the industry in Pakistan.

More important than regulatory measures are consumer preferences. The Indian market is less receptive and more biased against products from Pakistan than vice versa. Industries who have tried to market their products in India over the past decade have reported resistance and lack of acceptance from the Indian market, mainly on account of products being from Pakistan.

However such attitudes will change with time and with repeated people-to-people contact. It would be pertinent to note that because of the constant presence of Indian media in Pakistan, consumers in Pakistan are very open to Indian products and in some cases even prefer them to other options.

Section IV Opportunities for Pakistani companies and consumers

It is a fundamental axiom of economics that increased trade is beneficial to both parties concerned. It is easily extended to nations, whereby trade between Pakistan and India will be beneficial for both the nations. The possibility of exporting to the huge Indian market clearly benefits our exporters and the opportunity for our consumers to access products from India, thereby substituting more

expensive foreign and domestic goods.

The economics is clear that the welfare gains for consumers from trade are clearly more than reduced profits for domestic firms. Competitive advantages emerge over time as the industry and the market reposition itself to new opportunities and threats, and no static picture can be drawn. Domestic producers are

expected to become more efficient and competitive as they discover comparative advantages. Table 8 summarizes the findings of major academic studies on trade liberalization between Pakistan and India. All of them point to greater overall welfare gains to be had by both countries.

Table 3 and 4 show Pakistan's exports to and imports from India respectively. It can be noted that Pakistan's top exports mainly consist of manufactured goods while top imports are dominated by agricultural commodities.

Most imports from India have so far only substituted imports from other countries and have not been competing with domestic production. For instance, the tea or chickpeas that were imported from India in 2011, are commodities which would normally be imported from other countries. Whereas, some other commodities, like cotton and sugar, are imported to augment the domestic production only when local production fails to meet the market demand. Hence in much of Pakistan's imports of Indian products thus far, local industry or farmer has not been harmed which is likely to continue even with a change in the trade regime.

As stated, exports to India tend to be manufactured products, such as cement, denim, PTA, among others. Given increased opportunity, it is likely that Pakistan will additionally be able to export leather garments, sporting goods, light engineering goods, and surgical goods. All of these goods have manufacturing hubs within Punjab that are close to the Indian border. Table 9 lists major items that Pakistan exports and India imports, and shows avenues where Pakistani companies can benefit from trade. Table 10 completes the picture by showing the other side: exports of major Pakistani imports. Again it can be seen that most of the items on the list do not threaten the Pakistani industry.

Another measure of how much formal trade can take place between Pakistan and India, and what items will be traded, can be had from observing the informal trade that exists between India and Pakistan. In a 2005 study by Sustainable Development Policy Institute (SDPI), informal trade was estimated to be around US\$550 million. However, the same study noted a decline in the trend of informal trade volume over the years due to reduction in the custom duties in Pakistan. Table 11 presents an overview of informal trade between Pakistan and India based on the SDPI study.

Similar to formal trade balance, the balance of informal trade is also heavily tilted, i.e. from India to Pakistan. Machinery and equipment generally comes through the quasi-legal Dubai, Singapore, and Hong Kong routes through fake certification regarding origin of goods. This informal trade would most likely be substituted by formal trade after trade is opened more.

A summary of potential export items from Pakistan to India is presented in Table 12. It is a collection of published data on identified export potential from various research studies. Similarly, potential goods which are expected to be imported from India are presented in Table 13, based on the same studies.

Section V

Threats to Pakistan's industry on trade liberalization with India

There is no denying the overall benefits of increased international trade, but at the same time we must ensure that sudden competition from India doesn't cause too much disruption in our industry and result in massive unemployment. In general our industry seems both well prepared to face Indian competition and also to get market share in India for their products. However, there are legitimate concerns about Indian nontariff barriers, and energy costs and competitiveness of the Indian industry.

Although the Indian industrial and corporate sectors share similarities to Pakistan, but the sustained growth that India has experienced over the past few years is not one of them. The Indian industry, market and consumers are today more confident as a result. On the other hand, the sheer difference of size between the two markets, declining economic growth, and energy crises has made the Pakistani industry feel more vulnerable.

The cost of inputs, specifically energy, is quoted as one of the major factors for Pakistan's industry being inherently uncompetitive compared to India where energy is perceived to be cheaply and abundantly available.

Although, the electricity generation mix of India is largely coal based, however the cost of electricity in Pakistan appears to be lower in Pakistan than in India. Table 14 compares the industrial electricity tariff in Delhi with Karachi. The reference tariff for Pakistan is in fact less than that in India.

