Facilitating Freer Trade Under SAFTA

Issues in Pakistan, India, and Afghanistan

May 2006

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Preface

Over the past two years, the U.S. Agency for International Development (USAID) has supported collaborative research and analysis of opportunities for and obstacles to regional economic integration under the South Asian Free Trade Area (SAFTA) Agreement. This agreement is to be implemented July 1, 2006 under terms agreed at the 12th summit of the South Asian Association for Regional Cooperation (SAARC) held in Islamabad in January 2004.

A team of regional and country experts prepared a compendium, *South Asian Free Trade Area: Opportunities and Challenges,* and presented it to policymakers, business leaders, and analysts from throughout the region at a conference in New Delhi in October 2005. Following completion of this event, Team Leader Shahid Javed Burki and the team's principal regional economist, Dr. James W. Robertson, presented the team's findings to senior government officials and other stakeholders in South Asian capitals. During the briefing tour, plans were made for in-depth research on issues in India and Pakistan that are viewed by business leaders in each of these countries as significant impediments to regional trade integration; such research is the basis for this follow-on compendium of essays by experts from India and Pakistan.

1. Overview

Shahid Javed Burki, Nathan Associates Inc.

One of the main conclusions of the first phase of the USAID-financed project on the South Asia Free Trade Area (SAFTA) was that the region's full potential for trade will be realized only if member countries adopt and implement trade facilitation measures.[1] Trade facilitation was defined broadly to include rationalization of national standards, compliance with cross-border transport regulations, measures to reduce time and administrative costs required to move goods through customs as well as to reduce transaction costs. Investments in transport infrastructure are also included.

To provide additional evidence of the importance of trade facilitation to regional economic integration, USAID provided financial support for surveys of business leaders in Pakistan and India on the prospects for and impediments to regional economic integration generally, and to increased Indo-Pakistani trade specifically. Through its local partners, Nathan Associates Inc. canvassed a representative sample of firms in India and Pakistan to ascertain their views about the policies and practices that inhibited trade among three South Asian countries—Afghanistan, India and Pakistan.

Afghanistan was included in this survey because it was invited to join the SAARC at the Dhaka summit of the organization in November 2005, and because incorporating that country into the SAFTA framework could have a significant impact on the structure of South Asian trade. Afghanistan could provide an important link between South and Central Asia. This link is particularly critical as India and Pakistan have been exploring the possibility of tapping Central Asia's energy resources to meet their rapidly growing energy deficits. The Afghanistan "bridge" is particularly important for Pakistan since it could bring it closer to the countries of Central Asia. Moreover, the project team helped facilitate Afghanistan's entry into the SAARC: Team Leader Shahid Javed Burki met with Prime Minister Manmohan Singh of India in December 2004 and President Pervez Musharraf and Prime Minister Shaukat Aziz of Pakistan in March 2005, discussing with each at some length the importance of bringing Afghanistan into SAARC. All three leaders were receptive to the idea.

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[1] USAID. 2005. *South Asian Free Trade Area: Opportunities and Challenges*. Available at www.tcb-project.com under project activities/field work.

The launch of SAFTA was to usher in a new period for South Asia, ending decades of focus on domestic economies and little interest in economic development beyond immediate borders. All manner of constraints—some political and some the legacy of the bureaucratic management of the economies that was the norm in all South Asian countries before the regional economies began to be opened up in the 1990s—inhibited the development of intraregional trade. It became clear to the team that it was vital to understand the nature and scope of these constraints in order to influence public policy. Accordingly, two groups of researchers were engaged on either side of the India-Pakistan border for the concluding phase of the project. These groups were selected for their knowledge of firm behavior as well as access to the information from the firms. The researchers developed interview questionnaires in order to determine the importance of India-Pakistan trade for the firms engaged in this activity.

The researchers interviewed officials from the firms to develop some understanding of five issues:

1. The level of current trade between the two countries.
2. Primary obstacles to such trade.
3. Public policy priorities for each of the two countries.
4. The potential for increased trade between the two countries.
5. The sectors in which the greatest potential for bilateral trade exists.

Drawing on the detailed sections of this report that follow, we here discuss

- Estimates of the expansion of trade between India and Pakistan that began to occur even before the launch of SAFTA;
- Forecasts of trade expansion estimated by team members on the basis of their business surveys;
- The nature and scope of the nontariff barriers identified by the business community; and
- Public policy priorities for Indian and Pakistani official to facilitate the achievement of SAFTA's potential for trade between India and Pakistan.

SAFTA'S LAUNCH … AND DELAYED IMPLEMENTATION

At their twelfth meeting in early January 2004 at Islamabad, Pakistan's capital, the seven original members of South Asian Association for Regional Cooperation (SAARC) decided to launch SAFTA. They issued the Islamabad declaration announcing their agreement to launch SAFTA as of January 1, 2006. The two years between the decision to create a free trade area in South Asia and its inauguration was to be spent (1) preparing sensitive lists of items not to be included in the tariff reduction program; (2) reaching agreement on rules of origin for the items subject to tariff reduction; (3) reaching agreement on the amount of compensation to be given to "least developed" members for the loss of government revenues that would result from tariff reductions; and (4) preparing a program of technical assistance to help least developed countries adjust to a free trade regime.

The tariff reduction program envisaged a ten-year period of phase-down. India and Pakistan, the relatively more developed economies, were to follow a more aggressive schedule, while Bangladesh, Bhutan, Maldives, and Nepal—the least developed countries—were allowed greater time to make adjustments. Sri Lanka was to follow a timetable in between these two.

The Committee of Experts (COE) constituted by the summiteers at Islamabad held eight rounds of discussions to formulate proposals relating to the four areas listed above. However, their work could not be completed in time for the launch of SAFTA on January 1, 2006 and the launch of the free trade area had to be postponed by six months, to July 1, 2006.

Politics continued to intervene in spite of the decision to create a South Asian free trade area:

- The thirteenth summit scheduled to be held in Dhaka in January 2005 was postponed twice, once because of the tsunami in December 2004 and again several months later because of India's unhappiness with political developments in Nepal.
- Even when the summit was finally held in November 2005, SAFTA's progress was not at the top of the agenda. The Bangladeshi leaders hosting the summit were of the view that a number of politically sensitive issues remained to be resolved and were not prepared to sour the deliberations at Dhaka by pushing SAFTA forward prematurely.[2]
- Pakistan postponed the ratification of the SAFTA accord even after formal approval by all other SAARC nations in the hope that it could use it as leverage for getting concessions from Delhi in its dialogue on a number of outstanding items, including Kashmir. (When some members of the project team[3] visited Pakistan, this issue was being widely debated in the country. The team's discussion may have contributed to the ratification of the agreement by Pakistan in March 2006.)

These political difficulties notwithstanding, there was enough momentum behind SAFTA to avoid a derailing of the process. SAFTA will be formally launched on July 1, 2006. Beginning on that date the SAARC countries will start to implement the schedule for tariff reduction to which they agreed at the Islamabad Summit in January 2004.

There is no doubt that the preparatory work for the launch of SAFTA would have been facilitated had the COE been assisted by a well-staffed SAARC secretariat. But the secretariat, located in Kathmandu, the Nepalese capital, remained weak. It was kept that way also for political reasons. The Indians in particular were reluctant to create an institution that would develop the capacity to

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[2] Discussion between Foreign Minister Murshed Khan of Bangladesh and team leader Shahid Javed Burki.

[3] Shahid Javed Burki, the team leader, and Jim Robertson, a consultant who contributed a paper on trade facilitation to the earlier compendium, visited Karachi and Islamabad in early February 2006. Mr. Burki held detailed discussions with the senior officials of the Government of Pakistan, including Commerce Minister Humayun Akhtar Khan and Dr. Salman Shah, Finance Advisor (de facto Finance Minister) to the Prime Minister. He also wrote on the subject in one of his weekly columns for *Dawn*, a widely read English-language newspaper in Pakistan. See, Shahid Javed Burki, "SAFTA needs a patron," *Dawn*, February 21, 2006. The trip reports summarizing these meetings are presented in Annexes A and B.

operate independently. Once again, New Delhi was taking the cue from Mercosur[4]—and from Brussels. In Mercosur, Brazil, the largest economy in the regional framework, was not prepared to surrender some aspects of its sovereignty to an apolitical body. Accordingly, the Mercosur secretariat, located in Montevideo, the capital of Uruguay, remained weak. Like the SAARC secretariat, it functioned mostly as a post-office—a facilitator of communications between the member countries. On the other hand, Brussels, the headquarters of the European Union acquired a great deal of strength and created political space for itself, particularly in trade facilitation matters.

PRE-SAFTA GROWTH IN INDIA-PAKISTAN TRADE

Trade between India and Pakistan began to increase significantly even before SAFTA was formally inaugurated. Even though Pakistan did not grant "most favored nation" status to India, it added a number of items to the positive list it maintained for trade with its neighbor. This contributed to an increase in the value and volume of trade. In 2003–2004, the value of two-way trade grew to $663.6 million, compared to $379.3 million in the previous year, an increase of 75.0 percent. It is likely to cross the one billion dollar mark in 2005–2006. These estimates do not include informal trade often conducted through such third countries as UAE and Singapore. Such informal trade—including smuggling across the nearly thousand miles of poorly patrolled border—is estimated to be between $1 and $2 billion annually.

Pakistan's formal exports (through legal channels) to India increased from $95.9 million in 2003 to $158.5 million in 2004. India exports have increased at a markedly faster rate than Pakistan's, 78.2 percent versus 65.3 percent, expanding Pakistan's substantial trade deficit vis-à-vis India an additional 84.8 percent (Table 1-1). This made officials in Islamabad nervous as they feared that the tariff reductions envisaged under SAFTA would worsen the balance of trade with India, putting considerable pressure on the country's balance of payments. For Pakistan, therefore, SAFTA was being inaugurated at a particularly difficult time.

Table 1-1

Growth in India-Pakistan Trade ($ Million)

	2003	2004	Increase (%)
Indian exports	283.4	505.1	78.2
Pakistan exports	95.9	158.5	65.3
Indian trade balance[a]	+ 187.5	+346.6	84.8
Total trade	379.3	663.6	75.0

[a] *Plus (+) means trade balance in favor of India.*

SOURCE: *United Nations Comtrade Database, 2006.*

[4] The Southern Common Market, a customs union consisting of Brazil, Argentina, Uruguay, Paraguay, and (as of June 2006) Venezuela.

There is an impression in academic and bureaucratic circles in both India and Pakistan that India would have a greater competitive advantage in manufactured exports to Pakistan, and Pakistan a greater advantage in exporting agricultural commodities to India. Although agricultural exports from Pakistan have eclipsed those from India, the assumptions about the direction of manufactures trade have not held. The share of manufactures exports between Pakistan and India was roughly the same in 2004 with 14.8 percent and 13.9 percent, respectively. More compelling still is the growing tendency towards intra-industry trade between India and Pakistan. For instance, India exports dyes and coloring materials, a key component in processing Pakistan’s exports of textiles, yarn, fabric and fibers that will become end products in India’s large garment industry. Similarly, India exports fertilizer and animal feed, essential inputs to Pakistan’s agricultural exports.

Table 1-2
Composition of India-Pakistan Trade, 2004

Sector	Share in Pakistan Exports %	Share in India Exports%
Manufactures and machinery	14.8	13.9
Agriculture	27.3	13.8
Petroleum	54.2	11.7
Chemicals	1.1	52.4
Other	2.5	8.3
Total	100.0	100.0

SOURCE: *United Nations Comtrade Database, 2006.*

The structure of commerce between India and Pakistan confirms what trade economists have long believed: certain products are actively traded even within sectors in which trading partners may not obviously have comparative advantage. While India’s industry is much larger in size and in many ways more advanced technologically than Pakistan’s, many products manufactured in Pakistan will find a ready Indian market. Some parts of Pakistan’s light engineering sector have developed sufficiently from both a technology and marketing standpoint that they have achieved or could achieve high levels of market penetration in India. Sialkot’s surgical and sports goods industry, Gujranwala’s fan industry, and Gujarat’s and Kasur’s leather industry produce items that would do well in India. Similarly, some of India’s agriculture products would find good markets in Pakistan.

POTENTIAL TRADE GROWTH UNDER SAFTA

One important conclusion to emerge from the survey of firms on both sides of the India-Pakistan border is the belief of the business community that the potential for increasing trade is extraordinary—provided both countries remove restrictions that go beyond reductions in tariffs. This was also the conclusion of the project team in the fall of 2005 in *South Asian Free Trade Area: Opportunities and Challenges*.

The team found that India would benefit more from unrestricted trade than any other country in the region; that removal of tariff and nontariff barriers would increase the Indian trade 13-fold while Pakistan exports would increase nine-fold. The team found that two-way trade would increase from an estimated $2 billion in 2004-05 (including informal trade) to $20 billion in 2014-2015.[5]

This tenfold increase will have a profound impact on the contribution of trade to each country's GDP, as well as on the structure of each country's trade relations and economic output. For Pakistan, the ratio of trade to GDP will increase from 30 to 42 percent in the ten-year period (Table 1-3) and India will become Pakistan's largest trading partner, displacing the United States. India's share in Pakistan's trade is likely to increase more than fourfold, from 5 per cent in 2004-2005 to as high as 22 per cent in 2014-2015 (Table 1- 4).

Table 1-3

Projected Value of Pakistan's Formal and Informal Trade in 2004/15 ($ Billion)

Type	2004/05				2014/15			
	Exports	Imports	Total	% of GDP	Exports	Imports	Total	% of GDP
Formal	14	18.0	32.0		43.0	47.0	90.0	
Informal	0.5	1.0	1.5		--	--		
Total	14.5	19.0	33.5	30	43.0	47.0	90.0	42.0

SOURCE: *Burki, Shahid Javed and Mohammed Akbar. 2005. Pakistan. In* South Asian Free Trade Area: Opportunities and Challenges*, Washington, DC: USAID.*

Table 1-4

Projected Direction of Pakistan's Imports and Exports (Percentage Share of Total)

Country	2004/05	2014/15
United States	19	12
India	5	22
Afghanistan	5	9
Dubai	6	-
United Kingdom	4	3
Saudi Arabia	10	12
Subtotal	49	58

SOURCE: *Burki, Shahid Javed and Mohammed Akbar. 2005. Pakistan. In* South Asian Free Trade Area: Opportunities and Challenges*, Washington, DC: USAID.*

Such a significant increase in trade with India would have a palpable effect on the structure of the Pakistani economy. The country would once again begin to invest in agriculture and to produce surpluses of farm products and processed goods for the large Indian market. In other words, the process begun in the eighteenth century when the British administration in India invested in surface irrigation in the areas that now constitute Pakistan would be continued. A deliberate effort

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[5] These findings are from the Pakistan study in the 2005 volume. The Indian paper done for the same volume did not provide quantitative estimates for the growth in India-Pakistan trade. Nonetheless, it also concluded that there would be a sizeable increase in trade between the two countries.

was made to turn these areas into a granary for the food-deficit areas of British India. With SAFTA in place, Pakistan could once again become a net exporter of agricultural products to India.

While the USAID team did not attempt to quantify the impact of expanded India–Pakistan trade on economic growth, work done earlier by another team of researchers—Srinivasan and Cananero [6]—suggests that removing tariffs would lead to an increase equivalent to 3 percent of GDP for India, 7 percent of GDP for Pakistan, 21 percent of GDP for Bangladesh, 36 percent of GDP for Sri Lanka, and 59 percent of GDP for Nepal.

CONCLUSIONS OF BUSINESS SURVEYS IN PAKISTAN AND INDIA

Nontariff Barriers Are Key Obstacle to Bilateral Trade

The team of researchers in India engaged for this phase of the project contacted 100 firms with trading interests in Pakistan and Afghanistan. Thirty expressed interest in participating in the study. Most (28 out of 30) were already trading with Pakistan and had seen an increase of 5 to 8 percent in the value of their trade with Pakistan since 2004. They ranged in size from small to large, in terms of the number of people employed.

Fifteen of the 30 firms believe that SAFTA should result in increasing intraregional trade without reducing trade with the world outside. The firms do not believe that SAFTA will divert much if any trade. Twenty-three firms would like to see the scope of SAFTA expanded to include trade in services as well as cross-border investment. But only six indicated that they consider outsourcing to Pakistan to be an option in the future; most do not believe that Pakistan is quite ready to move in that direction. Most of the firms indicated an interest in seeing the geographic coverage of SAFTA increase; they would like to see not only Afghanistan brought in as a member but for the South Asian regional arrangement to expand eastwards to include Myanmar and Thailand.

The Indian study identified a number of Pakistani barriers to their goods. Among the more important ones were the “restricted lists” used by Pakistan in trade with India. The lists covered both “positive items”—those that could be imported from India—as well as “negative items”—the items whose import was banned. This system has created confusion among the Indian firms trading with Pakistan, and has kept out a number of items in which India has a clear comparative advantage, such as textile machinery and automobiles.

The interviews in Pakistan provided more detailed information about business perceptions of both opportunities and obstacles to trade with India. The Pakistani businesses provided a number of reasons why they believed that it was important for Pakistan to trade with India and why government policy should explicitly seek to remove barriers between the two countries. Surprisingly they regarded outsourcing of several types of production to Indian manufacturers

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[6] See T.N. Srinivisan and Cananero

and service providers as the most important reason for promoting trade with India (Table 1-5.) The high rate of Indian economic growth was the second most important reason; India has expanding markets for several items of interest to the Pakistani producers. They did not regard the quality of Indian products as an important reason for imports from that country or the quality of Pakistani products as the reason for the Indian businesses to import from Pakistan.

Table 1-5

Pakistani Business Views: Reasons for Building Trade Relations with India, 2006

Reasons	%
Outsourcing to India	39
Indian economic growth	19
Arbitrage	14
Indian demand	11
Quality of Pakistani products	3
Quality of Indian products	3
Trade incentives provided by the Government of India	3
Other	8

SOURCE: *Hashwani, Amir. Pakistan: Trade with India and Afghanistan Under SAFTA (Chapter 2 of this compendium).*

As for impediments to such trade, the Pakistani businesses confirmed the finding in *South Asian Free Trade Area: Opportunities and Challenges* that tariff reductions alone would not significantly increase trade. To stimulate trade, public policy must deal with the numerous nontariff barriers in both countries. In this regard, the surveys were illuminating. Pakistani businesses considered not only the barriers that India imposes on imports from Pakistan but also the obstacles that Pakistani importers face in bringing Indian goods into Pakistan. They see tariffs as a relatively minor obstacle to trade between the two countries; only 13 percent of respondents identified them as the most important reason for the low level of trade between countries (Table 1-6 .) More than one-third of respondents rated procedural difficulties as the key impediment to bilateral trade—nearly three times as had ranked tariffs as the major impediment.

The Pakistani business survey asked a separate set of questions focusing solely on nontariff barriers. These questions distinguished (1) NTBs that Pakistan imposes on imports from India, and (2) NTBs that India imposes on imports from Pakistan. The most significant Indian NTB was perceived to be India's negative list; more than one-fourth of respondents identified this as the most important obstacle for exports to India. As for Pakistani NTBs, more than one-fifth thought that Pakistan's "positive list" of permitted imports from India (outside of which imports are not permitted) was the most important factor constraining imports from India (Tables 1-7 and 1-8.) Other significant barriers were Pakistan's processing time for clearance of goods and testing procedures at ports, and India's customs, goods clearance, and testing procedures.

Table 1-6

Pakistani Respondents: Key Barriers to Trade between Pakistan and India

Type of Constraint	%
Procedural hassles	35
Market ignorance about potential	18
High tariffs	13
Poor infrastructure	13
Restricted lists[a]	13
Difficulties with visas	8
Other nontariff barriers	8

[a] *Pakistan uses a "positive list." Items not on the list may not be imported. India uses a "negative list," which lists items that may not be imported.*

SOURCE: *Hashwani, op. cit.*

Table 1-7

Pakistani Respondents: Key Indian NTBs to Pakistani Imports

Type of Nontariff Barrier	Respondents Ranking Factor As Most Important Trade Constraint (%)
Negative list	28
Processing time for clearance	21
Testing procedures at ports	13
Difficulties with visas	13
Processing time for clearing L/Cs	10
Indian subsidies	3
Quantitative restrictions	3
Law and order	3
Intellectual property protection	3
Other	3

SOURCE: *Hashwani, op. cit.*

Table 1-8

Pakistani Respondents: Key Pakistani NTBs to Indian Imports

Category	Respondents Ranking Factor As Most Important Trade Constraint (%)
Customs procedures	22
Positive list	22
Visa	14
Transport infrastructure	14
Processing time for clearance	14
Processing time for L/Cs	7
Testing procedures at ports	7

SOURCE: *Hashwani, op. cit.*

PUBLIC POLICY PRIORITIES FOR SAFTA MEMBERS

Firms interviewed identified a number of policy areas for attention by the Indian and Pakistani governments. Seven areas of public policy are discussed below.

Most-favored Nation Status and Sensitive Lists

Firms interviewed on both sides of the border believe that the top priority should be Pakistan's granting India most favored nation trade status. India has done so for Pakistan. However, with the coming into being of SAFTA, Pakistan does not need to move explicitly in that area. The MFN status will automatically result once SAFTA is formally launched on July 1, 2006. That notwithstanding, both countries have developed sensitive lists that would inhibit the import of items in which the other country has revealed comparative advantage. India's list is crowded with items in the textile chapter while machinery and machinery components are prominent in Pakistan's list. The firms therefore attach great importance to the need for reducing the items on the two lists. The lists appear to have been developed by the bureaucracies in Delhi and Islamabad who are finding it difficult to shed their protectionist instincts honed over decades during which restrictive policies were pursued by all South Asian countries. That the business community had not been systematically consulted by their governments was made clear when the USAID SAFTA project team visited Mumbai and Karachi in February and addressed large gatherings of business people. It is clear from the responses to the interviews in both India and Pakistan that the businesses are more open to free—at any rate "freer"—trade than the bureaucracies.

Quantitative Restrictions

The second area of emphasis for public policy is quantitative restrictions imposed by both India and Pakistan. These restrictions remain even though, faced with serious shortfalls in the production of some agricultural items, each country allowed their import from the other. These policy shifts have had a positive impact on the prices of several items of daily consumption. In the 2003-2005 period, India and Pakistan had to deal with a serious shortage of onions, a basic cooking item in both countries. The two governments allowed the importing of onions to bring down prices, and this produced the desired results. This experience underscores that trade in agriculture should be governed not by crises but by market considerations on either side of the border. There will be trade in several agricultural commodities from one side to the other depending on production conditions. This will have an enormously positive effect on prices and be of great benefit for consumers. That, in turn, will develop political constituencies for greater openness in trade between the two countries.

Harmonization of Customs Codes

Another area of considerable importance is harmonization of custom codes. A product code matching between 8-digit HS codes of the items exported by India as recorded by the Directorate General of Foreign Trade and HS codes published by Pakistan revealed only three matching items. In the absence of harmonization, exporters are unable to determine in advance of their products reaching the border what tariffs they will face. This ambiguity increases uncertainty in trade, raises transaction costs for exporters, and heightens harassment at the borders.

Expanding the Scope of SAFTA

Both business groups—those in India in particular—are strongly of the view that the scope of SAFTA should not be limited to trade in goods and commodities. It should include trade in services and the development of a framework for cross-border investment. Islamabad has been unwilling to allow India's powerful and capital-rich corporations to invest in Pakistan. However, Reliance Industries is interested in investing in increased refining and oil storage capacity in Pakistan, and Tata Industries and Consulting Services would like to invest in Pakistan's automobile industry as well as its fledging information technology sector. Pakistani businesses recognize that the flow of Indian capital would be helpful in augmenting their country's low saving capacity. Pakistani businesses are also interested in forming joint ventures with India's corporations to benefit from their more developed technological and managerial expertise.

Infrastructure

Firms also cite transport infrastructure as increasing transaction costs. Transport by rail is less expensive than by road, but the complicated system for exchanging wagons wastes time as well as money. According to a World Bank study, these constraints also lead to corruption on both sides of the border. As to energy infrastructure, firms, in particular on the Indian side, believe that the building of the Iran-Pakistan-India gas pipeline will be an important part of the infrastructure improvement program that should accompany the implementation of SAFTA. The project is estimated to cost $7.5 billion; India would buy 70 percent of the gas flowing through the pipeline while Pakistan would tap the remaining 30 percent. In addition, Pakistan will collect an estimated $600 million a year as transit fees.

