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Pakistan India Trade - Opportunities and Challenges

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One of the most important factors for any country to become economically successful is through its integration into the global economy. The more integrated an economy is, the more it can benefit from the value chains that are now stretching across the world. It is estimated that about 60% of trade is driven by the multinationals as a part of the global supply chains. Countries that are not yet parts of global supply chains are losing and getting left out of the prosperity being created by international trade.

According to the Planning Commission of Pakistan Vision 2025, "over the last decade, Pakistan's per capita income has grown at less than 3 per cent per year, while other countries, e.g., Bangladesh, China, India, South Korea, and Sri Lanka, are growing at rates between 6 and 9 per cent per year. If these trends continue, by 2047, the centenary year of the birth of Pakistan, the average incomes of these countries would be between 4 and 8 times higher". The document further notes that "successful countries have invariably built upon the dynamism of their regional contexts".

A similar sentiment was expressed recently by the Wall Street Journal (June 18, 2015), "…South Asian countries have started showing a willingness to overlook their differences to pursue common economic deals but Pakistan is risking missing out. This may lead to an increasingly integrated region leaving Pakistan behind. (Tasch, 2015)

The focus of this paper is on how Pakistan can build on the regional dynamism as other South Asian countries are doing and whether any of its fears in normalizing trade with the largest

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South Asian economy India, which accounts for 80 per cent of the region's economic output, are justified.

Over the last two decades various research think tanks, donors and international organizations commissioned several reports on pros and cons of normalization of trade between Pakistan and India. While an overwhelming number of studies have shown that there are major benefits for both countries if trade was allowed to flow unhindered, there are some studies which caution of adverse impact on Pakistan's industry and trade deficit. A summary of some recent studies is given below.

Previous studies

Dr Hafiz Pasha estimates that the total potential diversion of India's annual imports to Pakistan is close to USD 2.2 billion, equivalent to 9 per cent of Pakistan's annual global exports and almost eight times the current level of exports to India. Of this total potential, Pakistan's exports to India are expected to increase in the medium run (approximately 3 years) from under USD 300 million to just over USD 1.3 billion, an increase of over 300 per cent. In the medium term, Pakistan's agricultural exports could increase by 285 per cent, textiles and clothing by 504 per cent and other manufactured goods by 577 per cent. Pakistan could witness import bill savings of up to USD 721 million in the medium term.

Dr. Ishrat Hussain estimates that the total volume of bilateral trade should be able to rise to approximately USD 8-10 billion annually. India can augment its exports to Pakistan in three categories – machinery, mechanical appliances and electrical equipment, and chemicals and textiles. These three categories account for 54 per cent of India's export potential. Pakistan has the largest export potential in textiles, jewelry and precious metals and base metals, accounting for 45 per cent.

Nisha Taneja estimates bilateral trade potential between the two countries to be USD 19.8 billion, which is 10 times larger than the current trade. Of this, import potential accounts for USD 16 billion and export potential accounts for USD 3.8 billion. The potential in mineral fuels is another USD 10.7 billion, of which import potential accounts for USD 9.4 billion and export potential USD 1.3 billion.

Dr. Ejaz Nabi is of the view that greater Pakistan-India trade can bring tremendous benefits to Pakistan. Consumers would enjoy lower product prices and more variety. Technology transfers from India would improve Pakistani farm productivity, while lowering manufacturers' production costs and enhancing their competitiveness internationally. Small manufacturers would increase their efficiency by partnering with larger Indian counterparts, and enjoy advantages of scale thanks to bigger export markets. The Pakistani government would benefit because more legalized trade would generate revenues currently lost to smuggling. South Asia's economic revitalization would serve Pakistan particularly well, given its geographic position. A liberalized regional trade regime will help restore the vibrancy of the Pakistani economic and cultural centers—including Sindh province in the south and the cities of Lahore and Peshawar further north—that served these former east-west trade routes.

Dr. Manzoor Ahmad et al indicates that Pakistan has a positive net RCA (revealed comparative advantage) in a number of sectors particularly in textiles and clothing where it has an advantage in 354 out of 654 tariff lines. Furthermore, looking at the pattern of usage of India and Pakistani products in each other's markets and computing Trade Complementarily and Trade Intensity Approaches, the study estimates potential of US USD 2.13 billion in the Indian market for products in which Pakistan has a positive net RCA over India.

