Contents

Govt opens doors to FDI from Pakistan, finally

Arun S., Hindu Business Line

New Delhi, August 1, 2012: The Government has finally allowed foreign direct investment (FDI) from Pakistan in all sectors, barring defence, space and atomic energy. This is yet another move towards complete normalisation of ties with Pakistan.

The formal decision comes over three months after Commerce and Industry Minister Anand Sharma had said on April 13 that India had, in principle, agreed to allow FDI from Pakistan. The Press Note, notified on Wednesday, states that the Government has reviewed the FDI policy and decided to permit Pakistani citizens and entities incorporated in that country to make investments in India, under the Government route, in sectors other than defence, space and atomic energy.

This would mean that such investments will have to get the Foreign Investment Promotion Board's (FIPB) approval. FIPB clearance is also meant to take care of security concerns.

Earlier, the Government had allowed FDI from Bangladesh under the approval route.

Official sources had earlier said that delay in the notification was affecting the progress of talks among South Asian countries on agreements on services trade and investment.

Islamabad had questioned India on how it could push for liberalisation of services and investment in South Asia when New Delhi was yet to accord non-discriminatory treatment to Pakistan on FDI.
The Department of Industrial Policy and Promotion and the Finance Ministry were in talks to decide whether the notification on changes in the FDI policy should precede changes in Foreign Exchange Management Act (FEMA), or vice-versa.

Now that the FDI policy amendments have been notified, the Government will have to amend FEMA, which bans such investments from Pakistan.

Earlier, Pakistan had decided to give India the most-favoured nation status by this year-end.
Islamabad had also shifted trade with India from a restrictive 'positive list' system to an easier 'negative list', paving the way for more goods to be traded.

Talks are also on between the banking regulators of both the countries for allowing opening of bank branches.

[Back to top]

Indian delegation in Pak to discuss export of power

Shishir Gupta, Hindustan Times

New Delhi, August 2, 2012: Taking small but sure steps in India-Pakistan ties, New Delhi sent a power ministry official delegation to Islamabad on Wednesday to negotiate the export of 500 megawatts across the Wagah border and work out the modalities for transmission of electricity to bridge demand and supply gap on either side.

This month, both countries have already had official-level talks on Indian export of petro products and liquefied natural gas to energy-starved Pakistan.

Government sources said an Indian delegation led by joint secretary (transmission) will be holding second round of talks on August 1 with her Pakistani counterparts to work out an agreement for transfer of 500 megawatts of power from Indian northern grid to a nearest point across the Wagah border.

If the two sides work out an agreement on the modalities of transfer, then the same could be signed during external affairs minister SM Krishna's three-day visit to Pakistan from September 7.

However, it will take more than a year for this proposal to fructify after the agreement as transmission lines would have to be laid across the border so that both countries could tap into each other's grid in case of a shortfall. While the transmission line link is yet to be finalised, the shortest and cheapest would be linking Amritsar to a Pakistani grid point near Lahore with installation of transformers on either side of the border.

Although the bilateral ties have lost momentum due to political instability in Pakistan, a team from Islamabad visited GAIL, Delhi, offices this month to explore the opportunity to import liquefied natural gas from India either through pipelines or through tankers. Another Indian petroleum ministry delegation was in Islamabad this month for export of petro products and import of naptha from the other side.

Official sources said that while LNG export is workable, the hitch in petrol, diesel and lubricants export to Pakistan is of prior commitments of Islamabad with Gulf countries.

[Back to top]

India to offer fresh trade sops to Pakistan to strengthen ties

Sidhartha & Rajeev Deshpande, Times Of India

August 17, 2012, NEW DELHI: In a move to help promote trade and bilateral ties with Pakistan, the government is set to slash 30% items or 254 products from the sensitive list under the South Asian Free Trade Agreement (Safta) with the Cabinet set to consider the proposal on Friday.

As part of pruning the list for non-least developed countries, which includes Sri Lanka, India plans to reduce peak customs duty on these products to 5% over three years. Eventually, the sensitive list for least developed countries like Bangladesh and Nepal is to be merged with the one for NLDCs and reduced to 25 alcohol and tobacco-based products.

The decisions are intended to boost trade in South Asia, a development that will have positive spin-offs for India and the rest of the region while bringing about closer economic integration and a strengthening of ties among nations often divided by politics and history.

Under Safta, there is a provision for a sensitive list where countries can impose restrictions to prevent misuse of freer trade. In India's case, "sin goods" are the essential feature of the list for LDCs.

India will monitor progress on negative list

The government's proposed move to slash 30% items from the sensitive list under Safta follows the decision taken by the government in February to reduce its sensitive list with Pakistan during a meeting of trade ministers.

The demand for reciprocity on MFN has been pending since 1996. Promising to grant MFN by the end of the year, Pakistan has notified a negative list, where trade will not be permitted, instead of the earlier system of a small positive list of products that reduced trade to a trickle between the two neighbours.

India has decided to unilaterally grant preferential access to an additional 30% items from Pakistan to help speed up improvement in trade ties following a breakthrough achieved in May 2011.

As the Cabinet considers the proposal piloted by commerce and industry minister Anand Sharma, it will also try to ensure the concessions being offered don't turn into a one-way traffic without Pakistan meeting its commitments. To this end, at least three milestones are being fixed. India will monitor Pakistan's initiatives to eliminate the negative list of 1,209 items and only retain a sensitive list. This will mark a major shift in Islamabad's trade position with regard to India and result in full operationalization of Safta as Pakistan has promised to grant India MFN status. The second focus area will be Pakistan's movement on pruning the sensitive list so that there are few items on which restrictions are maintained.

Also, the government wants progress from Pakistan on expanding the list of products that can be traded through the land route, especially the Attari-Wagah border. Indian officials have repeatedly said that in absence of any movement on this front, trade will not increase.

If the list is expanded, products such as garments and hosiery or even sweets can move both ways from Pakistani Punjab to Indian Punjab. In the absence of further opening up, transportation cost by the sea route will hinder increase in trade which in 2010-11 was estimated at $2.4 billion according to data on the commerce department website. Trade through unofficial channels such as the UAE and Singapore are estimated to be worth several times more.

[Back to top]

India, Pak Trade Talks Likely in Mid-Sept

Economic Times

August 30 2012, New Delhi: Trade talks between India and Pakistan are likely to resume next month with a meeting of the commerce secretaries in Islamabad.

Indian officials said New Delhi will push Islamabad to keep its promise of dismantling the trade system based on a negative list and grant India the most favoured nation status, while proposing more flights between the two capitals.

"The two countries have tentatively agreed to hold the commerce secretaries meeting next month after the meeting of external affairs minister," a government official told ET on condition of anonymity.

To set the stage, the finance ministry is expected to notify the Cabinet decision to bring down import duties on 264 items from Pakistan, the official said. These items include 155 agricultural products,106 textile products and three petroleum products. The decision will ensure gradual reduction of duties on these products over the next three years.

The official, however, said the government would consider pruning the sensitive list of 614 items from Pakistan only after Islamabad dismantles its negative list, allows trade of more goods through land and reduces the number of items on its sensitive list under the South Asian Free Trade Area.

The Pakistan government has so far been tardy on progressive reduction of its negative list, which includes 1,123 items whose import is banned from India. Islamabad had promised to prune this list with the aim of dismantling it completely by the year-end.

"While the country had initially agreed that it would bring down the negative list of items, it has not taken any steps towards the direction so far, as it later linked the dismantling to further negotiations," the official quoted above said. "This meeting will give us the opportunity to see what is on their mind."

India is, nonetheless, hopeful that Pakistan will stick to its promise of extending it the MFN status by the end of the year.

The visa agreement between two countries, which would liberalise the bilateral business visa regime, is likely to be signed when Pakistans interior minister and his Indian counterpart meet.

[Back to top]

Pakistan may soon free up trade via land route with India

Asit Ranjan Mishra, Mint

New Delhi, September 4, 2012: In an effort that could give a boost to Indian exports to Pakistan, the latter may soon allow more goods to be imported through the Wagah border. It now allows only 137 items to be imported from India through the land route out of around 6,000 tradable items.

This is part of the agenda of the forthcoming commerce secretary-level talks between the two countries expected to be held in mid-September in Islamabad after the foreign ministers of both sides meet from 7-9 September, said a commerce ministry official speaking on condition of anonymity.

The official said the Indian side had learnt informally that Pakistan's commerce ministry has taken the proposal to its cabinet for approval. "We are even hoping that they will do it even before the commerce secretary-level talks," he said.

India expects Pakistan to substantially increase the list of tradable items through the land route, the official said. "We are urging them to make it the same as the Indian one, where there are no restrictions. We expect it to be at least what the current infrastructure can handle."

The official further said that the Pakistan side had agreed to free up trade through the land route much earlier.

Trade has been expanding rapidly through Wagah even though only a small number of items are allowed to be traded through the land route, said Nisha Taneja, a professor at the Indian Council for Research on International Economic Relations.

"Allowing more items to be traded through the land route will lead to some trade shifting from the Attari rail route to the Wagah land route," she said.

Asked whether any progress has been made on the proposal of linking the two capitals of the neighbouring countries by air, the official said the commerce ministry was waiting for a response from Pakistan. "If they agree on it, we will take a representative from the aviation ministry in our delegation," he said.

At an interaction with the visiting Pakistani parliamentary delegation, organized by lobby group Federation of Indian Chambers of Commerce and Industry, Indian trade minister Anand Sharma said both countries will sign three agreements to facilitate trade during the commerce secretary-level talks. These include an agreement for customs cooperation, trade redressal, and mutual recognition and certification.

The commerce ministry official cited earlier said the finance ministry was trying to get cabinet approval on the three issues before the commerce secretary leaves for Islamabad.

"The mutual recognition agreement will help them (the Pakistani business community) to become more aware of procedures. An institutional mechanism will be built under which if the Pakistan exporter has any issue, it will be heard by a particular committee on the Indian side," he said.

Earlier this month, India's cabinet reduced the South Asian Free Trade Area (Safta) sensitive list for Pakistan by 30% to 614 items. The list of the reduced items includes 155 agricultural items, 106 textile items and three petroleum products, including aviation turbine fuel. India is expected to reduce peak tariff rates to 5% within three years as per the agreed Safta process of tariff liberalization.