The cost of energy may not be lower in India than in Pakistan, its supply, however, is less reliable in Pakistan. The industry in Punjab, sitting at the Indian border, has the least reliable supply in Pakistan and understandably concerned.

Pakistan's industry already competes with the likes of China and Germany and has still managed to grow year over year. Chinese products have often introduced more competition in the industry. In addition to China, Pakistan's industry also successfully competes with other developing countries across the world.

Therefore, the fear of being over-run by cheaper Indian commodities is unfounded as India's industry is considerably less competitive than China's. Figure 2 shows a comparison of major competitiveness indicators of China, India, and Pakistan where China scores much better in competitiveness than India.

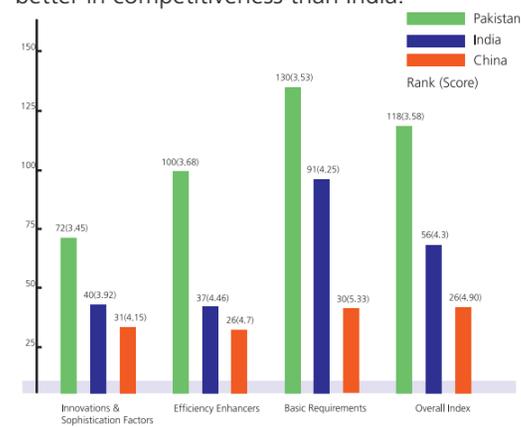


Figure 2: Global Competitiveness Index (GCI) and its main components for Pakistan, China and India (WEF2011)

Section VI

Concerns and opportunities in specific sectors

Whereas trade with India is not likely to harm the overall industry in Pakistan, it may adversely affect some industries in the short run. In particular, automobiles, pharmaceuticals, chemicals, plastics, and synthetic fibre industry appear to feel vulnerable.

The following sections briefly take a look at main sectors of Pakistan's economy and summarize threats and opportunities in them.

AGRICULTURE

Agriculture constitutes the mainstay of both the Pakistani and Indian economy, contributing over 21% and approximately 14% to their respective GDPs. Growing by 1.2% and 4.2% respectively, the sector absorbs 45% of Pakistan's and over 58% of India's labor force. Pakistan's exports of agricultural commodities and allied products (HS Codes 1-24) constitute 17.7% of its total exports, compared to India's 8.7%.

Given the fact that India is the leading producer of wheat and sugar, Pakistan may be able to exploit considerable gains from trade with it. A CMER study demonstrates how, under different scenarios including the MFN clause, consumer surplus and net society welfare remains positive by large numbers (PRK 12 billion and PKR 2 billion respectively) if Pakistan begins importing wheat and sugar from India.

Apart from major crops like wheat and sugar, Pakistan and India can explore a host of trading opportunities in other food items. Over 40% of Pakistan's agricultural sector is involved

in value addition of agricultural commodities. On the other hand, India has, in the past decade, experienced a shift in consumption patterns from traditional food grains to high value fruits and vegetables and processed foods (Sharma and Jain, 2011). Thus, once trade is liberalized, Pakistan may benefit from higher exports of processed foods like dried vegetables, citrus extracts and fruit juice pulps among others to India.

Similarly, India can explore the potential of exporting to Pakistan which currently imports large quantities of many products from destinations other than India. These constitute vegetables like onions, garlic, ginger and leeks, vegetable fats and oils, spices like saffron, turmeric, bay leaves, curry leaves and thyme, and seeds like sunflower, coriander and cumin.

Pakistan has emplaced a protective regime for commodities like wheat, sugar and cotton and fertilizer. Under such policies, imports from India will be restricted and the domestic industry will remain unaffected.

Barriers to the export of agricultural commodities to India from Pakistan are largely weakness of the industry itself. The agricultural industry in Pakistan is highly fragmented and unsophisticated. There is general lack of awareness and infrastructure related to compliance requirements like testing, certification, calibration and accreditation for agricultural commodities. For exports to India, documentation and labelling requirements from India will need to be complied with.

The process of acquiring permits for exporting primary agricultural commodities to India is complex and lacks essential transparency. Excessive time delays in clearance by the Port Health Officer (PHO) and lack of quarantine facilities at Amritsar rail cargo station and the Wagah-Attari border result in high demurrage charges.