Mr. Tasneem Noorani advocates caution in normalizing trade. He is of the view that India has one of the most restrictive trade regimes in the world in terms of safeguard measures for its benefit. Furthermore, there are Pakistan-specific biases in interpretation and application of rules by the Indian government departments. Therefore, the benefits for Pakistani exporters may be very limited. On the other hand, after grant of Most Favoured Nation (MFN) status to India, Pakistan's imports from India will certainly increase. While the cost of certain machinery or products will go down for Pakistan, benefitting certain industries, but at the same time there is a danger of some local industries being knocked out by Indian imports, and enhancing unemployment and resentment against the initiative.

There are about two-dozen other studies focusing on various aspects of trade normalization. In view of the previous work, this paper is not an effort to revisit the overall issue of normalization of trade but will only focus on those problems, which are hampering the progress and what can be done to overcome those problems.

Current status of bilateral trade

In the financial year 2014, bilateral trade Pakistan's bilateral trade with India was USD 2.4 billion of which Pakistan's imports were USD 2.1 billion and exports were USD 0.3 billion. As compared to this, bilateral trade among other South Asian regional countries is at a much higher level. India-Sri Lanka bilateral trade is almost twice this level at USD 4.7 billion while India-Bangladesh is at least three times at about USD 6.6 billion.

Major bottle-necks hampering trade

As members of the South Asian Association for Regional Cooperation (SAARC), in 2004 Pakistan and India signed the South Asian Free Trade Area (SAFTA) agreement. The Agreement has been operational since 2006 but Pakistan has yet to formally grant MFN status to India, which means giving the same trade access to India as to any other member of the WTO. Furthermore, while Pakistan and India have reduced their tariffs in the 0-5 percent range, both sides maintain sensitive lists of items on which no tariff concessions are offered. There are currently 614 items on India's sensitive list applicable to Pakistan while Pakistan's sensitive list applicable to India includes 936 items.

Pakistan's import regime vis-à-vis India is based on various lists, through which it has been gradually liberalizing its import regime. Until 2011, Pakistan allowed only a limited 'Positive List' of 1,946 items to be imported from India. In March 2012, it took a major step forward by replacing the positive list with a negative list of 1209 items thereby allowing import of 82 per cent of all tariff lines. The more prominent industrial items that are not allowed to be imported from India include pharmaceuticals, paper and paper products, leather goods, plastic and rubber items, textiles and clothing, ceramic and glass articles, chemicals, iron and steel products, electrical equipment, machinery, vehicles and auto-parts and sports goods. The main hurdle in full resumption of trade is restriction of trade through land routes and an India-specific negative list of imports. There is only one land route Wagah/

Attari open for trade. At present Pakistan allows import of 137 items (Annex 2) through this road route. This restriction does not apply to imports through rail route but movement of cargo between the two countries can only take place through the Amritsar-Attari-Lahore railway line through Attari and Amritsar rail stations. The cargo moves either by the goods trains or by freight cars attached to the Samjhauta Express.

Since October 2008, both countries also allow trade across the Line of Control (LoC) on the Uri-Muzaffarabad and Poonch Rawalkot trade routes for a selected list of 21 primary products. Only goods originating in Kashmir from both sides of the border are eligible to be traded duty free under a barter system.

As far exports from Pakistan are concerned, there is no restriction on exports to India, except those that are generally restricted from being exported from the country.

Although India granted MFN status to Pakistan in 1996 and allows all goods to be imported from Pakistan, except for a list of items that India has banned from being imported from all countries, it has several non-tariff barriers, which mostly apply to trade through land routes.

Why is Pakistan reluctant to grant MFN status and open up the land routes?

Based on discussions in the media, statements by major business associations and other formal and informal sources, it seems that the following four factors are hindering the full normalization process:

1. Inability to compete by some vulnerable sectors
2. Fear of increasing trade deficit
3. Timing of the decision
4. Security concerns

The vulnerable sectors:

While a vast majority of businesses now favours normalization, a few sectors continue to oppose such moves. The three sectors that have been openly opposing normalization of trade include agriculture, pharmaceuticals and the auto sector. However, this opposition is not shared by all the players in those sectors but by an overwhelming majority.