Meanwhile, foreign minister S.M. Krishna, speaking about his forthcoming visit to Pakistan said he was going there this time with "greater optimism" given the progress made in the past year since official-level talks were resumed last February.

"India is of the view that normalization of ties with Pakistan should be a step by step process. My visit to Pakistan is one more step in that direction," he said, adding that it would not be "fair to prejudge the outcome".

Krishna's visit to Pakistan from 7-9 September will be his second—the first being in July 2010. Besides talks with his Pakistani counterpart Hina Rabbani Khar on 8 September, Krishna will also be going to Pakistan's cultural capital Lahore before returning home on 9 September.

[Back to top]

India, Pakistan ink visa agreement

Anita Joshua, The Hindu

September 8, 2012: In what was described by Pakistan Foreign Minister Hina Rabbani Khar as the first step towards normalisation of relations with India, the long-pending visa agreement to ease travel was inked here on Saturday.

The agreement was signed by External Affairs Minister S.M. Krishna and Interior Minister Rehman Malik after the conclusion of the Foreign Minister-level engagement at the end of the second round of the resumed dialogue process. The new visa regime — the first major overhaul since 1974 — in particular eases travel restrictions for businessmen and introduces a new category of group tourism. Besides, persons aged above 65 will be issued visa on arrival.

The regime also mandates a time frame for issuing visas. From the earlier indefinite time taken to issue a visa, the two missions have now been tied down to a 45-day period for deciding on an application. Visas will continue to be city-specific, but now in place of three cities, applicants can hope to visit five in one visit. And now visitors can enter and exit the country from different checkpoints and change the mode of travel. Earlier, the port of entry and exit had to be the same, and the mode of transport could not be changed.

The agreement had been initialled in May during the Home/Interior Secretaries talks here, but the signing had been delayed as Pakistan wanted it to be done at the political level. This being the first ministerial engagement in either country since May, Mr. Krishna came authorised by the Cabinet Committee on Security to sign the agreement which, in effect, is the domain of the Home Minister.

Another significant decision taken by the Foreign Ministers pertained to the cross-Line of Control (LoC) confidence-building measures (CBMs). The cross-LoC travel will be expanded to include visits for tourism and pilgrimage. Such visits to designated sites will initially be from the Chakoti-Uri and Rawalakot-Poonch crossing points.

Both sides also agreed to extend assistance to valid entry permit-holders to cross the LoC in emergency situations on crossing as well as non-crossing days.

Like the visa agreement, the decisions on the cross-LoC travel are aimed at ensuring that people remain at the heart of the bilateral relationship, said the joint statement issued after the meeting.

[Back to top]

Pakistan to give India MFN status

Amiti Sen, Economic Times

21 September, 2012, New Delhi: Pakistan has agreed to stick to the deadline of removing import ban on all products from India and giving it the most favoured nation or MFN status by the year-end subject to the condition that India reduces duties on about 200 items of interest to the country that includes key textile and farm products.

The two commerce secretaries, who concluded their two-days meet in Islamabad on Friday, agreed to allow most goods to be traded through the Wagah-Attari land route--an issue being pushed by India.

Indian commerce secretry S R Rao and his Pakistani counterpart Munir Qureshi also signed three agreements for cooperation in customs matters, redressal of trade grievances and conforming to quality standards to remove non-tariff barriers.
Civil aviation ministry officials from both countries also discussed ways to ensure better air connectivity between the two capitals.

The fresh commitments are of significance as it would further lower trade barriers that have been already brought down considerably following a slew of measures taken by both after the ice-breaking meeting between commerce secretaries in April last year.

"It was agreed that after Pakistan has notified its removal of all restrictions on trade by Wagah-Attari land route, the Indian side would bring down its Safta sensitive list by 30% before December 31, 2012, keeping in view Pakistan's export interests. Pakistan would transition fully to MFN (non discriminatory) status for India by December 2012 as agreed earlier,"" as per the joint statement issued after Friday's talks.

Removal of restrictions on trade through land route will give a big boost to exports from India as Pakistan allows only 137 products to be brought in from the land route forcing most Indian exports to be sent through the sea route linking Mumbai with Karachi that increases costs.

""We are willing to bring down our sensitive list for Pakistan under Safta by another 30% (approximately 200 items) and include all items of interest to them like yarn and fruits as soon as it allows our goods to be exported through the land route,"" a government official told ET, adding that it has to be, of course, followed by an extension of the MFN status by Pakistan.

""Pakistan has already made its intention of giving MFN to India clear when it dismantled its positive list in favour of negative list early this year. Now India has to show that it means business by giving us market access for products that we want,"" a Pakistani official told ET.

While Islamabad welcomed India's recent move to reduce duties on 264 items over through years by trimming its senstive list under Safta, it is keen on just a few products where the market is still restricted.

India's exports to Pakistan slipped 24.74% last fiscal to $1.53 billion, but is still more than three times higher than its import from the country at $422 million.

[Back to top]

Focus should be on normalisation of bilateral trade first: Sabharwal

Parvez Jabri, Business Recorder

18 October 2012, Karachi: Indian High Commissioner Sharat Sabharwal here Thursday said that India and Pakistan, the neighbouring countries, should first focus on normalizing their bilateral trade ties for implementing WTO business plan and then entering the regime of preferential trade with each other.

"Our focus should be to normalize our trade ties first. After compliance with WTO plan, we can move for preferential trade," Indian diplomat said during a meeting with members of Karachi Chamber of Commerce and Industry (KCCI) at the Chamber's Secretariat.

President KCCI Muhammad Haroon Agar and leader of Businessmen Group (BMG) in KCCI Siraj Kassam Teli along with other officials of the Chamber including its Senior Vice President Shamim A. Firpo and Vice President Nasir Mehmood welcomed the guest.

Indian High Commissioner Sharat Sabharwal said that India and Pakistan's bilateral ties were improving as both the counties were seriously pursuing their plan to boost the trade.

He said that since 2009, both the countries have moved to negative list from the positive list which had blocked a large number of goods to be traded between the two countries. This shift has created a big space and now the negative list has a little number of restricted goods. By the end of December next more goods would be off- loaded from this negative list to increase the bilateral trade, he added.

He said that before the end of 2013 Indian tariff line would be 100 while Pakistan would do this, up to the end of 2017. India and Pakistan have combined economy of about two trillion dollars. If duly exploited, it would guarantee prosperity and development of both the nations, he said.

He said that it is the era of globalization. If we look at European Union, there is a great volume of trade being done among the member states. Whereas, SAARC regional trade is very low against its big potential. It demands due attention, he said.

He mentioned that many economic opportunities having a big potential were emerging in the SAARC region and its member countries must benefit from these. India and Pakistan are two big economies of SAARC region with around two trillion dollars, he said.

Indian High Commissioner to Pakistan mentioned the three agreements recently signed by both the countries. These were about the Quality, the Customs and on the Trade Disputes Resolution.

He hoped that with true implementation of these agreements, mutual trade and investment would significantly increase.

To a question regarding opening bank branches in each other's country, the Indian envoy said the matter was in working process.

[Back to top]

Official: Pakistan on Track to Normalise Trade with India by Year's End

Bridges Weekly Trade News Digest

31 October 2012: Pakistan is on track for granting its neighbour and often political rival - India most favoured nation (MFN) status by year's end, Pakistan's commerce secretary confirmed last week. The two sides also recently outlined a timeline for reducing their sensitive lists for each others' imports under the South Asia Free Trade Area (SAFTA) Agreement, as part of their ongoing efforts to boost bilateral trade ties.

According to comments made by Pakistani Commerce Secretary Munir Qureshi on Thursday, Islamabad is well on its way to removing its 'negative list' for products from New Delhi. In other words, those items that India cannot export to Pakistan by the end of December and give India MFN status. Back in March, Pakistani officials announced that this negative list would be replacing Islamabad's long-standing 'positive list', which had allowed imports of fewer than 2,000 items from India.

Required of all WTO members, MFN status mandates that each nation must treat trade with all members equally. Although India granted MFN status to Pakistan in 1996, Islamabad had previously refused to reciprocate due to ongoing disagreements between the two neighbours over the Kashmir region. Last November, however, Pakistan's cabinet unanimously agreed to begin the process of granting India MFN treatment.

Qureshi also confirmed last week that Islamabad plans to reduce its sensitive list under SAFTA, which specifies which items a country can exclude from tariff concessions, from approximately 1000 products from India to 100 by 2017, in line with statements made by officials from both sides last month.

India, in turn, plans to bring its sensitive list of products from Pakistan down to 100 items by 2013. Along with India and Pakistan, SAFTA also includes Bangladesh, Bhutan, the Maldives, Nepal, and Sri Lanka.

Ongoing efforts to boost bilateral trade spark scepticism among some industries

The Pakistani commerce minister's remarks last Thursday come just weeks after the two sides inked three new agreements at removing trade barriers. However, some industry officials have lately expressed concern over the possible adverse effects of boosting the currently limited trade between the two neighbours.

The Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM), for instance, has argued that unless India reduces its own non-tariff barriers the removal of the negative list and reduction in the sensitive list will lead to disastrous results for the country's auto industry. Islamabad "has not prepared itself for phasing out the negative list," PAAPAM Chairman Munir Bana told Pakistani newspaper The Nation last week. Furthermore, the government is not ready "to face the onslaught of Indian products" that could result from the proposed reduction to Pakistan's sensitive list, the official continued.

According to Qureshi, however, the timeline of the sensitive list reduction is meant to give Pakistani businesses five years to prepare to compete against Indian imports.

[Back to top]

Cheaper Pakistan sugar floods Punjab market

Rituraj Tiwari, Economics Times

26 November 2012, New Delhi: Sugar from Pakistan, which is at least Rs 5 a kg cheaper than the Indian variety, is finding favour with traders in the country, especially across the border in Punjab. "Sugar coming from Pakistan to Punjab costs around Rs 35 per kg in India (including duty and transportation) as compared to the local variety being sold at Rs 40 a kg, offering a good margin for traders," said Rajauli Singh, a sugar trader in Amritsar.