Visas

Businesses cite problems in obtaining visas to visit neighboring countries as a major obstacle to trade. Slightly less than a tenth of the businesses interviewed in Pakistan identified the difficulties they encounter in obtaining visas to travel to India as the most important nontariff barrier. Indian businesses included visa restrictions as a critical impediment. In January 2004, the countries agreed to open consulates in the business centers of Mumbai and Karachi to ease travel restrictions between businessmen. This has not been done; both countries remain suspicious of each other's intentions. The Pakistani government suspects that the Indians will use their official presence in Karachi to fish in that city's troubled waters. Karachi is also close to Balochistan, Pakistan's restive province. The Indians suspect that a formal Pakistani presence in Mumbai, which has a sizeable but largely alienated Muslim minority, would provide an opportunity for Pakistan's intelligence services to create trouble.

SAARC Secretariat's Role

The Indian businesses in particular consider it important to strengthen the SAARC Secretariat. They recognize that "India's own stand on the SAARC Secretariat has been quite lackluster in the past years, as it has been reluctant to give up its control over regional issues."[7]

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[7] Amir Ullah Khan, India: Trade with Pakistan and Afghanistan Under SAFTA (chapter 4 of this compendium.)

CONCLUSIONS

The surveys of businesses that concluded this project helped the project team to recognize that politics and bureaucratic inertia together remain by far the most important obstacle to intraregional trade in South Asia—especially trade between India and Pakistan. In spite of the significant progress made since January 2004 when the two countries decided to resolve through dialogue their outstanding differences—including the longstanding problem of Kashmir—enduring suspicions have already hindered progress toward a free trade area. While the original SAARC-7 decided to bring Afghanistan into the fold, Pakistan continues to deny India the right to transit its territory for trade with the Afghanistan. Without Pakistan granting this right, the full potential of Afghanistan as a bridge between Central and South Asia will not be realized.

In addition, India’s bureaucracy has found it difficult to shed its protectionist preferences even when public policy has moved toward greater openness. It continues to devise new nontariff barriers or strengthen those already in place to reduce the potential for intraregional trade.

As has been repeatedly demonstrated in other parts of the developing world, regional cooperation including the creation of free trade areas can do much to spur economic growth and alleviate poverty. Smaller economies benefit a great deal when they participate in free trade areas anchored in large economies. The SAFTA agreement could achieve the same results in South Asia. However, the governments in the region—especially those in India and Pakistan—will have to show greater political will and demonstrate greater resolve to dismantle a vast array of nontariff barriers that to remain in place even though tariffs have been reduced and will be lowered even more after July 1, 2006. Only then will SAFTA achieve results and create a regional free trade area that will increase the rate of GDP growth, create more jobs for South Asia’s large populations, and alleviate poverty.

ANNEX A. TRIP REPORT: SHAHID JAVED BURKI, TEAM LEADER

Making SAFTA an Effective Regional Trading Arrangement: Discussions in South Asia—February 2006

Three members of the SAFTA team visited South Asia in February 2006 to present the main findings of the first phase of the SAFTA study undertaken with support from USAID. These findings were presented to a variety of audiences in Bangladesh, India, Pakistan and Sri Lanka. The visit to Nepal was cancelled because of the security concerns in Kathmandu. Shahid Javed Burki and James Robertson visited all countries covered during this tour of duty; James Walker was unable to travel to Pakistan.

The team met with a number of senior officials and leaders of think tanks in the countries visited. It also gave presentations at six seminars – one each in Colombo, Dhaka, Islamabad and Mumbai and two in Karachi. The business community was well represented in these seminars. Burki gave a number of TV interviews in Pakistan. In Islamabad he met with Commerce Minister Humayun Akhtar Khan and impressed upon him the need for the early ratification of the SAFTA agreement. In the discussion with the minister he emphasized that it was not particularly prudent on Pakistan's part to use SAFTA as a lever for getting concessions from India concerning its dispute over Kashmir.

In their presentations, the team focused on the following main conclusions of the study.

- South Asia was the only major region in the developing world that had not created institutions that would promote regional economic cooperation. The main reason for the failure to do this was the long-enduring animosity between India and Pakistan, the region's two largest economies.
- The agreement to launch the South Asia Free Trade Area (SAFTA) taken at the 12th summit of the seven countries of the South Asian Association for Regional Cooperation was a step in the right direction. SAFTA's design limited the scope of the proposed regional arrangement to reductions in tariffs on merchandise trade. However with additional reforms -- such as speeding up of tariff reductions, liberalizing rules of origin, reducing sensitive lists, including services and investment and focusing on trade facilitation -- there were good reasons to believe that the agreement would result in a significant increase in regional trade. The widely accepted gravity model for trade which assigns high weights to distance and economic size in determining the volume of trade between two countries should also apply to South Asia.
- There were good prospects that small countries of the region would benefit from the launch of SAFTA. The smaller countries' fear that their economies would be swamped by India was not well founded. Experience of other successful regional trade arrangements suggests that benefits accrue to all members irrespective of their size; in some cases greater benefits flowed to the smaller economies. This was the case for Ireland in the European Union and Mexico in NAFTA.

- Given the significant lowering of tariffs in the region, the main obstacle to trade among the countries in the area was the poorly developed "trade facilitation" infrastructure. There was considerable amount of evidence from other trading arrangements that trade facilitation had produced considerable amounts of benefits for the countries that took serious steps in this area. There was much the South Asian countries could learn from the experience of the countries in East Asia in this respect.
- There were a number of other improvements that could be made in making SAFTA more effective. These encompassed the inclusion of the rapidly growing modern service sector in the region within the scope of the agreement. It was also important to reduce the span of time over which tariffs were to be reduced. Strengthening of the secretariat – possibly relocating it to a place that was more accessible – would also help in making the agreement more meaningful.
- The invitation given to Afghanistan to join the SAARC should lead to the strengthening of SAFTA. With Afghanistan included in SAFTA, transit rights will need to be addressed as a trade facilitation issue.

The team also described in some detail the scope and geographic coverage of the follow-up phase of the project. In this phase, surveys will be carried out to ascertain the consequences of non-tariff barriers for regional trade and what benefits would flow if they were to be removed or reduced in their reach and scope. This study will be carried out in Afghanistan, India and Pakistan and its findings will be presented at a seminar to be held in the region in late spring or early summer. There was expression of interest on the part of the USAID mission in Sri Lanka to include that country in the next phase of the project.

During these discussions it became clear to the team that the SAARC countries were still mainly interested in promoting their national economic interests rather than concentrating on the creation of a regional arrangement that would benefit the entire area. The following interests were being pursued by different countries.

- ***India:*** Although the officials the team met in Delhi said that India was actively involved in making SAFTA a success, there is an impression that the country's leadership has not made up its mind whether it would prefer this arrangement over others it is also working on at the same time. These include BIMSTEC as well as association with ASEAN. Delhi also believes that its bilateral arrangements with Bhutan, Nepal and Sri Lanka are working well and SAFTA will contribute little to making them more effective. Whereas all other countries in the region are concerned about India's non-tariff barriers (NTBs), Delhi does not agree that they are worse than those in other countries.
- ***Pakistan:*** Pakistan remains preoccupied with its dispute over Kashmir and in both official and non-official circles there is belief that it could use its approval of SAFTA as a lever for getting concessions from India. This is one reason why Islamabad delayed the ratification of SAFTA until February 15. Officials are also interested in improving upon the bilateral arrangement with Sri Lanka. During the visit of Prime Minister Khalida Zia of Bangladesh to Islamabad in February the two countries agreed to launch a free trade arrangement before the end of the year.

- ***Bangladesh:*** Dhaka's main preoccupation is with gaining duty free access to the United States for its garment industry. It is lobbying in Washington for the passage of a bill that would give special access to the countries affected by the tsunami in December 2004.
- ***Sri Lanka:*** The Sri Lankans believe that there is not much additionality in SAFTA given the bilateral arrangements they have in place with India and Pakistan. They have much greater interest in strengthening these agreements; they are already working on the Comprehensive Economic Participation Agreement (CEPA) with India. CEPA will cover the subjects excluded from SAFTA.

As indicated above, the team did not find a strong official constituency for SAFTA in the countries it visited. There is, however, much greater business interest in the agreement. The business community believes that the successful launch of SAFTA would create a framework for commerce within the region that will not be governed by the interests of individual countries. It will level the playing field in the area and also create a mechanism for resolving disputes and addressing the problem of created by the proliferation of non-tariff barriers. With the possible exception of India, the team did not find a close working relationship between the officials responsible for SAFTA and the representatives of the business community. Given the region's history the bureaucracies are much more inclined to be protectionist in their approach to trade policy than the business communities are.

ANNEX B. TRIP REPORT: JAMES W. ROBERTSON, ECONOMIST

SAFTA Assessment of Where Things Stand—March 2006[8]

A three person team consisting of Team Leader Javed Burki, Jim Walker from USAID and James Robertson visited India (New Delhi and Mumbai), Bangladesh (Dhaka) and Sri Lanka (Colombo). Javed Burki and James Robertson also visited Pakistan (Karachi and Islamabad). The program consisted of a series of meetings and workshops/seminars with representatives from the private sector and government officials. The remainder of this paper examines several of the key issues that arose during this trip and considers options on the way forward in support of greater regional trade.

Lack of Public Information and Transparency

In many respects this program was well timed. The SAARC countries had ratified SAFTA at the Dhaka Heads of State Summit several months earlier.[9] Member countries were ostensibly implementing the SAFTA from the 1st January 2006, (although the first round of actual tariff reductions were not set to begin in any country until at least 1st July 2006). However, at the time of these visits, two countries had not formally approved the agreement, Pakistan and Sri Lanka; both have now done so.

Despite the conclusion of formal negotiations and the formal commencement of implementation, it appeared at the time of these visits that none of the SAARC countries had taken any steps to publicize the details of the agreement. The general public and in particular the private sector, had little or no idea of what had been agreed. This lack of information very likely contributed to the strong attendance at all of the workshops and seminars conducted.

The general lack of interest in publicizing the completion of negotiations and the content of the SAFTA may have reflected a general ambivalence concerning the economic importance of the agreement. This may have been due to the fact that SAARC had attempted to negotiate and implement a preferential trade agreement some years before (SAPTA) and that had failed to meet expectations. It may have been due to greater interest in pursuing alternative trade agreements, either as bilateral FTAs between member countries (e.g., Sri Lanka with India and Pakistan), the

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[8] James W. Robertson was a consultant with Nathan and Associates for this assignment. He is currently Trade Policy Advisor and Team Leader in the Ministry of Commerce in Afghanistan (the BearingPoint USAID *Economic Governance and Private Sector Strengthening* project. Any views and opinions expressed in this paper are those of the author and should not be attributed in any way to USAID, the governments and their agencies visited during this program or Nathan and Associates (or BearingPoint). The program took place from 29th January through 15th February 2006.

[9] The South Asia Association for Regional Cooperation (SAARC) was formed in 1985 and currently consists of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. At the November Heads of State summit, Afghanistan was asked to join.

advanced negotiations for an alternative regional agreement (i.e., BIMSTEC[10]) or interest in bilateral agreements with countries outside of the region, (e.g., India with Singapore). This apparent ambivalence may also be a reflection of what would appear to be significant limitations in the SAFTA (discussed further below).

Trade Facilitation and SAFTA: Getting to the Heart of the Matter

From the outset of this project[11] the importance of addressing trade facilitation issues has been emphasized as a key issue if significant progress towards regional integration is to be expected. This is indicative of a broader trend in recent years in the approaches taken in the development of bilateral and regional trade agreements. The "traditional" approach of basing a trade agreement primarily on a program of tariff rate reductions buttressed with exclusions of "sensitive" goods and often restrictive rules of origin has in most cases not yielded the anticipated increases in trade levels. There is a growing appreciation that numerous other trade barriers impede trade as much as, or more, than the levels of import duties and these are the issues usually addressed under the umbrella of trade facilitation.

Although the SAFTA Accord makes reference to pursuing measures aimed at facilitating trade, there seems to have been little or no progress in this direction during the negotiations. Specifically, the accord stated:

> e) SAFTA shall entail adoption of **trade facilitation** and other measures, and the progressive harmonization of legislations by the Contracting States in the relevant areas; and

During the visits to the region, trade facilitation issues were discussed extensively. Among the private sector participants in the workshops and seminars there was near universal agreement that trade related transaction costs were among the most important barriers to trade. Bureaucratic difficulties and widespread corruption are widely viewed as being especially prevalent in South Asia.

During the discussions that took place during this program the importance of actively engaging the private sector in any sort of process aimed at facilitating trade became increasingly clear. Government officials and technical experts for the most part have little appreciation of the nature of the hurdles faced by businesses in the region. It also became increasingly clear that while there are some ways in which private sector views could have been reflected in the SAFTA negotiation process, such as the SAARC Chamber of Commerce, these were relatively indirect and seem to have had limited impact. This may be as much because of the limited capacity of bodies such as the SAARC Chamber to address these questions as was the underlying orientation that SAARC

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[10] BIMSTEC is an agreement for a regional free trade area centered on the Bay of Bengal and would include Bangladesh, India, Myanmar, Sri Lanka and Thailand. The terms of the agreement are reportedly close to agreement.

[11] This project was sponsored by USAID Bureau of Economic Growth, Agriculture and Trade under its global Trade Capacity Building Project with support from USAID/ANE.

has taken in structuring the negotiations for this agreement. It would appear that there was never a framework with which address these issue or to actively engage the private sector in the process.

SAFTA: Current Situation and Possible Ways Forward

While the negotiation of an agreement by the SAARC member countries is in itself an achievement, the result leaves much to be desired if actually increasing regional trade flows is accepted as the principal objective. Although the final details are still not absolutely clear, it appears that agreement includes:

- Very large lists of sensitive products that have evidently been carefully compiled to ensure that a great many of the goods excluded from scheduled tariff reductions are those that would be potential exports from other members;
- Relatively restrictive rules of origin that will preclude substantial numbers of goods produced by member countries from being eligible for preferential tariff rates;
- Longer schedules for introducing tariff rate reductions than is warranted for adjustment by domestic industries facing the prospect of competing with other regional producers.

This rather illiberal result would seem to be a result of a lack of political interest in a more ambitious result by any of the countries engaged in the process. Certainly there has been little publicity by governments after the SAFTA Accord was agreed in Islamabad in 2004 – and certainly little or no publicized political support for an ambitious result. The process was left largely in the hands of technical bureaucrats who, on one hand are relatively experienced in negotiating tariff rates, rules of origin, sensitive lists; and on the other hand are much less experienced in addressing the sorts of non-tariff barrier issues that would arise as part of any serious effort to reduce trade related transactions costs. And it is no secret that a great many of the trade officials serving in the region have maintained a strongly protectionist position, sometimes in contravention of their government's stated policies.[12]

Given that the SAFTA result is a considerably more tentative step towards reducing trade barriers within the region that had been hoped by many, the question is what, if anything, could be done to improve this situation? There will be those who argue that this result accurately expresses the political interest within the region for reduced trade barriers and that any attempts to re-energize the process would be futile. We have little basis to say how widely this view might be held

[12] By way of example, it was agreed in 2003 by the two prime ministers of India and Sri Lanka to considerably expand the FTA that existed between the two countries – including extending the coverage to include services and investment. The first stage of this process involved negotiations by the two sides to produce a framework agreement, which would establish the parameters to be included in the final negotiations. Both sides were led the respective prime ministers' representatives, a Deputy Governor of the Reserve Bank of India and a well respected private sector leader. Both prime ministers had given instructions that an ambitious result was expected – e.g., greatly reducing the sensitive list excluding goods from preferential tariffs. Both sides recognized that once the process was turned over to the officials, that there was a good chance that there would be a much less ambitious result emerging in the end. Therefore, one of the objectives of the first round was to attempt to 'tie the hands' of the officials that would take over. As it happened, the conclusion of the agreement is now roughly two years behind schedule and there are indications that it will be much less of an expansion of the existing agreement as originally been intended.

amongst regional trade officials. Our general sense from the meetings with officials certainly gave the general impression that many were focusing their attention elsewhere, (see Javed Burki's trip report). And certainly for many countries at this time the WTO Doha Development Round process is requiring increased attention.

However, during the meetings held in the region it was also evident that there is still considerable interest by the private sector to see a workable regional trade agreement implemented. Many made clear that the existing limitations were costing the region large amounts in wasted resources and missed commercial opportunities.[13] And as already mentioned, there would seem to be a strong interest in seeing the SAFTA provide a basis for addressing the many difficult trade facilitation issues that hinder commercial growth and development. The discussions with the private sector also indicated support for an agreement that would include services and investment. (It should be kept in mind that relatively few in the private sector actually had much of an idea of what liberalizing trade in services might entail.)

Despite seeming private sector support for attempting to move this process further to a more acceptable result, it is not clear how much support there would be among the political leaders in the region. There has been something of a movement towards greater protectionism in at least two or three of the SAARC countries, (e.g., India and Sri Lanka, both as a result of elections that took place in 2004). Nevertheless, a strong case can be made that the core goals set out in the SAFTA Accord have not been fulfilled in any meaningful way. (It is a good thing that some of those goals, notably the notion of compensation for lost tariff revenues, have not been met.) *If* there is political interest, this would at least provide a basis for moving build on the limited agreement that has now been reached. Whether sufficient political interest and willingness exists, remains to be seen.

There is another factor that might influence whether or to what extent the SAFTA process might be extended – Afghanistan joining SAARC and its accession to the FTA. It is reasonable to expect that during the course of 2006, Afghanistan will take the steps required to formally become a member of SAARC at the next summit, scheduled for early 2007 in New Delhi. It *may* be possible, if there is adequate advance preparation, for Afghanistan to also propose a basis for accession to the SAFTA immediately following the approval for SAARC membership. However, it has to be emphasized that this is no more than speculation as to how this process might develop. The fact is that SAARC has never yet brought in a new member, so there is no precedent to serve as a guide on how to proceed. Similarly, discussions with several government officials in several of the countries visited suggested that there has been no thought yet to how a new country might join the SAFTA. It would appear that the two most important factors determining how this

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[13] For example, business people in Karachi made clear that despite restrictions, Indian goods were still entering the market. One way was for goods to be exported from India to Dubai or Singapore and then re-exported. This obviously entailed much higher shipping costs than would be the case if trade could take place directly. Javed Burki also made a compelling case that the limitations restricting regional trade have led to a significant misallocation of resources, essentially drawing investment into activities that are not in line with the individual country's areas of comparative advantage. He drew comparisons between the sharp differences in the patterns of economic activity between India and the area that became Pakistan before and after independence and partition.

process might process would seem to be how extensively Afghanistan prepares for membership in both SAARC and the SAFTA and the extent that India, which will chair the next summit, is willing to support Afghanistan in these efforts.[14]

If this process moves forward more or less as speculated and *if* Afghanistan brings to SAARC a proposal for its positions regarding SAFTA that is presses for somewhat greater market access and for greater focus on trade facilitation issues, this *may* provide a basis for the political leaders to endorse extending/expanding the agreement. This is, of course, a bit of a long shot where the chances of success will likely depend crucially on the ability to prepare the ground politically in advance. (How this might be done is discussed further below.)

There is a reasonable chance that Afghanistan will submit a SAFTA proposal that will be less restrictive than it appears most (all) members have adopted, (i.e., a considerably shorter sensitive list). It is also likely that its proposal will seek to push an agenda that focuses much more on trade facilitation issues – especially transport issues. The government is especially concerned about transit rights with India, via Pakistan. (Presently, Pakistan formally permits transit to India from Afghanistan, although how well that works is in some dispute. Evidently Pakistan does not permit, or significantly restricts, the transportation of Indian goods by road to Afghanistan.) How far the Afghan government is willing to push these issues up front, versus simply agreeing to the current terms in order to reduce the chances of running into resistance will likely depend upon an internal political debate as well as whether there is any encouragement or assurance from SAARC governments. (Note that Afghanistan is in the early stages of the WTO accession process, so it is quite possible that SAFTA will provide the first practical opportunity to address actual trade policy implementation issues rather than theoretical policy positions.)

Options for USAID and other donors

- **Continue to develop private sector support for a stronger regional trade agreement.** It is easier for the governments in the region to avoid moving the SAFTA process forward if there is no active support from the private sector. There appears to be widespread support for such an initiative among many in the private sector, but they need technical assistance to better understand the shortcomings in the existing agreement and to develop appropriate proposals which can be presented to policy makers. This is especially important with respect to developing proposals aimed at addressing trade facilitation issues.

- **Pursue high level dialog with senior government officials:** This should be aimed at increasing the understanding of the shortcomings of the existing agreement and how it falls short of the goals established in the SAFTA Accord. Particular emphasis should be put on the importance of trade facilitation issues, supported by analysis where appropriate. This dialog should also begin to address the process of Afghanistan's membership in SAARC and SAFTA.

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[14] It has been reported that Bangladesh may have reservations concerning Afghanistan's joining SAARC despite the decision at the Dhaka summit.

- **Work with government trade officials on new SAFTA initiatives:** There is scope to provide technical assistance to build the capacity that would be needed to extend SAFTA to include much greater emphasis on trade facilitation issues, services and investment. There have been general statements in support of the idea in principle of expanding SAFTA into these areas. Once the process is re-opened to address these issues, it may be possible to also revisit the existing shortcomings.
- **Work within the WTO:** It is certainly the case that the SAFTA does not come close to complying with Article XXIV, which covers regional trade agreements. There is no doubt that SAARC intends to submit this agreement under the Enabling Clause, which essentially ignores Article XXIV standards (e.g., that the agreement cover virtually all trade, that tariffs go to zero in no more than 8 to 10 years, and that no entire sector be excluded). It can be argued that since SAARC is a sufficiently large market with a growing importance for the rest of the world, any agreement ought to be consistent with the higher standard. My understanding is that all that would need to be done is have at least one country request that the agreement be referred to the committee responsible for regional trade agreements. This might provide regional governments with a basis for asking that SAARC re-open SAFTA with a view to ensuring that the final result is Article XXIV compatible. While there may be some resistance to this, if it were to go forward it would lead to a much stronger agreement and would likely have important secondary effects on some of the member countries' trade policies in general.

2. Pakistan: Trade with India and Afghanistan under SAFTA

Amin Hashwani, Pakistan India CEO's Business Forum

South Asian industries are struggling to find their competitive position in an increasingly integrated global economy from which they have long been sheltered by a legacy of import substitution policies. To boost regional cooperation, the South Asian Free Trade Area has been initiated and is set to become reality on July 1, 2006.

Over the past few years an influx of investment in Pakistan, coupled with a number of bold initiatives by the country's corporate sector, has set the stage for an environment that is conducive to large-scale international trade. This paper aims to describe this environment and the dynamics of reduction of tariffs and nontariff barriers (NTBs) for trade with India and Afghanistan as perceived by some of the top corporations in Pakistan, one of Pakistan's leading trade experts, and prominent Pakistani government leaders.

STRUCTURE OF SAFTA

The governments of the South Asian Association for Regional Cooperation (SAARC) comprise the People's Republic of Bangladesh, the Kingdom of Bhutan, the Republic of India, the Republic of Maldives, the Kingdom of Nepal, the Islamic Republic of Pakistan, and the Democratic Socialist Republic of Sri Lanka. In 1993, these governments signed the Agreement on SAARC Preferential Trading Agreement (SAPTA) which provided the foundation for the building instruments of trade liberalization on a preferential basis. The 13th SAARC summit in Dhaka in November 2005 saw the addition of Afghanistan into the association.

Following SAPTA by more than a decade was the drafting of the agreement on a South Asian Free Trade Area (SAFTA). This agreement, requiring the ratification of all the members of SAARC, has the ultimate objective of promoting and enhancing mutual trade and economic cooperation between members. The goal is to eliminate barriers to trade—tariff, para-tariff and nontariff—and to facilitate cross-border movement of goods. The agreement also aims to promote conditions of fair competition in the free trade area, taking into account each member's level and pattern of economic development. The SAARC agreement has four annexes: the list of sensitive items, rules of origin, technical assistance to least developed countries of SAARC and revenue compensation mechanism.

By consensus, all member countries are to undertake the first tariff reduction of about 5 percent starting July 1, 2006. Following this is a staggered schedule for creation of a completely freely trading zone by 2018. In terms of governance structure, the SAFTA Ministerial Council (SMC) has been established with the support mechanism being a Committee of Experts. These bodies will oversee and enforce the terms and conditions of SAFTA once ratified. This analysis investigates the expected impact of the changes arising from SAFTA implementation on companies in Pakistan.