Agriculture

Major concern of the farming sector is that the Indian government gives extensive subsidies and has a rather restrictive import trade regime for its agricultural sector. Therefore, Pakistani farmers are at a serious disadvantage. If trade were fully normalized, Pakistani farmers would not be able to export to India. On the other hand, India may increase its exports several folds because of huge subsidies.

According to a research report published in the Business Recorder (28 March 2014), in 2012 India subsidized fertilizer use to the tune of USD 15,171 million. Irrigation subsidies amounted to USD 6,303 million, electricity consumption by farmers USD 7,326 million and other inputs like seed, tractors, crop insurance, etc. are subsidized by USD 8,832 million. The total agricultural subsidy bill for India in 2012 is estimated at USD 37,362 million. On the other hand, for the same year, the corresponding subsidies for Pakistan were estimated at USD 897 million. These include USD 356 million on fertilizer, USD 193 million for irrigation, USD 342 million electricity and others. Therefore, controlling for the size of the economy, Indian subsidies to agriculture are over five times as much as of Pakistan. Consequently, yields are somewhat higher by 10 to 27 per cent in many crops.

Besides agricultural subsidies, India has a restricted import regime for agricultural products. For example, India applies tariff rate quotas on 19 tariff lines including milk and sugar. Para tariffs are higher on value added products. Some products such as orange juice and ethanol are subject to countervailing duty (CVD) of up to 16 %. Labeling and packaging requirements are complex. Absence of direct courier services and administrative issues for sanitary and phytosanitary (SPS) certificates results in serious delays.

Despite these handicaps, import of agricultural products from Pakistani side is almost fully liberalized, although some restrictions apply through the land route. There is a list of 16 items on the negative list (Annex 1) but it does not include any of the items, which India can export to Pakistan. In fact, India is a major importer of many of these products such as palm oil. These products are not produced locally in Pakistan (except for manufactured tobacco products), therefore the removal of the Negative List is not likely to have any adverse impact on the local farmers.

The only agricultural products on the negative list, which India could export to Pakistan, are soya bean oil, animal feed and eggs for parent stock. Import of these products from India will be beneficial for the livestock and poultry sector in Pakistan.

Impact of allowing imports of all agricultural goods from Wagah

Most vegetables and lentils are already being imported duty free from India. A list of items that are importable from the seaports but are not allowed through Wagah is given at Annex 2. If all agricultural items are allowed import through the land route, it is likely that the two-way trade in fruits will increase. India has committed to remove citrus from the SAFTA Sensitive List, which means reducing or elimination of import duty on citrus fruit. This should enable Pakistan to export substantial quantities. India continues to protect mangoes at 40 per cent tariff whereas tariff in Pakistan will only be 5 per cent. Mango imports from India may rise as the mango season (April to June) in India falls before the peak season in Pakistan (May to August). Pakistan will only be able to export mangoes to India if it is able to negotiate market access on a reciprocal basis for fruits from India.

Imports of banana from India may further increase as the Pakistan's Sensitive List does not protect it and the duties will fall from 25 to 5 per cent. It is already coming through the line of control in Kashmir in large quantities.

Other items that are currently imported through Karachi but not allowed through Wagah include black tea, capsicum, chickpeas and spices like coriander, nutmeg and fennel seeds.

Of all these items, imports of chickpeas may pose problems for local farmers, as this is a major grain legume of Pakistan. It is grown over 1.05 million hectares comprising 75 per cent of the total area under pulses (GOP, 2010). Opening of trade may enable Pakistani farmers to get better seeds and also learn from Indian farmers about increasing productivity.

For major crops, both countries are self-sufficient except when crops fail. Both Pakistan and India run wheat surpluses in some years but import them occasionally. For sugar, it is a similar situation. For example, Pakistan imported USD 639 million worth of sugar from India in 2010 following the floods. The imports from India were relatively lower at USD 30 million in 2011. In 2012, Pakistan had a sugar surplus and exported over USD 1 million to India. In the case of rice, both countries are major exporters.

Trade Policy Instruments for Restriction on Import of Agriculture Items

The WTO rules allow a number of safeguard measures for the temporary suspension of obligations. Thus, if there is a sudden surge in imports or if the prices of imported goods have declined unusually and are likely to hurt local producers, Pakistan can temporarily suspend imports or raise import duties.