According to an industry source, Pakistan has the lowest sugar price at Rs 25 a kg in Indian rupee. (1 Pakistani rupee equals 0.5776 Indian rupee). The prices of Brazilian raw sugar are ruling around $500 a tonne while Indian sugar prices have climbed by around 25% in the past three months to about $680 a tonne, making imports from Pakistan viable.

The import duty on refined sugar is 10% which is not good enough to check cheap imports from Pakistan. The Pakistan government has decided to allow export of 4 lakh tonne of sugar this year. With its main importer Iran declining to buy refined sugar in favour of raw sugar imports for its own sugar mills, the worries of Indian sugar mills have increased manifold.

"There is no quantitative restriction on refined sugar import and neither is it covered under regulated release mechanism which controls the sale of domestic sugar in the market. So, dumping of cheaper Pakistani sugar will badly affect the interests of the domestic sugar industry," said a sugar miller, who requested anonymity. Realising the pertinent threat, the food ministry has already recommended to the finance ministry that the import duty on refined sugar be doubled from 10% to 20%.

"It's been over a month now. The finance ministry has to take a decision on this. Import duty on raw as well as refined sugar is 10%. But in such conditions, refined sugar import is more profitable as it doesn't invite levy obligation and excise duty which makes raw sugar import dearer effectively by at least 4-5%," said a sugar directorate official.

According to Indian Sugar Mills Association, an industry body, the country is likely to produce 24 million tonne of sugar as against the requirement of 22.5 million tonne, meaning a surplus production for the third consecutive year.

"Last year, the surplus was over 4 million tonne and with an opening balance of around 6 million tonne, India doesn't need any white sugar imports. If at all import is needed, the government should allow raw sugar imports improving mills' capacity utilisation," said a sugar mill owner, who did not wish to be identified.

[Back to top]

Pak should look at more options to increase trade: Sharma

Times Of India

30 November 2012, New Delhi: The government on Thursday said Pakistan should look at more options to increase bilateral trade and move towards grant of most favoured nation (MFN) status to India.

"Pakistan government has taken some steps to move towards full normalization of trade relations with India... This process must be taken to its logical end by phasing out the negative list and eventually according MFN status to India," commerce and industry minister Anand Sharma told a visiting business delegation from Pakistan.

The statement comes after India went ahead and granted concessional duty access to more products from across the border.

At the meeting, Sharma also said India was open to allowing private banks from Pakistan to set up branches in the country after the first two branches were opened. "Let both the countries quickly establish first two branches and we may also look at the possibility of expanding and bringing in some of our private sector banks. We are open to that," he said.

Two banks from across the border — National Bank of Pakistan and United Bank — are expected to set up branches in India while Punjab National Bank is keen to go back to Lahore. The decision to let banks open branches is part of a trade normalization exercise, which includes more trade through land route and tariff concessions.

During the meeting, Sharma once again pressed on the need for more trade through the land route as several products such as hosiery and sweets do not remain competitive if they have to be transported by ship. "It would be beneficial to the business communities of both sides if Pakistan allows all items not in the negative list to be traded across the land border at Attari-Wagah," the minister said.

In addition, he hinted at the possibility of another link being opened up. "We are keen on Khokhrapar-Munabao. A joint working group was agreed to be set up. In our state of Punjab, they want to open more border points and also in Rajasthan connecting Sindh. I believe there is a similar desire from the Pakistan side so that other states of Pakistan are also connected."

[Back to top]

Indo-Pak trade, silver lining in dark cloud

Sandeep Dikshit, Hindu

New Delhi, 17 December 2012: Security and terrorism may have often stalled India-Pakistan relations in the past but healthy trade relations are boosting confidence levels and could help to normalise ties, a senior official has said.

Two years after then Foreign Secretaries Salman Bashir [now High Commissioner of Pakistan to India] and Nirupama Rao [presently Indian Ambassador in Moscow] kick-started the dialogue process suspended after the Mumbai attacks, the biggest achievement is on the trade and economic front, said Additional Secretary in the Ministry of External Affairs Yash K Sinha at a meet on South Asia economic integration organised by the CII. Mr. Sinha credited the increased Government-to-Government and business-to-business contacts on this score as having contributed to a market improvement in the environment.

India was still waiting for certain steps to be taken by Pakistan – most favoured nation status to India by this month end and opening up the sole land route to all permissible items. The completion of formalities could set the stage for both countries to move to a Preferential Trading Arrangement. It would lead to India immediately reducing the list of sensitive items barred from trading to just 100 and Pakistan reciprocating the gesture over a period of five years.

The diplomat referred to observations by Pakistan Senate Chairman Syed Nayyer Hussain Bokhari to suggest opening of more land routes because the only trading route near Amritsar will cater only to north India and Pakistan Punjab.

Opening the conference, Foreign Secretary Ranjan Mathai declared India's abiding interest in pushing ahead with economic integration among SAARC countries but felt "non-economic considerations'' bar the way for the expansion of business. "We are clear that policies are made in each country, based on that countries' law. But once such policies are in place, in line with international practices, we should not allow non-economic considerations to affect functioning of commercial entities in each other countries,'' he said.

Bangladesh High Commissioner Traiq Karim resented his country being bracketed with Pakistan when it came to investing in India. "We are still bracketed with Pakistan in terms of security. The RBI mechanism spits out the application and it is thrown on the wayside because we are still a security risk.... We have taken this up, I don't know how long it will take," he complained. "The major problem is banking transactions. If I go to Dhaka, you will see over 100 Indian brand names over there. I face questions from my own family that why cannot we see Bangladeshi brand names here. We had somebody apply for setting up an outlet here but he cannot.''

If Bangladeshis are not permitted to even open bank accounts, "they are not going to come. These are little things but they translate into huge things," he said while hoping that before he left India after a year, there would be a revised travel arrangement in place to make communication easier.

[Back to top]

From across the border, a trade boom

Chander Suta Dogra, The Hindu

Wagah, 22 December 2012: The trucks — over a thousand of them — are lined up, bumper-to-bumper for nearly six kilometres. It may take up to six days before they can get from one end to the other.

But the long wait doesn't seem to dampen the buzz here. Ever since trade barriers between India and Pakistan were lowered and an Integrated Check Post (ICP) — providing the infrastructure for trading such as warehouses and weighbridges under one roof — opened at Wagah earlier this year, the talk on the streets of nearby Amritsar and the entire region has been the ongoing trade boom. The excitement is palpable but people in this part of Punjab who are familiar with the often fraught and tangled state of India-Pakistan relations understand that disruptions can also lurk around the corner.

From June to October, Indian customs and the DRI seized 140 kilograms of heroin and 500 live cartridges from separate consignments smuggled into rail bogies carrying cement from Pakistan. This led to intense questioning of importers here and most of them began diverting their imports through trucks. Pakistani exporters followed suit.

Even a year ago, an incident like this would have reduced trade traffic to a trickle. But now, the truckers simply switched over to the more intensely checked truck route so that business does not suffer.

Exports from India, mainly soyabean, vegetables and cotton yarn, increased by over 50% for the April-November period compared to last year — from Rs. 802 crores worth to Rs. 1,237 crores. Imports from Pakistan and Afghanistan through Wagah have nearly doubled, from Rs. 544 crores, to Rs. 1,075 crores.

The 118 acre-ICP on the Indian side clears about 200 trucks a day. Harried customs officials say that they are under pressure to increase that number. The Pakistani post is equipped to clear about 50 trucks a day, and they are working on creating an ICP for themselves. Scanners are also being installed at both ends to cut delays.

Currently India can export only 137 items through the Wagah land route, but Pakistan is committed to phasing out by January its negative list that bars import of 1,209 items from India. This could mean a surge in export of wheat and rice — something that Punjab looks forward to eagerly.

[Back to top]

Most Favored Nation (MFN) Treatment for India: An Analysis from Pakistan

Irfan Shahzad, Policy Perspectives

31 December 2012: The issue of granting Most Favored Nation (MFN) treatment to India has generated heated debate with a variety of strong arguments for and against the decision. As the federal cabinet announced in November 2011 that it had decided 'in principle' to reciprocate the Indian decision of granting MFN treatment to Pakistan (in 1996), not only a countrywide debate ensued but protests also erupted in parts of the country to oppose the decision.

The proponents argue that there is no harm in granting the MFN treatment, as both Pakistan and India are already members of South Asia Free Trade Agreement (SAFTA), which can be termed as an MFN-plus arrangement. Those opposing the move are of the view that it will increase the influx of Indian goods to Pakistan, and Pakistani industry will be at the receiving end. A very strong opposition to any liberalization of trade with India on the political grounds also remains there, separately.

Implications, positive or negative, apart; it would not be wrong to say that the issue is rather misunderstood at public and even academic levels. This paper briefly introduces the concept of MFN treatment, sheds some light on the recent developments taking place in Pakistan-India context; explores its bearings for Pakistan and suggests an approach for the Pakistani decision makers. Pakistan-India trade is a broad subject and inevitably has a political angle attached to it, which cannot be ignored in any discourse. This paper, however, approaches only the recent decision of the incumbent government in Pakistan to liberalize trade with India fully by end 2012, by granting MFN treatment from start of January 2013. The write-up however traces, in brief, the international pressures on Pakistan in this connection – highlighting the decision more as an instrument of international agenda than the indigenous one.

What is Most Favored Nation (MFN)?

Most Favored Nation (MFN) treatment is the basic principle and one of the general provisions and obligations of General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO). The general principle of this provision is that a member state of the GATT/WTO, will accord the MFN treatment to all other member countries, and will adopt no discrimination against any other. Thus, every other member state of GATT/WTO will be the "most favored nation" on equal, non-discriminatory ground. In trade terms, it means that rates paid by a country declared as MFN on its exports to the markets of the country granting MFN, will also be applicable for the other countries and in this way, all countries will be treated equally as MFN.