PAKISTANI CONCERNS ABOUT TRADE WITH INDIA UNDER SAFTA

Since the beginning of the SAFTA debate, Pakistan has had two fundamental concerns: the expected dominance of India's economy in any regional economic cooperation arrangement, and the volatility of political relationships in the region. Pakistanis fear that, given the sheer size of India's economy, the onset of any free trade agreements would automatically lead to Indian goods destroying local markets in Pakistan. Pakistan's trade deficit with India tripled to $288.7 million during fiscal year 2003-2004 compared with $95.8 million in the preceding year. Official statistics made available to this analyst showed that Pakistan's trade with India was in surplus in 1998-1999 and stood at $27.8 million. That surplus turned to deficit the next year and has worsened every year since, but for one.[15]

Mistrust is high in the region; most of India's neighbors worry about the dominance of India's vast economy. With India's growth picking up, its neighbors should realize that SAFTA can enable them to grow their economies faster. On the other hand, India has to provide comfort to the smaller economies that are justifiably worried that their economies may be swamped by an onslaught of Indian corporate giants. Already India has significant balance of trade surpluses with its neighbors. Nonetheless, a number of external agencies argue that there are gains to be had from free trade with India and that the destructive dominance of the country is a myth. The team leader for this activity, Shahid Javed Burki, while addressing a conference organized by the Pakistan-India CEO Business Forum stated that fears that India will gobble the economies of smaller SAARC nations are misplaced and "there is empirical evidence to prove just the opposite. The free trade area arrangements in Africa and Latin America are examples where smaller economies have benefited from regional integration more than the larger ones."

The volatility of the country's political relationship with countries in the region also generates an enormous amount of uncertainty over trade prospects. Pakistan has long attempted to link progress on trade with resolution of the Kashmir issue. Furthermore, given the peculiar nature of this region, the possibility of Pakistani conflict, with either India or Afghanistan, is quite high at any given time, threatening discontinuity in trade. The result of such uncertainty is that exporters and importers attach a much higher risk premium to regional trade involving these three countries. This threat was such a concern that some speculated that Pakistan would opt out of

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[15] Khan, Mubarak. 16 Jan 2006. Dawn.

SAFTA altogether because such collaboration would appear to compromise the country's principled stand on the Jammu and Kashmir dispute.[16]

The practical effect of these concerns has been to impede trade between Pakistan and India. According to Pakistan's Minister of Commerce, Humayun Akhtar Khan, notwithstanding SAFTA's provisions, the two countries will have to wait for a resolution of the Kashmir issue before full-fledged commercial relations can be established. India has suggested a free trade agreement with Pakistan, which has not yet responded.[17]

SURVEY RESEARCH METHODOLOGY

For the purposes of this report, the following high-performing trading sectors were selected for study:

- Agricultural inputs and outputs
- Processed and packed foods
- Engineering and technology
- IT and software
- Pharmaceuticals
- Chemicals
- Energy
- Apparel
- Sugar.

From each sector, two to three leading companies in Pakistan were selected for an interview. The sample size was 19. Each respondent was among Pakistan's top-performing companies. The nature of the research dictated a small, albeit representative, sample. Because of the lack of large-scale trade between India, Pakistan, and Afghanistan, very few companies have experience in this area.

Table 2-1

Pakistani Survey Sample—Characteristics of Trade with India, April 2006

Percent of companies exporting to India	21.05
Average annual exports to India (US $ mil)	3.50
Percent of companies importing from India	47.37
Average annual imports from India (US $ mil)	11.10
Average percent growth in trade with India over past two years	9.00

The questionnaire (Annex 1) consisted of several modules that interacted to provide a holistic view of the perspectives of these corporations. The first module measured a company's size through turnover and employee numbers. This was followed by various questions that gauge the

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[16] *Ibid.*

[17] Pakistan Uncertain on SAFTA. March 27, 2006. UPI.

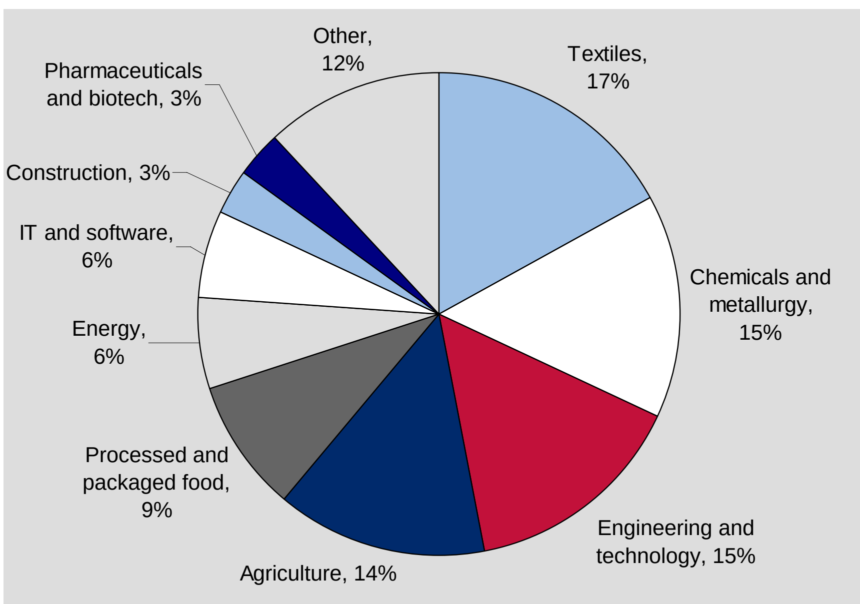
dynamics of trade for these companies' interaction with India and Afghanistan. This was done in a two-tier fashion wherein the amount of current trade was judged *and* the respondent was questioned about barriers to trade with these countries. Having established respondents' current trade and barriers to such trade, the questionnaire then explores the impact on respondents' projections for future trade—especially with India—under various scenarios, such as the commencement of SAFTA. Finally, respondents were asked to submit recommendations for resolving trade disputes and constraints in the region. Various correlations were then drawn to analyze links between the survey's modules (e.g., dependence on sector variables as a measure of tariff elasticity).

BUSINESS SURVEY METHODOLOGY AND FINDINGS

The corporations surveyed are leaders in their sectors; about 50 percent employ more than 500 while 90 percent employee more than 250. Sector composition is shown in Figure 2-1.

Figure 2-1

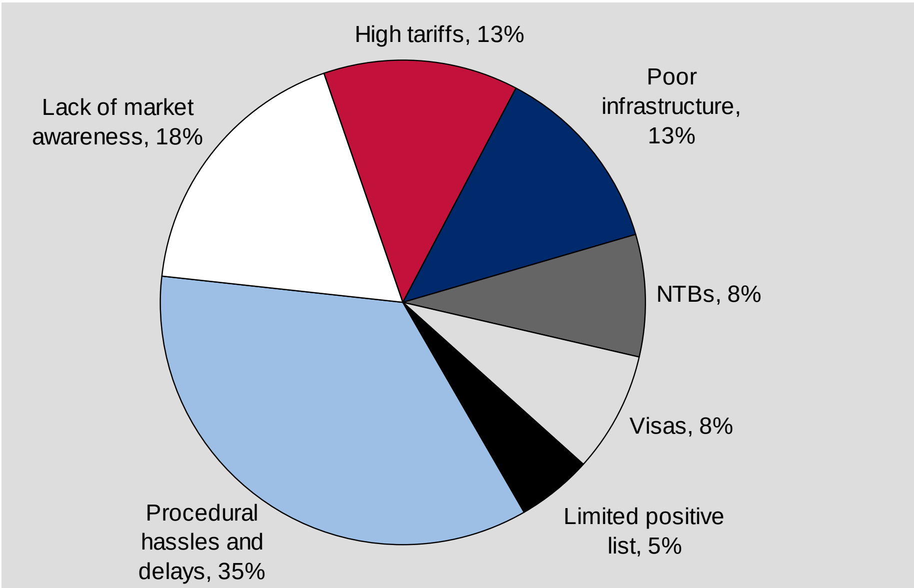
Pakistani Survey: Sector Representation



Prospects for and Impediments to Trade with India

While only about 20 percent of the corporations surveyed export in large volumes to India, and about 50 percent of them import from India, all respondents are concerned about India's high tariffs and other trade barriers. By and large, all believe that demand on both sides is depressed and that trade would surge if trade barriers were relaxed. Figure 2-2 depicts their views of bottlenecks to Pakistani-India trade, considering Pakistani and Indian barriers together.

Figure 2-2
Pakistani View: Bottlenecks in Pakistani-India Trade



Seventy percent indicated that they faced significant nontariff barriers (NTBs) in their exports to India (Figure 2-3). The Pakistani businesses surveyed were also asked to comment on Pakistani restrictions on imports from India. Figure 2-4 summarizes their responses. In both cases, restricted lists were considered to be significant impediments to trade, but transport and border procedures (taken together) were considered even greater impediments to trade than the restricted lists. It was the general view of respondents across all sectors that while Indian import tariffs are relatively higher than those in Pakistan, the intensity of the NTBs, especially delays caused by standards (sanitary and technical) and testing, and clearance of goods is also higher in India than in Pakistan.

Nonetheless, India, because of the sheer size of its market and proximity to Pakistan, remains alluring to Pakistani corporations. Respondents' answers to questions about their reasons for trading with India are summarized in Figure 2-5. The foremost reason for such trade is the cost advantage accruing to Pakistan from sourcing less expensive goods in India. Incentives provided by the Government of India were also noted as significant inducements, as was the view that India's forecast of strong economic growth would sustain continued appetite for imports, including imports from Pakistan.

Prospects for and Impediments to Trade with Afghanistan

In an extension of the analysis, the survey also aims to investigate the trade patterns, dynamics, and potential for trade with Pakistan's western neighbor, Afghanistan. Pakistani businesses perceive a number of advantages to trading with (Figure 2-6).

Figure 2-3
Pakistani View: Indian Nontariff Barriers to Imports from Pakistan

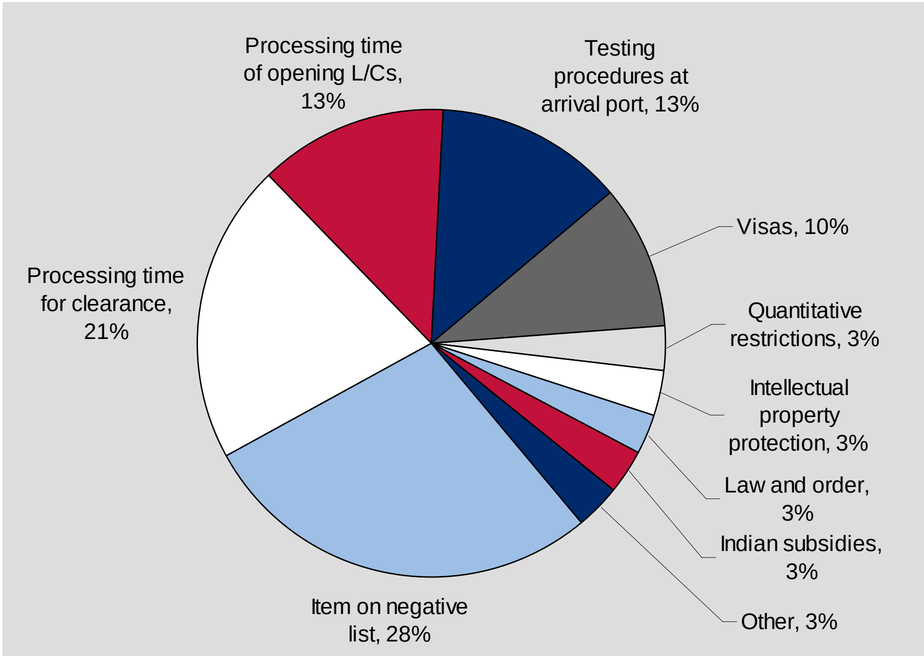


Figure 2-4
Pakistani View: Pakistani Nontariff Barriers to Imports from India

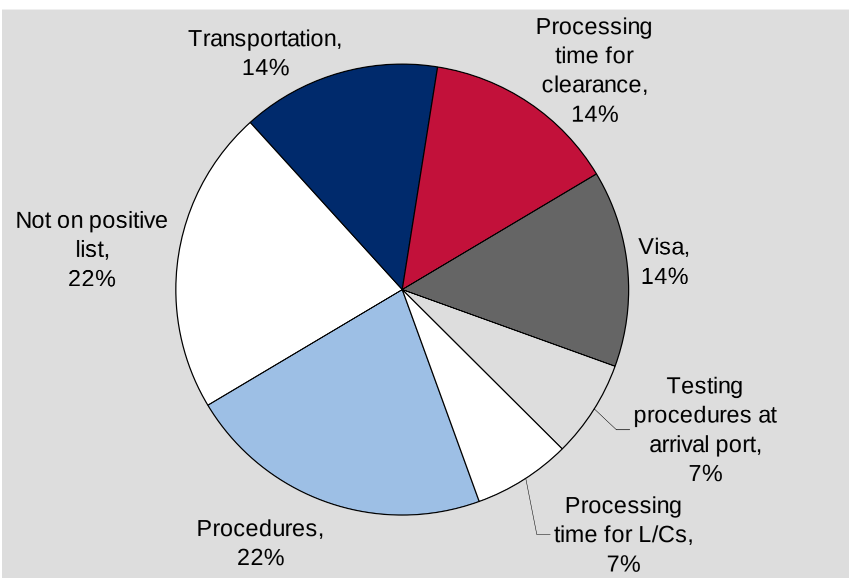


Figure 2-5
Pakistani View: Reasons to Trade with India

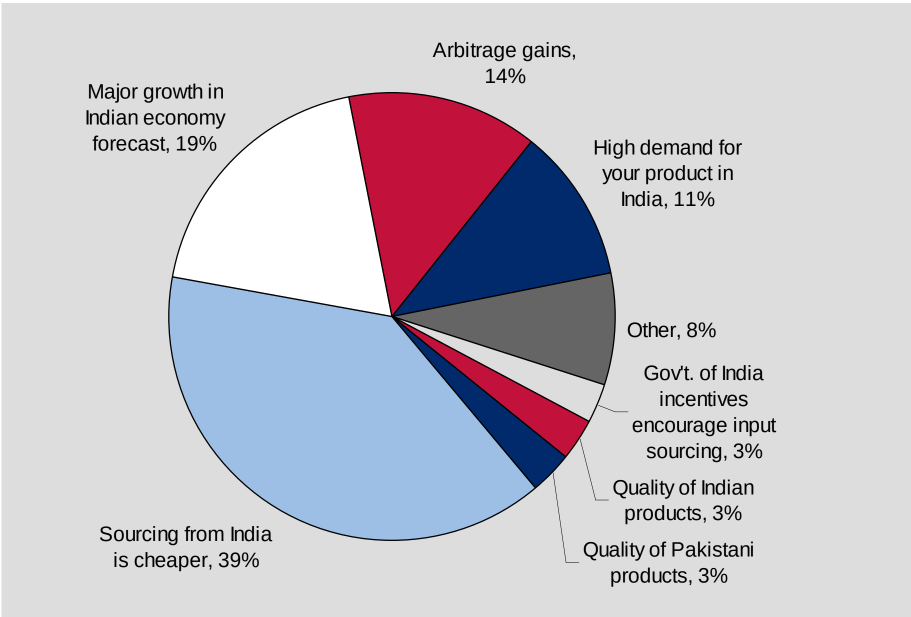
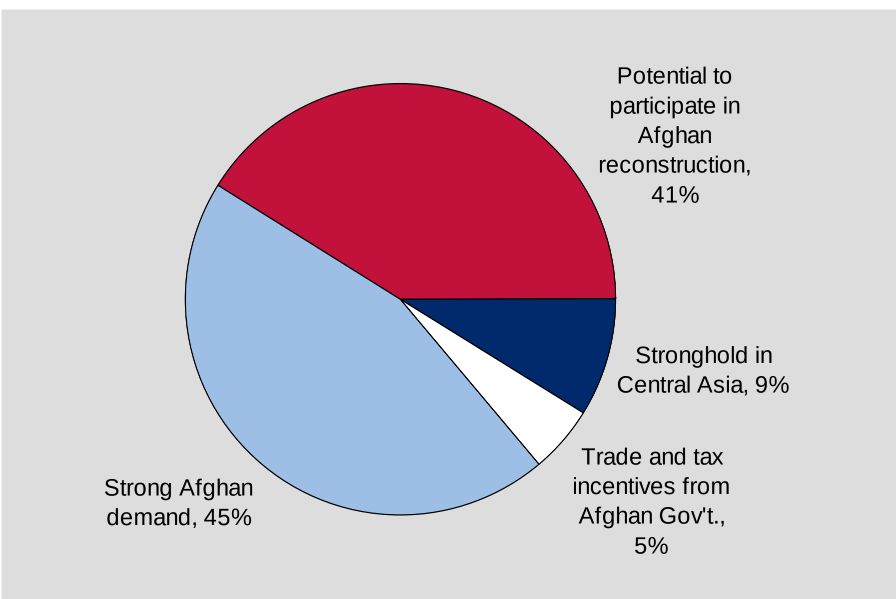


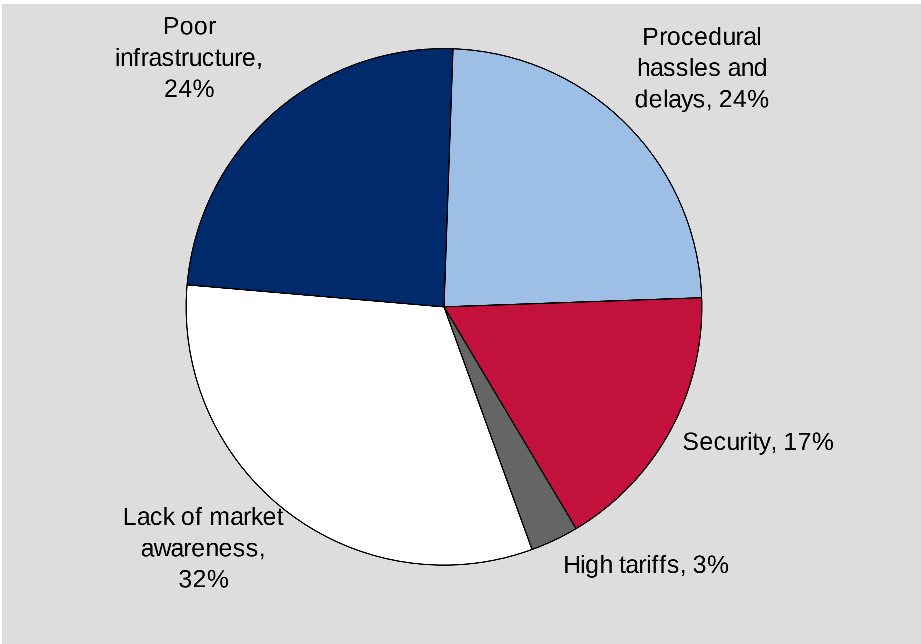
Figure 2-6
Pakistani View: Reasons to Trade with Afghanistan



However, as the situation stands, transportation bottlenecks; the inadequate infrastructure hinders activities of traders operating on any leg of the Afghan-Pakistan-India triangle. As indicated by this analysis, approximately 50 percent of the reason for lack of trade between Pakistan and Afghanistan is due to procedural inefficiency as well as lack of suitable infrastructure (Figure 2-7). A lack of awareness among Pakistani businessmen of Afghan market potential— and the unstable security situation in Afghanistan— together account for most of the remaining barriers as perceived by Pakistani business leaders.

Figure 2-7

Pakistani View: Bottlenecks in Pakistan-Afghanistan Trade



Pakistan a Transit Hub for India-Afghanistan Trade?

Expansion in India-Pakistan trade over the next 3-5 years has been forecast through the questionnaire as being in excess of 50 percent; and approximately 78 percent of respondents see potential to trade with Afghanistan. If traders on both sides had transit rights through Pakistan, the country could become a hub of trade activity. A modest estimate is that Pakistan's trade will increase by approximately $14.6 million as a result of gains in trade with both India and Afghanistan—if its neighbors had transit rights. But this is not a win-win situation as is widely believed. Pakistan's exports to Afghanistan have been increasing over the last four years and are now more than US$750 million. One can deduce that the reason for this increase is that Pakistan does not grant land transit to India for Afghanistan. The consequence is that Pakistan shows a favorable balance of trade with Afghanistan, whereas its balance with India is negative and growing. Giving India with transit rights for trade with Afghanistan will mean that some of these imbalances will shift—possibly allowing Pakistan to narrow its imbalance with India but also leading to a shrinking surplus with Afghanistan.

Forecast Scenarios

1. Tariff Reductions Only

Responses were highly varied, making it difficult to draw conclusions from this line of questioning. About 53 percent of respondents believe that a sole focus on tariff reduction by SAFTA would be favorable for business, since exporters and importers from both sides would gain from tariff reductions. But 28 percent believe that given the current nature of cross-border business integration, tariffs are but a small part of a big problem, so tariff reduction alone would have limited or no effect on business. The main concern is that even in the absence of tariffs there are NTBs and export incentives that make the market an unfair arena as India might subsidize and/or dump products to capture the Pakistani market.

2. Reduction in Tariff and Nontariff Barriers

With the exception of the automobile sector, an area in which Pakistan is yet to become competitive, Pakistani companies across the board are extremely optimistic about regional trade prospects should both tariffs and NTBs be removed. This is because reduction in tariffs and NTBs will have obvious consequences in enlarging and unifying the regional market. We were somewhat surprised by the eagerness of corporations to improve themselves through increased competition stemming from an easing of trade barriers—which is expected to result in greater productive and allocative efficiency. Furthermore, respondents pointed out that a reduction in trade barriers would tend to ease out third countries and middlemen in places such as Dubai, which is now intermediating between Indian and Pakistani traders. Opportunities for joint ventures would also become important. It should be noted, however, that despite this general enthusiasm and optimism, many respondents are concerned about dumping by Indian producers and reduced profitability among Pakistani producers arising from heightened import competition.

We also asked the Pakistani businesses what they perceived to be the strength of their products in comparison with competing products from India. A fairly widespread perception is that Pakistani goods, especially textile manufactures, are of higher quality than those produced in India. Of course, 30 percent of the industries represented did feel that they did not have a unique and marketable niche product. The automotive sector was by far the most pessimistic as to its competitive prospects in a more liberal regional trading environment.

We followed up this question with inquiries into the precise ways in which implementation of the SAFTA agreement would be expected to affect respondents' businesses. This elicited cautious optimism. While most respondents envision further specialization in traded sectors, some found it difficult to anticipate the agreement's impact because tariff classifications—especially between India and Pakistan—will need to be harmonized and much remains to be done to clarify broader changes in trade policies.

Most of the companies see removal of Indian NTBs and easing of visas for entry into India as essential to promoting trade. Furthermore, SAFTA must focus on permitting regional trade in all but a few products (a "negative list" approach) as opposed to restricting trade in all but a few (a "positive list") products for the agreement to produce tangible impact on regional trade.

VIEWS OF PAKISTANI EXPERTS ON BARRIERS TO REGIONAL TRADE

Following the business survey, the researchers conducted additional interviews, including interviews of Mr. Mohammad Sulaiman, an independent consultant on customs, tax law, and trade agreements; and of Mr. Shahid Bashir, a senior official at the Ministry of Commerce in Pakistan. Consequently, our analysis and recommendations draw on the expertise of both the public and private sectors of Pakistan.

Perspective of a Leading Independent Trade Consultant

Customs

Mr. Sulaiman, who is doing a report on Customs-related issues in India-Pakistan trade, noted that although Customs authorities are the basic facilitators of trade because they provide final clearance for goods entering a country, Customs is not mentioned in the SAFTA agreement. Pakistan Customs has been revamping and improving its structure through a new program: Customs Administrative Reforms or CARE. As part of the program, authorities have invested in various computer modules such as PACCS— trade facilitation software that makes all filing and paying for exports and imports accessible from an online platform. Customs officials merely are given relevant instructions on their physical examination on the port.

Rules of Origin

Mr. Sulaiman further commented on SAFTA by saying that while the latest agreement has not been made public yet, it provides the platform to increase trade by reducing tariffs on a large number of goods. He noted, however, that rules of origin were causing major problems as there was confusion regarding the conditions of value addition and tariffs. Consequently, Customs, especially on the Indian side, are creating problems accepting goods from Pakistan for which production inputs are usually not of Pakistani origin. For example, despite the reduction in Indian duties on dry cell batteries from Bangladesh, imports of these items from Bangladesh have been stalled at Indian ports because of confusion about how to apply rules of origin as they applied to these goods – which would permit eligible goods to enter India duty-free.

Services, Investment, Movement of Persons

As to the possibility of increasing cooperation in investment, exchanges of people, and trade in services, it is believed that SAFTA will eventually incorporate these topics, at least for trade and exchanges between India and Pakistan. While there is no definite agreement under SAFTA on these matters, Mr. Sulaiman believes that improvement will take place. In financial services, for example, at least one bank on each side of the border plans to open three to four branches in the other country. The applicant banks are the Habib Bank and the Bank of India, but no final decree has been passed on this matter.