COTTON & TEXTILES

Both Pakistan and India have very well developed cotton and textiles sectors. Over the past many years, they have both invested heavily to produce and export a wide array of textile products. India and Pakistan respectively represent that world's second and fourth largest cotton growers and enjoy a diverse set of comparative advantages.

However, the sectors within India and Pakistan are as distinct as they are similar. While Pakistan has greatly developed its vertical value chain including the milling, weaving and stitching sub-sectors, India has witnessed far more success through the development of not only its vertical value chain but a holistic model including the production of textile machinery and synthetic fibre industry.

India's total textiles and clothing exports are more than double that of Pakistan's, and the main product lines are similar. Exports from both countries include, cotton textiles, synthetic textiles, carpets and floor coverings, knitted garments, woven garments, and value added. These are competing in the international market. India's textile industry appears more competitive in some of the textile products especially those based on synthetic fibres, whereas Pakistan seems to be more competitive than India in cotton textiles and made-ups.

There exists an immense latent potential in the bilateral trade between the two countries, and

there are a number of benefits that Pakistan can accrue through the liberalization of trade within the textile sector. First, Pakistan gains not only through access to cheaper and more readily available cotton but also the essential manmade synthetic fibres that Pakistan is currently importing from the South East Asia. Second, Pakistan can also take advantage of availability of textile machinery and technical expertise from India thus reducing the reliance on more expensive Chinese and Italian equipment.

MANUFACTURING

The overall manufacturing sector's share in GDP remained slightly higher for Pakistan in the year 2009-10 i.e. 18% compared to 16% in India. Despite energy shortages and domestic inflation, Pakistan's manufacturing industry has displayed positive growth in the last five years. India also registered 31.3% growth in the manufacturing sector during the same year (Economic Survey of India 2011-12). India's top exports comprised high value or heavy industry articles like cellular phones and associated parts, data processing machines, aircraft parts, and air conditioning machines among others.

Pakistan has a well developed and famous sports goods and surgical instruments industry. In addition to these products Pakistan can also export light engineering products to India, given its well developed industrial clusters in Gujranwala, Gujarat and Sialkot.

In the manufacturing sector like many other sectors, many fears arise from internal weaknesses such as obsolete machinery, lack of standardization, poor quality control practices, limited R&D and the lack of marketing capacity. Unless these problems are addressed, Pakistan's engineering sector will face challenges in gaining export competitiveness, particularly against India.

AUTOMOBILE

Pakistan's auto industry presents a special case in having remained heavily protected for decades. The industry was further promised a stable and comfortable growth environment through the Auto Industry Development Plan (AIDP) laid out in 2008. While the industry remains the second largest tax payer in terms of its contribution to customs duty, sales tax and withholding tax, its export contribution, however, is marginal but growing slowly. Pakistan's government finds it imperative to protect the industry during its long gestation period due to its otherwise contribution to job creation, investments and technological advancements.

India's auto industry, on the other hand, is one of the fastest growing in the world. Motor vehicles, trailers and semi trailers and other transport equipment registered positive growth rates of 11.6% and 15.3% in 2010-11 (Economic Survey of India 2011-12). India's level of sophistication, technological adaptation and indigenization for the entire auto industry remains superior to Pakistan.

Despite India's increasing global auto exports and tremendous overall growth, Pakistan currently does not benefit from the import of Indian cars and tractors. Once trade is liberalized for this sector, Pakistan's automotive parts industry may also benefit from increased exports and be able to expand to achieve economies of scale that it currently is restricted from. Pakistan can also serve as a potential destination for offshore outsourcing for the Indian auto and car industry. Despite years of protection, Pakistan's auto industry still lacks international competitiveness and is currently unprepared for trade liberalization with India. According to PAAPAM, Pakistan's car sector will become competitive after achieving economies of scale with an annual production of over 500,000

cars (current 100,870); 20,000 buses/trucks (current 2,388) and 200,000 tractors (current 51,664). With regards to trade with India, the industry also demands time for the harmonization of standards and needs to ensure reciprocal acceptance of tests and accreditation with India.

PHARMACEUTICALS

India holds a notable advantage over Pakistan in the pharmaceutical sector. India today has the third largest pharmaceutical industry in the world. There are over 200,000 pharmaceutical manufacturing units operating in the country compared to 400 in Pakistan. Over US\$6-10 billion has been invested by multinational pharmaceutical companies in India within the last decade which has resulted in growth of the sector.