Article I of the GATT provides that the member states will accord the MFN treatment to all other member countries and therefore basically lays the principle rule of non-discrimination amongst the WTO members with respect to:

- Customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports;

- The method of levying such duties and charges;

- All rules and formalities in connection with importation and exportation, and

- Advantage, favor, privilege or immunity granted to a WTO Member to any product originating in or destined for any other country and has to be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

Exceptions to MFN

However, the above provisions do not mean that extending MFN treatment to all the member countries is mandatory. GATT, the agreement in operation since 01 January, 1948, which transformed into WTO from January 1, 1995 (also known as GATT 1994, as the same agreement was continued with some amendments and several additions) provide certain exception to this general principle. These exceptions include:

- When two or more member countries enter into a 'Free-Trade Area' or 'Customs Union' between themselves, they are not required to necessarily accord the equivalent tariff treatment to the members outside such arrangements (Article XXIV of GATT 1994)

- When the member countries accord some trade benefits to another member country with an aim to facilitate frontier traffic (XXIV.3)

- Besides, MFN treatment does not apply to Government Procurement and can also be denied, citing the security reasons (Article XXI).

It means there are still 'reasons' citing which a country can block or deny MFN treatment to other. Besides the exception mentioned above, there is a special exception provided in GATT specifically for Pakistan and India. Paragraph 11 of GATT Article XXIV reads as follows:

"Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis."

This particular exception literally provides the two countries with an exception to enter into a specific arrangement for mutual trade "pending the establishment of their mutual trade relations on a definitive basis." However, this 'exception' is seen by some as more of a 'positive' exception than the prohibitive one, as it implied that the two countries, arising out of a single economic unit, were allowed to go for an arrangement beyond general principle of MFN, not denying it.

It may be noted here that Pakistan does not stand out as the only example of exercising an exception and not granting the MFN. The United States has been using the granting of MFN as a tool to achieve its political or economic objectives in case of various countries including China for years. Henry Kissinger (2011) in his recent book on China also details how politics has been prevailing over grant of MFN treatment to China by the United States, not very long ago.

The Pakistan-India Case

Since independence in 1947, Pakistan-India trade has been conducted on the basis of a host of bilateral, regional and multilateral arrangements. Commercial relations, however, were blocked between 1965 and 1974, owing to two wars between the two countries. Trade resumed in 1974, and remained at negligible levels for the next two decades that followed.

India had granted Pakistan the MFN treatment in 1995, soon after the WTO was formed, and the treatment is in force since 1996. However, Pakistan had not reciprocated so far, citing that despite giving Pakistan MFN treatment, India maintained a number of non-tariff barriers (NTBs) against imports from Pakistan. These NTBs include requirement of political/security clearance, sampling/customs inspection, requirements of technical/standard certification, labeling and marketing rules, packaging rules and specifications etc.

Therefore, despite the grant of MFN treatment, Pakistan suffers a heavy trade deficit with India, which is continuously increasing as well. According to State Bank of Pakistan's statistics, with

imports payment of $1.033 billion and export receipts of $313.037 million, Pakistan faced a deficit of $719.857 million in fiscal year 2008-09 with India. The deficit in the next fiscal year 2009-10 surged to $802 million, up by 11 percent, with $1.061 billion imports payment and $260 million export receipts. The balance further deteriorated during the last fiscal year as Pakistan faced a deficit of $1.158 billion as compared to $802 million in fiscal year 2010, depicting an increase of 44 percent in fiscal year 2011.
Pakistan, though did not grant MFN treatment to India, has been maintaining a 'positive list' of importable items from India, which it has been continuously increasing. The list started with seven items when the trade was started again after a gap of 9 years in 1974, had reached 800 items in 1996 when India granted MFN treatment to Pakistan and had risen to 1945 items by the end of 2011 when Pakistani government moved forward towards granting India the MFN treatment.

Recent Developments

It was in November 2011 that Pakistani government announced that it has decided 'in principle' to give India the much awaited treatment. While there may have been some maneuvering behind the scenes, the public decision was so quick, apparently, that it surprised even the Indian officials, if the media reports are to be believed. There prevailed a confusion in Pakistan over what actually will be the modus operandi of grant of this treatment, as much as this confusion is present in the not so clear interpretation of WTO/GATT documents that how this treatment is accorded, is it automatic or whether it has to be notified.

However, on February 29, Pakistani cabinet decided that the 'positive list' of importable from India will be replaced with a 'negative list' of 1209 item, in which trade will be restricted, implying that trade will immediately be opened for all of the items not listed in the 'negative list'. Surprisingly, in the same session, the cabinet decided that even this 'negative list' will be removed fully, in phases, by December 31, 2012 and thus, trade with India will be on the basis of MFN treatment from January 01, 2013.

The premise and the situation on ground

It was argued that as SAFTA already provides for a 'sensitive list' for the member countries, there will be no harm in granting the MFN treatment and removing the 'positive list', believing that 'sensitive list' will serve the purpose of restricting and undesired influx of imports from India that may be damaging for the local industry. However, ironically, the 6th ministerial meeting of SAFTA, held in Islamabad on February 15, also announced that member countries have agreed to continue reducing their respective 'negative lists' further with an aim to enhance regional trade.

Another argument forwarded by Pakistani officials and picked up by the proponents of free trade between India and Pakistan was that in exchange for MFN treatment, India may be asked to remove NTBs against Pakistani exports. Thus, it was argued, Pakistani exports will also increase. Rather, Pakistan will gain more as Indian market of 1.2 billion people was much larger than Pakistani market of 180 million people. However, there has been no assurance or guarantee on part of India in this regard, despite the claims of Pakistani officials.

The evident reality is that even if India removes all or some of the NTBs on Pakistani exports, Pakistani industry at present is not in a position to benefit owing to the severe gas and electricity shortages and the damages caused to Pakistani economy by floods in 2010 and 2011, as well as the negative impacts of the decade long 'war on terror'. Thus, timing of the decision is also questionable.

International Dimension – agenda beyond bilateral trade

The decision by Pakistani government comes in a peculiar environment at global and regional level, when India visibly is being promoted as 'emerging power' apparently to contain China's rise in Asia. Hillary Clinton's speech in Chennai during her visit to India in July 2011 made waves all over the world in which she publicly invited India to come forward and assume the leadership role in Asia-Pacific region.

There is no denying the fact that Pakistan has been under visible pressure to ‘normalize’ its relations with India, including opening of trade and providing transit to Indian goods and services, towards Afghanistan and Central Asian Republics (CARs). First, the country was cajoled into providing transit facility to India under Afghanistan-Pakistan Transit Trade Agreement (APTTA) that was signed in Washington in 2009. Hillary Clinton, in one of her interviews to a Pakistani journalist in October 2011, expressed her desire in the following words:"We share a vision of a sovereign, self-sufficient and democratic Pakistan; a Pakistan at peace and trading with its neighbors and full of opportunities for both men and women.”

The decision of grant of MFN treatment to India can also be linked with the much talked about New Silk Route Initiative of the United States of America, which also, apparently, seems to be an effort to provide India an unhindered access to Afghanistan and CARs. Pakistan is also under pressure to open more crossing points at the Line of Control (LoC) in Kashmir, for Cross LoC trade. All these moves seem to be in sync with each other, and make one assume that the decision to grant of MFN treatment to India has a lot to do with international agenda than just bilateral trade.

Implications for Pakistan

Granting MFN Treatment implies that while gains would be questionable, owing to India’s NTBs and current fragile state of Pakistani economy, there are worth pondering consequences considering the peculiar nature of relationship between the two countries and state of affairs of their economies at present.
Gains, perceived and actual: It is perceived, and as a general rule it is true to some extent, that enhanced trade leads to mutual gains and therefore the decision to grant MFN will have some positive results for Pakistan’s commerce and industry in particular, and overall economy in general. Some of these perceived benefits, which this government and its functionaries describe as the merits of this decision are following:

- Opposition to MFN treatment for India is often based on misconception of the definition. It is wrongly believed that giving MFN treatment to India will mean zero rated and free trade, meaning free flow of goods and services. This is not the case, and MFN treatment means uniform tariff rate and structure for all WTO member states.

- Pakistan and India are two close neighbors, and trading with each other will save time and transportation costs. While direct trade between the two countries is not very high, the two countries trade via third markets (mostly Dubai, Sri Lanka and Hong Kong) in a higher volume, which certainly increases time and intermediary costs. These costs can be saved.

- Geographic nearness, long border and lack of desired level of legal trade transactions results in illegal trade i.e. smuggling. Legalizing this illegal trade will result in enhanced revenues for both the countries, particularly Pakistan.

- It would be beneficial for Pakistan to import the same items from India that it imports from the Western and other far away countries. Less costly items will be available for Pakistani consumers, and this will be in ‘consumer interest’.

- Cheap raw materials will be available for Pakistani industries which can reach Pakistan in a relatively quick span of time.

- Diplomatically, it is believed that Pakistan will be able to generate goodwill in India and globally as well. This decision will also result as a Confidence Building Measure (CBM) between the two countries.

The other side of the coin: The above mentioned 'perceived gains' present just one side of the coin. As is the case with every decision, the treatment will entail important pitfalls. There are some other considerations to be taken into account, for instance:

- There are many studies indicating that as compared to Pakistani manufacturing sector, Indian industry is much more broad-based, subsidized and more competitive. This is because of easy and cheap availability of power and credit as against Pakistan's industry operating in an environment of high cost of doing business and severe power shortages. MFN in these circumstances will mean that Pakistan's already struggling industry will be wiped out.

- India's NTBs and tariff rate quotas will continue to hinder Pakistan export potential, trade deficit with India will continue to rise.

- Considering the nature of relationship between Pakistan and India, in which trade has been cut off many a time in the past due to hostilities and tensions, and considering the substantial issues between the countries are still unresolved, Pakistani industry and economy cannot afford to build any sort of dependence on supply of raw materials, even though the cost of import from other countries is relatively heavy. It must not be forgotten that India has opted out of proposed Iran-Pakistan-India gas pipeline because it does not want its industry/economy to depend on gas supplied through Pakistan.

- Allowing inflow of cheaper goods only in the name of 'consumer interest' is not always advisable. A country will always have to find a balance between becoming a trading country and a manufacturing/industrial country.