Nontariff Barriers

Even though India ostensibly grants Pakistan MFN status, Pakistan's balance of trade with India is negative and worsening. In the words of one businessman, "Our businessmen trade with the rest of the world. If they are unable to export to India despite having MFN and a cost-advantage in various sectors, there is something more to the problem."[18] Nontariff barriers are an important factor. According to Mr. Sulaiman, exporting to India is extremely tedious as India's laws are convoluted and opaque. For instance, to make a certain export, the exporter not only has to refer to the Customs Act but also to cross-references to excise laws, sales tax laws, and education tax laws.

Other hidden trade barriers exist in the form of India's unpublished administrative instructions that are for internal use only. These include creating delays for certain imports—delays that kill the market. No one wants to talk about this situation because, as evidence of a clear failure of trade, it is embarrassing for India's importers and Pakistan's exporters alike. Standing and certification requirements fall into this category—and these impediments often apply to imports from other SAARC countries as well as Pakistan. For example, India has increased its effective tariff on jute products from SAARC countries and has made the chemical testing certification mandatory for these imported products. The certificates, to be issued by Indian authorities, have to mention that oil content of jute twines does not exceed 3.0 percent. Testing occurs in Lucknow rather than Kolkata. But Bangladesh has very few export items, and jute and jute products are among those few items Bangladesh does export. The restrictive measures have drastically curtailed the Bangladeshi exports of these products to India.

Most nontariff barriers are hard to detect by small exporting countries, like Bangladesh, which have virtually no commercial intelligence capacity to gather information about covert trade distorting practices in countries with which they trade.[19] Historically, India has asserted that every measure that it takes is WTO compliant. The problem is that most stakeholders do not want to invest in a complaint to the WTO because of the effort, time and cost of a lengthy WTO dispute-resolution process.

Sensitive List

Pakistan has a limited number of exports as an economy. Most have been put on the sensitive list by India; in other words, India has made no tariff concessions on many of the items in which Pakistani exports have the greatest interest. The majority of the allowable exports to India are production inputs for Indian producers to use in producing for export—such as Pakistani textiles used in Indian garments. "India has a strong middle class with the money to spend, and is quality conscious. We are exporting to the rest of the world but where is our part on this enormous market next door?"[20]

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[18] Sulaiman, M. Personal Interview. May 2, 2006.

[19] Azad, Q. 25 April 2006. TFE.

[20] *Ibid.*

Views of a Senior Pakistani Official

No analysis of the trade situation can be complete without the input of Pakistan's Ministry of Commerce. A high-ranking official in the Ministry, Mr Shahid Bashir, addressed a broad range of the issues.

Infrastructure

A number of projects are underway to eradicate infrastructure deficiencies. Along with its Indian counterpart, the Ministry had renegotiated shipping agreements between the two countries. In contrast to earlier extremely restrictive agreements, trading vessels can now travel more freely and enjoy access to virtually all ports in the other country. It was also understood that roads were a key support infrastructure to trade between Pakistan and its neighbors and that the National Logistics Cell (NLC,) [21] had been authorized by the Prime Minister to improve border infrastructure at Tarkan and Chaman for trade with Afghanistan as well as at Wagha for exchange with India.

Tariffs

Moreover, while India and Pakistan have political complexities, there are no restrictions on trade specifically with India. Tariffs with India comply with WTO requirements and will be further reduced with the implementation of the SAFTA agreement. Imports especially are being liberalized, conforming to the sensitive list agreed between the concerned parties. While most trade has been conducted under the positive list regime, this list of allowable goods has increased many times over the past 10 years. The Government of Pakistan remains strongly opposed to granting India MFN status until there is a firm and clear resolution of the Kashmir issue.

Other Issues

Mr Bashir also pointed out that it was imperative to ***strengthen the SAARC Secretariat***. "Currently it works like a post office, really. The institution has virtually no capacity for research."[22] He suggested that a good model for a stronger secretariat was the ASEAN one.

Meanwhile, while not part of the SATFA agreement, separate initiatives within SAARC were taking place to formulate ***agreements on investment flows*** and are close to resolution. Also, at the 13th South Asia Summit in Dhaka in November 2005, members discussed ***adding services*** to the SAARC agreements; a mandate for further research into this over a six-month period was agreed. This would, in most probability, lead to the amendment of SAFTA and ratification by all the countries.

Further inquiry into the ***mobility of people*** and persistent visa problems shows that there is no visa problem with Sri Lanka, Bangladesh, Nepal, Bhutan, and Maldives. According to the Ministry, any visa regime has to be bilateral and not necessarily part of a multicountry agreement

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[21] The National Logistics Cell was established by the Pakistani military in 1982 to transport more than a million tons of wheat to deal with a shortage the government had not anticipated. The NLC stayed in place after the crisis was over and is now the largest transport company in the country**.**

[22] Bashir, S. Personal Interview. April 30, 2006.

(e.g., not all EU members are part of the Schengen agreement). A consensus on the visa regime can only be reached with dialogue between the Ministry of Interior officials in India and Pakistan and is not under the jurisdiction of the Ministry of Commerce.

Numerous Indian ***nontariff barriers*** allowed under WTO are hindering trade severely. "Testing of ***sanitary and safety standards*** is an extremely lengthy process. For example, while live animals are exported from Wagha, the quarantines are situated in Delhi. Also, textiles enter through Bombay but the testing laboratories are somewhere in Madras."[23] Other countries, such as Bangladesh, also face this problem in getting goods into India. A potential solution is to have bilateral agreements recognize the independent test results from laboratories in the exporting country. The WTO requires that there be four tenets to the requirement of any sanitary standard: (1) how the standard evolved, (2) what is the mandatory standard, (3) is the standard internationally compatible and (4) is the standard applied to local goods as well. Unfortunately, the standards that have been applied by India are applied differently for local and imported goods.

Finally, the official agreed that the Pakistani concern about ***Indian producers dumping products*** is valid. India has economies of scale in various industries. For instance, they have some of the world's biggest private refineries. These groups, such as the Reliance group in India, are so aggressive in capturing the market that they can afford to lose billions of dollars in order to destroy their own local competition as well as international competitors. Perhaps, the idea is to engage in fair trade then, instead of free trade.

CONCLUSIONS AND RECOMMENDATIONS

The concept of freer trade in South Asia is welcome as the Pakistani business community recognizes the potential commercial and developmental benefits of greater regional exchanges of goods, services, investment, and people. In terms SAFTA implementation, however, interviewees made numerous suggestions in the course of this research.

- ***Involve the Private Sector in SAFTA Policy Formulation.*** It is essential that the private sector in all countries be represented and have a venue for participating in the decision and policymaking processes as regards SAFTA. Since this agreement is going to directly affect their interests, being involved in the policy process will help ensure a balanced and efficient solution to problems identified in this report. The governments involved recognize the need for balance; industry and sector-specific strategies will have to be formulated and enforced by all parties. Even so, it will be difficult but important to keep private sector input from impeding trade liberalization; some private interests may seek to shelter infant industries even at the expense of opening new markets up to their goods and services.
- ***Create a Regional Mechanism for the Resolution of Trade Disputes.*** Institutionally, it is essential that formal structures be created so that entrepreneurs across the region see reduced risk of trade disruption. For example, the SAARC Ministerial Council could empower the Tariff Commissions of all countries to interact and resolve disputes.

[23] *Ibid.*

- ***Simplify Indian Trade Procedures, Curb Nontariff Barriers, and Improve Information Exchange.*** As evident elsewhere in this report, India has taken steps to simplify trade procedures, increase information exchange, and remove the numerous nontariff barriers that currently thwart trade. Because of the size of its economy relative to others in the region, India's leadership in dismantling trade restrictions will be critical in fostering trust in the region.

In conclusion, while much remains to be done to build on the foundation of economic cooperation in South Asia represented by the SAFTA agreement, SAFTA is not alone or unique in pursuing regional economic cooperation. Across the globe, many other models for such cooperation exist, and there is much to be learned from each.

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ANNEX 1. QUESTIONNAIRE ON PAKISTAN–INDIA–AFGHANISTAN TRADE

1. What was the turnover of your company in the fiscal year 2004-05?
    a. Less than US$ 0.5 billion
    b. US$ 0.5 to 1.5 billion
    c. US$ 1.5 to 3.0 billion
    d. US$ 3.0 to 5.0 billion
    e. More than US$ 5.0 billion

2. What is the number of employees working in your firm?
    a. Less than 50 employees
    b. 50 to 100 employees
    c. 100 to 250 employees
    d. 250 to 500 employees
    e. More than 500 employees

3. What are the sectors in which your firm operates?
    a. Agriculture inputs
    b. Agriculture output (commodities)
    c. Processed and packed foods
    d. Engineering and technology
    e. IT and Software
    f. Pharma and biotechnology
    g. Chemicals and metallurgy
    h. Textiles
    i. Any other (please specify)

4. Do you export to India? ☐ Yes ☐ No

5. How much? In USD millions -

6. If yes, what percentage of your exports does India account for?
    a. Less than 1 per cent of total exports
    b. 1 to 5 per cent of total exports
    c. 5 to 10 per cent of total exports
    d. 10 to 25 per cent of total exports

e. More than 25 per cent of total exports

7. Do you import from India? ☐ Yes ☐ No

8. How much? In USD millions -

9. If yes, what percentage of your imports does India account for?
   a. Less than 1 per cent of total imports
   b. 1 to 5 per cent of total imports
   c. 5 to 10 per cent of total imports
   d. 10 to 25 per cent of total imports
   e. More than 25 per cent of total imports

10. Have your trade with India witnessed any growth in the last 2 years? ☐ Yes ☐ No

11. If yes, what has been the rate of growth in your trade with India?
    a. Around 2 to 3 per cent on an average
    b. 3 to 5 per cent on an average
    c. 5 to 8 per cent on an average
    d. 8 to 10 per cent on an average
    e. More than 10 per cent on an average

12. What are the custom-duties paid by the importer for exports to India?

13. What are the custom-duties charged on imports from India?

14. Are there any nontariff barriers in India restricting trade with Pakistan? ☐ Yes ☐ No

15. If yes, please indicate the nontariff barriers faced by you in India?
    a. Quantitative restrictions
    b. Some items in the negative list of trade (with Pakistan)
    c. Intellectual Property protection
    d. Law and Order
    e. Testing procedures at arrival port
    f. Processing time for clearance at arrival port
    g. Processing time for opening L/Cs
    h. Any other (please specify)

16. Are there any restrictions in Pakistan to trade with India? ☐ Yes ☐ No

17. If yes, please indicate the trade restrictions faced by you in Pakistan to trade with India?
    a. Transportation
    b. Procedures
    c. Testing procedures at arrival port
    d. Processing time for clearance at arrival port
    e. Processing time for opening L/Cs
    f. Any other (please specify)

18. Do you think that the thaw in Pakistan-India relations shall boost trade between the two countries? ☐ Yes ☐ No

19. What is the rate of growth that you foresee in Pakistan-India trade in the next 3 to 5 years?
    a. 5 to 10 per cent
    b. 10 to 20 per cent
    c. 20 to 50 per cent
    d. 50 to 100 per cent
    e. More than 100 per cent

20. Why do you trade with India?
    a. There is a high demand for your products in India
    b. The price of your product is relatively higher in India than in Pakistan (arbitrage gains)
    c. You see a major growth in India's economy in the near future, and thus want to make your base there
    d. Sourcing inputs from India is cost-effective than local sourcing
    e. The Government of India gives trade-incentives on input sourcing from India
    f. The quality of products (inputs) is better in India than in Pakistan
    g. Any other (please specify)

21. Do you want to outsource your manufacturing base to India?
    ☐ Yes ☐ No

22. If yes, please specify the reasons for outsourcing your manufacturing base to India?
    a. Business-environment in India in investor-friendly than in Pakistan
    b. Labour supply in India is better than in Pakistan
    c. Quality of labour (skilled) is better in India than in Pakistan

d. The Government of India given tax-incentives to Pakistan firms setting operations in India
e. Manufacturing in India opens trade avenues with countries in the Middle-East, the Caspian Sea and Asia Minor.
f. Any other (please specify)

23. Do you trade with Afghanistan? ☐ Yes ☐ No

24. If yes, what is your current level of trade with Afghanistan? (in US $)

If no, did you ever trade with Afghanistan in the past? ☐ Yes ☐ No

If yes, when was the last time you traded with Afghanistan?

25. Would you want to expand your trade relations with Afghanistan in the near future?

☐ Yes ☐ No

26. If yes, what are the advantages you see for your firm in trading with Afghanistan?
    a. Trade with Afghanistan's emerging economy will help your firm's top-line and bottom-line
    b. You see a big potential for your firm to generate business by participating in the reconstruction process in Afghanistan
    c. Government of Afghanistan gives trade and tax incentives to firms trading with Afghanistan
    d. By trading with Afghanistan, you want to make your stronghold in Central Asia
    e. Any other (please specify)

27. What do you think are the major bottlenecks in trade between Pakistan and India?
    a. Inadequate and poor quality infrastructure
    b. Procedural hassles and delays
    c. Heavy tariffication on imports and exports
    d. Lack of awareness on market demand and potential for trade
    e. Any other (please specify)

28. What do you think are the major bottlenecks in trade between Pakistan and Afghanistan?
    a. Inadequate and poor quality infrastructure
    b. Procedural hassles and delays
    c. Heavy tariffication on imports and exports
    d. Lack of awareness on market demand and potential for trade

e. Any other (please specify)

29. If, under SAFTA, only tariff barriers will be addressed how would that affect your business?

30. What would be the most significant changes in your business if both tariff and nontariff barriers were removed?

31. What features do you have in your product, which is not there in the Indian products, which allows you to export to India?

32. How will implementation of SAFTA impact your business?

33. Do you think that Pakistan's trade policy with India needs to be changed? If yes, then what needs to be changed?

34. If Pakistan grants India a status of MFN (most favoured nation) then tariffs will be very lowered, will it be good for your business? If no, how?

35. What are the most important tariff and non tariff barriers you were confronted with when exporting to India?

36. Please suggest a mechanism for resolving a Tariff or Nontariff issue faced by an exporter from Pakistan.

Contact details (you may attach your visiting card)

a) Name of the firm:

b) Address of the firm:

c) Telephone:

d) Fax:

e) Email:

f) Website:

THANK YOU FOR YOUR COOPERATION.

WE APPRECIATE YOUR TIME AND FEEDBACK.

ANNEX 2. QUESTIONS FOR MINISTRY OF COMMERCE

1. Does the Ministry of Commerce have a plan to improve physical infrastructure linking Pakistan and India? If yes, how is this plan implemented?
2. What are the most significant changes, which need to take place in Pakistan's trade policy with India under SAFTA?
3. What trade facilitation measures does Pakistan need to adopt in order to improve it's trade with India?
4. What trade facilitation measures does Pakistan wish to have India adopt in order to improve the trade between the two countries?
5. Which trade facilitation measures should be incorporated into the agreement (SAFTA) to accelerate the trade process with India?
6. Should the agreement cover flows of investment, services and natural persons other than goods and commodities between Pakistan and India?
7. Should the SAARC secretariat be strengthened, and if yes, how will that happen?
8. Pakistan and India have focused too much on protecting their economies by drawing up highly restrictive "sensitive lists" and being very conservative in formulating rules of origin. Taking this into consideration what could be done to ensure the free trade?
9. What is the timetable for full implementation of the proposed tariff cuts and how can Pakistan and India make it happen?
10. Which are the main tariff and non tariff barriers faced by a Pakistani exporter when trading with India? How will the implementation of SAFTA help the Pakistani exporter?
11. Please suggest a mechanism for resolving a Tariff or Nontariff issue faced by an exporter from Pakistan.
12. MFN for India?

ANNEX 3. QUESTIONS RELATING TO PAKISTAN CUSTOMS

1. What role will Pakistan Customs play under SAFTA to facilitate the trade process?
2. Are there any special counters and information centres for the export oriented companies?
3. How does SAFTA make the trade process easier with India?
4. How is Pakistan customs using the technology to ease and shorten the process of transactions?
5. What duty (if any) will be applied under SAFTA agreement if Pakistan lowers the tariff base?

3. Indian Barriers to Pakistani Products: Selected Examples

Mohammad Sulaiman, Suliaman Associates

After India removed quantitative restrictions on its imports in the mid- to late 1990s, it increased tariffs on items that had been covered by those restrictions. It later reduced tariffs gradually, thus opening up the economy. At present, India's general tariff rates are quite low. The general applied rate that was 30 percent ad valorem several years ago is now 12.50 percent.

With the lowering of rates of duty on imports and increase in trade, many nontariff barriers have come to the notice of the international community. These include

- Complicated and cumbersome standards and sanitary and phytosanitary (SPS) requirements;
- Packaging, labeling, and marking requirements;
- Testing requirements for chemicals and for many physical attributes;
- Licensing requirements;
- Canalizing of agricultural and petroleum imports through State Trading Enterprises;
- Interstate taxes and restrictions on movement of goods; and
- Procedural and valuation problems created by Customs.

Some of these requirements are so stringent that exporters view them as tantamount to quantitative restrictions.

In the past two to three years, many—if not all—studies on prospects for increased trade between India and Pakistan have concluded that the opportunities for enhancing trade are tremendous. Gravity models show that the existing bilateral trade, which is less than $1 billion, could increase to tens of billions of dollars annually over the next five to ten years. Informal trade between Pakistan and India has been estimated between US $0.5 billion to $5.0 billion. In many studies this informal trade formed the basis for the higher estimates. With such results, many experts and even institutions like the World Bank now urge Pakistan to grant MFN status to India; some even have advised Pakistan to reduce its own tariffs unilaterally.

Thus, a key question in the minds of many Pakistanis is whether Pakistan will be able to benefit from the implementation of the SAFTA agreement and Pakistan's granting of MFN status to India. In this context, the importance of nontariff barriers (NTBs) as an impediment to Pakistani access to the Indian market is paramount. Most studies of the prospects for growth in bilateral and regional trade have noted these NTBs and the likelihood that India will be slow to remove them.

In this paper, we inventory the most significant NTBs as they apply to Pakistan's most important (or prospectively most important) exports to India.

GENERAL DESCRIPTION OF INDIAN TRADE BARRIERS

Over the past four to five years, India's basic customs duty has fallen from 30 percent ad valorem to a very respectable and reasonable 12.5 percent. Specific duty rates on textiles and certain agricultural products, however, have been left untouched in the latest budget, as have the generally high duties on automobiles. This is a continuation of what occurred in the last several budgets.

In effect, this means that tariffs on major export items of interest to Pakistan remain very high (Annex 1). Where India's tariff rates are low (e.g., 12.5 percent ad valorem), the items are either subject to the mechanism of MRP (maximum retail price) or some other restriction. Garments, fans, air conditioners, refrigerators, and a number of other products are subject to MRP, which has to be printed on the items and/or packing.

In addition to these price factors, Pakistan's automotive products are subject to Indian standards, which are very cumbersome. And India imposes testing requirements on many other products (e.g., certain dyes, food products, food additives).

Pakistan's very small export base comprises less than a dozen major categories and about 65 percent of these are textile-based, including carpets. Pakistan's other major exports are

- Rice;
- Fish and other seafood;
- Fruits and vegetables, including processed foods;
- Leather and leather products;
- Sporting goods;
- Surgical goods; and
- Engineering goods, including fans and automotive products.

In view of Pakistan's limited basket of exports, any measure, whether tariff related or nontariff, that affects these products, seriously affects Pakistan's ability to export. This paper concentrates on trade barriers that affect Pakistan's major exports.

BARRIERS TO TRADE IN SPECIFIC SECTORS

For the purposes of this paper we have selected the following sectors and the major impediments to their exports to India: (1) textiles, (2) agricultural products, (3) food products, and (4) automotive goods.

Textiles

Textiles are Pakistan largest manufacturing sector, in terms of

- Contribution to GDP (10.5 percent) and exports (68 percent);
- Share of the industrial labor force (38 percent); and
- Number of units in the formal as well as the informal sector.

Consequently, Pakistan would like to market its textiles in India but the strict conditions of the Textiles (Consumer Protection) Regulation of 1988, are a major barrier. Although these regulations apply to domestic producers as well as to imports, the use of a MRP on textiles that are transported hundreds of miles to reach India imposes an unreasonable price on the import.

The lowering of tariff rates from 30 percent to 25 percent, then 20 percent, then to 15 percent and now in March 2006 to 12.5 percent is of little consequence to Pakistan because the revised tariff schedule also establishes specific duties at per meter or per kilogram rates, with the proviso "whichever is higher" on Pakistan's major textiles. This nullifies the practical impact of the reduction in ad valorem duties on these products. These specific rates generally equate to more than 30 percent ad valorem. On cheaper goods, the ad valorem duty equivalent of the specific duty rate is obviously much higher. Thus, India's practice of using specific duties discourages imports and directly protects domestic textile products—especially at the lower end of the value spectrum.

Restriction on Azo Dyes

India's import policy permits imports of textiles and textile articles so long as they do not contain Azo dyes. For this purpose, a preshipment inspection certificate from a textile testing laboratory accredited to the National Accreditation Agency of the country of origin has been declared acceptable. Where such certificates are not available, the consignment is cleared after a sample of the imported consignment is tested and certified by appropriate agencies in India. The test is conducted for each and every color and for every consignment. Pakistan has banned the import of benzidine (Azo) dyes but its exports are still tested.

According to one EU study, Indian Customs has even rejected certificates issued by EU-accredited labs and required that consignments undergo repeat tests in India. In addition to the costs of retesting, such tests take from seven days to three months to complete. The consequences are obvious. According to the same study, these requirements specifically hamper exports of high-quality products, as the importer must submit samples of each and every model/design. Such costs in some cases represent 10 percent of the CIF value of the product.

Marking Requirements for Textiles

India's Textiles (Consumer Protection) Regulation of 1988 imposes strict marking requirements on imported yarns, fibers, fabrics, and clothing products. These include producer identification and product composition, the color and even the form, size and color of letters and signs (see Exhibit 3-1).

Even a cursory analysis of these requirements makes clear the hassles, costs, and consequent delays and disruptions in business that they entail. These requirements were imposed on almost all imported textile products (i.e., tops, yarns, fabric/cloth) in July 1998, when India removed its more glaring quantitative restrictions. Application of marking rules for imported products causes enormous delays at Customs because of the detailed inspections, which sometimes require that 100 percent of a consignment to be examined. Of course, no written instructions, rules, or guidelines exist; such instructions are given for individual consignments.

Exhibit 3-1

Portion of India's Textiles Regulation of 1988

"The following markings are required to be clearly visible on the face plait of each piece of cloth:

a) Name and address of manufacturer and the person who causes such manufacture, if any;

b) Description of the cloth, for example, "dhoti", "saree", "shirting", "suiting";

c) Sort number of the cloth;

d) Length in meters and width in "cm";

e) "Fast to normal washing" or "Not fast to normal washing"; words "Preshrunk" or "Mercerised" or any other process actually carried out;

f) The words "seconds" or "damaged piece/defective piece" when the piece of cloth is classified as seconds or damaged piece/defective piece;

g) In case of cloth made from man -made fibre or filament yarn, the words "Made From" followed by the words "Spun X Spun", or "Filament X Filament" or "Spun X Filament";

h) Month and year of packing;

i) The exact composition of the cloth expressed in percentage by weight of each of the individual constituents, to the total yarn content of both warp and weft put together, as illustrated below:

j) Polyester - 100%; or cotton 100% or viscose 100% or cotton 50% polyester 50% and so on. In the case of blended cloth, the words "Blended fabric" followed by the generic name of each constituent and its exact percentage by weight in descending order is also required to be stamped.

The markings as in items (f) and (i) above are also to be made on every alternate meter of the cloth at a height not exceeding 2.5 cm from the selvage. Marking of the words and letters has to be made in Hindi, in Devnagari script and in English, in capital letters and the numerals marked have to be international numerals. The height of characters must be at least 0.5 cm for tops, yarns and cloths; at least 0.25 cm for packed yarn and at least 3 cm on bales and other packages. The lettering can be in any colour other than red."

