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Pakistan Institute of Trade and Development

October 2010

Online at https://mpra.ub.uni-muenchen.de/27010/
MPRA Paper No. 27010, posted 26 Nov 2010 20:10 UTC

Regional Trade in South Asia-Impediments and the Way Forward

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(October 2010)

Summary

The paper sets out to suggest that regional trade between South Asia is quite low when compared to other regional blocks like NAFTA, EU 15, ASEAN, and MERCOUSER. The paper identifies non cooperation between India and Pakistan to be the main reason behind low trade in South Asia. The paper focuses on the pending trade issues between both countries that are preventing India and Pakistan to increase bilateral trade and economic cooperation. The first issue discussed in the paper is granting of MFN status to India by Pakistan. The paper finds that it is in the benefit of both countries if Pakistan gives MFN status to India. But before such a step is taken, it is essential that Pakistan moves from a positive list approach to a negative list approach. Pakistan can include industries like textiles in the negative list to prevent the flood of cheap Indian textiles. Once MFN status is granted to India, Pakistan would be able to raise more substantive issues, notably Indian NTBs, subsidies, and protective tariffs. Currently India practices various forms of NTBs against Pakistan. The visa restrictions and absence of financial services are the major NTBs. Such NTBs have prevented Pakistan to export more to India. Another trade issue highlighted in the paper is that of transit facility. India does not provide Pakistan a transit route to Nepal and Bhuttan. In contrast Pakistan has provided Afghanistan transit route to India, though Pakistan does not allow India a transit route to Afghanistan or beyond. The paper finds that there is a high risk of informal trade in case Pakistan provides India with the land route to Afghanistan through its territory. It is anticipated that most Indian exports to Afghanistan would be smuggled back into Pakistan affecting Pakistan's local industry. The transit facility is by far the most complicated trade issue of the three. Though the paper concludes in favor of granting India MFN and against the imposition of NTBs, It only gives a conditional recommendation in favor of granting India transit route to Afghanistan in case India provides Pakistan transit route to Nepal and Bhuttan.

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1. Introduction:

It is widely acknowledged that the benefits of trade liberalisation are maximum if the liberalisation is undertaken on a non-discriminatory or 'most favoured nation' (MFN) basis. However, the current WTO 'Doha' Round have stalled, and questions the effectiveness of the multilateral framework for delivering further reductions in trade barriers. At the same time, there has been rapid growth in bilateral and regional trade agreements, the bulk of which are often termed 'Free Trade Agreements (FTA)'. These agreements, entail reciprocal exchange of 'concessions' (or preferences) between the partner economies to the agreement, promoting trade between the partners although potentially at the expense of trade from other sources. Free Trade Agreements often cover other matters too, including investment protections, intellectual property provisions, trade facilitation, government procurement, e-commerce, and labour and environmental standards. In this context, FTA can cover matters that are effectively 'off the table' in the WTO setting.

The surge in FTAs has continued unabated since the early 1990s. As of 31st July 2010, some 474 FTAs, counting goods and services notifications separately, have been notified to the GATT/WTO. Of these, 351 FTAs were notified under Article XXIV of the GATT 1994; 31 under the Enabling Clause; and 92 under Article V of the GATS. At that same date, 283 agreements were in force.

The proliferation of regional trade agreements along with liberalization of international trade in the 90s created a consensus to increase trade integration among SAARC countries. This led to signing of South Asian Preferential Trading Agreement (SAPTA) in 1993. SAPTA came into force in December 1995 after first round of negotiations was concluded in April 1995. In December 1995, it was also decided to create South Asian Free Trade Area (SAFTA). The SAFTA agreement was signed in January 2004 among its seven partners, i.e., India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan and Maldives, and came into force in January 2006.

However when compared to other regional trade agreements, SAFTA's performance has been quite dismal. SAFTA countries only trade 3-4% of what they trade with the world. However, in case of NAFTA for example the member countries trade 48-51% of what they trade with rest of the world. For EU 15, these shares rise to 57-59 %.

FTA	**FTA's respective share in World Trade**		
	2007	2008	2009
NAFTA	51%	49%	48%
SAFTA	4%	4%	3%
EU 15	59%	58%	57%
ASEAN		25%	23%

MERCOUSUR	14%	15%	15%

Source: Trade Map and PITAD own Calculations

The prime reason for the sluggish performance of SAFTA is non cooperation between two important member states; Pakistan and India. Due to a long history of conflict between two nations, economic cooperation between two countries has stalled. Since Pakistan and India account for almost 90 percent of South Asia's GDP, low bilateral trade between both countries is an important constraint for growth of South Asian exports to the rest of the world, as well as for an expansion of intraregional trade. South Asia's trade grew to only $ 126 billion in 2005 from $ 12 billion in 1980, while East Asia, a region of comparable size in population and GDP saw its exports increase in the early 1980s to over $ 1 trillion from $ 48 billion. Over the same period, intraregional trade as a share of total trade within South Asia rose to only 4 percent from 3 percent, Whereas East Asia boosted its intraregional trade share to more than 14 percent from 6 percent. South Asia remains the least integrated region in the world. Intraregional trade amounts to a little more than one percent of the regional GDP in South Asia compared to almost 2.7 percent in the Middle East and North Africa, 3.7 percent in Sub-Saharan Africa, 7 percent each in Latin America and East Asia, and 16 percent in Europe and Central Asia.

At the time of independence, almost three-fifths of Pakistan's total exports were directed to the Indian market, and one third of its imports came from India. The situation began to change when Pakistan refused to devalue its currency after India's devaluation in 1949 and later imposed import restrictions. Bilateral trade declined sharply during periods of conflict or heightened tensions. It increased only slowly as political relations improved. Trade between Pakistan and India almost ceased altogether from the mid 1960s to mid 1970s due to the 1965 India-Pakistan was and the 1971 East Pakistan war, which lead to creation of Bangladesh. More recently, bilateral relations between the two countries became tense after the 1999 Kargil war, as well as after the attack on the Indian parliament building in December 2001. Over all it took four long decades before trade volumes between the two countries exceeded the levels of 1950s. In 2009, the trade between Pakistan and India stands at $ 1.2 billion against the trade potential ranging from $ 3 to $10 billion.

One reason for low levels of trade between India and Pakistan and subsequent stagnation of intraregional trade in South Asia is that many trade issues have yet to be resolved between the two countries. We identify 3 kinds of trade issues faced by India and Pakistan.

1. Grant of MFN status to India
2. Transit Trade Facility to India
3. Non Tariff Barriers faced by Pakistan

2. Grant of MFN Status to India (Options and Policy Implications)

As supported by Naqvi (2009) and Taneja (2006) the first step, and perhaps the most important one is that India and Pakistan need to normalize trade with each other on an MFN basis. India has granted MFN status to Pakistan since 1995-96, albeit Pakistan has not yet reciprocated this move. From India's perspective, the issue is of vital significance for its trade and industry and have therefore, consistently endeavored to place this issue on high priority agenda for any political dialogue. Pakistan has, up till now avoided granting of full MFN status to India due to reasons which are both political and economic. Pakistan has, however, gradually expanded the positive list of importable goods from India. The list has been expanded from 40 items in 1983 to 687 items in 2004-05, to 770 items in 2005-06 and 1,075 in 2006-07. The list was further expanded in 2007-08 comprising 1,082 items and more than 1,983 items in 2008-09 items as part of the efforts to ease relations and further economic ties between the two countries.