Although Pakistan's pharmaceutical and healthcare sectors are expanding and evolving rapidly, about half the population has no access to modern medicines. This presents an opportunity and there are a number of ways in which Pakistan can take advantage of a liberalized trade regime with India. One of them is the import of pharmaceutical raw material which can be procured at considerably cheaper rates compared to Pakistan's traditional suppliers.

Pakistan can also learn a great deal from India in the avenue of pharmaceuticals technology. Indian machinery for pharmaceutical manufacturing costs less than half of other international suppliers. In addition to this, technical consultancy services may also be procured for design of plants and systems for companies in Pakistan.

Section VII

Tables

Table 1: Major categories in the negative list of trade with India

2 digit HS Code	Products	No. of items on negative List
87	Vehicles other than railway, tramway	181
72, 73	Iron & Steel & articles of Iron and Steel	150
85	Electrical, electronic equipment	107
84	Machinery, nuclear reactors, boilers, etc	99
48	Paper and paperboard, articles of pulp, paper and board	95
39	Plastics and articles thereof	83
52 – 63	Cotton, textiles and related articles	78
	Others	416

Table 2: Expansion of positive list for trade with India

Year	Pakistan's positive list
1986	42
1989	577
2004	687
2005	773
2006	1075
2008	1938

Table 3: Pakistan's current top 20 exports to India (2011)

Product label	US\$ millions	Custom Duty(%)	Excise Duty				Total (%)
			Countervailing Duty (CVD) (%)	Central Excise Education Cess (%)	Customs Education Cess (%)	Special Countervailing Duty (Sp CVD) (%)	
Dates, fresh or dried	44	20	-	-	3	4	25.68
Portland cement nes	28	0	12	3	3	4	17.41
Terephthalic acid and its salts	14	5	4	3	3	4	14.13
Lead refined unwrought	11	5	10	3	3	4	20.94
1,2-dichloroethane (ethylene dichloride)	8	2.5	12	3	3	4	20.45
Waste (other than noils) of wool/of fine animal hair,ex garnettd stock	7	10	-	3	-	4	14.86
Grain splits leather "incl. parchment-dressed leather", of the whole hides and skins	7	10	-	3	-	4	14.54
Sacks & bags,for packing of goods,of other man-made textile materials	6	10	12	3	3	4	29.57
Disodium carbonate	6	7.5	12	3	3	4	26.53
Waste and scrap, copper or copper alloy	6	5	12	3	3	4	23.49
Waste and scrap, stainless steel	5	5	12	3	3	4	23.49
Cotton yarn,>=85%, multi, uncombed,>=714.29 dtex, not put up	5	10	6/12	3	3	4	
Instruments and appliances used in medical or veterinary sciences, nes	5	7.5	6	3	3	-	14.71
Twill weave cotton fabrics,>=85%, more than 200 g/m2, dyed	4	Higher of 10 or Rs 150/kg	6/12	3	3	-	
Hydrogen peroxide	4	7.5	-	3	-	4	11.92
Denim fabrics of cotton,>=85%, more than 200g/m2	4	Higher of 10 or Rs 150/kg	6/12	3	3	-	
Hydraulic cements nes	4	10	12	3	3	4	29.57
Plants &pts of plants(incl sed&fruit) usd in pharm,perf,insect etc nes	3	15	-	-	3	4	20.27
Gypsum; anhydrite	3	5	-	-	3	4	9.45
Phthalic anhydride	2	7.5	12	3	3	4	26.53

Source: www.eximguru.com/indian-customs-duty/

Duties are calculated at their CIF Value + Landing Cost of 1% of CIF. All duty rates are up to date. Last update: March 17, 2012.

20% is the preferential duty. Otherwise, basic duty on import of dates is 30%

Duty (%)	Applied on: (Amount)
Custom Duty (CD)	Assessable Value (AV) i.e. CIF + Landing cost of 1% [AV+CD]
Countervailing Duty (CVD)	[CVD]
Central Excise Education Cess (CEES)	[CD+CVD+CEES]
Customs Education Cess (CES)	[AV+CD+CVD+CEES+CES]
Special Countervailing Duty (Sp CVD)	

Table 4: Pakistan's current top 20 imports from India (2011)