Woolen Textiles

Imports of woolen textiles and woolen blended textiles are governed by Notification dated March 7, 1988 read with the Textile (Development and Regulation) Order, 2001 and the Essential Commodities Act, 1955. All imports of woolen textiles and woolen-blended fabrics must display markings indicating the composition of fiber blends. All consignments must also be accompanied by a preshipment inspection certificate from a textile-testing laboratory of the country of origin certifying the composition of the woolen textile and blends. Consignments lacking a certificate may not be cleared until samples are tested and certified by any one of the agencies mentioned in Public Notice No.12 dated May 3, 2001. This can take anywhere from one week to three months, with such delays entailing additional costs. All woolen textile products, even if no preferential import concessions are being claimed, must also be accompanied by a certificate of origin. In addition, a certificate from brand owners certifying that the product is genuine and authorizing the exporters and/or manufacturers to use the brand name must accompany the consignment. This is required for each and every consignment separately, ostensibly to protect the brand name and the consumers from spurious products. Customs, however, does not accept one all-encompassing certificate, so this process has to be repeated each time an import is attempted (i.e., for every consignment).

Mandatory Standards

India has enforced mandatory certification for 109 products. The mandatory quality certification covers a wide range of products: various food items, food colors, cements, gas cylinders and valves, electrical appliances and accessories, multipurpose dry batteries, X-ray equipment, feeding bottles, miner safety shoes, cap lamp batteries, mineral water and clinical thermometers etc. Imports of these items are allowed only after Bureau of Indian Standards (BIS) certifies permission to use the BIS mark.

For certification of these 109 items, detailed requirements have been issued under eight different Acts. One general complaint is that the Government of India publishes tariff, additional tax rates, and notifications but no single official publication covers all information on tariffs, fees, and tax rates as well as the legislation under which certain formalities are to be completed. All these are given in different Acts and all Acts have detailed rules. Most of the requirements emanate from these rules. This makes the whole system very cumbersome, time consuming, and non-transparent. Hence, there is total lack of transparency. The standards specified are in many cases stricter than even the International Standards (e.g., Indian standards for bottled water are stricter than the internationally accepted Codex Alimentarius and those adopted by EU).

According to Indian legislation, applicants for BIS licenses must pay application fees, processing charges, and expenses to cover inspection visits from India to Pakistan or wherever the applicant’s manufacturing facilities are located. Testing costs, annual marking fees for the licenses, and license fees are paid separately. The foreign manufacturer must also set up a liaison or branch office in India with the permission of Reserve Bank of India. The branch office itself is required to meet all liabilities with respect to BIS Act, rules and regulations for the purposes of BIS license, and the rules and regulations of the Reserve Bank of India. A license is valid for only one year and must be renewed annually. Before the renewal, new inspections and sample testing is required. All costs, as well as renewal fees, are again be borne by the applicants, year after year. Licensing fees include the cost of the initial inspector’s visit and tests—an annual fee of approximately $2,000. The marking fee is 1 percent of the value of certified goods imported into India. This is virtually a 1 percent Customs duty on the entire import. The system appears to be designed to discourage exports to India and to protect the local industry from import competition.

A system now exists by which foreign companies can receive direct certification for products made outside India provided BIS has first inspected the production facility (at the manufacturer’s expense). This system is, however, not without problems and all of the above requirements have to be fulfilled.

Food Items

Both Indian importers and EU and other country exporters of food products have complained of difficulties with customs clearance of food products. Indian authorities used to release packed food products on the basis of health certificates issued by the countries of origin. This has stopped completely. The long period taken to issue test certificates, as well as the limited number of designated labs, are major sources of distress for exporters of food items. Goods are detained for a long time in the customs warehouses leading to heavy damage, as well as port and demurrage charges. Moreover, the temperatures in the warehouses are not conducive to preservation of perishable goods. The lengthy procedures and tests are often self-defeating as perishable items deteriorate during this wait in the warehouses.

The rules and regulations for food items are so rigid and detailed that customs authorities wield enormous power to detain and even halt imports for minor infringements of rules and procedures. Rule 32 of the Prevention Adulteration of Food Rules framed under the powers derived from the Act of the same name are a classic example.

Rule 32 of the Prevention of Food Adulteration Rules, 1955, deals with packing and labeling. It has 30 provisos and provisos within provisos. It also cross-references other rules. These rules prescribe the contents to be specified on the label, the size of the label, the design of the label, the areas specified for display panels, details of color and flavor, trade name or description of food contained in the package, and names of ingredients used in the product by weight and volume. In the case of artificial flavoring, the label may not declare the chemical names of the flavor; in the case of natural flavoring substances or nature identical flavoring substances, the common name of flavors has to be used. If gelatine is used as an ingredient the word "gelatine – animal origin" is to be inscribed. If any article of food contains whole or part of any animal including birds, fresh water or marine animals or eggs or products of any animal origin (but not including milk or milk products), a declaration is to be made by symbols and color code to indicate that the product is nonvegetarian. The symbol is to consist of a brown and red color filled circle. A declaration is also to be given wherever any article of food contains eggs, as nonvegetarian ingredient. A separate but similar declaration is also to be made for returnable bottles that are recycled for refilling. Packages of confectionary weighing 20 grams or less are exempt from declaration of ingredients and declaration of animal origin. (Details under rule 42 for the forms of label, for different products have been prescribed.)

In addition to testing samples, Customs also checks

- The condition of the hold in which the products were transported to see whether it meets the requirements of storage and does not cause deterioration or contamination of the products;
- The physical appearance of goods (e.g., swollen areas and bulges, contamination by rodents or insects, presence of dirt);
- The product's label, to ensure it meets requirements under the Prevention of Food Adulteration Rules and the Packaged Commodities Rules.

All consignments of imported food products must be referred to the Port Health Officer (PHO) for testing. At the customs clearance points where PHOs are not available, Customs is required to draw samples and have them tested at the nearest Central Food Laboratory or a Laboratory authorized by the Directorate General of Health Services. Clearance is allowed only after receipt of the test report. If the products fail the test, they have to be re-exported or destroyed. Testing delays are endemic.

In the case of labeling and marking requirements, importers also face difficulties with controls by accredited laboratories. Laboratory tests cannot be challenged. There is no maximum time limit for the tests. Sometimes, the accredited laboratory wrongly classifies and analyses the product under different standards, thus creating uncertainty and confusion. In many of the cases, the importer is burdened with heavy storage charges and the products are not always stored in adequate conditions. The cumulative effect in some cases is so discouraging that exporters shy away from the Indian market, despite its enormous potential.

A 100 percent check is normally done on foodstuff products. The laboratories are meant to control compliance with the PFA rules, Standards and Measures Rules, and other requirements (e.g., control of the mark of certification for products subject to compulsory certification or the requirements on nonvegetarian symbols or vegetarian symbols and any requirement under other acts such as Meat Food Product Order, 1973, Plants, Fruits and Seeds Order, 1989; the Livestock Act etc). This means that product composition, package size, and labels are thoroughly checked. As PFA rules are very detailed and complex, inspectors are alleged to use these regulations to discourage imports and this also leads to corrupt practices. The lists of rules, regulations, and standards of all kinds are endless.

Automotive Goods

India’s automotive industry has grown enormously in the last ten years. Many vehicles are not only produced but also designed in India. A new import is a vehicle that has not been manufactured or assembled in India; sold, leased or loaned prior to importation nor been registered for use in any country prior to importation. New vehicles can be imported only from the country of manufacture and only through three ports: Nhava Sheva, Calcutta, and Chennai. No land customs stations process automobile imports. The simple argument for this is that these stations are not technically equipped to handle such complicated and critical imports. One can draw any number of conclusions from this. For imports of new vehicles, the importer is responsible for all the provisions relating to the manufacturer.

Imported secondhand or used vehicles cannot be older than three years from the date of manufacture and may enter only through the customs seaport at Mumbai. They must have a minimum roadworthiness period of five years from the date of import with assurance from the manufacturer that it will provide service facilities in India during the five-year period. Roadworthiness must be properly certified. At the time of importation, the importer must have a certificate issued by a testing agency. The certificate must state that the vehicle was tested immediately before shipment for export, conforms to all regulations in the Motor Vehicles Act, 1988, and conforms to the original homologation certificate issued at the time of manufacture. On arrival at the Indian port—but before clearance for home consumption— the importer has to get the vehicle tested by the Vehicle Research and Development Establishment, or Automotive Research Association of India, or Central Farm Machinery Training and Testing Institute and other agencies specified by the government.

On December 12, 1997, the importation of components for motor vehicles in CKD or SKD (complete knock down or semi-knock down kit) form was prohibited, unless a license was issued for the same. Only local joint venture automotive manufacturers who have signed a Memorandum of Understanding with the Directorate General of Foreign Trade may obtain such licenses.

The certification of road safety tests, emission standards tests and the “Homologation Certificate,” generally require at least six months of very strenuous and detailed tests. At the end of all these tests, however, nobody is 100 percent sure of getting certified; all the efforts and expenses could be completely wasted.

CONCLUSIONS AND RECOMMENDATIONS

This paper has identified some specific and very important Indian NTBs as they affect Pakistan’s exports and export prospects. In describing factors that hinder trade between India and Pakistan, we have also identified difficulties that exporters from all over the world face in India. Where do we go from here? One obvious and simple solution is to remove some of the more onerous requirements or NTBs, as follows:

- The labeling requirements for packed foods and textiles should be simplified.
- India and Pakistan could adopt mutual recognition agreements for standards and SPS requirements so that standards certification and SPS measures authenticated by Pakistani authorities are acceptable in India, and vice versa.
- The high tariffs on textiles in the form of specific duties should be removed by India for imports from Pakistan or—preferably—for imports from all the SAARC countries.
- India should reduce its high duties on agricultural products to Pakistan’s level for imports from all of the SAARC countries.

India and Pakistan are natural trading partners and with a little mutual effort and trust the two can achieve what the various gravity models and most of the studies in this field predict.

ANNEX 1. COMPARISON OF IMPORT TARIFF, INDIA AND PAKISTAN

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
0105	Live poultry, that is to say, fowls of the species Gallus domesticus, ducks, geese, turkeys and guinea fowls.			
0105 11 00	Fowls of the species Gallus domesticus	30	30.60	5
0207	Meat, and edible offal, of the poultry of heading 0105, fresh , chilled or frozen			
	Of fowls of the species Gallus domesticus:			
0207 11 00	Not cut in pieces, fresh or chilled	30	30.60	20
0207 12 00	Not cut in pieces, frozen	30	30.60	20
0207 13 00	Cuts and offal, fresh or chilled	100	100.00	20
0207 14 00	Cuts and offal, frozen	100	100.00	20
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter			
0402 10	*In powder, granules or other solid forms, of a at content, by weight not exceeding 1.5%:*			
0402 10 10	Skimmed Milk	60	60.00	25
0402 10 20	Milk food for babies	60	60.00	25
0402 10 90	Other	60	60.00	25
	In powder, granules or other solid forms, of a fat content, by weight exceeding 1.5%:			
0402 21 00	Not containing added sugar or other sweetening matter	60	60.00	25
0405	Butter and other fats and oils derived from milk; Dairy spreads			
0405 10 00	Butter	40	40.00	25
0405 20 00	Dairy spreads	40	40.80	25
0405 90	*Other:*			
0405 90 10	Butter Oil	40	40.00	25
0405 90 20	Ghee	40	40.00	25
0405 90 90	Other	40	40.00	25
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled.			
0703 10	*Onions and shallots:*			
0703 10 10	Onions	5/20	30.60	10
0703 10 20	Shallots	30/20	30.60	10
0709	Other vegetables, fresh or chilled	30/20	30.60	5
0802	Other nuts, fresh or dried, whether or not shelled or peeled			
	Almonds:			

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
0802 11 00	In shell	Rs.35/kg/ Rs.30/kg	Rs. 30 per KG	5
0802 12 00	Shelled	Rs.65/kg/ Rs.95/kg	Rs. 100 per KG	10
0804.5020	Mangoes	30	30	25
0805	Citrus fruit, fresh or dried			
0805 10 00	Oranges	30/30	40.80	25
0808	Apples, pears and quinces, fresh			
0808 10 00	Apples	50/40	50.00/40.	25
0813	Fruit, dried, other than that of heading mixtures of nuts or dried fruits of this Chapter			
0813 30 00	Apples	30/20	30.60/20.40	25
0813 50	*Mixtures of nuts or dried fruits of this Chapter:*	30/20	30.60/20.40	
0813 50 10	Mixtures of nuts	30/20	30.40/20.40	25
0813 50 20	Mixtures of dried fruits	30/20	20.40/30.60	25
0904	Pepper of the genus Piper, dried or crushed or ground fruits of the genus Capsicum or of the genus Pimenta			
	Pepper			
0904 11 50	Green pepper, dehydrated	70/62.5	70.00/62.50/7	5
0904 20	*Fruits of the genus Capsicum or of the genus Pimenta, dried or crushed or ground:*			
0904 20 10	Chilly	70	70.00/71.40	15
0904 20 20	Chilly powder	70	70.00/71.40	15
0910	Ginger, saffron, turmeric (curcuma), thyme, bay leaves, curry and other spices			
0910 91 00	Mixtures referred to in Note 1(b) to this Chapter	30	30.00/30.60	15
10.01	Wheat and Meslin			
1001.1000	Durum Wheat	100	100/102	5
1001.9000	Other	100	100/102	10
1006	Rice			
1006 10 00	*Rice in husk (paddy or rough):*			
1006 10 10	Of Seed quality	80	80.00/80.00	10
1006 10 90	Other	80	80.00/80.00	10
1006 20 00	Husked (brown) rice	80	80.00/80.00	10
1006 30	*Semi milled or wholly milled rice whether or not polished or glazed:*			
1006 30 10	Rice parboiled	70	70.00/70.00	10
1006 30 20	Basmati rice	70	70.00/70.00	10
1006 30 90	Other	70	70.00/70.00	10
1006 40 00	Broken rice	80	80.00/80.00	10
2501	Salt (including table salt and denatured salt)			

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
	and pure sodium chloride, whether or not in aqueous solution or containing added anti-caking or free flowing agents; Sea water			
2501 00	*Salt (including table salt and denatured salt) and pure sodium chloride, whether or not in aqueous solution or containing added anti-caking or free flowing agents; Sea water:*			20
2501 00 10	Common salt (including iodised salt)	12.5	20.40	20
2501 00 20	Rock salt	15	15.30	20
2801	Fluorine, chlorine, bromine and iodine			
2801 10 00	Chlorine	10	37.368	10
2803	Carbon (carbon blacks and other forms of carbon not elsewhere specified or included)			
2803 00 10	Carbon black	10	34.44	25
2803 00 20	Acetylene black	10	34.44	5
2803 00 90	Other	10	34.44	20
2806	Hydrogen chloride (Hydrochloric acid); Chlorosulphuric acid			
2806 10 00	Hydrogen chloride	12.50	34.44	10
2806 20 00	Chlorosulphuric acid	12.50	34.44	10
2807	Sulphuric acid; Oleum			
2807 00 10	Sulphuric acid	12.50	34.44	10
2807 00 20	Oleum	12.50	34.44	10
2815	Sodium hydroxide (caustic soda); Potassium hydroxide (caustic potash); Peroxides of sodium or potassium *Sodium hydroxide (caustic soda):*			
2815 11	*Solid:*			
2815 11 10	Flakes	12.50	34.44	25
2815 11 90	Other	12.50	34.44	25
2836	Carbonates; Peroxocarbonates (percarbonates); Commercial ammonium carbonate containing ammonium carbonate			
2836 20	*Disodium carbonate (soda ash):*			
2836 20	Disodium carbonate, dense/Light	15	34.44	10
4112	Leather further prepared after tanning or crusting including parchment-dressed leather, of sheep or lamp, without wool on, whether or not split, other than leather of heading 4114	12.5	15.30	5
4113	Leather further prepared after tanning or crusting including parchment-dressed leather, of other animals without wool or hair on, whether or not split, other than leather of heading 4114			
4113 10 00	Of goats or kids	12.5	15.30	5
4203	Articles of apparel and clothing accessories, of leather or of composition leather			
4203 10	*Articles of apparel:*			

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
4203 10 10	Jackets and jerseys	12.50	34.44	25
4203 21	*Specially designed for use in sports:*			
4203 21 10	Gloves	12.50	34.44	25
4203 29	*Other:*			
4203 29 10	Gloves for use in industry	12.50	34.44	25
4203 29 30	Mittens and mitts	12.50	34.44	25
4203 30 00	Belts and bandoliers	12.50	34.44	25
4203 40	*Other clothing accessories:*			
4203 40 10	Aprons	12.50	34.44	25
5208	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m2			
5208 41 50	Cotton fabrics of dyed yarn plain weave weighing not more than 100 g/m^2 including "Saree", shirting and furnishing fabrics (excluding pile and chenille fabrics)	12.50% or Rs.9 per sq. mtr whichever is higher.	8.16/4.08	25
5208 41 90	Other	12.50% or Rs.9 per sq. mtr.		25
5208 42	Cotton fabrics of dyed yarn plain weave weighing more than 100 g/m^2 including "Saree", shirting and furnishing fabrics (excluding pile and chenille fabrics)	12.50% or Rs.37 per sq. mtr whichever is higher.	8.16/4.08	25
5208 49	Cotton fabrics (Zari Bordered Sarees)	12.50% or Rs. 200 per kg whichever is higher.	8.16/4.08	25
5208 51	Printed cotton fabrics, Plain weave, weighing not more than 100 g/m^2 including "Lungi", "Saree", shirting, Muslim (Mullmull or Organdi of carded or combed yarn), voils etc.	12.50% or Rs.27 per sq. mtr whichever is higher.	8.16/4.08	25
5208 52	Printed cotton fabrics, plain weave, weighing more than 100 g/m^2, including "Lungi", "Saree", shirting, Muslim (Mullmull and Organdi of carded or combed yarn), voils etc.	12.50% or Rs.23 per sq. mtr whichever is higher.	8.16/4.08	25
5209	Woven fabrics of cotton containing 85% or more by weight of cotton, weighing more than 200 g/m^2.			
5209 31	Plain weave including "Lungi", "Saree", furnishing fabrics, canvas of carded or combed yarn and flannel	12.50% or Rs. 150 per kg whichever is higher.	8.16/4.08	25
5209 39 10	Zari Bordered Sarees	12.50% or Rs. 150 per kg whichever is higher.	8.16/4.08	25
5209 51	Printed Plain weave including "Lungi", "Saree", furnishing fabrics, Flannel etc.	12.50% or Rs.30 per sq. mtr whichever is higher.	8.16/4.08	25
5210	Woven fabrics of cotton containing less than 85% by weight of cotton, mixed maily or solely with man made fibers, weighing not more than 200 g/m^2.			
5210 31	Dyed plain weave, including shirting, coating (including suiting), furnishing fabrics, poplin, Saree, voil etc.	12.50	8.16/4.08	14

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
5210 39	Plain weave, zari bordered sarees	12.50% or Rs. 150 per kg whichever is higher.	8.16/4.08	14
5402	Synthetic filament yarn (other than sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex			
	Textured Yarn			
5402 33 00	Of polyesters	12.50	33.768	
5407	Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading 5404			
5407 10	*Woven fabrics obtained from high tenacity yarn of nylon or other polyamides or of polyesters:*			14
5407 10 42	Tent fabrics	12.50% or Rs.115 per kg., whichever is higher	12.5% or Rs.115 per kg., whichever is higher plus 8.16%	14
5407 10 44	Umbrella cloth	12.50% or Rs.115 per kg., whichever is higher	12.50% or Rs.115 per kg., whichever is higher plus 8.16%	14
5407 10 46	Polyester suiting	12.50% or Rs.115 per kg., whichever is higher	12.50% or Rs.115 per kg., whichever is higher plus 8.16%	14
5407 10 91	Parachute fabric	12.50% or Rs.115 per kg., whichever is higher	12.50% or Rs.115 per kg., whichever is higher plus 8.16%	14
5407 10 96	Polyester suitings	12.50% or Rs.115 per kg., whichever is higher	12.50% or Rs.115 per kg., whichever is higher plus 8.16%	14
5407 51	*Plain:* other woven fabrics containing 85% or more by weight of textured polyester filaments including shirting, suiting, sarees etc.	15% or Rs. 11 per sq. mtr., whichever is higher	15% or Rs. 11 per sq. mtr., whichever is higher + 8.16	14
5407 52	*Dyed:*			14
5407 52 10	Polyester shirtings	12.50% or Rs.38 per sq. mtr., whichever is higher	12.50% or Rs.38 per sq. mtr., whichever is higher + 8.16	14
5407 54	*Printed:* other woven fabrics containing 85% or more by weight of textured polyester filaments including shirting, suiting, sarees etc.	12.50% or Rs.20 per sq. mtr., whichever is higher	12.50% or Rs.20 per sq. mtr., whichever is higher + 8.16	14
5503	Synthetic staple fibres, not carded, combed or otherwise processed for spinning			
5503 20 00	Of polyesters	12.50 + 16.32 addl.	33.768	6.5
5512	Woven fabrics of synthetic staple fibers containing 85% or more by weight of synthetic staple fibers			
5512 29	Woven fabrics of synthetic staple fibers containing 85% or more by weight of	12.50% or Rs.47 per sq. mtr.,	12.50% or Rs.47 per sq. mtr.,	14

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
	synthetic staple fibers, dyed or printed	whichever is higher	whichever is higher + 8.16	
5513	Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton, of a weight not exceeding 170 g/m2			14
5513 23 00	Other woven fabrics of polyester staple fibres	12.50% or Rs.125 per kg., or Rs.25 per sq. mtr., whichever is higher	12.50% or Rs.125 per kg., or Rs.25 per sq. mtr., whichever is higher + 24.87	14
5801	Woven pile fabrics and chenille fabrics, other than fabrics of heading 5802 or 5806			25
5801 10 00	Of wool or fine animal hair	12.50% or Rs.210 per sq. mtr., whichever is higher	12.50% or Rs.210 per sq. mtr., whichever is higher + 24.87	25
5802	Terry toweling and similar woven terry fabrics, other than narrow fabrics of heading No.5806; Tufted textile fabrics, other than products of heading 5703			25
	Terry toweling and similar woven terry fabrics, of cotton:			
5802 19 10	Bleached	15% or Rs.60 per sq. mtr., whichever is higher	15% or Rs.60 per sq. mtr., whichever is higher	25
5802 30 00	Tufted textile fabrics	15% or Rs.150 per sq. mtr., whichever is higher	15% or Rs.150 per sq. mtr., whichever is higher	25
5810	Embroidery in the piece, in strips or in motifs			
5810 10 00	Embroidery without visible ground	12.5% or Rs.200 per kg., whichever is higher	12.5% or Rs.200 per kg., whichever is higher	25
6104	Women's or girls suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear), knotted or crocheted			
6104 19	*Of other textile materials:*	15% or Rs.460 per piece, whichever is higher	15% or Rs.460 per piece, whichever is higher	25
6104 19 20	Of artificial fibres	15% or Rs.460 per piece, whichever is higher	15% or Rs.460 per piece, whichever is higher	25
6105	Men's or boys' shirts, knitted or crocheted			
6105 10/20	*Of Cotton:*	12.50% or Rs.83 per piece, whichever is higher	12.50% or Rs.83 per piece, whichever is higher	25
6106	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted			
6106 10 00	Of cotton	12.50% or Rs.90 per piece, whichever is higher	12.50% or Rs.90 per piece, whichever is higher	25
6302	Bed linen, table linen, toilet linen and kitchen linen			

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
6302 10	Bed linen, knitted or crocheted	15	-	
6302 10 10	Of cotton	15	24.87	25
6302 10 90	Other bed linen, printed:	15	24.87	25
6302 21 00	Of cotton	12.50% or Rs. 108 per kg whichever is higher.	12.50% or Rs. 108 per kg whichever is higher.	25
6302 22 00	Of man-made fibers	15	24.87	25
6302 29 00	Of other textile materials	15	24.87	25
6302 31 00	Of cotton	12.50% or Rs. 96 per kg whichever is higher.	12.50% or Rs. 96 per kg whichever is higher.	25
6302 32 00	Of man-made fibers	15	24.87	25
6303	Curtains (including drapes) and interior blinds; Curtain or bed valances Knitted or crocheted:			
6303 11	Of cotton	15	24.87	25
6303 12	Of synthetic fibers	15	24.87	25
6303 19	Other	15	24.87	25
6304	Other furnishing articles, excluding those of heading 9404 Bed spreads:			
6304 11	Knitted or crocheted	15	24.87	25
6304 19 10	Bedsheets and bedcovers, of cotton	15	24.87	25
6304 19 20	Bed spreads of silk	15	24.87	25
6304 19 30	Bedsheets and bedcovers, of man-made fibers	15	24.87	25
6304 92	Not knitted or crocheted, of cotton: Counterpanes:		24.87	25
6304 92 20	Nepkins	15	24.87	25
6304 92 30	Pillow case and pillow slip	15	24.87	25
6304 92 40	Table cloth and table cover	15	24.87	25
6304 92 50	Terry towel	15	24.87	25
6304 92 60	Towels, other than terry type	15	24.87	25
6304 92 70	Mosquito nets	15	24.87	25
6304 92 80	Cushion covers	15	24.87	25
6304 92 90	Other furnishing articles	15	24.87	25
8701	Tractor (other than tractors of heading 8709)			
8701 90 20	Agricultural tractors having an engine capacity exceeding 35 HP but not exceeding 100 HP	12.50	34.44336	15
8701 90 90	Other	12.50	34.44336	10
8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars			
8703 21, 22, 23, 24, 31, 32, 33 & 90	Motor Cars Upto 1000 CC Upto 1300 CC	100	151.94	 50 65

EXIM Code	Description	Indian Tariffs (%)	Indian Cesses (%)	Pakistan Tariffs (%)
	Upto 1600 CC Upto 1800 CC Over 1800 CC			75
9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scientigraphic apparatus, other electro-medical apparatus and sight-testing instruments.			
9018 90	*Other instruments and appliances: Surgical tools*			
9018 90 22	Knives, scissors and blades	12.50	24.87168	5
9506	Articles and equipment for general physical exercise, gymnastics, athletics, other sports (including table-tennis) or outdoor games, not specified or included elsewhere in this Chapter; swimming pools and paddling pools.			
9506 62	Football, Volley ball, Basket ball	12.50	15.30	20
9506 69	*Other* Hockey ball, Cricket ball, Golf ball, Rugby ball etc.	12.50	15.30	20

4. India: Trade with Pakistan and Afghanistan under SAFTA

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OBJECTIVE AND METHODOLOGY

This study analyzes the emerging trends in trade between India and Pakistan—composition and magnitude of imports and exports—in light of the provisions of SAFTA. It identifies the areas or sectors where there exists an untapped potential for trade between these two economies, and the measures that have been taken (and can be taken in the near future) to give a fillip to cross-border trade. This analysis draws upon three types of information: literature/statistical review; interviews of government officials, private sector leaders, and academic experts; and surveys of Indian businesses.