The more prominent WTO compatible rules that can be used for restricting abnormal surge or dumped or subsidized import include the following:

Safeguard measures: These allow imposition of additional duties or import regulations when a country is faced with a sudden surge in imports and/or an unusual decline in import prices that hurt or threaten to hurt a domestic import-competing sector. Thus an importing country is allowed to temporarily suspend its WTO obligations in such situations.

Anti-dumping: These rules allow levy of additional import duties when prices of exports are below what is charged in the home market - (GATT Article VI and Agreement on Implementation of Article VI of GATT 1994).

Countervailing duties: These measures can be used to offset the effect of subsidization by the government of the exporting country that causes or threatens material injury to a domestic industry (GATT Articles VI and XVI and Agreement on Subsidies and Countervailing Measures).

Emergency protection: temporary protection in cases where imports of a product cause or threaten serious injury to domestic producers of directly competitive products (Article XIX).

Balance of payments: restrictions on imports to safeguard a country's external financial position (Article XII).

General waivers: allowing Members to ask for permission not to be bound by an obligation (Article XXV and WTO Agreement). In contrast to other mechanisms, this requires formal approval by the WTO Council.

There are also provisions allowing for the withdrawal of certain concessions (i.e. raising the bound tariffs) subject to compensation to affected Members (Article XXVIII and Article XXVIII bis).

Some reports on Pakistan-India trade refer to the possible application of Special Safeguards Provisions in case of any surge in imports. It needs to be clarified that Special Safeguards are limited to only those agricultural products, which underwent tariffication in the Uruguay Round. Since Pakistan and India opted for ceiling binding of tariff rates, these provisions are not applicable in their case.

Furthermore, Pakistan can also prohibit import of any agricultural product on the grounds of risk assessment under WTO's Sanitary and Phyto-sanitary (SPS) regulation Clause 5. SPS regulation allows restriction of trade for "the evaluation of the potential for adverse effects on human or animal health arising from the presence of additives, contaminants, toxins or disease-causing organisms in food, beverages or feedstuffs.

Recently farmers associations of both sides have been discussing the possibility of negotiating a bilateral agreement to regulate the import of agricultural goods. The discussions are focusing on allowing import of agricultural produce only during their off-season and depending on the requirement.

Pharmaceutical products:

The general perception is that Indian medicines are cheaper because their pharmaceutical industry has economies of scale. Thus, the argument goes, the Pakistani pharmaceutical industry will not be able to compete and many units may have to close down.

It is a fact that Pakistan has a smaller pharmaceutical industry than India but that does not mean it cannot compete. Pakistani industry is already exporting medicines worth over USD 150 million to 45 countries and access to the big Indian market will be an advantage.

It is also a fact that Pakistan is already allowing import of some high quality life-saving drugs from India. They are much cheaper than importing from Europe. Even such common medicines as Aspirin, Amoxillin, Ampicillin, Ciprofloxine, Famotidine, Lexotanil, Renitidin, whose import is not allowed are smuggled in, because they are cheaper. Allowing imports would only legalize the current situation. It will also bring down prices of essential medicines that would greatly benefit the poorer section of our society.

In any event, the Drug Regulatory Authority of Pakistan (DRAP) regulates import of finished medicines in Pakistan. Normalizing trade with India would not mean that Indian medicines would start flooding the Pakistani market. Pakistan can allow limited imports and can take its time to liberalize trade in medicines. However, availability of medicines is not just a commercial decision but it is also a public health issue. Furthermore, normalization of trade would enable Pakistan to overcome serious shortages of some life-saving drugs.

Currently none of Pakistan's pharmaceutical units is producing internationally approved medicines. As a result, they cannot export to developed countries. Normalization of trade would allow setting up joint ventures to make it easier for Pakistani industry to receive industry FDA (US Food and Drug Administration) approval.

Automobile industry

The auto industry claims that India has economies of scale and can sell cheaper cars and auto-parts in Pakistan, thus making the local auto-industry noncompetitive

Pakistan's auto industry is well protected through high duties ranging from 60 per cent or higher for cars and 35 %, and higher for auto-parts. Autos and auto-parts are on the sensitive list and it does not seem likely that duties will be reduced in the foreseeable future on these goods.