Product Label	US\$ millions	CD (%)
Cotton, not carded or combed	374	0
Soya-bean oil-cake % solid residues, whether or not ground or pellet	163	10
P-xylene	146	5
Vessels and other floating structures for breaking	63	0
Containers for compressed or liquefied gas of iron or steel	33	0
Chickpeas, dried, shelled, whether or not skimmed or split	31	0
Polypropylene	30	5
Black tea (fermented) & partly fermented tea in packages exceeding 3 kg	29	10
Peas dried, shelled, whether or not skinned or split	29	0
O-xylene	23	5
Other commodities	20	5
Pneumatic tires new of rubber for buses or lorries	19	20
Reactive dyes and preparation based thereon	19	15
Mixed alkylbenzenes and mixed alkyl-naphthalenes produced by the alkyl	17	5
Ferro-silico-manganese	16	5
Nucleic acids and their salts, whether or not chemically defined	14	5/25
Herbicides, anti-sprouting products and plant growth regulators	12	5
Zinc not alloyed unwrought containing by weight less than 99.99% of Zinc	11	5
Heterocyclic compounds containing a unfused pyridine ring in the structure, nes	9	5
Iron ores & concentrates other than roasted iron pyrites non-agglomerated	5	5

Table 5: Trade restrictions for bilateral trade between India and Pakistan

	Restrictions	Comments
Visa regime	Very restrictive visa regime with long processing times. Strict reporting requirements with limited mobility permission	
Land route (Road)	Few land routes	India is planning an integrated facility at Attari with an Electronic Data Interface (EDI)
	Insufficient custom infrastructure/facilities at Wagah and Attari border posts	Pakistan is building storage and warehousing facility at the terminal
	Absence of warehousing and storage facilities at Wagah and Attari	
	Truck movement across the border	The 2007 agreement is limited
Land route (Railway)	Custom procedure for goods clearance resulting in demurrages	Customs cooperation agreement is signed between two countries
	Limited rail traffic which is erratic and undependable	
Sea route	Compulsion of empty carriage return	
Financial system	Third-country port touching requirement	
	Payments need to be made through third-country financial institutions (Asian clearing union)	

Table 6: Business visa requirements for both countries for each other's nationals

Requirements for India's business visa for Pakistani nationals	Requirements for Pakistan's business visa for Indian nationals
Copy of the Income tax return/ audited accounts for the last two years to establish the income criteria: Gross sale/ turnover of the business should be more than Pak Rs. 1 crore per annum OR individual salary of the applicant more than Pak Rs. 5 lacs per year.	
Copy of the NADRA Card along with English translation clearly indicating the address.	PAN Card or Voters Identity Card or Ration Card or Electricity Bill or Telephone Bill or Driving Licence.
Letter from the company/firm in Pakistan giving details of the applicant, his/ her designation and the purpose of the visit.	Request letter from company in India
Copy of the membership certificate of any chamber of commerce of Pakistan.	Recommendation Letter from the concerned Chamber of Commerce & Industry in Pakistan
Letter of invitation from any registered Indian company/ firm clearly indicating the city to be visited and the duration for the visit.	Invitation Letter from sponsor company in Pakistan
Copy of letter of credit/ correspondence with the registered company/ firm in India.	
Sponsorship Certificate: To be attested by authorized office in India (DM/ SP/SDM/ Tehsildar/ BDO/ SHO/ Groups A officer of State and Central Govts/ Principal of Govt college and Principal / headmaster of Govt School) taking responsibility of the bonafide and good conduct of the Pak nationals.	
Antecedents/ Bonafide certificate issued by either the Police authorities of Pakistan (not below the rank of SHO) where the applicant is residing or any other officer holding public office in Pakistan equivalent to DM/SDM/ Tehsildar in India, duly certifying the character and antecedents of the Pak nationals.	

Source: Respective High Commission websites of Pakistan and India

Table 7: Sector specific barriers as identified in various research works and industry feedback