Through extensive literature review on SAARC and SAFTA, the study brings out the potential and prospects of trade between India and Pakistan, and the policies that restrict trade between these two countries, especially tariff and nontariff barriers. On similar lines, analysis of India-Afghanistan trade has also been done. Though Afghanistan is not covered under SAFTA, the paper tries to explore opportunities for trade should Afghanistan be included in the Agreement.

In-depth interviews were conducted with those involved in shaping trade policy within SAARC. Officials from the Ministry of Commerce and Industry, Government of India were interviewed to get insight into the dominant paradigm within the government on the issue of India-Pakistan and India-Afghanistan trade. Opinions from industry associations like the Confederation of Indian Industry (CII) were elicited to gauge the sentiments of the private sector on SAFTA and intra-SAARC trade. Inputs from research organizations and academic institutions like Indian Institute of Foreign Trade (IIFT), New Delhi, National Council for Applied Economic Research (NCAER), New Delhi, and Research and Information System (RIS) for the Non-aligned and Other Developing Countries, New Delhi were also taken to get a holistic perspective on regional trade in the South Asian region.

To get a firsthand sense of how corporate India views SAFTA and trade prospects under the agreement with respect to Pakistan and Afghanistan, the researcher conducted a primary survey of firms. The methodology for this survey and its findings are elaborated below.

INTRA-SAARC TRADE WITH REFERENCE TO INDIA AND PAKISTAN

In 1991, India–Pakistan trade was approximately 30 percent of total trade between SAARC members (7.81 and 22.16 percent). For Pakistan, as well as India, the biggest trading partners in the region were Sri Lanka and Bangladesh (Table 4-1). However, a decade later, in 2001, though total trade between SAARC countries had increased 2.7 times, the proportion of trade between India and Pakistan had remained stagnant at 30 percent (7.24 and 21.45 percent).

Table 4-1

Percent Contribution to Intra-SAARC Trade, 1991

Exported From	Exported To					
	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Bangladesh		3.47		14.52	73.56	8.46
India	58.08			9.19	7.81	24.92
Maldives						100.00
Nepal	0.12	93.23			0.52	6.11
Pakistan	46.50	22.16		0.16		31.19
Sri Lanka	8.50	20.13	17.90	0.45	53.03	

SOURCE: *International Trade Statistics Yearbook, UN, 1991, Analysis: IDF*

Here the important fact has been the rise of trade between India and Sri Lanka after the signing of the free trade agreement between the two countries. In fact, Sri Lanka's exports to India have risen from 20 percent to 32 percent of its exports to SAARC countries. Over the same period, India's exports to Sri Lanka have remained at 25 percent of its exports to SAARC nations, implying larger gains from the FTA to Sri Lanka. At the same time, trade flows between India and Bangladesh have also reversed. In 1991, while Indian exports to Bangladesh constituted 58 percent of its trade with SAARC nations, it came down to 37.5 percent in 2001. But the figure for Bangladesh has increased from 3.5 percent of its trade with SAARC to 24 percent (Table 4-2).

Table 4-2

Percent Contribution to Intra-SAARC Trade, 2001

Exported From	Exported To						
	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Bangladesh		1.58	23.42			75.00	
India	37.53	5.38		1.41	22.75	7.24	25.69
Maldives			1.45				98.55
Nepal	0.56	0.19	99.22			0.03	
Pakistan	46.72		21.45	0.43	4.35		27.05
Sri Lanka			32.47	50.90		16.63	

SOURCE: *International Trade Statistics Yearbook, UN (2001), Analysis: IDF*

The major SAARC countries—India, Pakistan, Sri Lanka and Bangladesh—trade little with each other compared to their overall trade with Asia and the world. Table 4-3 shows the trends for 1991 and 2001.

Table 4-3
Trade with SAARC as a Percentage of Trade with Asia and the World, 1991 and 2001

Countries	Exports 1991		Exports 2001		Imports 1991		Imports 2001	
	Asia	World	Asia	World	Asia	World	Asia	World
Bangladesh	16.9	4.1	8.2	0.8	26.1	15.9	22.3	15.6
India	9.9	2.9	15.0	5.5	1.4	0.4	4.2	1.0
Nepal	87.5	25.5	93.5	45.1	21.3	14.2	48.4	37.8
Pakistan	10.0	3.9	9.1	3.2	3.1	1.6	3.3	2.4
Sri Lanka	10.1	2.9	15.9	3.8	7.9	5.5	16.2	13.7

SOURCE: *International Trade Statistics Yearbook, UN, 1991 and 2001, Analysis: IDF*

India’s trade with its neighbors as a proportion of its trade with other Asian nations and the world has increased between 1991 and 2001 reflecting an increase in intra-SAARC trade that has taken place in the last decade on account of several rounds of negotiations under SAPTA. In 1991, while India’s exports to SAARC was 9.9 percent of its exports to other Asian countries and 2.9 percent of its exports to the world, in 2001 it increased to 15 and 5.5 percent respectively. In case of imports, in 1991, while India’s imports from SAARC were 1.4 percent of its imports from other Asian countries and 0.4 percent of its imports from the rest of the world, in 2001, it was 4.2 and 1 percent respectively.

All members in SAARC have benefited from the increase in intra-SAARC trade, except Pakistan. In 1991, while exports to SAARC were 10 percent of Pakistan’s exports to other Asian countries and 3.9 percent to the rest of the world, in 2001, it declined to 9.1 and 3.2 percent respectively. In case of imports, Pakistan has remained more or less stagnant. If we compare intra-SAARC trade figures, we see that Sri Lanka has been a major gainer of the developments made in SAARC as its trade figures as a proportion of Asia and the world have gone up. The trade history of the past few years between India and Sri Lanka should allay fears of Indian products overriding domestic manufacturing of its neighbors.

India–Pakistan Trade: Shifting Up and Sharing the Value Chain

An important facet of trade between the two neighbors could be moving up the value chain and sharing it with each other. Pakistan and India compete in cotton textiles, but here again the law of comparative advantage could be used to their mutual benefit. Consider that Pakistan produces long fiber cotton that can be spun and woven in India and then sent back to Pakistan for stitching. It makes more sense for Indian states bordering Pakistan to trade with them rather than sourcing goods from other parts of India. An example of this could be the town of Ludhiana, near the border, which is a hub of hosiery and woolen manufacturing in India. It would be cheaper for manufacturers to source raw materials from Lahore than from other places in the country as the distance between the two cities is much less than the internal lengths traversed by the goods.

India's unofficial exports to Pakistan are estimated to be US$2 billion. Though officially only around 700 items are under the list of exports to Pakistan, a much larger number finds its way into Pakistan—from India to Bandar-e-Abbas in Iran, to Kabul in Afghanistan and later to Peshawar, and from India to Dubai and then to Karachi. The selling price of these goods in Pakistan is much higher because of the circuitous trading route. Pakistan imports iron-ore at a higher cost from Brazil and Australia, when surplus iron-ore in India can be exported at a fraction of the cost. Cars and scooters produced in Pakistan are 50 percent higher than Indian vehicles. Pakistan is the world's second largest consumer of tea, a market that can be exploited by India. Indian drugs are 30 percent cheaper than the drugs manufactured in Pakistan. Pakistan's annual demand for tires stands at 1 million, while it produces only 0.2 million tires per annum. Yet, it has imposed a 46 percent duty on the popular Indian truck tires. Indian coffee is smuggled into Pakistan in a big way due to lack of official recognition. It is quite obvious that trade between India and Pakistan is has with immense possibilities and would result in handsome rewards for traders and consumers on both sides. Indian goods have a readymade market in Pakistan, while Pakistani manufacturers can exploit India's large market size to their economic advantage.

Building confidence in the business community on both sides is critical. The recent peace initiatives by the political leadership of both India and Pakistan have sent a clear message of goodwill to the people in both countries. The two governments must hold bilateral summits of trade and economic ministries. The two governments should coordinate closely on WTO issues to formulate a common standpoint. Similarly, there is a need for coordination on macroeconomic policies. The seemingly bold move towards a common currency area should be thoroughly explored and a timeframe put in place.

A relaxed visa regime in both countries can be facilitated easily and should be put in place immediately. The feasibility of visa-free travel through all forms of transport should also be studied. Multiple entry visas and the removal of the need for police clearances are essential. Also, the need for tourist visas and the push for tourism are essential.

The Mumbai-Karachi ferry service and the coastal trade facility for cargo, allowing merchant vessels of both countries to call at each other's ports for loading and unloading of cargo, needs to be immediately introduced. The upgrading and setting up of well-equipped customs entry points along the border, with more land routes being opened-up, must also be taken up on a priority basis. Also, urgently required is an increase in the frequency of goods and passenger trains and removal of restrictions on the movement of wagons between the two countries.

The free flow of books, newspapers, and magazines is critical and can be done easily given the free and confident atmosphere in both countries at the moment. The Indian government should ensure that television channels are not blocked or banned. Connectivity by land, air, and telephone networks needs to be strengthened. In a world economy that is fast integrating and where new trade relations are coming about frequently, India and Pakistan need to seize the initiative and carve out a much larger percentage of world trade given their capabilities and potential.

INDIA–PAKISTAN TRADE TODAY

Since the Islamabad Declaration in January 2004, there has been resurgence in trade between India and Pakistan. Trade between the two countries increased by 75 percent in 2004 compared to 2003. India's exports to Pakistan increased from US$283 million to US$505 million, while imports from Pakistan increased from US$96 million to US$159 million.[24] Trade between India and Pakistan crossed the US$ 600 million mark in 2004; two-way trade is expected to cross the US$ 1 billion mark in 2006. In addition, the trade between the two countries through unofficial channels is estimated to be US$2 billion already.

Composition of India-Pakistan Trade

Pakistan's exports to India are concentrated on several product lines at the two-digit level that cumulatively account for 83.7 percent of total exports to India. Over half Pakistan's exports are petroleum and petrol products. Vegetables and fruit follow (18.9 percent), while textile yarn and fabric (10.6 percent) ranked third in 2004.

By comparison India's exports to Pakistan vary across a greater number of product lines at the two-digit level. Corresponding with a high export base in chemical products, organic chemicals account for 39.4 percent of exports to Pakistan. Petroleum and petrol products (11.7 percent) are the second largest export to Pakistan followed by animal feed (8.4 percent) (see Tables 4-4 and 4-5). More detailed information regarding the composition of trade between India and Pakistan is provided in Annex A.

Table. 4-4

Key Pakistani Exports to India, 2004

SITC Rev. 3 Grouping (1- and 2-digit level)	US$ Million	% of Exports to India
Fuels, lubricants, etc.	86.0	54.2
Petroleum, petrol products	86.0	54.2
Food and live animals	43.3	27.3
Vegetables and fruit	30.0	18.9
Sugar, sugar preparations, honey	13.0	8.2
Manufactured goods	19.0	12.0
Textile, yarn, fabric, etc.	16.8	10.6
Leather, leather goods	1.3	0.8
Non-metal mineral manufactures	0.7	0.4
Miscellaneous manufactured articles	4.2	2.7
Clothing and accessories	1.3	0.8
Crude materials, inedible, except fuels	4.0	2.5
Crude animal, vegetable material	2.2	1.4
Textile fibers	1.4	0.9

SOURCE: *United Nations Comtrade Database, 2006.*

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[24] United Nations Comtrade Database 2006.

Table 4-5
Key Indian Exports to Pakistan, 2004

SITC Rev. 3 Groupings (1- and 2-digit level)	US$ Million	% of Exports to Pakistan
Chemicals	264.6	52.4
Organic chemicals	199.2	39.4
Plastics in primary form	32.5	6.4
Dyes, coloring materials	11.8	2.3
Medicinal, pharmaceutical products	10.2	2.0
Food and live animals	69.3	13.7
Animal feed	42.6	8.4
Coffee, tea, cocoa, spices	14.4	2.9
Fuels, lubricants, etc.	59.0	11.7
Petroleum, petrol products	59.0	11.7
Manufactured goods	58.9	11.7
Rubber manufactures	27.3	5.4
Iron and steel	16.4	3.3

SOURCE: *United Nations Comtrade Database, 2006.*

Preferential Trade between India and Pakistan

Under the different rounds of SAPTA, tariff concessions were granted for trade in certain specified commodities. Mukherjee (2004) analyzed the growth trends in the share of preferential trade in the overall bilateral trade between India and Pakistan.[25] The hypothesis in this study is that trade flows in concessional products are expected to grow faster than the overall bilateral trade, and thus, the share of preferential trade in the overall bilateral trade should increase overtime.

India's preferential imports from Pakistan began only from SAPTA Round 2 (SR-2) and SAPTA Round 3 (SR-3). In 1996, preferential imports accounted for around 72.74 percent of the bilateral trade between India and Pakistan, in 1998 it declined to a mere 10.07 percent. This was on account of the growing political tensions over Kashmir and Kargil, and the military built-up by both nations on either sides of the border. Post Kargil war, on account of a series of confidence building measures initiated by both India and Pakistan, preferential trade increased in 2000. Preferential imports accounted for 52.43 percent of the bilateral trade in 2000, 59.28 percent in 2001, 65.21 in 2002, 66.13 percent in 2003 and 68.76 percent in 2004.

India's preferential exports to Pakistan as a percentage of its bilateral trade showed a similar trend as shown by India's preferential imports from Pakistan. In 1996, the share of India's preferential exports to Pakistan in total bilateral trade was around 30.58 percent. It increased to 37.36 percent in 1997, and 48.93 percent in 1998. Post 1998, on account of the growing unrest at the line of control between India and Pakistan, preferential trade started declining. In 2000, India's

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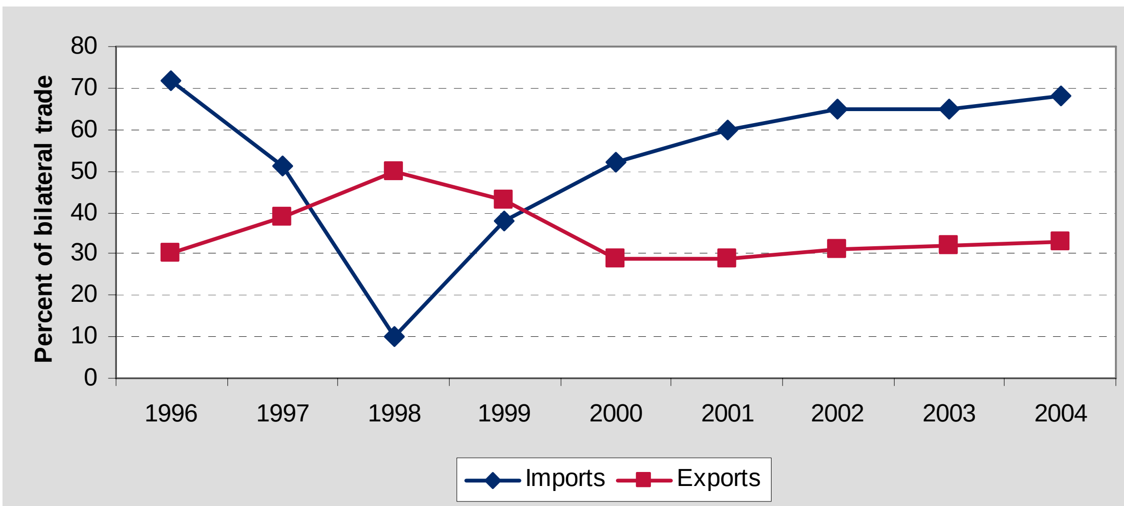
[25] Mukherjee, I. N. 2004. Towards a Free Trade Area in South Asia: Charting a Feasible Course for Trade Liberalisation with Reference to India's Role. New Delhi: RIS.

preferential exports to Pakistan were 27.99 percent of its bilateral trade, which declined to 28.61 percent in 2001. Due to peace initiatives taken by both the countries, the share has increased to 31.74 percent in 2002, 32 percent in 2003 and 34.65 percent in 2004.

The share of preferential imports from Pakistan in the total bilateral trade between India and Pakistan has been increasing since 1998 (Figure 4-1). In case of preferential exports to Pakistan, the growth signs are visible since 2000, albeit the growth in preferential exports to Pakistan has been slower than the growth in preferential imports from Pakistan. Thus, trade flows in concessional products have increased relatively faster than the overall bilateral trade between the two countries.

Figure 4-1
India's Preferential Trade with Pakistan



The data on preferential imports from Pakistan reveals that the major products imported were of chemical and allied industry (Section VI of HS), mineral products (Section V of HS), and vegetable products (Section II of HS). These together accounted for over 99 percent of India's preferential imports from Pakistan in 2004-2005. The list of major items of preferential imports from Pakistan is presented in Annex 2.

In case of preferential exports, the products of plastics and rubber (section VII of HS), together with mineral products (section V of HS), products of chemical and allied industries (section VI of HS) and prepared foodstuffs (section IV of HS) account for more than 86 percent of India's total preferential exports to Pakistan in 2004-05. The list of major items of preferential exports to Pakistan is presented in Annex 3.

Trade Potential Between India and Pakistan

Numerous studies have pointed out that the current trade between India and Pakistan is way below potential. Srinivasan and Cananero (1993) highlighted that under SAFTA, with removal of tariff and nontariff barriers, the potential gains from trade for India would increase 13 fold and for Pakistan 9 fold. The study suggests that the effect of removal of tariffs would lead to an increase in trade equivalent to 3 percent of Gross Domestic Product (GDP) for India, 7 percent for Pakistan, 21 percent for Bangladesh, 36 percent for Sri Lanka and 59 percent for Nepal.26

Batra (2004) in a recent study on India-Pakistan trade estimated the magnitude of bilateral trade flows between the two countries using a vast set of data on Gross National Product (GNP), population, distance, adjacency, commonality of language, complementarities in trade, colonial links, and the existence of a preferential trading agreement. The model estimates trade potential for India with 145 countries. The study shows that India's trade potential with Pakistan is the highest in the SAARC region. The model predicts that the trade could expand to US$ 6.6 billion over and above the existing bilateral trade in the next 5 years. Using GNP in purchasing power parity (PPP) terms, the predicted trade flow between India and Pakistan could become US$ 13.1 billion in the next 5 years.[27]

Burki and Akbar (2004) highlighted that the most significant impact of SAFTA on Pakistan will be a sharp rise in international trade as a percentage of GDP. In 2004-2005, the trade to GDP ratio in Pakistan was around 30 percent with trade defined as including trade through informal (unofficial) channels as well. With SAFTA successfully implemented and with trade with Afghanistan conducted mostly through formal channels, total trade could increase at a rate of 10 to 12 percent per year for the next 10 years. Total trade from Pakistan could increase from US$ 33 billion to US$ 90 billion. India-Pakistan trade is likely to increase 10 fold, from the current level of US$ 2 billion (including unofficial trade) to US$ 20 billion by 2015. In other words, of the US$ 58 billion increase in total trade projected for Pakistan, US$ 18 billion—almost a third—could come from increased exports to and imports from India.[28]

Mohanty (2003) identified export potentials for South Asian countries.[29] He argued that a country has competitiveness in those products that are exported substantially as compared to other products on the export basket of the country by the logic revealed comparative advantage. India has a comparative advantage in intra-SAARC trade in a wide-range of food products and beverages such as meat, fish, crustaceans, fruits and nuts, tea, fruit juices, spices, animal feed, tobacco and tobacco products.

India also enjoys comparative advantage in the SAARC region in oilseeds, fertilizers, and refined vegetable oils. The country's comparative advantage in chemicals and related products lies in nitrogen compounds, organic chemicals, synthetic coloring material, medicinal and pharmaceutical products, cosmetics and soaps, and insecticides and pesticides. In the category of basic and miscellaneous goods, India's comparative advantage is in machine tools, motor cycles,

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[26] Srinivasan, T. N., and G. Cananero (1993), 'Preferential Trading Arrangements in South Asia – Theory, Empirics and Policy', Yale University, United States of America

[27] Batra A. 2004. India's Global Trade Potential: The Gravity Model Approach. Working paper 151, Indian Council for Research on International Economic Relations. New Delhi.

[28] Burki S. J. and Mohammed Akbar. 2004. South Asia Free Trade Area: Opportunities and Challenges. USAID.

[29] Mohanty S.K. 2003. Regional Trade Liberalisation under SAFTA and India's Trade Linkages with South Asia: An Empirical Assessment. New Delhi: RIS.

bicycles, household equipments, steel products, leather and hides, and articles of textile and clothing.

Pakistan enjoys substantial comparative advantage in cotton, leather and hides, floor coverings, carpets, medical instruments, and toys. As per the estimates of the Ministry of Commerce, Government of Pakistan, Pakistan enjoys strong comparative advantage vis-à-vis India in products like cotton yarn, gray woven fabric, bleached woven cotton, hand knotted carpets, non-knit dresses and shirts. In order to understand the trade potential between India and Pakistan, and the impact of SAFTA, we look at two sectors in greater detail—engineering industry and agribusiness.

Engineering Industry

The engineering industry in Pakistan has undergone a dramatic change in its production capabilities over the last 50 years. However, due to lack of consistent policies and support this sector has not yielded the results achieved by countries such as South Korea and Malaysia, though all theses countries started at similar levels of industrial base. Pakistan's engineering sector is closely linked to the manufacturing sector witnessed a growth rate of more than 7 percent per annum in the last three years. The engineering sector in Pakistan accounted for US$ 0.5 billion worth of exports and US$ 3.35 billion worth of imports in 2004–2005. It employs more than 650,000 skilled people in more than 2000 units with a capital investment of US$2.5 billion.

In 2000 the Engineering Development Board formulated an 'Engineering Vision' with the prime objective to identify key areas of growth, employment generation of 1.2 million by 2012, increase exports to US$ 5 billion by 2012 and encourage investments to the tune of US$10-12 billion.

The exports and imports in engineering products has been increasing in the last 5 years—imports at a rate of 18.5 percent per annum and exports at the rate of 19.3 percent per annum. The major weakness of Pakistan's engineering industry is the limited capacity of the iron and steel and related industries, a fact reflected in higher input costs at all engineering segments downstream. Imports from India can provide Pakistan with regular supply of iron ore for its engineering industry. Pakistan has prepared itself for the WTO by reducing the tariff structures for the industry to around 20 to 25 percent with the exception being the automobile sector. Surgical instruments, cutlery, and fans have been the mainstay of Pakistan's engineering exports, but this is fast changing now. Non-traditional items including auto-parts, tractors, domestic appliances, transformers, electrical equipments, aluminum and copper products, sanitary ware, and nuts and bolts are also being exported now. A case in point is the export of transmission apparatus for radio-telephony to India valued at US$2.3 million.