The Trade Policies of Pakistan for the last few years clearly demonstrate that efforts have been made to move towards further liberalization aimed at enhancing trade with India. It was announced in the Trade Policy (2007-08) that the import of diesel and fuel oil, stainless steel and cotton yarn would be allowed via trucks through Wagah Border in addition to their import by other modes. Pakistan even allowed the possibility of foreign direct investment (FDI) from India in the manufacturing of CNG buses. This was a good beginning and indicated the possibility of not just trade but investment flows between the two countries. The Trade Policy 2008-09 also allowed imports of goods under DTRE scheme from India even if these goods were not included in the positive list of importable items. The latter provision has been part of earlier trade policies as well, which makes it even difficult to assess the extent and coverage of importable items from India.

Notwithstanding, that Pakistan has not granted de jure MFN status to India, the situation resembles de facto MFN status because far more number of items are importable from India with the growing size of the positive list, Duty and tax remission for Exports (DTRE) provisions within the trade policies, and unofficial imports coming from India. It is worthwhile to mention that positive list of items which currently comprises 1,983 tariff lines (including informal trade) at 6 digits, comes to 1,934 (only formal trade) when extrapolated at 8 digit HS level.

2.1. The Legal Issue

Since 1996, when India granted MFN status to Pakistan, the issue is being debated that Pakistan has committed violation of the international trade laws by not granting MFN status to India by now. According to Raman (2004) Pakistan has advantage in that because of the special provision by GATT (The General Agreement on Trade and Tariffs), that has supported Pakistan to impose reasonable restrictions on its trade with India.

The General Agreement on Tariffs and Trade, 1947 (see WTO, 2002) explains the MFN issue between India and Pakistan in its article XXIV (11) as under;

"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."

The article is further explained with the notes and supplementary provisions in Annex- I of the Agreement as,

"Measurements adopted by India and Pakistan in order to carry out definitive trade arrangements between them, once they have agreed upon, might depart from particular provisions of this Agreement, but these measures would in general be consistent with the objectives of the Agreement."

The above provision was based on the perception that Pakistan's economy remained in a disadvantageous position after separation as compared to India.

2.2. Review of Bilateral Trade:

Over the past few years Pakistan's trade with India has witnessed increasing trend, however, balance of trade remained heavily tilted in favor of India. The table below describes Pakistan's trade with India:

Pakistan's Trade Pattern with India
(Million US$)

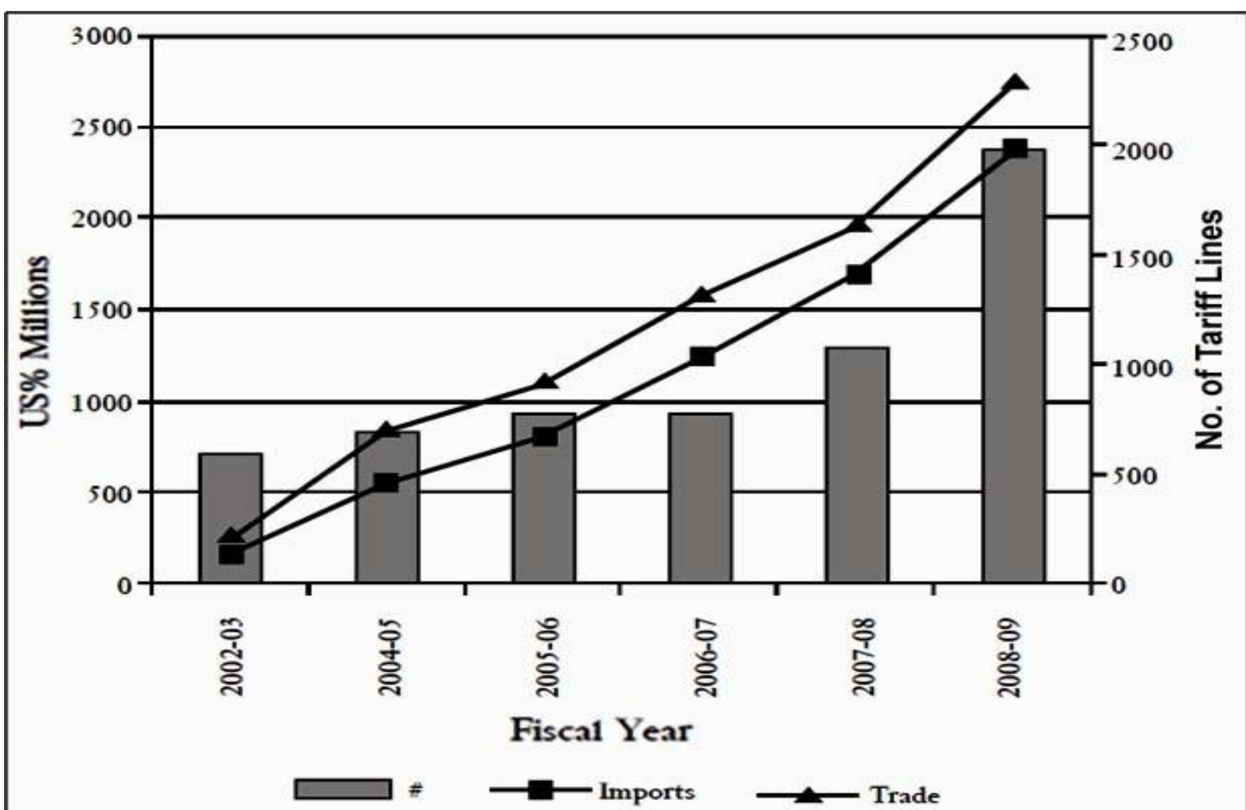
Period	Pakistan's Exports to India	% Share in Pakistan Total Exports	Pakistan's Imports from India	% Share in Pakistan Total Imports	Trade Balance with India
2003	83.546	0.70%	226.245	1.73%	-142.699
2004	158.498	1.18%	454.408	2.53%	-295.91
2005	337.218	2.10%	576.701	2.30%	-239.483
2006	326.704	1.93%	1114.995	3.74%	-788.291
2007	291.696	1.64%	1266.228	3.88%	-974.532
2008	354.637	1.75%	1691.476	4.00%	-1336.839
2009	235.323	1.34%	1080.404	3.42%	-845.081

Source: Trade Map Data & PITAD's own Calculation

The share of Pakistan's trade with India remains very negligible as compared to Pakistan's global trade. Both countries do not fall in the top ten trading partners of each other. The major reasons for the dismal trade share are inter alia political conflicts and limited economical integration between Pakistan and India. Pakistan's import of goods from India stood at about

US$ 22.6.24 million in 2003, which increased to about US$ 454.40 million in 2004 and similarly with a minimal increase to about US$ 576.70 in 2005. The official trade reached at a highest record value, when Pakistan's Import from India reached to about US$ 1.15 billion in 2006 and US$ 1.26 billion in 2007, which was highest in the decade after granting MFN status by India to Pakistan (1996). In Pakistan's import policy 2008/09, Pakistan expanded the positive list to about 1,983 tariff lines/items, and during that course of time and the official imports of Pakistan from India reached to about US$ 1.69 billion and Pakistan faced a tremendous trade deficit of about US$ -1.33 billion during 2008 at its highest since 1996; while in 2007 in Pakistan the trade deficit was at about US$ -974 million and it decreased to US$ -845 million in 2009. Projecting from these trends, we would expect that the official trade between India and Pakistan to be close to US$ 2.7-2.8 billion with the latest expansion of the positive list in 2009/10.

Expansion of Positive List and Positive Trade Outcomes



Source: Naqvi (2009) sourced by "Pakistan Import Policy Orders, various years, and Pakistan's Trade Policy".

2.3. Reasons for non- Grant of MFN Status to India:

Economists, academia and public policy experts present diverse arguments on the issue of grant of MFN status by Pakistan to India. Reasons cited at various forums could be identified as hindrance for Pakistan in granting MFN status to India:

- The general reason provided by Pakistan for not granting the MFN status to India is provided as the pending dispute of Jammu & Kashmir (J&K). According to Pakistan unless and until the Kashmir dispute is resolved, the economic relations cannot be a normalized. However there is evidence that more trade between India and Pakistan can help resolve bilateral disputes between the two neighbors. (Murshed and Mamoon, 2010). This provides the prima facie evidence in favor of Pakistan granting MFN status to India to improve its trade.