Sector	Barrier type			Source
	Regulation	Certification	Additional Duties	
Raw Cotton	Inconsistent policies and suspension of contracts without prior notice (e.g. as in April 2010)	<ul style="list-style-type: none"> Non transparent health safety certification guising protection to Indian industry 		FPCCI 2011
Textiles	Textiles (Consumer Protection) Regulation of 1998 Standards of Weight and Measures Act Multiple implementing agencies, causing undue delays and inconsistencies	<ul style="list-style-type: none"> Oeko-Tex and SGS certification mandatory Complex labeling requirements, particularly for fiber content. Pre-shipment certification necessary No 'all embracing' certification. Separate certificates for Origin, Brand Owner's declaration and Health and Safety Standards etc 	<ul style="list-style-type: none"> Composite tariff (ad valorem+duty) Import Duty on all items (normally the higher of 10% or Rs.150/ unit) CENVAT Commodity cess National Calamity Contingent Duty (NCCD) on filament yarn 	SAARC 2011 IGC 2011 FPCCI 2011 CBEC, Gol LUMS DPRC 2010
Cement		<ul style="list-style-type: none"> Extraordinary delays in renewal of BIS Certification Lack of trucking facilities on the Indian side of the border 	<ul style="list-style-type: none"> Import Duty on Portland Cement: 10% CENVAT Cess 	FPCCI 2011 CBEC, Gol
Food Items	Rule 32- Prevention of Adulteration of Food Rules (1955)	<ul style="list-style-type: none"> Excessive time in clearance by Port Health Officers (PHOs) in customs 	<ul style="list-style-type: none"> High tariff on agriculture commodities (avg tariff of 90%) High Demurrage Costs 	FPCCI 2011 Taneja 2007
Auto-mobiles		<ul style="list-style-type: none"> Strenuous and detailed road safety, emission standards and 'Homologation' certification process which takes up to 6 months No export licenses issued by any of the Land Customs Ports 	<ul style="list-style-type: none"> National Calamity Contingent Duty (NCCD) Countervailing Duty (5% concessional) 	LUMS DPRC 2010 FPCCI 2011

Table 8: Summary of research studies on Pakistan-India Trade Potential

Study	Main Findings
Qamar 2005 (SBP Research Bulletin)	<ul style="list-style-type: none"> • Pakistan can benefit from trade with India by not only tapping a huge Indian market for exports but also substituting expensive imports with cheaper Indian ones. • The Karachi Chamber of Commerce and Industries estimates the potential of trade between the two countries is \$10-\$15 billion. Importing goods at a cheaper rate from India than the rest of the world could result in savings ranging between \$400 and \$900 million. • In FY04, 1,181 '8-digit-level' items worth \$3.9 billion were common between Pakistan's exports and India's imports i.e. 45% of the total number of items exported by Pakistan. Similarly, Indian exports covered almost 53% of Pakistan's total imports.
Nabi and Javaid 2011 (DPRC LUMS)	<ul style="list-style-type: none"> • Liberalized trade with India can help Pakistan achieve high, sustainable and regionally balanced growth. Pakistan can, through trade, tap India's knowledge economy and benefit from information and technology sharing in sectors like agriculture, textiles, pharmaceuticals and automotive parts. Pakistani consumers, farmers and small manufacturers are likely to draw the greatest benefits from trade. • It is suggested that Pakistan and India set up a bilateral commission to redress NTBs, ease travel restrictions, launch more trade routes and proactively address the trust deficit on either side. • Pakistan must also capitalize on its strategic location by facilitating greater regional trade through supportive trade policies including transit trade, infrastructure investments and improved internal governance.
Naqvi 2009	<ul style="list-style-type: none"> • There is great potential for intra industry trade between Pakistan and India, particularly in agriculture, textiles, light engineering and pharmaceuticals. Intra firm trade in the services sector carries potential in entertainment, tourism and information technology. • Impediments to bilateral trade like NTBs, restrictive visa regimes, limited land and air routes etc must be resolved through dialogue and alongside granting India MFN status, Pakistan (and India) should also explore trade opportunities under a FTA.
Burki et al 2006 (CMER LUMS)	<ul style="list-style-type: none"> • Mutually beneficial trade is a possibility in the sugar sector, if India and Pakistan view trade as a deficit or surplus management policy. Partial equilibrium analysis shows that Pakistan can fill deficits and avoid domestic price hikes by importing sugar at lower prices from India than the rest of the world. Simulations show net welfare gains under all three scenarios: FTA, SAFTA and MFN. If India reverses subsidies on sugar growers and manufacturers, however, the flow of trade is likely to reverse as well. • The similar stands true of Pakistan's wheat imports from India. Pakistani farmers can experience a long run shift in comparative advantage if India phases out wheat subsidies to producers.
Aftab et al 2007	<ul style="list-style-type: none"> • Pakistani producers possess a comparative advantage in the export of fans. Free trade in the context of SAFTA will lower prices of imported Pakistani fans in India and could enable increased exports. On the other hand, trade liberalization under SAFTA is expected to increase imports of Indian bicycles, largely benefiting Pakistani consumers belonging to lower-income rural and urban households. • It is recommended that Pakistan grants MFN status to India or allows bilateral trade in bicycles and fans by putting these items on the positive list of goods that are importable from India.