Pakistan's import duty structure in engineering varies from 5 to 30 percent (with the exception of the automobile sector), besides a 15 percent sales tax excluding clearing and handling charges. Depending upon the type of steel based product imported, the duty structure varies from 10 percent (e.g. ships) to 30 percent (e.g. galvanized coils). Recently, the duty on re-rollable steel has been reduced to 10 percent from earlier 25 percent. The only sector that enjoys protection is the auto sector (2, 3 and 4 wheelers) where tariff rates range from 60 to 150 percent.

India has a strong engineering and capitals good base. With a market size of US$22 billion, the Indian engineering sector exports stood at US$7 billion in 2004, with imports at US$5.2 billion in the same year. About 60 percent of India's exports to Pakistan comprise engineering and manufactured goods. But despite the growing size of India's engineering sector, the huge demand for such products is met through imports. India is also a major importer of engineering goods. It is in these imported products (within engineering) where a trade potential between India and Pakistan can be exploited, provided such products emerge on Pakistan's export list. An indicative list of engineering items imported by India from the rest of the world and exported by Pakistan to the rest of the world is given below.

Table 4-6

Trade in Engineering Goods, 2004— Pakistan Exports, India Imports

Commodity Code (HS)	Commodity Name	Pakistan's Exports to Rest of the World (US$ Million)	India's Imports from Rest of the World (US$ Million)
820559	Hand tools (including glaziers' diamonds) of base metal, others	1.34	3.77
830249	Base metal fittings, mounting fittings	1.24	1.6
841182	Gas turbines of power exceeding 5000 KW and up to 15,000 KW	2.4	5.59
841191	Parts of turbo jets/ turbo propellers	1.8	22.41
841199	Parts of gas turbines	2.41	46.16
847989	Electrical appliances	1.28	71.82
852610	Radar apparatus	1.21	11.58
854690	Electrical insulators	1.19	7.73
870190	Tractors	3.5	1.29

SOURCE: CMIE, Analysis: IDF. India-Pakistan: Partnering for a Prosperous South Asia. *India Development Foundation (IDF) and the Confederation of Indian Industry (CII). 2005.*

Thus, we see that Pakistan exports quite a few products to the rest of the world and that India imports quite a few. Promoting trade in these products between India and Pakistan is promoted could benefit both the countries by reducing transportation and freight costs.

The impact of trade with India on Pakistan is going to be positive in case of most engineering commodities. For instance, in case of iron and steel, favorable tariffs may result in cheaper sourcing of iron ore and certain flat rolled products. There shall be savings in freight costs as well by importing from India rather than from Australia or Canada. In surgical or dental equipments, trade with India shall open up a large market for Pakistani firms. India already imports some of these products from Pakistan, and an increase in imports can be expected. In case of cutlery items, the impact is expected to be favorable. India shall be a large market for Pakistani exporters to exploit.

Molds, jigs, and fixtures exports from Pakistan shall also get a boost if tariff rates imposed by India are favorable. The impact on mechanical machinery and equipments shall also be positive as trade with India will open up a large market. Iran-India oil pipeline (via Pakistan) could become a major project for supply of pipes and other project-related machinery. On domestic appliances, opening of trade with India may have a neutral impact, as Pakistan is already competing with cheaper Chinese products.

In the auto sector, on motorcycles and tractors, the impact of opening of trade with India is expected to be neutral as Pakistani tractors and two-wheelers are cost-competitive. However, in case of passenger cars, the impact on Pakistan's domestic industry could be negative on account of exports of superior auto and auto components from India to Pakistan. However, the impact of exports of automobiles and auto components from India shall be favorable for consumers in Pakistan as it shall have a moderating effect on prices of passenger cars in Pakistan.

Agribusiness Industry

Agriculture trade between India and Pakistan, despite barriers, has worked to overcome short-term fluctuations in supply. In the early 1990s, India helped Pakistan tide over an onion and potato crisis. Similarly, in recent years, Pakistan lifted the ban on import of sugar from India. This was done in the wake of containing the spiraling sugar prices in Pakistan. India also imported onions from Pakistan when India's domestic onion production had plummeted. Even in the worst of times, trade between the two countries has continued in agriculture. India depended on Pakistan for sugar, potatoes, onions, and chilies in times of crises. In April 2003 alone, Pakistan exported chickpea to India worth US$ 4.3 million. Coffee, tea, wheat, basmati rice, oilmeals and fresh vegetables are items India exports to Pakistan, while molasses, dry fruits and fresh fruits are the items India imports from Pakistan.

Many agricultural items hold potential for bilateral trade between India and Pakistan. Several commodities that on Pakistan's export list (i.e., Pakistan exports to the rest of the world, but not primarily to India) and on India's import list (i.e., India imports from the rest of the world, but not primarily from Pakistan). Similarly, a number of commodities are on India's export list and on Pakistan's import list. In all, bilateral trade can be promoted with favorable tariff regime in place, and removal of nontariff barriers like harmonization of SPS (sanitary and phytosanitary) standards, and rules of origin. An indicative list of agricultural commodities with potential for bilateral trade between India and Pakistan is in Tables 4-7 and 4-8.

Thus, we see that quite a few agricultural commodities offer a ready opportunity for exporters in both countries. So far, policy and crises have driven trade in agriculture between India and Pakistan. But if tariffs were made favorable, food safety standards and norms more transparent, and a robust regulatory mechanism were put in place in both countries, agricultural trade could become market driven. India should not have to convene a cabinet meeting every time a domestic crisis requires importing agricultural commodities from Pakistan! Integration of markets across the border will have a favorable impact on agricultural trade by evening out fluctuations in supply, moderating prices, and providing a wider range of agricultural goods for consumption.

Table 4-7
Trade in Agricultural Goods, 2004-2005—Pakistan Exports, India Imports

Commodity Code	Commodity	Pakistan's Exports (to Rest of the World) US$ Million	India's Imports (from Rest of the World), US$ Million
240120	Tobacco (partly or wholly stemmed)	1.95	3.63
0300269	Fish fresh, chilled (excluding livers)	2.02	5.36
040900	Natural honey	2.33	1.18
080290	Nuts fresh or dried, others (Betel, Areca etc.)	12.44	19.04

SOURCE: *CMIE, Analysis: IDF.* India-Pakistan: Partnering for a Prosperous South Asia. *India Development Foundation (IDF) and the Confederation of Indian Industry (CII). 2005.*

Table 4-8
Trade in Agricultural Goods, 2004-2005—India Exports, Pakistan Imports

Commodity Code	Commodity Name	India's Exports (to Rest of World) US$ Million	Pakistan's Imports (from Rest of World) US$ Million
100190	Wheat	1.42	3.92
100510	Maize seed	2.95	6.72
120600	Sunflower seeds	3.12	4.58
151110	Crude palm oil	1.06	2.04
151211	Sunflower crude oil	1.55	5.79
151311	Coconut crude oil	4.63	1.83
151319	Coconut refined oil	1.86	1.57
190190	Processed cereals (malt, papad etc.)	1.27	9.39
240120	Tobacco products	111.89	2.71
071339	Dried leguminous vegetables	1.99	1.16
080290	Nuts fresh, dried	4.49	22.92
090220	Tea	3.18	6.11
090411	Pepper neither crushed nor ground	123.47	5.22

SOURCE: *CMIE, Analysis: IDF.* India-Pakistan: Partnering for a Prosperous South Asia. *India Development Foundation (IDF) and the Confederation of Indian Industry (CII). 2005.*

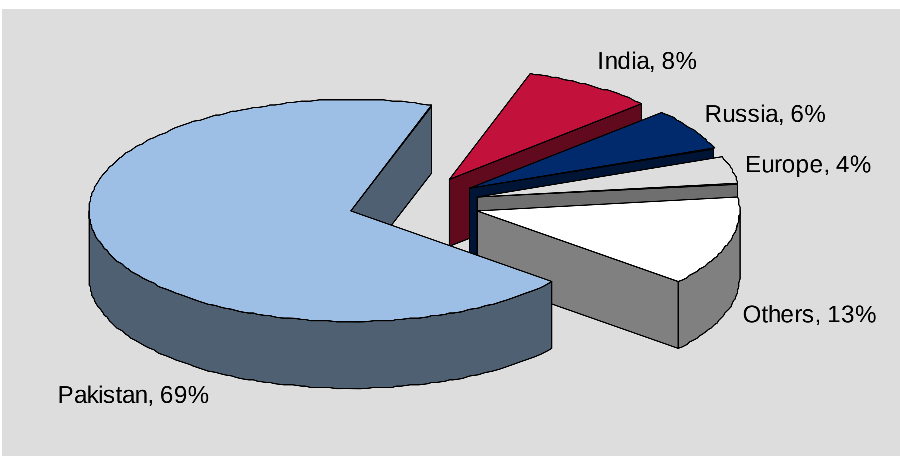
AFGHANISTAN'S TRADE WITH INDIA AND PAKISTAN TODAY

Trade between India and Afghanistan has been insignificant for the last few years. In 2004, India exported US$148.54 million in goods to Afghanistan. Indian exports to Afghanistan in 2005 were about US$ 157.14 million, registering growth of about 6 percent. Afghanistan, on the other hand, exported goods worth US$ 41.37 million in 2004, and US$ 44.24 million in 2005, thus showing an increase of only 7 percent.

Trade suffered a major setback in Afghanistan because of more than two decades of strife, civil war, and political turmoil. India and Afghanistan had historically enjoyed bilateral trade relationships. However, in the recent decades, on account of the growing political tensions with Pakistan and the resultant denial of transit rights by Pakistan to Indian enterprises and traders for trading with Afghanistan, trade between these two countries declined severely. Pakistan is now the major trading partner for Afghanistan—a country with which it shares its longest border. Afghanistan is now also trying to forge trade linkages with China, Uzbekistan, Iran, and Turkey. The inclusion of Afghanistan in SAARC and the possible inclusion in SAFTA could boost the outlook of Afghanistan's international trade in the years to come.

In 2005, Pakistan was the single most important trading partner for Afghanistan as 69 percent of Afghanistan's total exports went to Pakistan. 8 percent of Afghanistan's exports came to India, and 6 percent to Russia. Europe accounted for around 4 percent of exports from Afghanistan (Figure 4-1). Greater openness on part of Pakistan could lead to a sharp increase in trade between the two countries. Trade between the two economies, presently at US$ 1.9 billion (including the unofficial trade) is projected to increase to US$ 8.3 billion by 2010, equivalent to growth of 15 percent per annum.[30]

Figure 4-2
Afghanistan's Exports, by Destination, 2004-2005



SOURCE: www.indiatrades.com, *Analysis: IDF*

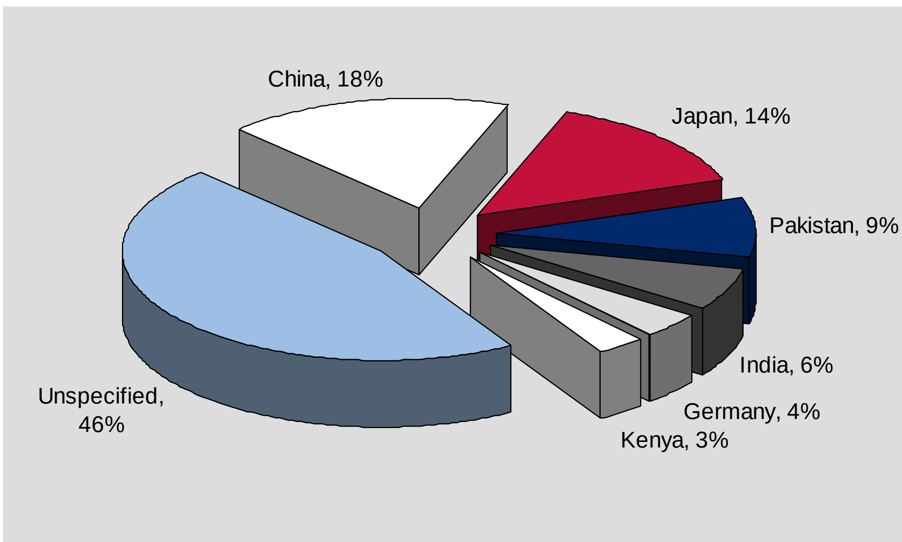
The major export items from Afghanistan are dry fruits, animal skins and fur, carpets, medicinal seeds and herbs, fresh fruits, wool, and cotton. The major import items on Afghanistan's import list are fabrics, tyres and tubes, metals, wheat and flour, tea, vegetable oils, cement, medicines, sugar, bicycles and stationery. In 2004-2005, 69.40 percent of Afghanistan's export of dry fruits went to Pakistan, and 7.10 percent came to India. In case of animal skins and fur and carpets, Pakistan had a major share in Afghanistan's exports—89.40 and 81.80 percent respectively. In case of medicinal seeds, 33.40 percent went to Pakistan, and 45.20 percent came to India. In case of fresh fruits, Pakistan accounted for 82.70 percent of Afghanistan's total exports, while India

[30] Burki and Akbar (2004).

accounted for 2.80 percent. 45.30 percent of wool exports and 99.40 percent of cotton exports from Afghanistan were for Pakistan. Thus, we find that in all the major exports from Afghanistan, the major destination is Pakistan. Details of India's exports to Afghanistan in 2004 and 2005 are presented in Annex 5.

Afghanistan's export destinations though may be limited, it imports from a large number of nations. The major imports in Afghanistan come from China (around 18 percent of Afghanistan's total imports). Japan is also a major supplier of goods to Afghanistan and accounted for 14 percent of Afghanistan's total imports. Pakistan accounted for 9 percent of imports, while India accounted for 6 percent of Afghanistan's total imports in 2005. Germany and Kenya are other countries from where Afghanistan sources its imports (Figure 4-3).

Figure 4-2
Afghanistan's Imports, by Source, 2005



SOURCE: www.indiatrades.com, *Analysis: IDF*

In case of imports by Afghanistan from India and Pakistan, the picture is as follows. Of the total import of fabrics by Afghanistan, 3.20 percent came from India in 2005. In case of imports of tires and tubes, India accounted for 23.20 percent. As far as metal imports are concerned, Pakistan accounted for 16.60 percent. In case of imports of wheat and flour, 88.80 percent came from Pakistan. Tea imports from India accounted for 3.40 percent of Afghanistan's total tea imports. Major tea exporters to Afghanistan are China and Kenya. 22.90 percent of vegetable oil imports came from Pakistan, while 22.60 percent of medicines imports came from India. In case of sugar imports, 37.80 percent came from Pakistan, and 14.90 percent came from India. India accounted for 6.30 percent of bicycle imports and 8 percent of stationery imports of Afghanistan in 2004-2005.

Afghanistan as Hub for Regional Trade

Afghanistan's location between Central and South Asia, and the Middle East presents enormous opportunities for the country to serve as a hub for regional trade and commerce. Now with normalcy fast returning to Afghanistan, trade routes through the country can be developed to link the South Asian economies with the markets in Central Asia and the Middle East. Historically, Afghanistan has been on the trade routes that spanned across Europe into Asia and India. Such trade links can now be restored to promote trade between Afghanistan and the SAARC nations.

The highways in Afghanistan are organized as 'ring' highways – they connect the capital city Kabul to Kandahar in the south, which links to Herat in the west to Mazar-e-Sharif in the north and then back to Kabul. The Turkmenistan border has two major crossing points—Torghundi and Aquina. The major border crossing with Uzbekistan is at Hairatan, and with Tajikistan at Sher Khan Bandar. There is a potential opportunity for the SAARC nations to use Afghanistan's land corridor to access markets in Central Asia, provided Pakistan grants transit rights through its territory.

Pakistan is an important transit route for Afghanistan not only because of the volume of bilateral trade between the two countries, but also because of ports in Pakistan that Afghanistan uses for its exports, especially the port of Karachi. The most important land trading route between Afghanistan and Pakistan is the Kabul-Peshawar highway. Land routes from India to Pakistan such as the historical Grand Trunk Road (connecting Amritsar in India to Peshawar in Pakistan) if developed (with adequate customs clearance facilities and transit rights) shall facilitate trade between India and Afghanistan.

Under a bilateral treaty signed by Afghanistan and Pakistan in 1965—the Afghan Trade and Transit Agreement (ATTA)—goods transiting through the Pakistani port of Karachi for import in or export from Afghanistan are exempt from Pakistani duties or customs tariffs. In addition, the charges for rail or road transport of goods are required to be the same as those charged for goods destined for Pakistan. Though there have been some violations of this treaty by Pakistan, this treaty still remains the backbone of Afghanistan-Pakistan trade relations.

There are two ports in Iran that are used by Afghanistan in addition to the port of Karachi in Pakistan–Bandar Abbas and Chabahar. Afghanistan concluded a transit agreement with Iran in 1974 for Bandar Abbas and in 2003 for Chabahar. Access to either port from Afghanistan is through vehicle transport from Herat to Mashad, and then rail link from Mashad to these ports. All these ports (Karachi, Bandar Abbas and Chabahar) link Afghanistan with the Arabian Sea and thus, provide Afghanistan an opportunity to transport goods internationally through ships and vessels.

The Trade and Transit Agreement entered by Afghanistan with the Chabahar Free Zone Authority (Iran) allows goods destined for import to or export from Afghanistan through this port to receive 90 to 100 percent discount on Iranian custom duties. This Agreement also allows 20 percent of the warehousing space at the port to be allocated for goods transiting to Afghanistan. This limit could also be increased to 30 percent in the future with Afghanistan being allowed to build its own quay in the port. A similar arrangement could be chalked out for Afghanistan in Pakistan at the port of Karachi.[31]

Air transportation is becoming a more viable trade route since the cost of air cargo has become more competitive. Ariana Airlines, Afghanistan's state-owned airline, offers passenger and cargo service between Kabul and many international destinations such as Dubai, New Delhi, Frankfurt, Istanbul, Moscow and Peshawar. Ariana also offers domestic air transport and cargo between Kabul and several cities in Afghanistan, including Herat, Mazar-e-Sharif, and Kandahar. There are airports in Kabul and Kandahar, as well as small airports in most provinces. Currently, the airports in Kabul and Kandahar are undergoing renovation and improvement and plans are underway to improve communication and landing facilities at many of the small airports across the country.

TRADE BARRIERS IDENTIFIED BY INDIAN BUSINESSES

To understand how corporate India views SAFTA and trade prospects under the agreement, the researcher sent questionnaires (via post and email) to around 100 carefully selected firms, of which responses were received from 30. The details of the sample of firms for the primary survey are as follows. The firms were selected from among the members of the Confederation of Indian Industry (CII). From the member directory of CII, firms in Delhi and the National Capital Region (NCR) were screened. From the list of firms in Delhi and NCR, those firms which have trade relations with Pakistan and Afghanistan were shortlisted. These firms became the target group for the survey. Also, Mumbai and its hinterland have a considerable presence of firms that trade with Pakistan. A few such firms were contacted through the CII Mumbai office.

Once all the completed questionnaires were received, the sample had the following composition: 8 firms in the sample are small-scale, 12 are medium-scale, and 10 are large-scale. Eleven responses were received from firms in Delhi, 6 from the NCR in Uttar Pradesh (5 from Noida and 1 from Greater Noida), 5 from NCR in Haryana (3 from Gurgaon and 2 from Faridabad) and 8 from Mumbai, totaling to 30 responses.

All but two of the 30 firms in the sample export to Pakistan. Of these, all but two have experience a growth in their business with Pakistan in the last two years. Most firms have experienced approximately 5 to 8 percent growth in their exports to Pakistan and attribute the growth to the thaw in Indo-Pak relationships that has made doing business with each other relatively simpler and safe. Most firms in the sample are exporters of engineering goods and intermediates to Pakistan. All but two of the 30 firms in the sample export to Pakistan. Of these, all but two have experienced growth in their business with Pakistan over the past two years. Most firms in the sample have experienced growth in their exports to Pakistan of approximately 5 to 8 percent. Most firms in the sample are exporters of engineering goods and intermediates to Pakistan.

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[31] Nawabi, Mariam. 2004. Afghanistan’s trade routes: exploring strategic trade linkages in Central Asia and the Middle East. Ms. Nawabi is commercial attaché at the Embassy of Afghanistan, USA. She graduated from the Georgetown University Law Centre and was a student of International Studies at George Mason University in the United States.

Overall Optimism on Regional Trade, Investment

Most of the respondents in the sample are bullish about the positive effects of SAFTA on intra-SAARC trade. Fifteen out of 30 respondents strongly believe that SAFTA will increase trade in South Asia, while all but one of the remaining 15 respondents believe that SAFTA will lead to a modest increase in trade in South Asia. However, 16 out of 30 respondents believe that while intra-SAARC trade may increase, imports from countries outside the South Asian region will not decline. Twelve of the remaining 14 respondents feel that imports from countries outside the South Asian region may decline due to SAFTA. Only two firms in the sample believe that imports from outside the region will decline once SAFTA is implemented.

Fifteen of the 30 respondents believe that intra-SAARC investments may increase as a result of increased trade across SAARC borders, as well as the emergence of joint venture companies. Thirteen firms in the remaining fifteen believe that intra-region (SAARC) investment is not likely to increase as a result of SAFTA. Only 2 firms are confident that intra-region investments will surely increase as a result of SAFTA. The conservative response of the firms on the issue of cross border investments is understandable as investments are not covered under SAFTA in its present form. Here India, due to its strong capital base and rich corporate experience, must take an initiative in promoting intra-SAARC investments.

Compelling Reasons for Increased Trade

Among the reasons for the anticipated growth in trade between India and Pakistan, 27 Indian firms mentioned that the demand for their products is very high in Pakistan. The high demand in Pakistan for Indian products shows up in the form of higher prices for the products, which makes it profitable for the firms to trade despite the existence of tariff barriers. Also, 12 firms in the sample felt that, with Pakistan's economy slated to grow rapidly, it is worth investing time and money in cultivating a market in Pakistan. None of the respondents mentioned any trade-related incentives being offered by the Government of Pakistan to Indian exporters to promote India-Pakistan trade. Also, none of the firms felt that the quality of inputs sourced from Pakistan is better than the quality of inputs available in the Indian economy. Thus, price differentials in products in the two economies and the expected growth of the Pakistan's economy in the near future seem to be the major motives for increased trade between the two countries.

However, not many firms want to outsource their manufacturing base to Pakistan. Only 6 firms in the sample mentioned that they would eventually want to setup their manufacturing base in Pakistan. The reason each of them mentioned in the survey is that manufacturing presence in Pakistan opens trade avenues with countries in the Middle East, Central Asia, and the countries adjoining the Caspian Sea.

But Trade Barriers Persist

All the firms in the sample mentioned the presence of ***nontariff barriers in Pakistan*** that hinder trade. All but one of the firms mentioned the presence of ***restricted lists for trade***. Pakistan has a permissible list of trade with India: Trade can take place only in those items present on the list. It also has a negative list that debars trade in items mentioned on it. The "permissible list" is in itself a major barrier to trade. But so too is the lack of harmonization in product codes. A product code matching exercise carried out between the 8-digit HS codes of the items exported by India, as recorded by the Directorate General of Foreign Trade, and the HS codes published by Pakistan under the permissible list has only 3 matching codes (Taneja 2004).[32] In the absence of harmonization of product codes between India and Pakistan, an exporter does not get to know which products are permitted for trade and which are not. This ambiguity increases uncertainty in trade, transaction costs for the exporters, and harassment at the borders by the customs officials in both countries. There is a need to bring in more transparency and congruence in the product codes and tariff lines in both India and Pakistan.

Some firms also mentioned presence of ***quantitative restrictions*** in case of export or import of certain commodities. Pakistan's sensitive list is so designed that it intends to restrict exports of automobiles, auto-parts, and textile machinery into Pakistan's economy—in all these sectors, India has a good potential to increase its exports. Similarly, India's sensitive list has chapters that restrict trade in commodities that are significance for Pakistan such as agriculture products, and cotton textiles.

Firms in the sample have also raised concerns over Pakistan's not granting India the ***most favored nation (MFN) status*** although India treats Pakistan as an MFN country. Though SAFTA obviates the need for any such status, the non-reciprocity of Pakistan on the MFN issue does hinder the confidence of the business community in India.

On the issue of major bottlenecks in trade with Pakistan, there seems to be a consensus among the firms in the sample on inadequate and ***poor quality infrastructure***, and ***long procedural delays*** and hassles. The infrastructure in almost all the SAARC nations, including the relatively more developed ones like India and Pakistan, is far from satisfactory. Exporters in both India and Pakistan do not have much of a choice. While land routes for trade are almost non-existent, rail and air connectivity between the two countries has been erratic. Only the sea route between Mumbai and Karachi has operated unhindered and has been a consistent operational link. Since Pakistan allows only a limited number of items to be imported from India (the permissible list), those not on the permissible list are traded through Dubai. The land route through the Wagah/Attari border is now opened up for commercial purposes; however the quality of services at the customs clearance points leaves much to be desired. There is a dire need to establish hubs for export facilitation on

Indian Business Perspectives on Trade with Afghanistan

Only a small number of firms in the sample have trade relations with Afghanistan. The major reason for establishing trade relations with Afghanistan, as reported by firms in the sample, is expected growth in Afghanistan's economy due to the massive reconstruction undertaken by the Government of Afghanistan with financial assistance from multilateral funding agencies. Trade presence in Afghanistan also opens new vistas for Indian exporters to enter the markets in Central Asia through the many trading routes that Afghanistan has with Uzbekistan, Tajikistan, and Turkey. Trade with Afghanistan is however, crippled for Indian exporters in absence of transit rights by Pakistan to use its land corridor. The present sea-road route through Iran is not very cost effective for Indian export houses trading with Afghanistan.