Normalization of trade with India should be taken as a major opportunity for restructuring Pakistan's auto policy. Since the present government assumed office, it announced its intention to design a new auto-policy. However, nothing has changed so far.

Pakistan's auto-policies, including the last one implemented in 2007, were always based on the outdated import substitution policies of the 1980s and 1990s. Most other developing countries, including India, have moved on to export-led growth. Our focus has always been on localization, which means using locally made parts and thus ensuring that most of the car is made locally.

There is nothing wrong with the concept of localization. However, this policy has not worked in Pakistan or any other country. A typical car needs something like 30,000 parts. It is extremely difficult to be self-sufficient in producing all these parts. Pakistan used to follow similar policies for other consumer goods as well but in 2001-2002 did away with them because they were against the WTO rules. As a result consumer goods industries such as air-conditioners, fridges, microwave ovens, etc. started doing rather well.

The worst problem with this policy is that it serves as a barrier to new investment. Over the years many international automakers have shown interest in setting up car plants in Pakistan. Since the localization policies require them to use a sizeable per centage of locally produced parts either at the time of setting up the industry or within a short time, they are unable to meet this condition. They feel that the quality of local parts does not meet their requirements or the economy of scale does not justify it. In India it was the same situation. Global investors started entering that market when they did away with localization policies in 2002.

Various governments in Pakistan have been following localization policies for at least 25 years but as yet have not developed any engine parts. The three major assemblers continue to import CKD (Completely-Knocked Down) engine kits from their parent companies. If the parent company moves its manufacturing to another country, the car industry is unable to adjust to these changes. It recently happened with Suzuki Alto and Daihatsu Cuore, which were highly successful in Pakistan. When the parent companies decided to move their manufacturing bases, both models had to be shut down in Pakistan. The Engineering Development Board developed a list of localized parts in 2007 and this list has not been updated since then. It seems that the localization effort is at a standstill. Every time the Japanese yen appreciates against Pakistani rupee, prices of cars in Pakistan are adjusted upwards. It shows that most of the car (at least by value) is still imported.

Localization policies should not be used as a barrier to new investment and competition. These policies should not be forced on the assemblers through regulations or high tariffs. Besides stifling competition, localization also lowers the quality of finished goods. The quality of locally produced cars can be judged from the fact that most people prefer to buy a 3 year old/used imported car rather than a new local car. If Pakistan's vending industry is compared with any other developing countries, it will be clear that Pakistan does not figure in any export market. Also due to high tariffs on auto parts, this is the most lucrative business for smugglers.

Almost all developing countries with the exception of a few such as Iran, Cambodia and Venezuela have done away with the localization programs. For examples, India, Indonesia, Thailand, Philippines, and even China followed localization policies before the WTO rules on Trade Related Investment Measures (TRIMS) came into effect in 2000. However, soon thereafter they adjusted their policies to comply with the WTO rules. The Engineering Development Board claimed that it changed its policy but essentially it kept the same procedures intact through tariff rates (known as Tariff Based System).

Those countries that got rid of their deletion policies became more competitive. Not only did the production of cars increase many fold, but their prices also came down. For example, in 2005 India produced 1.6 million cars but this number jumped to 3.9 million units in 2011. In Indonesia, the number of cars produced increased from 500,000 to about 838,000 in the same period. Their auto-industries became more flexible and capable in adjusting to making new models quickly. Our complete dependence on the local market means that we are not producing the same number of cars that we did 5 years ago.

Through the current auto policy, Pakistan has blocked potential foreign investments. It has not been able to attract any significant investment in the last 10 years while our competitors flourished during this period.

India has a comparatively open policy for the import of auto-parts. Its duty rates on auto-parts are less than 8 per cent as compared to 35-60 per cent in case of Pakistan. In fact, for parts imported from the ASEAN countries with which India has a free trade agreement, there is no duty. There is no requirement for attaining any deletion levels. Thus there are no barriers to new investment. India's car industry can use the cheapest and best quality parts from around the world as the tariffs on import of auto-parts are zero or very low. Against this our auto industry has to rely on the locally produced parts no matter what their quality may be.

While Pakistan followed rather protective policies for cars, it had different policies for tractors and motorcycles. Tractors were never protected through high import duty. As a result the tractor industry had to be very innovative. If the tractors industry was allowed use of imported parts, it would make local tractors compliant with international emission controls. Pakistan is currently exporting tractors to some African countries but if their engines could meet international controls, they could be exported to other markets as well as they can compete on the basis of their prices and quality.