- The biggest demerit, which is being neglected in prevailing discourse on the subject, is that MFN does not merely mean an abolition of 'negative list' of tradable items from January 1, 2013. MFN also implies that Pakistan will have to allow free transit of Indian goods, services and their transportation through Pakistani territory towards other countries. Soon after Pakistani announcement to grant the MFN treatment, Indians traders have already started asking for transit access to Afghanistan and CARs. Chairman Confederation of Indian Industry Amritsar Zone, Suneet Kochhar, has demanded that "now Pakistan must act on giving transit route to India for catering to Central Asia."

It is well known that most of the transit goods destined for Afghanistan, mostly subsidized, have been ending up in Pakistani market, severely damaging the local industry. This will be a major drawback in this arrangement. While Pakistan may get some transit fees, past experience of transit trade tells that most of the goods destined for Afghanistan are dumped in Pakistani market. Furthermore, if it so happens, Pakistan's weak physical infrastructure, particularly the roads network that is already in shambles due to excessive use by containers carrying NATO supplies, cannot afford the unprecedented load of traffic from India to Afghanistan and Central Asian Republics.

- Allowing inflow of cheaper goods in the name of 'consumer interest' is not always advisable. A country will always have to find a balance between becoming a trading country and a manufacturing/industrial country.

- Trade, as the record shows, has not been able to build trust between Pakistan and India as the reasons of mistrust are deep-rooted in strategic issues. It is not simply a case of 'trading for peace' but essentially demands sustainable 'peace for trade'. Also, the conduct trade between countries of the world in present times, including the world's two largest economies, United States and China; trade cannot be fully isolated from the political issues between the countries involved.

The Reactions

The reaction to the decision in Pakistan has been varied, motivated by the commercial interest of the businessmen involved. It is quite natural that pure importers and those industrialists whose industries would benefit from cheap raw materials or machinery would welcome the decision. So has been the case. However, some objective voices have also emerged. Chairman of All Pakistan Textile Mills Association (APTMA), Mohsin Aziz says that "textile industry had no apprehensions about granting of MFN status to India but would like to be assured of level playing field" citing the continuity of India's NTBs. Pakistan Economy Watch, a Civil Society Organization based in Islamabad has cautioned that MFN status will be damaging for Pakistan's largest export earner, the textile sector. Rice exporters, the second largest export sector of Pakistan, have also demanded that rice should not be traded with India on MFN basis.

The budding auto and pharmaceutical industries have also expressed their concerns. Some of the leading trading bodies including Rawalpindi Chamber of Commerce have opposed the decision. It needs no mention that business sectors and bodies may have their particular business interest in any such decision by the government. However, it is quite clear that all the stakeholders have not been duly consulted – particularly in case of 10 months time frame for abolition of the 'negative list". Vice President of federation of Pakistani Chambers of Commerce and Industry, Khalid Tawab is of the opinion that 10 months period is insufficient and government should have given at least three years to the local industry.

Conclusion and the Course Ahead

A closer look on the concept of MFN treatment shows that exceptions have existed, and have been exercised by countries for their own national interest. Based on the above discussion, one can conclude that in purely commercial terms there may be some short-term benefits of granting MFN treatment to India but those seem to be outweighing the costs and demerits. Thus, this decision may result to be a heavy price and risky bet for Pakistan in the medium to long run.

In light of the above brief discussion on this multidimensional subject, the following is suggested for Pakistan's policy makers:

- A gradual and cautious approach should be adopted and no decision should be taken in a haste doing away with the "negative list" in a quick span of time, just 10 months. Such decisions are not made merely to establish soft images but ground realities (economic as well as political and strategic) are also considered accordingly. Gradual and sectoral approach should be adopted for liberalization of trade with India. For the short to medium term, the items that can useful for mutual trade can be added to the "Positive List".

- The passage/transit through Pakistan towards Afghanistan and Central Asia is utmost important for India. It is also detrimental for the interests of world powers, particularly the US, at this point of time. The idea is not to block India's access to Afghanistan and CARs. But the very concept of trade is 'give and take'. Therefore, if Pakistan is granting this big concession, the country should link it with certain concessions from India – economic and political – particularly elimination of NTBs, guarantees for Pakistan's rightful share of water, and assurance that India will not malign Pakistan on pretext of supporting terrorism.

- Concerned government ministries and departments, before the grant of MFN, should prepare a comprehensive study of implications that this decision will have for Pakistan's economy in general and industry and infrastructure in particular. Remedial and precautionary measures should be taken before this major move.

- Business and industrial sectors of the two countries should also build pressures upon the two governments that while enhanced trade will be in favor of both sides; its sustainability will always be very hard to ensure unless the fundamental irritants and sources of tension between the two sides are removed.

[Back to top]

Pak. MFN status for India delayed

Anita Joshua, The Hindu

Islamabad, 1 January 2013: It is now official. Pakistan's decision to grant India the Most Favoured Nation (MFN) status will not come into effect from the New Year. Neither will the two countries be switching to the negative list approach in bilateral trade right now.

Though improved trade was billed by both countries as a major step forward in relations, the momentum that gathered pace earlier this year seems to have sputtered to a halt with Pakistan's Commerce Minister Makhdoom Amin Fahim conceding in Karachi over the weekend that the two decisions have been delayed for a short time.

He was quoted in *The News* as saying, "The process of converting the negative list into positive and granting MFN status has been delayed," Further, according to him, the delay in granting MFN status was due to the apprehensions expressed by certain industries. As for the delay in switching to a negative list, he maintained that the decision was taken in consultation with Indian Commerce Minister Anand Sharma.

Given the delay and with elections round the corner, businessmen are of the view that another six months may pass before the two decisions are operationalised. Though improved trade with India has across-the-board political support, religious rightwing organisations are against the move. In fact, after lying quiet for several months, the Difa-e-Pakistan Council reactivated itself in December to take out a protest march to the Wagah border against granting MFN status to India.

Pakistan took an 'in principle' decision to grant MFN status to India in 2011 and the schedule drawn up envisaged it becoming operational from 2013. Though there is a strong view in favour of more trade with India, there is also a section in the trading community which has strong apprehensions of its impact on their business.

[Back to top]

Tension with Pak to wound medical tourism industry

Sushmi Dey, Business Standard

New Delhi, 17 January 2013: India's medical tourism industry, pegged at around $2 billion and growing at 20 per cent a year, is set to take a significant hit if the ongoing tensions with Pakistan persist. Hospitals and industry experts fear visa hurdles might restrict the movement of patients from that country, who constitute around 15-20 per cent of the total international travellers coming to India for medical treatment. This could cause a chunky revenue loss for the country.

Hospital chains like Apollo, Medanta, Max and Ganga Ram attract patients from Pakistan. According to top representatives from these hospitals, patients primarily come for organ transplants (such as liver and kidney), oncology-related treatment and cardiac and orthopedic surgeries. The number had already started coming down but the impact on India's medical tourism might show more after around a month if the situation continued, they said.

For instance, at Ganga Ram Hospital, which receives 4-5 patients a day from Pakistan, the number has reduced to 1-2 patients since Sunday. "If such tensions continue, it will definitely impact the inflow of patient. Things might become worse if they stop issuing new visas," a hospital executive said.

Apollo Hospital General Manager (Marketing and Strategic Businesses) Raj Raina said: "There could be trouble… The government may act cautious ahead of the Republic Day." Pointing out the hospital typically had patients lined up 3-4 weeks in advance, he said the exact impact could be assessed in about 10 days, when patients who have just got appointments initiate their visa processes. Apollo is among the hospitals that attract the highest number of patients from Pakistan (50-60 patients a month). Around 90 per cent of them come for liver transplants. According to Raina, the hospital conducted 130 liver transplants on Pakistani patients in 2012.

Medanta received 8-10 patients a month from that country. International patients constituted 18-20 per cent of its total occupancy, its vice-president (international marketing), Navneet Malhotra, said. The hospital currently has 900 beds.

When contacted, a government official said medical tourism was a "special case". "When it comes to giving visas to special cases, we do not discriminate between countries," he claimed. However, doctors and hospital representatives argued there was a gap between "what is" and "what should be". Also, patients from Pakistan might choose not to visit India at this point, given the brewing tensions.

India has been promoting medical tourism for some time. With an average occupancy of 10-20 per cent of the total, international patients are a major revenue churner for many corporate hospitals. For instance, Apollo earns 20-25 per cent of its Rs 600-crore revenue from international patients, while patients from Pakistan contribute 3 per cent of the total.

PricewaterhouseCoopers Executive Director and Leader (Healthcare Practice) Rana Mehta says: "Medical tourism is an important segment because it allows hospitals to charge a premium of 20-25 per cent over fees from local patients. So, the realisation per patient is more."

However, some also believe the tensions would harm Pakistan more than India. "It is more of Pakistan's loss than India's. It is not that they are giving us a lot of revenue, they come here primarily because quality healthcare is unavailable here and India is a cost-effective option with physical proximity," says Deloitte Touche Senior Director (Strategy & Operations Consulting) Charu Sehgal.

[Back to top]

Trade talks come to a halt

Nayanima Basu, Business Standard

New Delhi, 13 January 2013: The so-called trade normalisation process between India and Pakistan has come to a screeching halt, it seems. With recent tensions between the nuclear-armed neighbours due to the killing of two Indian soldiers on the Line of Control (LoC), the ongoing talks for liberalising trade have stopped. The Indian side has clearly told Pakistan it would not proceed any further on the matter.

Officials have told Business Standard “all is not well”. The Indian side has already cancelled all technical level meetings relating to trade in power and petroleum. A high-powered Pakistan business delegation, supposed to take part in an upcoming business conference organised by the Confederation of Indian Industry in Agra, has cancelled the visit. Officials have also indicated the much-awaited visit by Pakistan commerce minister Makhdoom Amin Fahim might not take place.

The government today also delayed the issuance of visa on arrival to senior citizens of Pakistan coming to India through the Attari-Wagah border. A senior government official involved in the talks said the government might put the entire visa agreement of last September on hold — it had sought to offer a liberal visa regime for Pakistan business people.

While Pakistan has been dithering on granting Most Favoured Nation (MFN) trade status to India, it has also not expanded cross-border trade through the Attari-Wagah border. During the last meeting between India’s commerce secretary, S R Rao, and his Pakistan counterpart, Munir Qureshi, in September last year, it was decided that once Pakistan expanded trade on the Attari-Wagah border, the Indian side would bring down its sensitive list of items by 30 per cent, that Pakistan will not be allowed to export under the South Asia Free Trade Agreement (Safta).