- Pakistan's economy is heavily dependent on its cotton industry. In the context of quality Pakistan is producing better textiles products than the India. Pakistani textile industrialists have always been worried that if the Pakistani market is thrown open to Indian industries, then the cheaper Indian textiles could flood their market affecting them.

- In the case if Pakistan allows India as an MFN state then Pakistan finds it difficult t resist the India-Afghanistan Bilateral Trade that might adversely affect the Pakistan's Trade profits.

- Pakistan is also feared from dumping of cheap Indian products that is likely to pose problems for the regulators in Pakistan.

2.4. Potential Areas for Mutual Trade between Pakistan and India

Pakistan and India are the two major and largest economies in South Asia. The current status of trade is not reflective of any remarkable progress as total volume of trade between the two countries remained at a low level. Certain studies and research models (e.g. Gravity Model etc) done in past suggests huge trade potential between India and Pakistan that can be fully explored and expanded by adopting mutually beneficial policies and joint strategies.

According to study conducted by State Bank of Pakistan (2006), in which various areas have been proposed/identified in which both countries have a substantial potential for cooperation and an immense scope for bilateral trade. The proposed areas include tea, spices, auto parts, consumer and light engineering goods, tires and transport equipment, entertainment, healthcare, IT and pharmaceuticals from India, and fresh and dry fruits, sugar, raw cotton, gems, fish, marbles and onyx, power and textiles from Pakistan.

The State Bank of Pakistan (2006) has estimated Revealed Comparative Indices (RCI) which shows that India being a larger economy has comparative advantage in significantly more tradable items compared to Pakistan. These include: food and beverages, chemicals, machine tools, household electronics, steel products and transport equipment such as motor vehicles, motor cycles and bicycles. Pakistan has comparative advantage over India in a range of

products, including cotton textiles, rice, leather and leather products, and surgical goods (Taneja, 2004).

With political and economic stability, India and Pakistan can expect fresh foreign investment coming into these countries. Cheaper cost of production, skilled labor, educated middle class, female literacy, booming economy, vital US and European interest in the region can help not only the two economies but will also be helpful in increasing the overall economic effect in the region.

According to Qamar (2005)[1] the analysis of the comparison of Indian and Pakistani trade composition provides a clue about the potential of trade and identifies the potential items. The author does suggest that Pakistan can benefit not only by accessing a big market for its exports it can save significantly by substituting its expensive imports from the rest of the world with those from India. The author further supports that in the given scenario, granting MFN status to India should not be a worry for Pakistani producers.

2.5. Concerns and Threats

The benefits of trade with India must be weighted against the costs inherent in certain apprehensions about competition from India which has been feared in the past for a number of reasons. Some studies conducted so far, have identified three potential areas of Pakistan's economy, i.e. agriculture, textiles and engineering sector that would be affected following its trade liberalization with India.

Despite liberalization, India's trade regime still remains more restricted than Pakistan in terms of both tariff and non-tariff barriers. Prohibitive non-tariff barriers in India have made Pakistan's exports to India unattractive. Though some trade barriers exist in Pakistan and MFN status has not been granted to India, however, Pakistan can consider granting the MFN status in case the trade barriers particularly the non-tariff barriers imposed by India are minimized.
A large part of the resistance in Pakistan comes from the country's business community who feel that the higher cost of production in a relatively smaller economy in comparison to India will make them vulnerable to tough competition. Though low transport cost from India will provide the Pakistani consumers cheaper products, however, it is also likely to reduce the natural protection of Pakistan's domestic producers. The decision to relax trading links with India should have to be in stages, only opening up sectors first where Pakistani businesses and industries do not feel threatened on a large scale.

There is a general apprehension in the business community in Pakistan that the opening up of trade will adversely affect our industries particularly the textiles, automobile and some other industries in which Pakistan is not so competitive in terms of prices. The decision to liberalize the trade will need to be made keeping in view the developmental stage in different industries. For example, in case of automobile industry, we may prefer to import automotive components and spare parts from India instead of importing complete assembled cars which are much cheaper in India compared to Pakistan.

3. Afghanistan Transit Trade Agreement (ATTA): Providing Trade Route to India

The Afghan Transit Trade Agreement ATTA came into force on March 02, 1965, fundamentally as a bilateral arrangement between the Government of the Islamic Republic of Pakistan and the Government of the (then) Kingdom of Afghanistan. In fact, Pakistan granted transit facility to Afghanistan in line with its commitment to the UN Convention on Law of Sea which makes special provisions for granting landlocked countries admittance to international seas. The stated objectives of the ATTA centered on improving the movement of goods through the two countries on a mutually advantageous basis. The contracting parties granted and guaranteed to each other, as per the terms of the Agreement, freedom of transit to and from their territories. The agreement identified two transit routes, viz. i) Peshawar-Towrkham and vice versa and ii) Chaman-Spin Baldak and vice versa. Given its landlocked situation, Afghanistan was destined to be the primary beneficiary of the agreement right from the inception. Pakistan, on the other hand, did not enjoy at that time good relations with the USSR and therefore had only dim prospects of capitalizing upon the transit facility through Afghanistan offered by ATTA.

Pakistan shares around 2430 kilometers border with the mountainous and landlocked Afghanistan in the west. Both countries share historical linkages stretching as far back into history at least as the incursion of the region by Alexander the Great around 326 B.C. The relics of the ancient Gandhara Civilization in both countries are indeed a living demonstration to their shared past. The northern parts of Pakistan are colonized mainly by Pashtun tribes which also constitute the major ethnic group in Afghanistan. Above all, the people of both the countries are predominantly Muslims.

3.1. WTO Clauses for Free Transit Trade under GATT Article V

Following are the few clauses discussed for free transit trade under GATT Article V:

"*Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without trans-shipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this article "traffic in transit".*

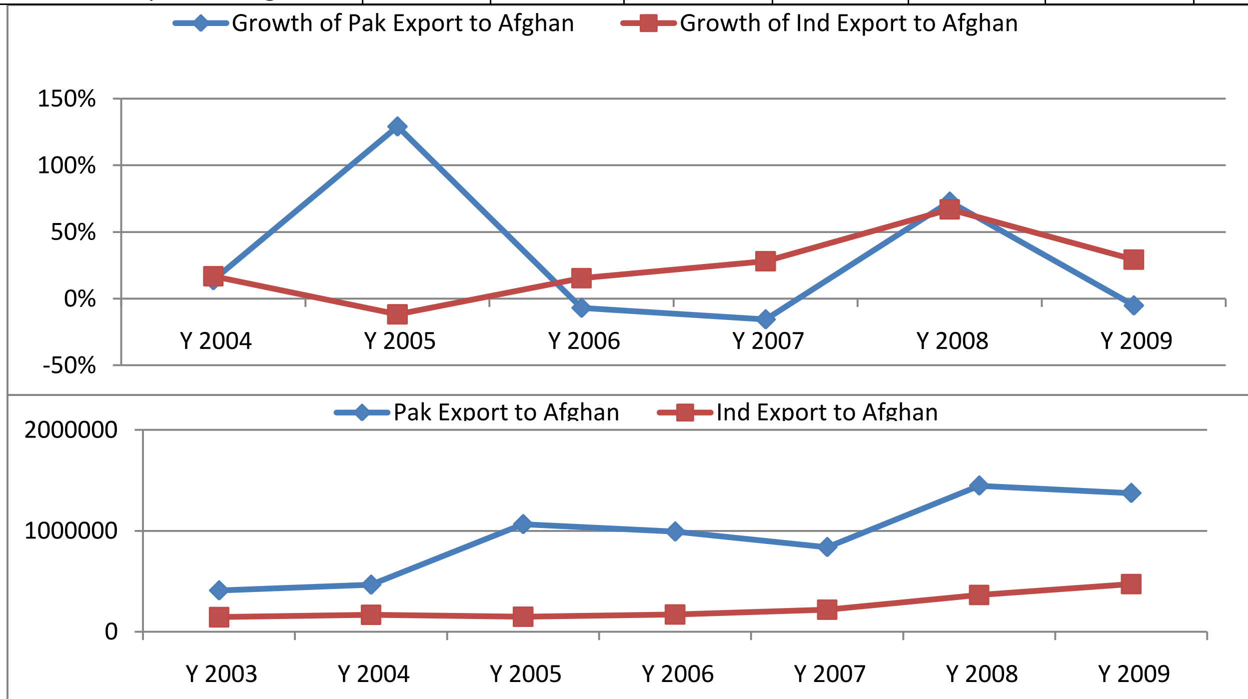
"There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. No distinction shall be made which is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances relating to the ownership of goods, of vessels or of other means of transport."