Normalization of trade is a challenge as well as an opportunity. If the local industry was allowed to import its engine kits from India, it will be able to produce cheaper cars. For example, if Suzuki was allowed to import engine kits from India, it would be able to revive its Suzuki Alto plant. Similarly if the tractors industry could import certain engine parts from India, they would be able to produce environmentally friendly tractors. Currently cars, as well as auto parts, are on the negative list and they are also protected through high tariffs. There could be a phased approach. First Pakistan can remove them from the negative list and then over time reduce tariffs. Pakistan should also look at the Indian auto parts market. Currently it is estimated at USD 30 billion but is estimated to grow to USD 100 billion by 2020. If Pakistan can capture just 5 per cent of this market, its exports could increase by USD 5 billion.

Pakistan should lift barriers on new investors now enforced through the requirement of using locally made parts. It should not be up to the Engineering Development Board and Federal Board of Revenue to micromanage the auto industry and determine their quotas. As with other sectors, there should not be any special SROs for the auto industry. The policy should be based on export-led growth rather than import substitution. High tariffs on passenger cars and auto-parts should be lowered to enable the auto industry to face some competition. The passenger car assemblers should be at liberty to import auto parts from anywhere (including India) and thus improve the quality and reduce prices. The current policy of allowing old and used cars at depreciated values should be reviewed. Like all other car producing countries, Pakistan should bind its auto industry to introduce fuel-efficient and environmentally friendly cars. In short Pakistan should benchmark its auto policies with other successful countries and not keep on following the failed policies. One of the earlier reform measure announced by the present government was to reform the auto-sector. One of the cabinet minister was to present a report within three months. Two years have passed but nothing has been done yet.

The silver lining is that our auto-industry has started realizing that it needs to move on. It is taking a start by establishing contacts with the Auto Component Manufacturers Association of India (ACMA). Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM) and ACMA have signed a Memorandum of Understanding for exploring viability of working together on skill development in Pakistan as well as building supply chains through Wagah by road. Both governments should encourage such bilateral agreements between the business associations.

Timing of the decision

Due to rising political tensions, serious shortages of energy and high unemployment rates in Pakistan, a considerable segment of population is of the view that the time is not right for normalization of trade. Pakistan has been deliberating normalization of trade with India since 1996 when India granted MFN status to Pakistan. During the last 20 years, several governments examined the option and every one of them concluded that normalization of trade was beneficial for Pakistan.

In fact, if Pakistan had taken this plunge when India accorded MFN status to Pakistan in 1996, the economy would have greatly benefitted and conditions would be much different now. At that time, India was not open and its industry was not competitive while on the other hand, Pakistan was comparatively more open and competitive. The longer the wait, the more Pakistan is becoming marginalized.

For overcoming energy shortages, the quickest route is to allow energy imports from

India and join hands with them to connect the energy-rich Central Asian states with South Asia. This would enable the two countries to share costs and quickly overcome their energy problems.

Trade deficit

One of the serious concerns raised by the media and other observers is that Pakistan's trade deficit may further increase if trade was normalized with India. They point out the fact that although Pakistan restricts imports from India through negative list and not allowing imports through the land route, even then there is substantial trade deficit. Some studies have supported this concern.