But failure to adhere to the deadline of December 2012 to grant MFN or non-discriminatory status to India by Pakistan have soured business sentiments further.

In a recent interview to Business Standard before the beheading on the LoC took place, Pakistan high commissioner Salman Bashir had said that normalising of trading relations with India was in Pakistan’s interest and their government would not break any commitment made.

While addressing the Army Day event today, Prime Minister Manmohan Singh said it cannot be “business as usual” with Pakistan.” And, External Affairs Minister Salman Khurshid today questioned the seriousness of Pakistan in pursuing normal relations. “It should not be felt that the brazen denial and a lack of proper response from the government of Pakistan to our repeated demarches on this incident will be ignored and that bilateral relations could be unaffected or that there will be business as usual. Such actions by the Pakistan army not only constitute a grave provocation but lead us to draw appropriate conclusions about Pakistan’s seriousness in pursuing normalisation of relations with India,” Khurshid said.

The two countries had decided to normalise trading relations on April 28, 2011, with India’s then commerce secretary, Rahul Khullar, and his then Pakistan counterpart, Zafar Mahmood, preparing an ambitious list for enhancing bilateral trade. The talks were spearheaded by commerce and industry and textiles minister Anand Sharma and Pakistan commerce minister Makhdoom Amin Fahim, with the foundation laid earlier by the two PMs, Singh and his then counterpart, Yousuf Raza Gilani.

Both sides were even contemplating having a free trade agreement once trade normalisation took place in its true spirit. However, with tensions now soaring on both sides of the border, trade normalisation remains a dream.

[Back to top]

MFN talks with Pak to take backseat in Agra summit

Kirtika Suneja, Financial Express

New Delhi, 15 January 2013: With a Pakistani delegation leaving the Vibrant Gujarat summit midway and doubts being cast on Pakistan sending a high-level delegation for the investment summit in Agra, talks between the two nations on the MFN (most favoured nation) issue may take a hit. While New Delhi is unhappy with Islamabad not granting India MFN status by the 31 December deadline, Pakistan commerce ministry officials say that delayed internal consultations have led to missing the deadline. Moreover, MFN talks may take a backseat in the wake of the recent tensions along the LoC due to killing of two Indian soldiers by Pakistani troops.

"Nothing is known officially on whether the delegation will come or not, but till now a ministerial visit is on schedule. As for the delayed MFN status, Pakistan is still in the process of internal consultations," said a commerce ministry official.

The commerce ministry, along with the Uttar Pradesh government and Confederation of Indian Industry (CII), is jointly organising the 19th edition of the Partnership Summit in Agra with the theme 'Global Partnerships for Enduring Growth'.

Pakistan was supposed to grant MFN status to India by the end of 2012. However, with tension mounting, this seems unlikely.

Over the April-December 2012 period, Pakistan's exports to India rose more than 50% while those from India to Pakistan declined by 10%. The number of cargo trucks from Pakistan to India increased by 101%.

India had granted Pakistan the MFN status under the World Trade Organisation (WTO) rules way back in 1996, which means that in terms of trade matters it would be treated like any other country. MFN status doesn't imply any additional benefits, but merely that the country concerned will not be discriminated against in terms of trade.

Commerce ministry officials also attributed the delay to Pakistan's agriculture department's demand that, like India, their agriculture should be protected and the government should provide central agricultural subsidies.

"It is a known fact that India gives agricultural subsidies and if Pakistan has similar needs, they should not link it with an international agreement," the official added.

Ministry officials also added that Islamabad has made slow progress on other commitments. During secretary-level talks in November last year, Pakistan had offered its high-capacity wagons to be accepted in India and, despite India's request for specifications, Pakistan did not send them.

In February last year, Pakistan eased curbs on imports from India by shifting from a positive list of imports that allowed less than 2,000 goods to be imported from India to a negative list.

The transition towards full normalisation of trade relations with India was initiated by moving from a 'positive list' regime to a 'negative list' regime.

Pakistan had earlier moved its Cabinet for removal of restrictions on trade through land route and notified the removal of all restrictions on trade by the Wagah-Attari land route, after which India would bring down its SAFTA sensitive list by 30% before December, 2012, keeping in view Pakistan's export interests.

Thus, before the end of 2017, both India and Pakistan would have no more than 100 tariff lines in their respective SAFTA sensitive lists. Before the end of 2020, except for this small number of tariff lines under respective SAFTA sensitive lists, the peak tariff rate for all other tariff lines would not be more than 5%.

[Back to top]

Peace key to boosting trade ties, India tells Pak

Business Line (The Hindu)

New Delhi, 16 January 2013: Asserting that economic engagement can be enhanced in an environment of peace and stability, India today said it was for Pakistan to realise where the well being of its economy lies.

The remarks by Commerce and Industry Minister Anand Sharma came a day after Prime Minister Manmohan Singh's tough message to Pakistan that it cannot be "business as usual" in the aftermath of the beheading of an Indian soldier on the Line of Control last week.

"As of now, we have not given any consideration to this matter in a negative sense. (But) yes, what has happened is horrific, its unacceptable, highly provocative. And this is for Pakistan to realise that where the well being of the economy of the country lies," Sharma told reporters here.

The minister was asked whether he believes that the recent development along the Line of Control (LoC) in Jammu and Kashmir could impact bilateral trade ties.

The economic engagement can be enhanced only in an environment of peace and stability and there was no other way forward for this region, he said and asserted that "anything which undermines that environment is not conducive".

Demanding that Islamabad should take action against those who are responsible for brutal killing of Indian soldiers, he said,"...that would be in Pakistan's own interest, not only for bilateral relations but its global image as a responsible nation state."

Meanwhile, official sources have indicated that the 10— member Pakistan business delegation, which was supposed to participate in the Annual Partnership Summit in Agra, has cancelled its visit. This comes in the backdrop of increasing tensions between the two countries.

However, Pakistan Commerce Minister Makhdoom Amin Fahim and Secretary Munir Qureshi have confirmed their participation in the three-day summit, beginning January 27.

In Islamabad, Amjad Baloch, Staff Officer to the Commerce Minister, denied that Fahim has called off the visit.

He told PTI that a formal proposal regarding the visit of the Minister and Commerce Secretary has been sent to the Prime Minister's Office.

The bilateral trade between the countries stood at about $2 billion in 2011-12.

[Back to top]

Indo-Pak economic ties, only way to ensure peace, says Anand Sharma

Amiti Sen, The Hindu

Agra, 29 January 2013: In a reconciliatory gesture towards Pakistan after weeks of tough talk, Commerce and Industry Minister Anand Sharma has said that the only way for enduring peace and stability in the region is through economic partnership.

"India is of this considered view that there is no alternative way other than building an atmosphere of confidence and trust. This is the only way for enduring peace and stability. And for that the only way is strengthening economic partnership," Sharma said while speaking at the on-going CII Partnership Summit in Agra.

Earlier this month, Prime Minister Manmohan Singh had sent out a strong message to Pakistan following the violent killing of two Indian soldiers at the Line of Control in Kashmir stating that it cannot be business as usual till the country mends its ways.

The UPA Government, however, does not seem to see much merit in derailing the economic partnership process that has taken huge leaps forward in the past two years.

Listing the achievements made last year, the Minister said that apart from opening up markets further on both sides for industrial goods, a decision has also been taken on allowing investments and opening bank branches. Talks are also on for sale of electricity to Pakistan.

"I know we have friends from Pakistan in the audience here. Please go back and remind them (the Pakistani Government) what we discussed last February and where we are and not to allow anything which actually holds this region back," Sharma said speaking at a session on South Asia economic integration.

Amin Hashwani, Director, Hashwani Group of Companies, Pakistan, pointed out that while there is a delay in granting most favoured nation status to India by Pakistan, it was definitely on cards.

Pakistan has breached the December 31, 2012 deadline set by the two sides for grant of MFN status to India by removing ban on all Indian products. Although Pakistan more than trebled the number of items it imports from India earlier this year by dismantling the small positive list of imports, it continues to maintain a negative list of 1,209 banned products.

"We are optimistic that we will resume our trade dialogue soon and take forward the liberalisation process that has already started," a Commerce Department official told Business Line.

CII Vice-President Ajay S. Shriram said that businesses on both sides wanted bilateral ties to be stronger.
"There could be some political problems some times but if people-to-people relationship is strong, it could put pressure on political parties to deliver results," Shriram said answering queries from journalists.

[Back to top]

India not to suspend trade liberalisation process with Pak

Amiti Sen, Business Line (The Hindu)

New Delhi, 6 February 2013: India has decided not to "suspend'' trade talks with Pakistan in reaction to the violence at the Line of Control last month, but further movement in the liberalisation process has to be initiated by Islamabad, an Indian Government official has said.

"The Ministry of External Affairs has informed the Commerce Department that it has no problems with the on-going two-way trade dialogue and the process should continue," the official told *Business Line*.

Pakistan is yet to accord the most favoured nation (MFN) status to India by lifting ban on all Indian products despite the deadline for it lapsing on December 31, 2012.

It has also not allowed trade of all goods through the land route as promised.

Although Pakistan more than trebled the number of goods it allows from India to 6,800 items earlier this year from 2,000 items, it still bans 1,209 items.

Most of the banned items, which are from sectors such as pharmaceuticals, agriculture, automobiles and textiles, are of great export interest to India, according to a recent research paper by Nisha Taneja from research body ICRIER.

India, which gave MFN status to Pakistan in 1995, has agreed to phased reduction of tariffs for 264 items from the neighbouring country, under the South Asia Free Trade Agreement (SAFTA).

Pakistan officials, however, claim that Prime Minister Mammohan Singh's statement following the LoC violence asserting that it cannot be business as usual between the two countries gave a negative signal to the talks.

"What the Indian PM said was very discouraging and gives the impression that India is not interested in carrying the talks forward," a Pakistani Trade Ministry official told *Business Line*.

An official in India's negotiating team rubbished the apprehensions and said that Pakistan had to first keep its part of the bargain before raising further concerns.