3.2. Grant of Afghan Transit to India—Potential and Pitfalls

Pakistan enjoys a better market share in Afghanistan as compared to India. On the other hand, Indian goods, some of them clearly of Pakistan's export significance like pharmaceuticals, enjoy concessional terms in the Afghan market. Exports to Afghanistan accounted for 7.8 % of Pakistan' total annual exports in year 2008-09. Indian exports to Afghanistan have been steadily growing over the past decade. Pakistan's exports on the other hand have shown a mixed trend, rising sharply between year 2004 and 2005, then declining till 2007 and then rising in 2008 before decline sets in 2009. The percentage growth on the other hand tells a slightly different story. Pakistan's exports touched the peak in 2005 with growth reaching 130% before becoming negative in the following year. The fluctuations continue into 2009 when growth once again became negative after touching a positive level of around 75% in 2008

Pakistan & Indian Export to Afghanistan Value and Growth

Years	Y 2003	Y 2004	Y 2005	Y 2006	Y 2007	Y 2008	Y 2009
Pak Export to Afghan	408203	464572	1064748	991503	837678	1447620	1373863
India Export to Afghan	143681	167745	147923	170608	218473	364859	471600
Growth of Pak Export to Afghan		14%	129%	-7%	-16%	73%	-5%
Growth of India Export to Afghan		17%	-12%	15%	28%	67%	29%



Source: PITAD Own Calculation Data Trade Map

India's exports, on the other hand, exhibit a comparatively smooth percentage growth with the exception of 2005, incidentally when Pakistan's exports registered the highest percentage growth. India's percentage growth in exports to Afghanistan has also declined post 2008; it is nevertheless better than that of Pakistan.

Currently mineral fuels, oils and distillation products constitute Afghanistan's largest imports from the world. Pakistan is one of the major exporters of these goods to Afghanistan. As is evident from the data for the year 2008-09, Pakistan exported almost 55% of its exportable surplus in this category to Afghanistan. Next, Pakistan exported two-thirds of its exports of articles of iron and steel to Afghanistan over the same period. Similarly exports of dairy products, eggs, honey and edible animal products to Afghanistan constituted 88.4% of Pakistan global exports of these products. Pakistan's exports of animal and vegetable fats and oils, cleavage products etc. to Afghanistan comprised an even bigger share of the former's world exports in 2008-09 i.e. 96.4%.

India's main exports showed a different pattern with manmade filaments and pharmaceuticals leading the way with 42% and 11% share in India's top five exports to Afghanistan which comprise almost 70% of India's total exports to that country in 2008-09. In contrast, Pakistan's leading exports to Afghanistan were mineral fuels, oils and distillation products with 29% followed by salt, sulphur, earth, stone, plaster, lime and cement with an overall 11% share in the country's top five exports to Afghanistan which constitute almost 64% of Pakistan's exports to that country. As the data has shown clearly, there is at present no significant product overlap between Pakistani and Indian exports to Afghanistan.

Afghanistan, reconstruction market is escalating and therefore it offers profitable opportunities to the key players in the region, most importantly, India and Pakistan. In the form of aid, to rebuild the infrastructure, billions of dollars are being invested in Afghanistan by the international community. Afghanistan has always attracted the interest of the major world power due to its geo-strategic location. The country holds the key to the landlocked Central Asian Republics (CARs) which, being endowed with abundant mineral and oil resources, have added their own dynamic to the whole scenario as it unfolds in Afghanistan and, by implication, in the region.

Due to the emergence of the CAS as independent economies, India can get cheaper imports of oil and gas from this region. Therefore, India is looking for getting the transit facility through Pakistan so that it can get access to CAS which is energy rich region. The relatively cheap imports of oil and gas from the CAS will boost the competitiveness of the Indian goods; similarly due to the presence of huge reconstruction market in Afghanistan, India can improves its share in goods and services exports to the region.

Exports of agricultural goods from Pakistan clearly represent a major share of the latter's exports to the former. India has, however, a much bigger economy with a larger agricultural base than Pakistan. India's overall exports of those products to the world are

indicative of its export potential. It is quite obvious that transporting agricultural goods over long distances involves tedious and often costly arrangements like cooling, special packaging and proper handling etc. to keep them from perishing along the way. This particular aspect coupled with the logistic costs adds to the unit costs thus making exports of these products uncompetitive for a distant supplier vis-à-vis a nearer one. It therefore follows that Indian exports of agricultural goods, particularly the food items, to a rather low-end market like Afghanistan are fairly uncompetitive as compared to those from Pakistan primarily because of the distances involved. If Indian agricultural products are able to get transit facility through Pakistan's territory, with an already available advantage of duty concessions their competitiveness is quite likely to rise and that could be a source of concern for Pakistan.

Likewise, for other goods of Pakistan's immediate as well future export interest, India poses as a significant competitor. With generally better economies of scale in almost all products, the only plausible disincentive that Indian goods face in entering Afghanistan are the rather prohibitive transportation costs they entail while being transported through routes other than through Wagah in Pakistan. In addition to that, transit through Pakistan not only provides the shortest and therefore the cheapest way to Kabul, it is also the safest one considering the turbulence attendant on other, alternative routes in Afghanistan. Repeated attacks by Taliban on Delaram-Zaranj road which was being used as the preferred transit route by Indian goods from Iran has increasingly rendered that option unattractive.

For the better access in the Afghan market, India has been competing with Pakistan. Both Pakistan and India are thus natural competitors aiming to increase their respective shares in the Afghan market. Indian goods are exported to Afghanistan through Iran and they are growing gradually in value terms. But increasingly India has been lobbying with the Coalition Partners, notably the US, to get a transit route through Pakistan to Afghanistan. This may well have been one of the factors behind the revision of ATTA which has reportedly been strongly supported by US. For its part the US has also been keen to get India a major role in Afghan trade.

3.3. Smuggling

One of the key obstacles in the way of ATTA is the substantial smuggling of goods. These goods are imported originally by Afghanistan from Pakistan, but make their way back in to Pakistan. According to Federal Board of Revenue figures, the value of total smuggled goods into Pakistan stands between US$ 4 to US$ 5 billion. Additionally, 70 to 75 percent of the revenue losses to the country have been due to those items that were exported to Afghanistan under ATTA, but find their way back into Pakistan[1]. Member customs are of the

[1] **http://politact.com/pakafghantradeagreement.html**

view that out of a total of $5 billion smuggling into the country 75 percent of it happens due to the Afghan Transit Trade Agreement (ATTA)[2].