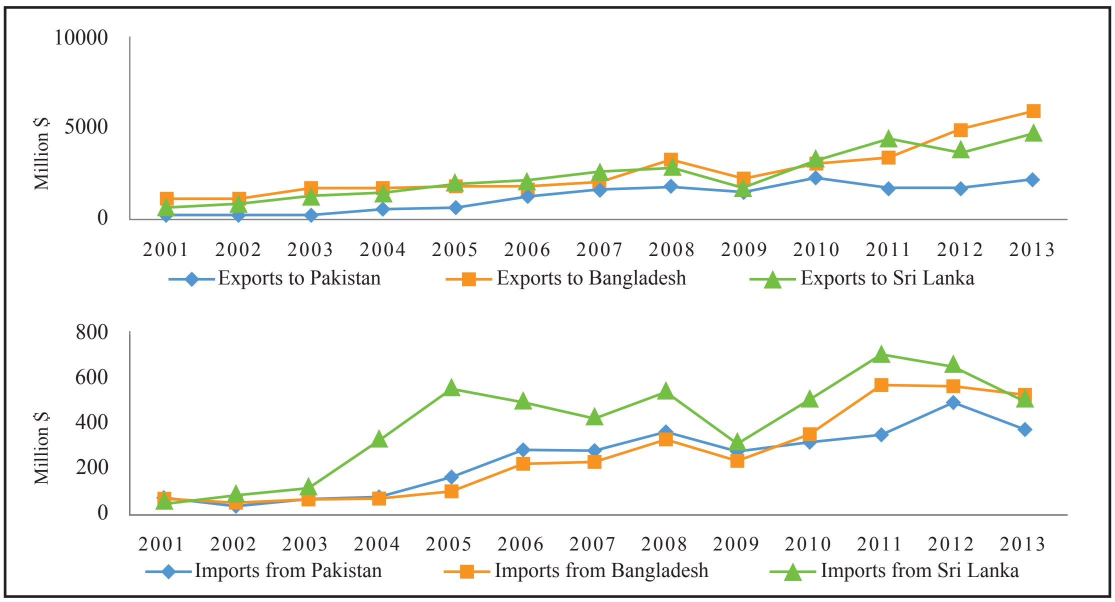
While raising this concern, they ignore the facts that, trade balance has never been the determining factor for trading with any country. In its entire history, Pakistan only had positive balance of trade with the rest of the world for 2 years. As can be seen from Annex 3, Pakistan's major trade deficit is with China. If trade figures from China Customs are taken into account, this deficit is much greater.

Despite increasing deficit, Pakistan has entered into Free Trade Agreements with these countries. In fact, Pakistan has negative balance with most of its major trading partners except the United States, EU, Bangladesh and Afghanistan. Imports from India would likely displace imports from those countries. There are no well-recognized studies to give an accurate volume of imports of Indian goods through third country sources such as UAE, but it is speculated that they may account for over USD 2 billion. If direct imports from India are allowed through land routes, it would mean reducing deficit vis-à-vis UAE but overall there may not be any adverse impact. This is further corroborated by several recent studies by Dr. Hafeez Pasha who argues that, "to the extent that imports from India represent "trade diversion" at lower prices—especially with lower transport costs—from other sources, then while the trade balance with respect to India may deteriorate, the global balance of trade could improve". More specifically he has calculated that Pakistan may be able to save USD727 million in freight lower priced imports if trade was normalized with India. Thus, the balance of trade will in fact improve rather than deteriorate. Consumers and manufacturers would benefit as the cost of goods and inputs is reduced.

Unlike the general perception in the media and also reports that trade deficits is bad for an economy, the experience of many countries shows that the trade deficit and GDP growth move in the same direction. For example, in India and Turkey there has been a strong link between trade deficits and GDP growth. In 2014-15, India's trade deficit was USD 137 billion while that of Turkey was USD 63 billion. If a country wants to speed up its growth rate, it has to encourage imports and not restrict them through any tariff or nontariff measures.

Recent developments

For the last 10 years, trade liberalization in South Asia has been proceeding on two tracks, with Pakistan on the slower track. India is now the largest trading partner for most SAARC countries including Bangladesh and Sri Lanka. The following figure shows how trade of Bangladesh and India is growing with India while Pakistan is relatively stagnating.



Data Source: Samavia Batool and Vaqar Ahmed in the Criterion, November, 2014, Trading with India, Vol 9 No 4

After the success of trade integration, a subset of SAARC countries is now moving on several other fronts.

Subsequent to the failure of Pakistan to sign the motor vehicle and rail connectivity agreement at the Kathmandu summit meeting in November 2014, Bangladesh-Bhutan-India-Nepal signed the BBIN corridor agreement on 15 June 2015. Similarly, the India-Myanmar-Thailand road connectivity plan is being completed by year-end.

Further, India is finalizing a tripartite transit agreement to allow Indian goods to enter Iran through Chabahar port for connecting to Afghanistan and Central Asia.

Pakistan is already relatively isolated in terms of trade with the rest of the world. If it does not fully participate in the SAFTA process, it is likely to be further isolated regionally as well as globally.