"We have done whatever we had promised to do including giving preferential access to more products from Pakistan under the South Asia Free Trade Agreement. The onus is now on Pakistan to give us MFN status and allow all products to be traded through the land route," the official said.

India has also agreed to allow investments to and from the country by removing Pakistan from the negative list maintained under the Foreign Exchange Management Act (FEMA).

"The ball is certainly now in Pakistan's court and we have to see how soon they deliver," the official added.

India's exports to Pakistan increased 16.7 per cent in the April-December 2012 period to $1.31 billion while its imports from the neighbouring country rose 66 per cent to $460 million.

[Back to top]

Pak may hike duties to cut MFN benefit

Kirtika Suneja, Financial Express

New Delhi, 11 February 2013: Islamabad is not only delaying grant of the promised most-favoured nation (MFN) status to India in trade, but may also reduce the favour by hiking tariff on items of export interest to India under the new regime.

An MFN status doesn't mean any special favour being accorded, but merely lack of discriminatory treatment in giving access to the goods and services from the country concrened. New Delhi is unhappy with Pakistan for not honouring its commitment of granting it the MFN status by December 31, 2012, and mounting tensions at the border have added to woes.

According to senior government officials, Pakistan might impose standards on imports or raise duties on items in cases where India can be a major supplier.

In products like automobile components, machinery and other electronic and electrical equipment, India's neighbour is likely to protect its domestic industry with these measures. Products like motorcycle parts, flat enrolled products, machinery products, diesel generating sets and plastics are of India's export interest, which may also see tariff barriers.

"Even if they do open up, they will put restrictions on products whose export is beneficial to India. They can raise tariff barriers on these products though the applied rates will not go beyond the bound rates as prescribed by WTO. These are the most sought after products in Pakistan and their industry is thinking on these lines," said M Rafeeque Ahmed, president, Federation of Indian Exports Organisations.

As per the WTO, bound rates are the ceiling rates beyond which tariffs can't be increased while applied rates refer to the rates at which import taxes are levied, which can be lower than the bound rates.

During April-December 2012, Pakistan's exports to India rose more than 50% from the year-ago period while those from India to Pakistan declined by 10%. The number of cargo trucks from Pakistan to India increased by 101%.

It was agreed that after Pakistan notified its removal of all restrictions on trade by Wagah-Attari land route, the Indian side would bring down its Safta sensitive list by 30% before December, 2012. Once the MFN status is given to it, India is bound to bring down its Safta Sensitive List to 100 tariff lines.

Experts say this kind of protectionism by Pakistan may benefit China as it has an FTA with China, which offers tariff concessions to the latter. However, the commerce ministry is unfazed with this development. "By opening the MFN, you accept certain bound duties and those are mandatory. Besides, importing from India will save them transhipment costs so, they will get a better deal," said a commerce ministry official.

[Back to top]

Pak to give MFN status to India by June-July: Commerce Secretary

Nayanima Basu, Business Standard

New Delhi, 15 March 2013: The ministry of commerce and industry on Thursday said Pakistan was likely to grant the most favoured nation (MFN) status to India in June-July, when the commerce secretary-level talks are due. By then, the elections in Pakistan would be over and a new government will take charge. Pakistan was supposed to grant full MFN trade status to India in December 2012, but it deferred the decision.

"Hopefully by June-July, a new government will assume office in Pakistan and I am sure that the first priority of the new government would be giving the (MFN) status," said Commerce Secretary S R Rao, while addressing a conference on India-Pakistan trade organised by Icrier.

Commerce secretaries from India and Pakistan are expected to meet to take stock on the progress made in trade normalisation between the two neighbours. The MFN issue is expected to figure prominently then.

Last year, it was decided that Pakistan would expand the number of items traded though the Attari-Wagah border from the current 137, while India would reduce the number of items in the sensitive list under the Safta (South Asian Free Trade Area) agreement and allow more goods from Pakistan. However, nothing concrete has taken place so far.

"We will bring down the sensitive list to 100 tariff lines soon, out of which 75 tariff lines will have agricultural goods while the remaining 25 will consist tobacco and liquor items. Our peak tariffs have already come down to 5 per cent," said Rao.

At present, there are 614 items that are under the Safta sensitive list. These cannot be imported from any of the South Asian countries.

Rao added that the agreement on relaxing the visa regime for Pakistan businessmen, which was signed last September, would be notified soon.

"There is already an understanding between India's home ministry and Pakistan's interior ministry that they will make it (relaxed visa regime) happen. The agreement to this effect has been reached and signed in September 2012. What remains now is the issuance of notifications from both sides. But some unfortunate incident on the border happened and the system went out of sync. The notifications are awaited," he added.

Bilateral trade is at $1.9 billion with India's exports to Pakistan reaching $1.5 billion and imports totalling $401 million in 2011-12, according to the commerce ministry. According to a research by Icrier, the two-way trade soared nearly nine times between 2000 and 2011.

[Back to top]

Why Pakistan Hasn't Liberalized India Trade

The Wall Street Journal

8 April 2013: Pakistan's failure to push ahead with an agreement to liberalize trade with India comes amid heightened border tensions between the neighbors and concerns about the deal from Pakistan's agricultural sector.

Islamabad was supposed to give India most-favored-nation trading status by the end of 2012, but failed to do so. MFN status is a World Trade Organization term that means all members of the global trade body must treat each other equally when it comes to tariffs. Both countries are members of the WTO.

Although India granted MFN status to Pakistan in the 1990s, Islamabad has yet to reciprocate, arguing that New Delhi maintains sizable non-tariff barriers to trade.

Pakistan had committed to granting India MFN status as part of peace talks aimed at normalizing relations between the nations. But the deaths of Indian and Pakistani soldiers in border skirmishes between the countries' armies in Kashmir this year have made it impossible to push through the deal, says Dr. Abid Sulehri, Executive director of the Sustainable Development Policy Institute, an Islamabad-based think tank.

The delay, according to Amjab Baloch, staff officer to former federal commerce minister, Makhdoom Amin Fahim, also is due to concerns by Pakistan's agricultural sector. The agricultural lobby contends Pakistan cannot grant MFN status to India unless Pakistani farmers receive the same subsidies that Indian farmers enjoy.

"The agricultural sector has had some reservations," said Mr. Baloch. "Those are also almost finalized." He said the deal will be formally announced by Pakistan's new government, which will come to power after national elections slated for May 11.

Some observers say that even with MFN status considerable obstacles to normal trade relations between India and Pakistan still remain.

Pakistan will continue to run a long "negative list" of products that India cannot export. The list includes 1,200 products made by key industries for employment and national security but is supposed to be phased out over time. India has a similar, though shorter, list. Last year, Pakistan's government pledged to scrap the list by the end of 2012, another deadline that was missed.

Michael Kugelman, South Asia Associate at Woodrow Wilson International Center for Scholars, a Washington DC-based research group, says Pakistan's powerful agricultural lobby is a major obstacle to paring down the list. They are concerned about cheap – and better quality – products from India flooding the Pakistan market.

The continued existence of the negative list will blunt any benefits from granting India MFN status, analysts say. Trade between Pakistan and India currently stands at less than $3billion. A normalized trade regime would see that figure soar to $40 billion, according to a recent report by the Woodrow Wilson International Center for Scholars. Increased trade could also pave the way for more cooperative bilateral relations with India on core political and security issues.

Pakistan complains that India has granted MFN status but keeps out Pakistani products through non-tariff barriers to trade, such as complicated labeling requirements and India's refusal to recognize Pakistan's industrial standards and safety codes. This means that Pakistani goods get tied up in lengthy and costly quality testing on the Indian side of the border.

Mr. Kugelman says Pakistan is right to complain about these things. “Given that India is the bigger and stronger economy the non-tariff trade barriers on their side stand out more,” he said. “India needs to be a bit more transparent about its barriers and trade processes.”

There are other infrastructure challenges that continue to complicate cross-border trade. None of the mobile network carriers in India or Pakistan have agreements with carriers on the other side of the border. There are limited links between banks in the two countries. And there is the basic challenge of the bad roads on either side of the Wagah border, the only land entry point that goods are allowed to pass through.

Efforts to make trade part of peace talks that began in 2004 got nowhere. The attack on Mumbai in November 2008, in which 10 Pakistani militants killed more than 160 people, brought the peace talks to an abrupt halt. They didn’t resume until 2011.

In September 2011, Anand Sharma, India’s trade minister, invited Pakistan’s commerce minister to India for talks. This was the first visit by a commerce minister from Pakistan to India in 35 years and it sparked optimism about progress on trade liberalization.

[Back to top]

Indo-Pak Free Trade Agreement: Govt seeks fresh road map from Pakistan

Vikas Dhoot, The Economic Times

New Delhi, 15 May 2013: Reacting with alacrity to the change of guard in Pakistan, India has urged the establishment there to take forward the Indo-Pak Free Trade Agreement on which the two had reachedconcurrence in September 2012 but which had been held up by Pakistan's electoral process.

"We have told our Pakistani counterparts to chart out a fresh roadmap for moving forward on last September's agreement between our commerce secretaries, as it had got delayed due to their election process," Arvind Mehta, joint secretary in the commerce ministry, told ET.

The FTA with Pakistan is India's most ambitious trade pact offer to any country, with just 100 product tariff lines kept outside the trade basket, unlike other pacts where trade in around 900-1,000 products is excluded. Commerce ministry mandarins in charge of pushing the trade liberalization agenda with

Pakistan have asked their counterparts to seek a fresh approval for the trade pact once the new Nawaz

Sharif cabinet settles in.

"We are saying don't have a rethink on this, let's get on with it this time," Mehta said, adding, "we have urged them to reset the timelines which have slipped a bit, and take the necessary next steps such as getting the new cabinet's approval." The joint secretary is in charge of India's trade ties with its South Asian neighbours.

Pakistan's exports to India crossed $500 million for the first time in 2012-13, growing at the fastest rate ever, rising 28% from $401 million a year ago to over $513 million. India's exports to Pakistan grew by around 19% in 2012-13 to about $1.8 billion. The Indian cabinet has already approved the consensus reached last September under which Pakistan was to grant India the Most Favoured Nation (MFN) status and lift border trade restrictions on the WagahAttari land route by December 2012, a deadline that would need to be re-assigned by the new regime in Pakistan.