If the Indian products are allowed in Afghanistan through ATT agreement, than it would have direct impact on the Pakistan's industry. As the tariffs faced by both countries are not uniform, so the Indian goods are considerably cheaper than Pakistan's goods. Even with the added transportation cost and tariff, India will maintain a competitive advantage over similar Pakistani products. Therefore, if Indian goods are exported to Afghanistan, than they would eventually smuggled to Pakistan and causes revenue losses which is already facing declining economic activity due to terrorism, and will result in further shrinking of the country's revenue base.

4. Non Tariff barriers:

This part of the study deals with non tariff barriers being faced by India and Pakistan. There have been concerns raised by Pakistani exporters and policy makers about India's protected market. Although India has accorded MFN status to Pakistan in 1996 but it has been felt that India imposes non-tariff barriers that restrict market access of Pakistani goods into the Indian market. As a result, the trade balance continues to be in India's favor even though Pakistan follows a positive list approach. Against this background, this section explores trade possibilities between India and Pakistan that are untapped and makes an attempt at identifying non-tariff barriers that Indian and Pakistani traders face in each other's markets. There have been rules set up by WTO to adopt non-tariff measures to protect plant, animal and human life, however, these measures are often applied in such a manner that serve as a barrier to trade.

The United Nations Conference on Trade and Development (UNCTAD) and WTO has a list of NTBs that members are likely to apply e.g. Positive list approach, trade facilitation and Customs Procedures, Technical Barriers to Trade and Sanitary and phytosanitary Measures, Financial Measures, Para-tariff Measures, Visa restrictions etc. India and Pakistan also impose these NTBs against each other. Some NTBs are voluntary and some are involuntary.

4.1. Trade Facilitation and Custom Procedures:

Poor infrastructure, along with protective policies, corruption and red-tape, is a major obstacle that impedes the economic growth of South Asia. Investment climate surveys have pinpointed transport as a particular problem for regional and international trade in South Asia. Bottlenecks are encountered in all modes of transport infrastructure and Services: poor condition of roads, lack of intraregional connectivity between the national road networks, unreliable and overall costly road transport Services, underinvestment in railways (which has led to the excessive use of road transport), unrealized high potential for rail and inland water freight transport,

[2] http://www.dailytimes.com.pk/default.asp?page=2010%5C01%5C23%5Cstory_23-1-2010_pg5_17

inadequate road and rail connectivity of ports with the hinterland, and others. Trade between India and Pakistan accounts for about US$1 billion a year, but with improved transport infrastructure and removed trade barriers it could grow substantially. There is no warehousing and cold storage facility available on either side of the border even though perishable goods are being exported. Reefer trucks carrying frozen meat have to use generators for three to four days while they are parked at the border.

The most feasible and cost-effective way of moving goods between the two countries is through the land route. However, the only operational rail route is through the Wagah border. India permits export and import through Amritsar railway station, Attari road, Attari railway station, Khalra, Assara Naka, Khavda Naka, Lakhpat, Santalpur Naka, Suigam Naka, Dekhi railway station, Hussainwala, Barmer railway station and Munabao railway station. These routes in Amritsar and Ferozepur districts, and Jodhpur division are notified routes under Section 7 of the Customs Act, vide Notification No. 63/94-Cus (NT), dated November 21,1994, as amended. Pakistan on the other hand permits trade from India only through Attari by rail, and through Wagah by road. Goods from Kolkata are being shipped to Karachi via Singapore.

Only a limited number of items are allowed to be traded through the road route. Pakistan has allowed the import of a few products from India through the road route since July 2005. The items permitted are: garlic, tomato, potato, onion and livestock. Pakistan allows the export of only one item, viz., and cement to India by the road route. On the rail route also there are restrictions. Pakistan does not allow the import of cotton by the rail route through the Attari as per Plant Quarantine Rules, 1967, Pakistan (which allows cotton to be imported only through Karachi port). A large number of textile mills are located around Lahore but cotton has to be imported through a circuitous route where goods are first transported to Mumbai, from where they are moved to Karachi by sea and further on to Lahore by road. Similarly India no longer allows to be traded by the rail route. Cotton yarn from India could not be transported by rail to Pakistan. It was not clear as to whether the restriction had been imposed by Pakistan or by India. [Taneja 2007]

India does not allow Pakistan transit facilities through its territory to Bangladesh and Nepal. Thus Pakistani good are therefore denied market access to these countries through the shortest route. While Pakistan allows goods from Afghanistan to be transported to India through the land border but doesn't allow Indian goods transit facilities to Afghanistan.

Increasing transport facilitation is seen as one of the main avenues of increasing the trade potential within the region. To quote the ADB-UNCTAD report, "High trade costs such as transportation charges, documentation requirements and clearance delays at the borders have a discouraging impact on trade and production similar to trade restrictions such as tariffs and quotas."

4.2. TBTs and SPS:

Pakistan and India have a domestic institutional framework within which they implement SPS (Sanitary and Pytosanitary Measures) and TBT (Technical Barriers to Trade) related measures. In Pakistan the only standard setting body is the Pakistan Standards and Quality Control Authority

(PSQCA) while in India the Bureau of Indian Standards (BIS), under the purview of the Ministry of Food and Consumer Affairs, is the premier standard setting body. The standard setting bodies in Pakistan and India set voluntary and mandatory standards. Currently BIS imposes mandatory standards for 68 items while PSQCA imposes compulsory standards for 46 products. A key difference noted is that while in India there are 24 standard setting bodies both at the centre and state level, in Pakistan there is a single authority. Given that there is a multiplicity of standards, and exporters in other countries are often confused about what the national standard is and the problem becomes more acute in the case of Indo-Pakistan trade where trade related information flows are not smooth.

In addition to several standard setting bodies, there is also a multiplicity of rules and regulations, multiple certifying bodies, and several agencies involved in enforcement of standards in India. This creates confusion among exporters from Pakistan as to which the actual national standards are, who the certifying agencies are and what is the relevant law/regulation applicable when there are multiple laws for the same purpose. In Pakistan there are fewer regulations the main ones being Plant Quarantine Act, 1967; Pakistan Animal Quarantine Ordinance, 1979; Pakistan Standards and Quality Control Authority Act, 1996; The Agricultural Produce (Grading & Marking) Act, 1937. Hence imports into Pakistan generally do not face any problems.

4.3. Exports from Pakistan to India

Pakistani exporters have to face stringent conditions imposed by India on imports of various products. There is a strong perception that the two most important products of export interest for Pakistan – textile products and agricultural and related products – are the ones that have the highest non-tariff barriers. Some of the products specific are mentioned below:

4.3.1. Textile Products:

In the case of textile products it has been mentioned by traders in Pakistan that to export fabric to India they are required to obtain a pre-shipment certificate from a textile testing laboratory in Pakistan accredited to the National Agency in the country of origin certifying about the non-use of hazardous dyes. In some cases even the EU accredited labs have been rejected by Indian customs. Pakistani traders perceive that with these stringent conditions it would be impossible for them to export textiles to the Indian market.

Pakistani textile exporters find that labeling requirements for markings by India are excessive as they need to indicate manufacture, description and sorted number of cloth and other details. Some of these labeling requirements pertain to composition of cloth and damaged pieces are required to be printed on every alternate meter and cloth.

4.3.2. Leather items and Melamine Products

In the case of export of ***leather items and melamine products*** from Pakistan to India it has been observed that samples of export consignments are sent to testing laboratories that are located far away from the port of entry in India.

4.3.4. Pharmaceutical Products:

In the case of ***pharmaceutical products*** it has been pointed out by Pakistani exporters that the requirement of registration of the drug with the Central Drug Standard Control Organization in India is an arduous and time consuming process.