Table 8: Summary of research studies on Pakistan-India Trade Potential (Contd.)

Study	Main Findings
Husain 2011 (Atlantic Council)	<ul style="list-style-type: none"> • Derived from previous studies and empirical evidence, India-Pakistan trade is a win-win situation. For Pakistan, tapping even 10% of the Indian middle-class market will double the market size of Pakistani companies and businesses. • Trade liberalization and increased bilateral trade between India and Pakistan is likely to enhance economic growth and productivity and increase regional cooperation in the greater South Asian region. • Both countries should, therefore, undertake a series of short and medium-long term goals like rationalizing and simplifying technical barriers to trade, increasing trade routes, improving customs clearance, harmonizing regulations and standards, removing distortionary tariffs and subsidies etc.
SAARC 2011	<ul style="list-style-type: none"> • While Pakistan stands to gain much from the fast growing Indian market (almost 1/6th of the world), India too perceives benefits from access to natural resources and trade routes from Asia to Europe via Pakistan. • Since Pakistan and India account for more than 90% of South Asia's gross domestic product (GDP), low bilateral trade is an important constraint for the growth of South Asia's exports to the rest of the world as well as for the expansion of intra-regional trade. • Both countries should undertake short term measures to increase bilateral trade (e.g. easing visa restrictions, eliminating reciprocal restrictions like rail wagons carrying goods returning empty, increasing air routes etc), and medium term measures like the grant of MFN status to India by Pakistan, phasing out of tariffs by India etc.
Khan 2009	<ul style="list-style-type: none"> • Improving economic ties through trade may help resolve the larger political issues that have bedeviled India-Pakistan overall relations for over 60 years. • Constraints on economic integration include high tariff and nontariff barriers, inadequate infrastructure, bureaucratic inertia, excessive red tape, and direct political opposition. • Short term measures, therefore, should focus on 'confidence building' to provide impetus to trade and help fade political and bureaucratic opposition

Table 9: Overview of Pakistan's current exports and India's global imports (US\$ millions)

HS Code (at 6 digit)	Products	Pakistan's Global Exports	India's Global Imports	India's Imports from Pakistan
2710.19	Light Petroleum Distillates	1195	2949	13
9018.90	Surgical instruments	219	334	2
7113.19	Jewellery	577	178	0
5201.00	Cotton, not carded or combed	217	84	0
2207.20	Ethyl alcohol	87	67	0.09
3907.60	Polyethylene terephthalate	196	41	0
4107.19	Leather	77	21	2
2523.29	Portland Cement	374	42	26
5209.42	Denim Fabrics	263	18	1.5
2610.00	Chromium Ore	151	16	0
6203.42	Value Added Textiles	1284	39	0.05

Table 10: Overview of Pakistan's current imports and India's global exports (US\$ millions)

HS Code (at 6 digit)	Products	Pakistan's Global Imports	India's Global Exports	Imports from India
2710.19	Light petroleum Distillates	6,552	21,030	0.99
2710.11	Aviation Spirit	686	15,072	26
5201.00	Cotton, not carded or combed	760	2,973	300
8517.12	Mobile Phones	425	1,482	0.046
9024.00	Black Tea	298	591	0
8703.22	Automobiles 1000 -1500 cc	286	2,152	0
2902.43	P-xylene	354	426	124
8905.20	Floating/Submersible Platforms	200	1,073	0
7210.49	Flat rolled Zinc	200	662	0.3
3004.90	Medicament	202	3,955	4.5
5503.20	Polyesters, not carded or combed	193	224	0
5402.33	Textured Yarn	192	386	0.55
8703.21	Automobiles < 1000 cc	189	2,110	0.008
3002.20	Human Vaccines	160	153	4
8517.69	Telephone Sets	148	137	0
1701.99	Refined Sugar	788	586	458
5504.10	Viscose	137	146	12
3902.10	Polypropylene	329	800	206
8703.23	Automobiles 1500-3000 CC	117	110	0.007
8411.82	Gas Turbines 5000 KW	108	114	0
7108.12	Gold	121	107	0
3824.90	Chemicals	111	103	1

Table 11: Overview of informal trade between India and Pakistan based on SDPI study