[32] Taneja, Nisha. 2004. India-Pakistan Trade Relations: Opportunities for Growth. *Economic and Political Weekly*. December 18.

these routes to speed up the procedures required to be fulfilled before goods are allowed for trading.

The transport of goods through railways is either through goods wagon or by parcel wagons that are attached to the Samjhauta Express—the passenger train between India and Pakistan. Under a reciprocal arrangement between India and Pakistan, the wagon balance has to be cleared every 10 days. The Indian Railways crew and engine is allowed to carry the wagons to the Wagah/Attari border only from where the wagons are transported by Pakistani rail engine head. There are problems on the movement of containerized cargo between the two countries, and most of the wagons deployed for use are antiquated.

There are huge ***transaction costs in the form of delays and bribes to officials at the customs clearance houses*** in both India and Pakistan. Taneja (2005)[33] in a study for the World Bank estimated the costs (transportation as well as transaction costs in the form of bribes etc.) in trade between India and Pakistan using different trade routes. The Delhi-Attari rail route costs US$ 391 per container of cargo (with US$ 66 as transaction costs), while the Delhi-Attari rail-road route costs US$ 415 (with US$ 77 as transaction costs). The Mumbai-Karachi sea route is the most expensive and costs around US$ 776 per container (with US$ 226 as transaction costs).

And SAFTA Could Do Much More

Respondents made suggestions on how SAFTA could, with some adjustments, further contribute to regional trade expansion. On the issue of ***bringing services in the ambit of SAFTA***, 23 firms responded positively. The exclusion of services has made SAFTA less ambitious in its scope as services are now the major proportion of the GDP in most South Asian economies. Also, the growth rate in many SAARC countries is also services-driven. Inclusion of services in SAFTA is the need of the hour, and all members states should decide on a roadmap on how to bring the service sector within the purview of SAFTA.

The survey elicited overwhelming support for SAFTA's ***expansion to include other neighboring countries*** such as Afghanistan, Myanmar, Thailand and Singapore has also had an overwhelming favorable response in the survey. 24 out of 30 firms believe that SAFTA should incorporate clauses for geographical expansion to include neighboring countries should the need arise in the future. Similarly, 22 out of 30 respondents strongly believe that SAFTA should include parameters for factoring-in associations with other Regional Trading Agreements (RTAs) such as ASEAN. Present members of SAFTA need to reach a consensus on how to admit new members and how to work with other regional agreements. Inclusion of Afghanistan in SAFTA shall be a positive step for trade in South Asia.

Ninety percent of the 30 firms in the sample feel that ***trade facilitation*** is the major task where international agencies could provide assistance. Eighteen firms in the sample feel that ***harmonization of tariffs*** is also an area where international agencies would be required to play a major role to implement SAFTA.

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[33] Taneja, Nisha. 2005. India-Pakistan Trade: A View from the Indian Side. Note prepared for the World Bank.

Other roles where the firms in the sample believe that international agencies would be of help are ***strengthening the SAARC Secretariat*** and ***developing mechanisms for compensating for revenue loss (in the initial years) for the less developed members*** in the region. The emphasis on strengthening the SAARC Secretariat holds importance as an empowered secretariat can act as a single reference point for many issues concerning SAFTA. In the present form, the SAARC Secretariat has no capacity to advice on member countries on policy, or receive funding from multilateral or bilateral donors to promote regionalism. Many SAARC-level issues can be handled efficiently if the Secretariat has independent authority and autonomy. For instance, the secretariat can play a major role in creating a consensus among the members on issues like the sanitary and phytosanitary measures, harmonization of tariffs, and removal of nontariff barriers. The Secretariat can also play a major role in arranging for funds for financing mega infrastructure projects in the SAARC region.

RECOMMENDATIONS

A number of specific recommendations flow from the findings of the survey of Indian businesses, as well as interviews of Indian public and private leaders.

First, there is a need to increase business confidence in both India and Pakistan to deepen trade relations. ***The granting of the MFN status by Pakistan to India would help boost business confidence in the region.*** It would also allay fears about lack of political will in the leadership in the two countries to take the peace process forward and strengthen economic ties.

Second, there should be a greater emphasis on information exchange and people-to-people contacts in the two countries. For any business to move forward, travel between India and Pakistan needs to be made easier. ***Multiple-entry visas and the removal of police clearances are essential to make business and leisure travel between the two countries easier.*** India should facilitate opening of the Pakistani consulate in Mumbai, the main business hub for India-Pakistan trade. New trade routes between India and Pakistan should be explored and developed. Recent initiatives, like the Srinagar-Muzaffarabad road link and the Khokrapar-Munabao rail link, are major steps in this direction that should be strengthened.

Third, ***a product-code matching exercise based on the HS-classification for products traded between India and Pakistan needs to be carried out.*** In absence of harmonized system of product classification, the exporters find it difficult to gauge which products come under the purview of concessions in tariffs. Both India and Pakistan should ***reduce the size of their 'sensitive lists' and work to remove nontariff barriers that restrict trade between them***.

Fourth, India should create a consensus among all signatory members of SAFTA to ***strengthen the SAARC Secretariat***. An empowered secretariat will be in a position to deal with SAARC-level issues, garner funds for financing SAARC-level infrastructure projects, and devise a revenue compensation system for less developed members to compensate for initial revenue loss due to tariff reductions. India's own stand on the SAARC Secretariat has been lackluster in the past years, as it has been reluctant to give up control over regional issues. However, the political leadership in India, as well as in all the other members of SAARC should work to empower the secretariat in order to speed-up the process of economic integration in the region.

Fifth, the Committee of Experts in SAFTA should ***work to include services and intra-SAARC investments under the purview of the Agreement.*** India, the region's largest economy, has a proven record of excellence in many sunrise service sectors like IT, biotechnology, and IT-enabled services. Indian service sector firms should explore where they can cooperate with their counterparts in SAARC nations (e.g., tourism and hospitality). Opening borders and removing constraints on travel would result in considerable travel just among families trying to unite. India should also increase its investments in neighboring economies and create joint holding companies. Pakistan should provide incentives (tax concessions, creation of special economic zones) for Indian firms to establish units in its territory.

CONCLUDING THOUGHTS

South Asia's recent development and trade history is a mix picture of similarity and heterogeneity. The British followed existing models of decentralized governance for this subcontinent, but with Anglo-Saxon institutions of administration, politics, and law. Over time, even as South Asian countries moved away from this model, the basics remained and today there is more than a fair bit of commonality in markets, institutions, and systems.

Colonial-era institutions also provided a backdrop for the much broader course of economic development. The independence of India, Pakistan, and Sri Lanka in 1947-1948 marked the beginning of divergence on economic journeys by the former colonies. In South Asia, each country pursued a different development strategy, and not surprisingly met with mixed results. In trade policy too, the various degrees of protectionism that the countries adopted met with varying degrees of success. However, one conclusion on trade that remains unquestionable is that the region as a whole suffered enormously and—until a few years ago— simply dropped off the trade map of the world. Riddled by complicated rules and ruled by a mindset that encouraged self-reliance and trade pessimism, trade in the region and with the world was constricted.

Despite some welcome liberalization in the last decade or so, openness of the SAARC region to external trade and economic relationships is still low. Exports as a percentage of GDP are 36 percent for Sri Lanka, 12 percent for India, 16 percent for Pakistan, 26 percent for Nepal, 31 percent for Bhutan, and 12 percent for Bangladesh. Imports as a percentage of GDP are also low: 44 percent for Sri Lanka, 16 percent for India, 21 percent for Pakistan, 38 percent for Nepal, 42 percent for Bhutan, and 18 percent for Bangladesh. For the larger countries—Sri Lanka, India, Pakistan, and Bangladesh—this was a function of import-substitution policies adopted earlier. Sri Lanka was the first to introduce economic reforms in the 1970s and it is not surprising that its exports in relative terms are the highest percentage of GDP.

A strategic error was the attempt to be self-sufficient without understanding the role of international trade in development. This error prevented producers in the region from reaching bigger markets or from using better inputs. The desire was to produce everything in the production chain—regardless expertise, technology, or market. Consequently, whenever a process was less efficient than what was available internationally, the entire production chain was harmed. For instance, by forcing the fertilizer industry to use only locally designed catalysts, the productivity of the entire industry suffered. The same was the case for the electronics sector where the software industry took time to take off because of the insistence on the use of domestic computer hardware. Thankfully, there has been a major departure from the original model.

The region has opened up somewhat to trade and to foreign investment. Custom duties have been reduced, quantitative restrictions on imports have eased, and foreign investment can now enter more freely in most sectors. The region has a long way to go but has embarked on globalization. Thus, it is important to examine laws and procedures related to Customs and trade that differ considerably. Apart from production and quality issues that have limited trade in South Asia, it is the free movement of goods and capital between countries, and harmonious laws and procedures related to Customs that are required to increase trading opportunities.

The point that needs to be forcefully made here is that integration is more than trade and investment. At one level, the forces of integration are much stronger and more varied than the simple economic variables on which we focus. At another level, and more importantly, the forces of globalization make economic isolation irrelevant, or contrived. It is impossible to remain insulated even when following a policy of relatively closed economic borders. Consequently, one needs to accept globalization as given and to make the best of it, rather than wishing it away.

South Asia can have a strong global presence by integrating regionally and with the rest of the world. Interdependence and common standards among economies adds to the strength of each. China's is important today because it is seen as a business destination by the rest of the world. It has a huge domestic market and cheap labor and foreigners rush to do business there. South Asia region can be in a similar situation only if it makes the world perceive it the same way that China is perceived.

ANNEX 1. DESCRIPTION OF SECTIONS UNDER THE HARMONIZED SYSTEM

Sections	Description	Chapters
I.	Live animals, animal products	01-05
II.	Vegetable Products	06-14
III.	Fats or oils, edible fats, waxes	15
IV.	Prepared foodstuffs, beverages, spirits, vinegar, tobacco products	16-24
V.	Mineral products	25-27
VI.	Products of chemicals and allied industries	28-38
VII.	Plastics, rubber and articles thereof	39-40
VIII.	Raw hides, skins, leather, fur articles, travel goods, handbags etc.	41-43
IX.	Wood, cork, wood charcoal, straw, basketwork, wickerwork	44-47
X.	Wood pulp, cellulose, waste/scrap of paper or paperboards	47-49
XI.	Textiles and articles thereof	50-63
XII.	Footwear, headgear, umbrella, walking sticks	64-67
XIII.	Articles of stones, plaster cement, asbestos, glass and glassware	68-70
XIV.	Pearls, precious and semi-precious stones, metals, jewellery	71
XV.	Base metals and articles thereof	72-83
XVI.	Machinery and mechanical appliances, electrical equipments, sound and television image recorders, parts and accessories	84-85
XVII.	Vehicles, aircrafts, vessels and associated transport equipment	86-89
XVIII.	Optical, photographic, cinematographic equipments, medical and surgical equipments, clocks, watches, musical instruments, parts and accessories thereof	90-92
XIX.	Arms and ammunitions, and parts and accessories thereof	93
XX.	Miscellaneous manufactured articles	94-96
XXI.	Works of art, collector pieces and antiques	97-99

SOURCE: *Directorate General of Commercial Intelligence and Statistics, Government of India*

ANNEX 2. INDIA'S PREFERENTIAL IMPORTS FROM PAKISTAN

HS.No	HS Code	Product Description
01.	29173500	Phthalicanhydride (chemicals)
02.	25010002	Rock salt
03.	08134001	Tamarind dried
04.	28170001	Mono-ethanolamine and its salts
05.	13019019	Other resins
06.	08041003	Dry dates
07.	28510009	Inorganic compounds
08.	13019029	Gum resins
09.	29173902	Dioctlphthalte (chemicals)
10.	08131000	Apricots dried
11.	29072200	Hydroquinone and its salts
12.	28181000	Artificial corundum
13.	08042001	Fish fresh
14.	08062001	Raisins
15.	07139001	Grams dried
16.	07139002	Grams dal
17.	13019001	Asian gum
18.	68029100	Marble travertine and alabaster
19.	08062009	Dried grapes (Sultana variety)
20.	13019059	Lac, natural gum, oleoresins
21.	49011002	Pamphlets, leaflets, booklets
22.	08071100	Articles of tin
23.	12111000	Liquor (ice roots, fresh)
24.	13011019	Seed lac
25.	13011019	Other Lac
26.	13019003	Asafetida
27.	13019009	Natural gum
28.	13019011	Copal
29.	13019048	Pine oleoresins
30.	29025000	Styrene
31.	29181102	Calcium lactate
32.	29291009	Hydrocarbons and chemicals thereof
33.	29130009	Organic and inorganic compounds (others)
34.	29371001	Oxytocin (chemical compounds)
35.	41041001	Buffalo calf skins, hides
36.	41041011	Finished chrome and semi-chrome upper leather products from calf skins
37.	40102901	Conveyor belts of vulcanized rubber

SOURCE: *RIS, New Delhi*

ANNEX 3. INDIA'S PREFERENTIAL EXPORTS TO PAKISTAN

S.No.	HS Code	Product Description
1.	39021000	Polypropylene
2.	26011103	Iron-ore fines (62 percent ferrous content and above)
3.	26011101	Iron-ore lumps (un-refined, coarse)
4.	23040003	Meal of soy bean (solvent extracted), defatted
5.	76061101	Electrolytic plates or sheets
6.	12099109	Vegetable seeds
7.	39030001	Propylene co-polymers
8.	40012100	Natural rubber
9.	76011001	Aluminum ingots (not alloyed)
10.	0731001	Onions fresh or chilled
11.	72201101	Pipes and tubes made of iron and steel
12.	32041605	Reactive blues (color compounds)
13.	32041601	Reactive yellows (color compounds)
14.	32041608	Reactive blacks (color compounds)
15.	12119026	Ayurvedic and unani medicines and herbs
16.	12119015	Isabgol husks
17.	29371001	Oxytocin
18.	32041602	Reactive orange (color compounds)
19.	23040002	Soy oilcakes (solvent extracted), defatted
20.	32041603	Reactive reds (colour compounds)
21.	08134001	Tamarind dried
22.	28311002	Sodium sulphoxylate
23.	29173904	Dimethylphthalate (chemicals)
24.	12119049	Aromatic plants and parts of such plants
25.	29181601	Calcium gluconate
26.	13011003	Seed lac
27.	72222011	Nickle-chromium bars
28.	12099101	Cabbage seeds
29.	74071009	Refined copper bars and rods
30.	73110009	Pressure containers for transport or storage of compressed gases
31.	39061000	Polymethylmethacrylate (chemicals)
32.	2818001	Alumina calcined
33.	73110001	Liquefied Petroleum Gas (LPG) cylinders
34.	13023203	Guar-gum treated and pulverized

SOURCE: RIS, New Delhi

ANNEX 4. COMPOSITION OF INDIA'S EXPORTS TO PAKISTAN

S.No	Commodity Name	2004	2005
		US$ Million	US$ Million
Total	**All commodities**	**293.00**	**504.67**
A.	Agricultural and allied products	90.68	78.39
1	Basmati rice	1.25	0.00
2	Cashew	0.17	0.05
3	Castor oil	0.08	0.11
4	Cotton raw including waste	44.80	8.02
5	Floriculture products	0.00	0.00
6	Fresh fruits	0.18	0.04
7	Fresh vegetables	0.20	0.87
8	Fruits/vegetable seeds	1.16	2.14
9	Groundnuts	0.00	0.07
10	Guar gum meal	0.75	0.45
11	Marine products	0.04	0.09
12	Meat and meat preparations	0.00	0.07
13	Misc. processed items	0.07	0.61
14	Non-basmati rice	0.38	2.32
15	Oil meals	26.74	40.41
16	Other cereals	0.20	1.51
17	Poultry products	0.00	0.02
18	Dairy products	0.07	1.14
19	Processed fruits and juices	0.01	0.00
20	Processed vegetables	0.48	0.00
21	Pulses	0.21	4.30
22	Sesame and niger seeds	0.13	0.00
23	Sesame seeds	0.13	0.00
24	Shellac	0.70	1.03
25	Spices	2.41	9.42
26	Spirit and beverages	0.00	0.08
27	Sugar and molasses	3.95	0.53
28	Sugar	3.95	0.53
29	Tea	6.71	5.09
30	Wheat	0.00	0.01
B.	Ores and minerals	10.33	23.62
31	Iron ore	8.57	22.35
32	Mica	0.00	0.02
33	Processed minerals	0.36	1.10
34	Other ores and minerals	1.39	0.15

S.No	Commodity Name	2004 US$ Million	2005 US$ Million
C.	Manufactured goods	174.40	336.56
35	Leather and leather manufactures	0.30	0.05
36	Finished leather	0.29	0.03
37	Leather goods	0.01	0.01
38	Footwear of leather	0.00	0.01
D.	Chemicals and related products	121.70	229.97
39	Drugs, pharmaceuticals and fine chemicals	27.43	55.82
40	Dyes intermediates and coal tar chemicals	70.60	148.42
41	Inorganic/organic/agro chemicals	18.31	17.35
42	Cosmetics/toiletries	0.61	0.90
43	Paints/enamels/varnishes	2.03	3.17
44	Residual chemicals and allied products	2.72	4.30
E.	Engineering goods	17.03	31.14
45	Ferro alloys	1.87	4.99
46	Aluminum other than products	0.24	0.06
47	Manufactures of metals	6.03	7.70
48	Iron and steel bar/rods	0.37	0.79
49	Primary and semi-finished iron and steel	5.19	10.56
50	Machine tools	0.01	0.03
51	Machinery and instruments	2.99	5.42
52	Transport equipment	0.13	0.20
53	Project goods	0.00	0.00
54	Electronic goods	0.09	0.94
55	Non-ferrous metals	0.07	0.38
56	Residual engineering items	0.05	0.08
F.	Textiles (excluding readymade garments)	8.41	6.32
57	Yarns, fabrics, made-ups	8.29	5.87
58	Cotton yarn fabrics made-ups etc.	8.05	5.74
59	Natural silk yarn fabrics made-ups	0.01	0.01
60	Manmade yarn fabrics made-ups	0.16	0.09
61	Woollen yarn, fabrics, made-ups etc.	0.06	0.02
62	Jute manufacture excluding floor coverings	0.00	0.07
63	Jute yarn	0.00	0.02
64	Jute hessian	0.00	0.05
65	Carpet handmade	0.00	0.01
66	Silk carpets	0.00	0.00
67	Coir and coir manufactures	0.06	0.03
68	Man-made staple fibre	0.06	0.35
G.	Readymade garments	0.55	0.20
69	Readymade garments cotton incl. accessories	0.55	0.05

S.No	Commodity Name	2004	2005
		US$ Million	US$ Million
70	Readymade garments silk	0.00	0.00
71	Readymade garments manmade fibers	0.00	0.00
72	Readymade garments wool	0.00	0.15
73	Readymade garments of other textile materials	0.00	0.00
H.	Other manufactured goods	26.41	68.88
74	Handicrafts excluding handmade carpets	0.16	0.11
75	Sports goods	0.17	0.15
76	Rubber manufactured products	14.70	27.30
77	Footwear of rubber/canvas etc.	0.00	0.01
78	Gems and jewellery	0.08	0.01
79	Glass/glassware/ceramics/cement	1.18	0.46
80	Paper/wood products	3.11	2.59
81	Plastic and linoleum products	7.00	38.25
82	Computer software in physical form	0.00	0.00
83	Petroleum and crude products	0.02	59.36
I.	Other commodities	17.58	6.74

Source: www.indiatrades.com

ANNEX 5. COMPOSITION OF INDIA'S EXPORTS TO AFGHANISTAN

S.No.	Commodity Name	2004	2005
		US$ Million	US$ Million
Total	All Commodities	148.54	157.14
A.	Agricultural and allied products	13.29	11.92
1	Basmati rice	0.00	0.00
2	Coffee	0.04	0.00
3	Floriculture products	0.01	0.00
4	Fresh fruits	0.30	0.00
5	Fresh vegetables	0.01	0.00
6	Groundnuts	0.23	0.00
7	Marine products	0.00	0.23
8	Meat and meat preparations	0.31	1.74
9	Misc. processed items	0.88	4.13
10	Oil meals	0.00	0.00
11	Dairy products	0.38	0.71
12	Processed fruits and juices	0.03	0.01
13	Processed vegetables	0.00	0.00
14	Pulses	0.02	0.00
15	Shellac	0.04	0.05
16	Spices	0.08	0.15
17	Spirit and beverages	0.00	0.02
18	Sugar and molasses	4.66	0.00
19	Sugar	4.66	0.00
20	Tea	3.33	1.59
21	Tobacco manufactured	2.85	3.20
22	Tobacco un-manufactured	0.11	0.09
B.	Ores and minerals	0.07	0.01
23	Processed minerals	0.02	0.00
24	Other ores and minerals	0.05	0.01
C.	Manufactured goods	130.76	138.36
25	Leather and leather manufactures	0.17	0.03
26	Finished leather	0.00	0.00
27	Leather goods	0.02	0.01
28	Leather garments	0.09	0.00
29	Footwear of leather	0.05	0.00
30	Leather footwear component	0.01	0.00
31	Saddlers and harness	0.00	0.01
32	Chemicals and related products	27.64	19.65
33	Drugs, pharmaceuticals and fine chemicals	26.12	17.58

S.No.	Commodity Name	2004	2005
		US$ Million	US$ Million
34	Dyes intermediates and coal tar chemicals	0.22	0.07
35	Inorganic/organic/agro chemicals	0.08	0.01
36	Cosmetics/toiletries	1.04	0.97
37	Paints/enamels/varnishes	0.15	0.97
38	Residual chemicals and allied products	0.03	0.04
D.	Engineering goods	28.22	40.42
39	Manufactures of metals	6.18	6.45
40	Iron and steel bar/rods	0.33	0.00
41	Primary and semi-finished iron and steel	4.32	2.03
42	Machine tools	0.87	0.85
43	Machinery and instruments	6.66	9.97
44	Transport equipment	8.60	17.11
45	Project goods	0.14	0.00
46	Electronic goods	0.81	3.71
47	Non-ferrous metals	0.00	0.26
48	Residual engineering items	0.31	0.05
E.	Textiles (excluding readymade garments)	21.75	41.90
49	Yarns, fabrics, made-ups	21.73	41.82
50	Cotton yarn fabrics made-ups etc.	8.05	10.36
51	Natural silk yarn fabrics made-ups	0.27	0.01
52	Manmade yarn fabrics made-ups	12.85	30.94
53	Woollen yarn, fabrics, made-ups etc.	0.57	0.52
54	Jute manufacture excluding floor coverings	0.02	0.00
55	Jute yarn	0.00	0.00
56	Jute hessian	0.00	0.00
57	Other jute manufactures	0.01	0.00
58	Carpets	0.00	0.08
59	Carpet handmade	0.00	0.08
60	Other textiles excl. RMG	0.00	0.00
61	Coir and coir manufactures	0.00	0.00
F.	Readymade garments	43.60	25.66
62	Readymade garments cotton incl. accessories	30.46	16.14
63	Readymade garments silk	0.92	0.85
64	Readymade garments manmade fibres	7.50	6.48
65	Readymade garments wool	4.23	1.80
66	Readymade garments of other textile materials	0.48	0.39
G.	Other manufactured goods	9.38	10.71
67	Handicrafts excluding handmade carpets	0.13	0.17
68	Sports goods	0.00	0.07
69	Rubber manufactured products	7.21	8.26

S.No.	Commodity Name	2004	2005
		US$ Million	US$ Million
70	Footwear of rubber/canvas etc.	0.01	0.00
71	Gems and jewellery	0.30	0.19
72	Glass/glassware/ceramics/cement	0.74	0.59
73	Paper/wood products	0.19	0.22
74	Plastic and linoleum products	0.80	1.18
75	Computer software in physical form	0.00	0.03
76	Petroleum and crude products	0.01	0.16
77	Other commodities	4.41	6.69

SOURCE: www.indiatrades.com

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