4.3.5. Processed Foods:

In the case of ***processed foods***, the Prevention of Food Adulteration Act, 1954 requires products to have a shelf life of at least 60 per cent of original shelf life at the time of import to India. While it has been complained by Pakistani exporters that shelf life is often determined arbitrarily and without transparency.

4.3.6. Pre-Packaged Products:

In the case of ***pre-packaged products*** traders are required to provide information on name and address of importer, and on the maximum sale price at which the commodity will be sold to the ultimate consumer. This price shall include all taxes local and otherwise, freight, transport, charges, commission payment to dealers, and all charges towards advertising, delivery, packing, forwarding, and the like as the case may be. These requirements add to the time and cost of transactions.

4.3.7. Agricultural Items:

In the case of exports of ***agricultural items*** to India, the common practice is that Indian importers are required to get phytosanitary certificate and testing requirements in India that could take several days. Plant quarantine facilities are available at Amritsar airport but not at Amritsar rail cargo station or at the Wagah border. As a result consignments could be held up for several days. Also consignments are held up during holidays and weekends. It has also been seen that the traders have to pay demurrage charges even though the onus is on the officials who are responsible for such delays.

2.3.8. Fresh Mangoes:

Again in the context of export of ***fresh mangoes*** from Pakistan, a test consignment from Pakistan was destroyed at the Indian port on the ground that SPS norms for fresh mangoes had not been laid down by the Ministry of Agriculture, India.

4.4. Financial Problems:

There are several financial problems that serve as a barrier for trade between India and Pakistan. Some of these NTBs are identified below:

4.4.1. Overseas Banking Operations

Currently Pakistani banks are not allowed to have branches in India. Similarly, Indian banks are not allowed to operate in India. This is a major non tariff barrier for bilateral trade between the two countries.

4.4.2. Problems related to L/Cs:

The Indian and Pakistani consignments moving by sea are usually through a confirmed L/C (Letter of Credit). However, while trading between Lahore and Amritsar some exporters trade without confirming L/Cs. It has been seen that some Indian banks do not recognize L/Cs from all Pakistani banks and confirmation of L/Cs can take up to a month. Sometimes payments are delayed as the banks point out discrepancies in the L/Cs. Because of the problems related to acceptance and confirmation of L/Cs, sometimes trade transactions are carried out through a contract offered by the bank, which states the details of the trader and of the transaction but does not ensure payment guarantees and thus serve as a restriction to trade.

4.4.3. Default in Payments

There has been a complaint of default in payments by traders in both countries as there is no formal mechanism for trade dispute settlement known to them and role of respective governments in this regard.

4.4.4. Para-Tariff Measures:

Para-tariff measures increase the cost of imports in a manner similar to tariff measures by a fixed percentage or by a fixed amount, calculated respectively on the basis of the value and the quantity. India and Pakistan impose para-tariff measures in addition to basic customs duties. For instance, India imposes a countervailing duty of 16.3 per cent on most items, a special countervailing duty of 4 per cent. Similarly Pakistan imposes a sales tax of up to 15 per cent and a withholding tax of up to 6 per cent. For selected products in addition to a sales tax a federal excise duty is charged. While para-tariff measures are in most cases applied in a non discriminatory manner, there is need to apply them in rational manner.

4.5. Visa Restrictions:

India and Pakistan grant business visas to traders. Bona fide businessmen are granted visas on the basis of an invitation from a recognized Chamber of Commerce/Federation/Association. However, traders face several problems in obtaining visas. Some of the barriers are associated with the bilateral visa regime and with the SAARC visa scheme.

It has been seen that visas are the single most important non-tariff barrier to trade between the two countries. Lack of transparency and various restrictions restrict movements of people across borders. Some of the characteristics of the visa regime and the barriers faced by traders are listed below:

4.5.1. City Specific Visa

Both the Indian and Pakistani authorities require that the visa applicant should have invitations from sponsors in each city intended to be visited. This is a major impediment for traders as they are unable to visit cities where they cannot locate sponsors. It also inhibits traders from entering into new partnerships. For instance, several soybean meal importers in Pakistan have their trading partners located in Delhi simply because they get visas to Delhi. Most of the soyabean meal is produced in the Madhya Pradesh belt but the Pakistani traders cannot visit these areas unless they can identify sponsors. Similarly, Indian importers would like to visit the Sialkot belt in Pakistan where most of the manufacturers of surgical instruments are located. Currently, imports of surgical instruments from Pakistan into India are miniscule but have a potential to increase if traders and manufacturers are allowed to travel freely.

4.5.2. Visa for Limited Number of Cities

Visas are granted only for a limited number of cities. In most cases India and Pakistan grant visas for three cities per visit only. As a result the trader is forced to locate a trading partner in these cities only. This restricts the trader from exploring trade possibilities in other areas. In some cases, the Consulates in both countries exercise discretionary powers to grant visas for more than three cities.

4.5.3. Limited Period of Stay

In most cases visas are offered only for a period of 15 days. Several traders mentioned that they would like to visit their partner country for a longer duration of time. This was reported in the survey conducted in both India and Pakistan.

4.5.4. Requirement of Police Reporting

Pakistani visiting India and vice versa are required to report to the police on arrival and before departing from the country. This causes undue harassment to business delegates.

4.5.5. Port of Entry and Exit

Indians and Pakistanis visiting either country have to make an entry and exit from the same port. This is a reciprocal arrangement between the two countries. Often traders are not able to undertake a cost effective trip as they have to travel back and forth to be able to make an exit from the port of entry.

4.5.6. Criterion for Rejecting Visa for Members of Business Delegations

Pakistani business delegations to India complained that they do not get visas for all delegates. Only a limited number of visas are granted. Delegates are not clear about the criteria on the basis of which visas are granted or rejected.

4.5.7. Visa for Technical Services

Pakistani business often requires technical services from India in the engineering and chemical sectors. However, Indians find it difficult to get visas. The recent expansion of the positive list is expected to lead to increased trade in textile machinery in the coming months. Traders have pointed out that almost every transaction will have to be accompanied with a flow of technical experts who would need to install the machinery in Pakistan. Pakistani business fears that visa to technical experts may not be granted easily.

4.5.8. Mode Specific Visa

Some traders in Pakistan mentioned that the Indian High Commission granted a visa that allowed them to travel by rail only. Visa officers often use their discretion to grant a mode-specific visa for travel. No such instance was recorded in the Indian survey.

4.5.9. Disregarding Requested Date of Entry

Pakistan traders requesting for a visa from a specific date are sometimes granted a visa for different period which may not suit the trader at all. The visa officers often disregard the period for which a visa request has been made. For instance, if a trade fair is to be held from October 3-5 visas could be granted from October 6 – effectively defeating the purpose of the visit.

4.5.10. Number of Entries

Multiple entry visas are not granted. Some traders do get visas that allow them a double or triple entry within a period of six months. However the criterion as to who could be eligible for such visas is not clear. This is observed in India and Pakistan.

4.5.11. Delay in Granting Visa

Indian and Pakistani traders reported that they faced a delay in getting their visas. In Pakistan, traders mentioned that obtaining a visa for India could take as long as six weeks particularly when they courier their applications. For every visit the passport has to be submitted to the visa office where it is held for almost 15 days. Traders mentioned that they have to schedule a month for a visit to India.

4.5.12. Visa for Amritsar

Pakistani traders find it difficult to get visas for Amritsar. Traders in Amritsar have pointed out that the visa restrictions imposed in 1983 continue to be as stringent even today. Traders have pointed out that these conditions need to be reviewed in the current political context.