	Items in informal trade	Trade routes	Trade volume
From Pakistan to India	Cloth; Cigarettes; Dry fruit; Video games, CDs; Footwear; Prayer mats; Bed sheets; Others	1. Dubai-Karachi (third country) 2. Sindh (cross-border) 3. Delhi-Lahore	10.4 million
From India to Pakistan	Cloth; Livestock; Medicines; Pharmaceutical and textile machinery; Electroplating chemicals; Cosmetics and jewelry; Herbs and spices; Tires; Betel, ghutka, paan paraag; pothers	1. Dubai-Iran-Peshawar 2. Dubai-Iran-Chaman 3. Dubai-Karachi (informal) 4. Dubai-Karachi (third country) 5. Sindh (cross-border) 6. Delhi-Lahore 7. Singapore-Karachi	534.5 million

Table 12: Overview of identified potential products for exports from Pakistan to India

Study	Sectors and Pakistan's Potential Export Items				
	Agriculture	Cotton & Textiles	Engineering	Chemicals	Other
Qamar 2005 (SBP Research Bulletin)	Fresh and dry fruits, nuts, sugar, spirits, vinegar, prepared foodstuffs, vegetable products	Raw cotton and textile articles	Electrical equipment, mechanical appliances, optical, cinematographic goods, plastics, rubber and articles thereof		Raw hide and skins, leather, fur skins
Nabi and Javaid 2011 (DPRC LUMS)		Low value textiles			
Industrial Advisory Report 2011 (India Pakistan Trade Unit)	Fruits and vegetables, rice, refined sugar	Textile yarn and fabrics		Plants for perfumes	Cement, leather and leather manufactures
Husain 2011 (Atlantic Council)		High quality products like bed linens and cotton lawn fabric			
Naqvi 2009		Cotton- based fabrics and short -staple fibre yarn/fabric			
Taneja 2007	Chickpeas, dried or shelled	Textile articles		Chromium ore and concentrates	Footwear, gloves and mittens used for sports, leather manufactures

Table 13: Overview of identified products for imports from India to Pakistan

Study	Sectors and Pakistan's Potential Imports from India					
	Agriculture	Engineering & Auto	Cotton & Textiles	Pharmaceuticals	Chemicals	Other
Qamar 2005 (SBP Research Bulletin)	Tea, spices, animal or vegetable fats and oils,	Auto parts, consumer and light engineering goods, articles of iron, copper and steel, tires, transport equipment like vehicles and aircraft		Pharmaceuticals	Organic chemicals, inorganic chemical compounds	
Nabi and Javaid 2011 (DPRC LUMS)	Seeds, powered-irrigation technology transfer	Auto parts, plastic, rubber and metal raw material for automotive parts, technology transfer in the tyre industry	Cheaper raw cotton, cheaper textile machinery and spare parts	Raw materials for pharmaceutical products, pharmaceutical technology		
Burki et al 2006 (CMER LUMS)	Wheat, sugar					
Industrial Advisory Report 2011 (India Pakistan Trade Unit)	Fruits, spices	Capital goods, iron ore			Dyes and chemicals	Power, IT
Husain 2011 (Atlantic Council)		Iron and steel products, automotive components and spare parts, automobiles		Raw materials and finished pharmaceutical products		Joint ventures in the IT industry (particularly software)
Naqvi 2009			Long-staple fibres	Machinery and raw materials, especially for herbal, Unani and homeopathic medicines		Services like entertainment, tourism, health, IT
Khan 2009						Power, IT
Taneja 2007	Black tea	Motor vehicle parts, automobiles, flat rolled products coated with zinc			Polyethylene, polypropylene,	

Table 14: Comparison of notified electricity tariffs for industrial consumers

Industrial category	Variable charges (Local currency/unit)	Variable charges (US¢/unit)
Industrial tariff in Delhi notified by Delhi Electricity Regulatory Commission (Aug 2011)		
Up to 10kW	6.0 INR/kWh	11.67 US¢/kWh
Between 10kW(11kVA) to 100kW(108kVA)	5.5 INR/kVAh	10.70 US¢/kVAh
Over 100kW(415V)	6.5 INR/kVAh	12.65 US¢/kVAh
Large Industry (11kV and above)	5.3 INR/kVAh	10.3 US¢/kVAh
Industrial tariff (KESC) notified by NEPRA (Oct 2011)		
Up to 5kW (400/230V)	9.26 PKR/kWh	10.21 US¢/kWh
Between 5kW to 500kW (400V)	7.89 PKR/kWh	8.7 US¢/kWh
Up to 5,000kW (11/33kV)	7.96 PKR/kWh	8.77 US¢/kWh
Up to 5,000kW (66kV and above)	7.4 PKR/kWh	8.15 US¢/kWh

Section VIII

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