These two deliverables from Pakistan are to trigger India's commitment to bring down its negative list under the South Asian Free Trade Agreement framework to 100 tariff lines from the present level of 614.

Pakistan would then notify the dates over which it will whittle down its negative list from 936 tariff lines to 100 over a five-year period. By 2020, the maximum import duty on all other items was to be reduced to 5%.

India is hoping the two sides will also expedite action on other areas where convergence was achieved in 2012. These include the creation of an Indo-Pak Joint Business Council to guide the bilateral trade and investment dialogue and improving air connectivity between New Delhi and Islamabad. More efficient courier services and telecom linkages, including international roaming facilities are also to be explored.

"We have told Pakistan that granting the MFN status to India is not so much about boosting trade, but is an important political symbol that the two countries want to work together and improve trade ties which can help create an environment for joint investments and resolving other contentious issues over time," Mehta said.

The Commerce ministry pointed out that though the consensus reached last September, would be operationalised under the multilateral SAFTA, India and Pakistan would be the largest beneficiaries of the liberalised trade regime. "This is our most ambitious FTA," the official said.

[Back to top]

India looks forward to Pakistan granting MFN status

Business Line (The Hindu)

New Delhi, 13 June 2013: India is looking forward to Pakistan implementing its earlier decision to accord it the Most Favoured Nation (MFN) status when Commerce Secretaries of the two countries meet, a senior Government official said on Thursday.

Officials are indicated that the newly elected Pakistan Prime Minister, Nawaz Sharif, had in a meeting with S.K. Lambah, Prime Minister Manmohan Singh's Special Envoy, reiterated that the time for India and Pakistan to build a new relationship had come.

Sharif has also said that it was very much in the economic interests of Pakistan and India to take forward the co-operative relationship. Lambah met Sharif before he was sworn in as Prime Minister.

Pakistan was supposed to extend MFN status to India by the end of December 2012 by removing the ban on Indian products, but could not do so because of opposition from the farm, pharmaceuticals and auto lobbies.

Although Pakistan now allows imports of over 6,800 items from India, up from about 2,000 items earlier, it continues to ban 1,200 items.

[Back to top]

Pakistan to follow investor-friendly policy towards India: Nawaz

Sujay Mehdudia, The Hindu

New Delhi, 1 July 2013: Asserting that his government was committed to following investor-friendly policies towards India, Pakistan Prime Minister, Nawaz Sharif has asked the Water and Power Minister, Khawaja Muhammad Asif to undertake a visit to India and explore the potential areas of joint economic cooperation between the two nations. An assurance to this effect was given by the Prime Minister to the India-Pakistan Joint Business Council delegation that met him on June 29 after their first ever meeting in Islamabad. Mr. Sharif told the delegation that he had been pursuing a policy of friendship and cooperation with India during its previous stints in power and the same policy of amity would be followed to promote peace and prosperity in the region. He said it has always been his endeavour to bring the people of the two South Asian countries closer to each other, so that they could benefit from each other's experiences. "It is reassuring that both sides are sitting together and talking to each other, the Pakistan Prime Minister told the delegation. Mr. Sharif said, to take this dialogue and cooperation forward, Mr. Asif would be soon visiting India and explore potential areas of cooperation between the two nations. °Pakistan is faced with acute power shortage and any assistance in the power sector would help us in addressing the issue," he told the Indian delegation headed by S.K. Munjal of the Hero Group and Vikramjit Singh Sahney of Sun Group. Both sides discussed opportunities for cooperation in the field of medical science, higher education and technical/vocational training. Both sides also decided to draw up a roadmap to address the various issues and concerns including hurdles and work out the best possible solutions to give a fillip to trade and business on both sides of the borders. In fact, it is learnt that the Indian delegation reassured the Pakistan establishment, that opening up of the borders including land route for trade would not lead to flooding of markets with Indian goods as India was willing to lower the tariff lines for Pakistan goods within four months of an agreement and could wait for the same from Pakistan side for five years. The issue of grant of Most Favoured Nation (MFN) also came up for discussion where the Indian side was of the view that MFN was a commitment made by Pakistan and it should now fast track this process. Pakistan had committed to provide MFN status to India by December 2012 but due to internal pressure and elections in Pakistan, the issue was put in the backburner. Both sides decided to set up various task forces to work out critical issues and trade matters and then put the same before the two governments for quick resolution and implementation.

[Back to top]

GDP to go up by 1.5% if trade with India normalized: Experts

The Pak Banker

Islamabad, 2 July 2013: The Gross Domestic Product (GDP) of Pakistan could be at least 1.5% higher than the expected growth by 2014-15 if trade with India is fully normalized, trade experts said here Tuesday. They were speaking at seminar titled "Pakistan-India Trade Normalization" organized by the Ministry of Commerce. This was a first one of a series of seminars to engage stakeholders in dialogue on the way forward for trade normalization with India. The normalization of trade with neighboring country could create approximately 169,000 jobs besides saving Rs.70 billion annually on purchase of goods. Addressing the participants, Secretary Commerce, Qasim Niaz said that regional trade was very important to spur development and growth. He said that there are several examples of successful regional trade that led to development in European countries, South America and East Asia, so promotion of regional trade in South Asia would bring good fruits also. He said that efforts were made in past to rationalize trade, however these could not materialize the full trade potential between two major economies of Asia, however added that paradigm shift was made in April 2011 by moving from positive to negative list of trade. He expressed the hope that experts of the seminar would come up with concrete recommendations for the development of trade between both the countries. Speaking on the occasion, Pakistan's former Ambassador to the World Trade Organization (WTO) and renowned economist Dr. Manzoor Ahmed identified five essential steps to normalize trade with India. He said that granting Most Favoured Nation (MFN) status to India or eliminating negative list, opening new land routes, developing infrastructure and border stations, enhancing trade facilitation and building capacity of National Tariff Commissions were the major steps to normalize trade between the two countries. With the help of trade data of last three years, he explained how the process of normalization of trade had greatly benefitted the economy of Pakistan. He said that Pakistan's exports through Wagah had gone up from almost zero in 2009-10 to Rs.15.9 billion in 2012-13. Similarly, the revenue collected has increased from just Rs.3 million in 2007-08 to almost Rs.3 billion. He said that these are exceptional growths that Pakistan has not achieved with any other country adding if it wants to achieve higher growth, the trade normalization with India would be the best route.

During the seminar, the organizers disseminated a set of research conducted by the Institute of Public Policy (IPP) of the Beconhouse National University on the dynamics and impact of liberalization trade between Pakistan and India. The research was led by renowned economist Dr. Hafiz Pasha. According to the research, conservative estimates indicate that the opening of trade with India will predominantly benefit Pakistan and could increase GDP by at least 1.5% in 2014-15 over the growth estimates. It also indicates that normalized trade with India could create approximately 169,000 jobs over a three-year period and the estimated gain for consumers in terms of lower cost of goods purchased could be at least Rs.70 billion) per year. According to the research, benefits would accrue as Pakistan is able to substitute more costly imports from current import destinations with less costly imports from India. Cheaper imports of intermediary goods that are used by Pakistan's local production sectors will not only help in reducing inflationary pressure in the country, but will also help make Pakistani exports more competitive globally and thus contribute to an increase in Pakistan's exports overall. Joint Secretary Ministry of Commerce, Robina Ather and Former President Rawalpindi Chamber of Commerce (RCCI), Kashif Shabbir also addressed the gathering and highlighted the importance of liberalizing trade with India. They described Non-Tariff Barriers (NTBs) as impediment in bilateral trade between both the countries and said that there is need to work for alleviating these barriers to take benefit of bilateral trade. They were of the view that only regional trade can guarantee future development as only those countries of the world made progress which engaged themselves in regional trade. On the occasion, the participants concluded that both the countries should implement customs agreement to simplify customs procedures and furthermore both the countries should establish bank branches to facilitate traders.

[Back to top]

India plans massive duty cut on Pakistan textile imports

Nayanima Basu, Business Standard

New Delhi, 16 July 2013: In an unprecedented move, India is planning to drastically slash tariff on import of textiles from Pakistan in an effort to normalise trading relations between both countries.

Currently, India imposes 30-45 per cent duty on textile products from Pakistan. The government is planning to bring it down to five per cent and has not ruled out the option of allowing duty-free access too.

This would be done by reducing the sensitive list of items India maintains for Pakistan, under which certain items are not allowed from there. This list is maintained under the South Asian Free Trade Agreement (Safta).

"Once the reduced sensitive list under Safta is notified, most of the textile lines would be out, for the benefit of Pakistan. We might bring it almost to the level of Bangladesh," said a senior commerce department official involved in the process.

In 2011, India allowed duty-free access to Bangladeshi garments and apparel products.

This, however, would be done only when Pakistan grants most favoured nation (MFN) status, or non-discriminatory market access, to India, the official added.

Pakistan's global exports basket has been dominated by products from the textiles and clothing sector, which, however, is not consistent with its exporting pattern to India.

These products are found listed in India's sensitive list, thus restricting the possibility of Pakistan being able to formally export these products. The main items of informal trade from Pakistan to India are textiles and garments.

Interestingly, the new Pakistani government under Prime Minister Nawaz Sharif has renamed the official name of their Ministry of Commerce to Ministry of Commerce and Textile Industry, probably to highlight the importance of the industry to the world. While Sharif is himself handling the commerce portfolio, Qasim M Niaz has been appointed the new commerce secretary.

Nisha Taneja of the Indian Council for Research on International Economic Relations said, "Pakistan's textile export basket is small. It depends on what products under this category would be opened up by India, which is crucial. They are heavily banking on textiles. And, I do not see a problem in granting them easy access because if we can take on Bangladesh, then there would be no problem with Pakistan."

Pervez Lala, chief executive officer of a Pakistani apparel brand, Lala Textiles, which recently participated in an exhibition in Surat, told Business Standard Pakistani textile importers also had to face several non-tariff barriers in India, which affected their business. This issue of granting preferential market access to textile imports from Pakistan was discussed last month during the first joint business council meeting in Islamabad.

[Back to top]