4.5.13. SAARC Visa

In order to further promote closer and more frequent contacts among the peoples of the region, the SAARC Visa Exemption Scheme was initiated in 1988 but became operational from March 1, 1992. Currently, persons entitled to the Scheme are the Supreme Court Judges, Members of the National Parliaments, Heads of National Academic Institutions, Foreign/Permanent Secretaries dealing with foreign affairs, SAARC Secretary-General and Directors of the SAARC Secretariat, Presidents of National Chambers of Commerce and Industry and their accompanying spouses and dependent children below 18 years of age. Several Indian and Pakistani nationals have been granted SAARC visas which allow them to travel freely. The advantage of the SAARC visa is that there is no requirement of an invitation from a sponsor and no visa formalities are required. There is also no limit on the number of cities per visit. However, Pakistani SAARC visa holders have complained that if they make an entry through Wagah/Amritsar they are granted visas for only eight cities. Traders have also complained that whenever there is political tension between the two countries the status of the SAARC visa changes.

India and Pakistan follow a restrictive visa regime. However, the Consulates in both countries exercise tremendous discretionary powers in granting visas and waiving visa requirements that include exemption from scrutiny by the Ministry of Home Affairs in India/Ministry of Interiors in Pakistan, extending the length of stay, exemption from police reporting and number of cities to be visited. Selected traders who are beneficiaries of such largesse make repeated visits and have access to trade related information. On the other hand, lack of transparency, market imperfections and information asymmetries of this kind raise transaction costs and restrict market access for several other aspiring traders. Indian officials argue that on security grounds rigorous screening of visas is essential. While it is true that no compromise can be made on national security issues, it needs to be recognized that genuine traders often become victims of a strict visa regime. As trade flow increases, more people are likely to travel. As pointed out earlier, visa restrictions are the most important non-tariff barrier. New solutions need to be worked out so that a more liberal visa regime can be put in place.

4.6. Positive List Approach:

Having a positive list approach also limits the potential to trade. Although, the positive list approach has expanded gradually over the time but there are several problems that traders face in the application of this policy measure. As stated by Taneja (2007), the most well documented problem is that several goods that are not on the positive list are still exported to Pakistan through Dubai. This has been a traditional practice and is admitted by traders in both countries. Using the indirect route leads to high transport costs for traders. Transport costs on the Mumbai-Dubai-Karachi route are 1.4 to 1.7 times more than on the direct Mumbai-Karachi route. There is a clear indication that in recent years expansion of the positive list has been done in consultation with industry representatives. However, some stakeholders' interests may

have been excluded from the consultation process. Some other problems related with positive list are identified as:

- The positive list approach is a violation of the SAFTA Agreement as it implies discriminatory treatment vis-à-vis other Member countries.
- The positive list is provided at the 8-digit level (even though it includes items at the 4 and 6-digit level also). Even though both countries follow a standardized international coding system at the 6-digit level, the codes do not match at the 8-digit level. Hence traders face problems in identifying items that are on the permissible list.
- Since there is a mismatch of codes between the Indian 8-digit HS classification and the positive list items, very often customs officials have the discretion to classify items under the positive list. This creates unnecessary harassment to traders.
- In some cases the description of items does not match between the Indian classification and the positive list. This creates confusion while trading. In particular this was pointed out in the case of polymers (Chapters 3901-3905) and for waxes (Chapter 3404). The descriptions for chemical adhesives also do not match on the Indian and Pakistani list.

5. What The Stakeholders Say:

Stakeholder	Comments
Mr. Irfan *Secretary general RCCI (Rawalpindi Chamber of Commerce and Industry)*	• At the moment trade with India is through Dubai. Pakistan can reduce cost and time by importing directly through Wagah border. • There is no LC system with India. Banking industry should be developed with India. • Pakistan import medicines from India. If allowed trade through Wagah border , Pakistan can import chemicals and make its own medicines. • India gives Pakistan a target market of more than a billion • Pakistan should import commodities that are cheap in India . • In case of ATTA, Pakistan has still a very good image and reputation in Central Asian states. Pakistan can compete with India.
Mr. Karam Illahee *Deputy Director, Customs Intelligence*	• India has immensely invested / infiltrated in Afghanistan economically, politically and militarily. • There is a question whether Pakistan is in a position to absorb the fall out of this situation after giving India transit to Afghanistan? • Another question arises whether in comparison of cheap

	items from India our items would survive? I believe a large number of Pakistan's products per say are not competitive at all. • As another trade practice, the Indians will subsidise the goods for Afghanistan in order to dump and beat Pakistan out of Afghan market. This is one aspect which is really serious, which will trigger a complete cycle of problems. • The goods that will go from India to Afghanistan will not be sold in Afghan market , but they will find their way back into Pakistan. • Currently Pakistani customs does not have the capacity to place proper check and balances in case smuggling from India into Pakistan rises by means of the transit facility. • It is proposed that cargo scanners be installed for effective monitoring and tracking of goods, also procedures like computerized acknowledgement system across the border.
Tariq Saeed *Chairman SAARC*	• Pakistani product marketing is very weak; more and more exhibitions should be conducted in different cities of India to create demand of Pakistani Products. • I don't find any harm for granting MFN status to India. The benefit is very simple. We will only import those items from India which are cheap for us. India is a neighbor so less transportation time is involved. Usually it takes 24 hrs for the goods delivery. • Regarding ATTA, Pakistan should give India access and charge a fee. • If Pakistan gives India an access to Afghanistan, Pakistan can also have an access to Nepal and Bhuttan through India. Currently Pakistan's complete trade to Nepal is by Air which add a huge cost to the commodities.

6. Conclusions and Recommendations

The paper finds that the trade in South Asia is undermined due to non cooperation between India and Pakistan. Bilateral trade between both neighbors stands at $ 1.2 billion against the potential of $ 3 to $ 10 billion. Their potential to trade with other South Asian states is also reduced as both countries do not allow transit routes through land to each other. Under this back drop, the paper focuses on the main trade issues between India and Pakistan which concern the provision of MFN status to India by Pakistan, NTBs by India and Pakistan and Afghan Transit Trade Agreement (ATTA).

Due to political and economic apprehensions, Pakistan has yet to give MFN status to India. However, if South Asia is to emerge as a vibrant economic block, it is important for Pakistan to normalize its trade relations with its neighbor by granting it the MFN status. On the one hand, improved trade relations can help both countries to move closer to the peaceful solutions to disputes like Kashmir. On the other hand, normalized trade relations can help both countries to concentrate in international markets by exploiting cheaper costs of production, skilled labor, and educated middle class.

Granting MFN status to India has direct benefits for Pakistan. Such a step would provide political mileage for Pakistan, as India has been able to deflect pressure to liberalize trade with Pakistan by pointing to the absence of formal MFN treatment. After granting this privilege, Pakistan would be able to raise more substantive issues, notably Indian NTBs, subsidies, and protective tariffs. Pakistan has already granted something close to de facto MFN status to India. Currently Pakistan practice an expanded positive list of importable goods from India which cover more than 1, 983 items.

Nevertheless, there are some valid concerns from Pakistan's industry which oppose MFN status for India. For example, it is feared that Indian textiles which are cheaper than Pakistani textiles would flood Pakistani markets stifling production capacity of Pakistan's most valuable exported items. Furthermore, more generally there is a high risk of influx of cheap Indian products into Pakistan through formal and informal means. However such risks can be resolved by switching to negative list approach from a positive list approach. It is also important for the two countries to have a common harmonized system of codes and greater transparency. The stakeholders consulted also welcome the possibility of granting India MFN.