In conclusion, if Pakistan wants to accomplish its Vision 2025 and become one of the largest 25 economies in the world and reduce its poverty level by half, it will have to quickly normalize its trade relations with India and become a part of supply chains in its region as well as globally.

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Annex 1
Agricultural Products on Pakistan's Negative List

Sr. #	HS 8	Products	Pakistan's Global Import (USD 1000)	India's Global Export (USD 1000)	Pakistan Custom Duty 2012 (%)
1	15119030	Palm Olean	1224646	0	Rs.9050/ MT
2	15111000	Palm oil and its fractions	843539	0	Rs.8000/ MT
3	15119020	RBD palm oil	237150	0	Rs.10800/ MT
4	24012000	Unmanufactured tobacco	17229	0	5
5	24021000	Cigars, cigarillos, cigarettes, of tobacco	1949	0	35
6	24022000	Cigarettes containing tobacco	550	0	35
7	24039100	Other manufactured tobacco "reconstituted"	47	0	35
8	24011000	Unmanufactured tobacco; not stemmed /striped	26	0	5
9	24029000	Cigars, cheroots, cigarillos and cigarettes: Other	7	0	35
10	24031000	Other manufactured tobacco containing substitutes	7	0	35
11	15071000	Soya-bean oil and its fractions	57618	12797	Rs.9050/ MT
12	23099020	Preparations of animal feeding: Other	26494	9677	20
13	01051100	Live poultry, (ducks, geese, turkeys etc.: <185 g)	3192	146	5
14	04070010	Egg for hatching (parent stock)	2462	3726	5
15	24039990	Other tobacco, manufactured	192	74328	35
16	24013000	Unmanufactured tobacco: Refuse	3	10861	5

Annex 2

Items Imported from Karachi that are not allowed through Wagah by Road and are not protected by the Sensitive List

Sr. #	HS 8	HS Description	Import from Karachi USD US	Import from Wagah USD US	Is this item allowed Through Wagah?	On Sensitive List?	Customs Duty (2011-2012)	Global Import of Pakistan (US $ 1000)	Total Import from India (US $ 1000)
1	07131000	Peas dried, shelled	1064431	0	No	no	0	116250	1064
2	07132010	Chickpeas, dried, shelled	930793	0	No	no	0	166719	931
3	05061000	Ossian & bones treated with acid	79362	0	No	no	5	877	79
4	02062200	Bovine livers	64472	0	No	no	5	369	64
5	08134010	Fruits, dried (Tamarind)	38694	20976	No	no	5	5003	60
6	08029010	Nuts edible, fresh or dried	20265	0	No	no	5	70817	20
7	09081000	Nutmeg	18269	9922	No	no	5	440	28
8	09092000	Coriander seeds	12239	35855	No	no	0	2150	48
9	09093000	Cumin seeds	4376	11753	no	no	0	3793	16
10	09095000	Fennel or juniper seeds	1100	9868	no	no	0	11	11
11	09109910	Spices (Thyme, Bay leaves)	602	0	no	no	5	389	1
12	09061100	Cinnamon (excl. crushed and ground)	333	2405	no	no	5	376	3

Annex 3 Pakistan's Trade Balance with Major Trading Partners in 2013				
S. #	**Countries**	**Exports Value (USD 000)**	**Imports Value (USD 000')**	**Trade balance (USD 000')**
0	World	25,120,883	43,775,183	**(18,654,300)**
1	European Union (EU 28)	6,272,517	4,440,038	1,832,479
2	USA	3,746,252	1,669,789	2,076,463
3	China	2,652,223	6,626,323	**(3,974,100)**
4	Afghanistan	1,998,110	307,598	1,690,512
5	UAE	1,775,143	7,751,513	**(5,976,370)**
6	Bangladesh	718,382	57,264	661,118
7	Saudi Arabia	494,059	3,847,222	**(3,353,163)**
8	Hong Kong, China	408,462	109,012	299,450
9	Turkey	406,962	150,462	256,500
10	India	402,747	1,874,062	**(1,471,315)**
11	Malaysia	204,464	1,919,737	**(1,715,273)**
12	Japan	184,316	1,963,191	**(1,778,875)**
13	Indonesia	144,380	1,208,316	**(1,063,936)**
14	Kuwait	96,202	3,948,722	**(3,852,520)**

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