Improving trade potential between India and Pakistan is also tied to transit trade. The paper focuses on Afghan Transit Trade Agreement (ATTA), where Pakistan has only allowed Afghanistan to utilize the facility to export to India but prevents India from using the facility to export to Afghanistan and Central Asia. There are some major concerns faced by Pakistani side in providing India the transit route. First and foremost is the concern of smuggling. There is a high risk that Indian goods destined to Afghanistan would be smuggled back into Pakistan which has drastic consequences for local industry in Pakistan. This risk can be resolved by the installation of cargo scanners for the effective monitoring and tracking of goods. Furthermore Pakistan is India's competitor in Central Asia in the pharmaceutical industry. India produces medicine at a lower cost than Pakistan. There is a high risk that Pakistan would lose its market

share in pharmaceuticals in Central Asia if India is allowed to export through transit route from Afghanistan. However through stake holder consultations, a solution comes forth. If Pakistan is able to import cheap chemicals from India, it can produce pharmaceuticals at much cheaper costs and it can become competitive vis a vis India in international markets. Pakistan should also seek transit route to Nepal and Bhutan as a prid pro quo. Over all, Pakistan should be careful in providing India access to Afghan market because of increased presence of India in Afghanistan. There is a national security dimension to it. However this aspect is beyond the scope of this paper.

Both India and Pakistan also practice various NTBs against each other. Two major NTBs which are detrimental to trade are Visa restrictions and lack of financial facilitation to exporters. Visa regime is very restrictive and visas take a long time to process. In India, Pakistani nationals are required to register themselves upon entry into India and also have to report to the nearest police station to their destination. Mostly visas are issued to one destination only which undermine the mobility of the trader and prevents him to fully exploit trading opportunities which may involve visits to more than one destination in the host country. Further more there are no branches of Pakistani banks in India or otherwise. Payments for exports and imports have to be made through third country banks only. This makes trading with each other more costly and time consuming. Due to these NTBs most trade between India and Pakistan happens through third countries like Dubai. These NTBs need to be resolved in order to improve the trade potential between the two neighbors. Among involuntary NTBs, there is no warehousing and cold storage facility available on either side of the border even though perishable goods are being exported. Reefer trucks carrying frozen meat have to use generators for three to four days while they are parked at the border.

India imposes many Pakistan specific NTBs other than Visa restrictions and absence of financial facilitation. Lab certifications to export textile products into India are often rejected even if they are acquired by EU accredited labs. Samples for the export of leather items are observed to be sent to locations which are far away from the port of entry. For pharmaceutical products, the requirement of registration of drug with the Central Drug Standard Control Organisation in India takes a lot of time increasing the costs to trade.

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Annexure: Summary

Restrictions	India	Pakistan
Most favored nation Status	Has granted to Pakistan	Not granted MFN to India; imports from India restricted to positive list
Import Licensing	Dismantled, no registration , Licensing fees and quotas	Dismantled, no registration , Licensing fees and quotas
Visa regimes	Very restrictive, Visas take a long time to process and for a particular country, Pakistani nationals are required to register themselves upon entry into India and also have to report their arrival to and intended departure from each place of stay as permitted on the visa within hours at the nearest police station.	Very restrictive for Indians; police reporting required, but recently, some relaxation has occurred, with multiple-entry visas being granted to Indian businessmen when arranged through the Chambers of Commerce.
Land transportation	Few border crossings; very limited rail traffic across borders; and requirement that rail wagons carrying goods across the border should return empty	Few border crossings; very limited rail traffic across borders; and requirement that rail wagons carrying goods across the border should return empty
Air travel	Still limited, but some improvement in recent years.	Still limited, but some improvement in recent years.
Sea transportation	Ships must first touch a third-country port to import from Pakistan (i.e., Dubai or Singapore); limited ports and inland customs posts at which the import of “sensitive” products can be cleared	Ships must first touch a third-country port to import from India (i.e., Dubai or Singapore); Pakistan has only one major port in operation (Karachi).
Financial System	No branches of Indian banks in Pakistan; payments for exports/imports have to be made through third-country banks	No branches of Pakistani banks in India; payments for exports/imports have to be made through Third-country banks.
Services/information technology (IT)	Trade with Pakistan in Services and IT is heavily Restricted	Trade with India in Services and IT is heavily restricted
Source: www.ciaonet.org		

Non Tariff Measures applied by India:

Para Tariff Measures	**Description**
Customs surcharges	A special additional duty (SAD) introduced in the fiscal budget of 1998-1999 is levied at the rate of 4% on most imports except on duty free ones. The 2004-2005 Budget announced on 8 of July 2004 has established a levy on imported goods of a 2% education surcharge based on the c.i.f. value with customs and excises taxes.
General sales taxes	Levies of sales taxes ranging from 2% to 20% with permitted assessment of up to 4% are set on textiles, sugar, and tobacco products. In addition, as of 1 of April 2005, a VAT levy at state level will be in effect, and the rate defined.
Internal taxes and charges levied on imports n.e.s.	A domestic tax known as the Central Value-added taxes, are assessed at the rates of 8%, 16% and 24% on goods with some exceptions.
Price Control Measures	**Description**
Antidumping measures	Imports of goods into India, valued at prices lesser than in the country of origin, are subject to antidumping measures laid in the Customs Tariff Act with a view to protecting domestic production.
Finance Measures	**Description**
Restrictive official foreign exchange allocation	The Indian currency, the Rupee is convertible on current account transactions as capital account transactions carried out by foreign investors; however Indian firms and individuals remain subject to capital account restrictions.
Regulations concerning terms of payment for imports	When imported machinery and capital goods require down payments exceeding USD 15,000, a bank guarantee from an international bank covering the advance remittance amount is required from importers.
Finance measures n.e.s.	Finance measures such as exchange control management and regulation are under the responsibility of the Reserve Bank of India (RBI) thanks to the 1973 Foreign Exchange Regulation Act (FERA) superseded by the Foreign Exchange Management Act (FEMA) of December 1999.
Quality Control Measures	**Description**
Non-automatic licensing	Licensing and discretionary controls over imports have been gradually replaced by the India's Ex-Im policy regulation of the Open General License (OGL), which means that goods are importable without restrictions and without a license as long as they are regulated by

	the rules of the general provisions regarding imports and exports, or any other law being in force. Importers must obtain a number from the Director General of Foreign Trade in the Ministry of Commerce and Industry, for the importation of goods.
License with no specific ex-ante criteria	A special import license, (SIL) is required for the importation of the following goods: betal and areca nut whole or split ground, raw silk, in yarn and others; launches, boats, barges, trawlers and other fishing vessels, inflatable yachts, and ships, boats and floating structures.
License for selected purchasers	Only licensed importers are allowed to import tobacco.
Prior authorization for sensitive product categories	Special focus is set on imports of genetically modified agricultural products such as soy oil extracted from genetically modified soybean in many countries.
To protect human health .	Importation of food ingredients and additives with genetically modified or bioengineered organisms must be authorized by the Genetic Engineering Approval Committee, the authorization being valid for four years. Meat and poultry products importation are subject to compliance with all the provisions of Meat Food Product Order
Prohibitions	**Description**
Prohibitions	Goods banned from import into India, include items that damage the environment or wildlife, certain defense items, and goods threatening internal security, public order and various standards of decency and morality.
To protect human health .	Import prohibition of fresh fruits and vegetables coated with edible and nonedible waxes, mineral oils, and colors
Technical Measures	**Descriptions**
Marking requirements	As a rule, shipments of goods must be marked in large lettering using indelible ink or paint directly on the container, with trade names revealing the nature of goods. Explosives should be marked consequently with the handling ways: "Upside", "Downside","Fragile".
Labeling requirements	Marking and labeling requirement on both local manufactured and imported textiles.
Packaging requirements	Waterproof, zinc or tin-lined packaging are recommended for shipments of goods to India.
Testing, inspection and quarantine requirements	Quarantine and inspection requirements for plants, plant product and seeds. Furthermore, a

	pest risk analysis is compulsory for plant products liable to import permits.
Pre-shipment inspection	SGS, Société Générale de Surveillance, an internationally recognized laboratory, carries out inspection and certification required for importation of goods to India.
Source: UNCTAD TRAINS Database	