Report on Karachi Consultative Meeting
Trade and FDI Prospects between India and Pakistan

Karachi Marriott

COENCOSA Phase II

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Panel on Non-tariff barriers in India: Exporters' Perspective

The panel on 'Non-tariff barriers in India: Exporters Perspectives' was chaired by Junaid Iqbal of CNBC Pakistan/CEO Elixir Securities Karachi, with speakers including Khurram Hussain of Dawn News, Ali Khizer – head of research at Business Recorder, S.M. Munir – Chairman of Din Group of Industries, Afnan Ahsan – CEO of Engro Foods and Dr. Vaqar Ahmed – Head of Economic Growth Unit at Sustainable Development Policy Institute.

Khurram Hussain started his address by identifying key non-tariff barriers while exporting to India that included complex custom procedures and quality standard regulations. These also included financial measures and para-tariff measures as well as visa difficulties. He stressed further on how India provides subsidies to key sectors such as agriculture which proves to be a conscious obstruction to the eventual goal of free trade. More importantly, goods arriving at Indian ports are arbitrarily valued for tariff calculation. Some goods are valued at cost, while others on volume or weight, depending on whichever is greater. The inefficiency of transport arrangements, especially railway networks acts as another major barrier to trade between the two South Asian giants. To avoid such arbitrary arrangements, most exporters route their goods through Dubai, which in some cases increases their cost by around 40 times. The agreement between India and Pakistan for transit through India is often not followed, which causes major problems for the food, cement and textile industries of Pakistan. On the Wagah-Attari border, there are restrictions on the size of trucks that can pass through, which adds to the cost of exporting goods through this route. As far as custom procedures are concerned, the use of discretionary measures by custom officials is widespread and there is a lack of complaint procedure mechanisms at major trade routes.

Hussain shed further light on the mindset of certain lobbies on both sides of the border that reach up to the upper echelons of the government and bureaucracy. This mindset has proved to be a major hindrance to allow free movement of people from across the border. While the initiation of trade negotiations between the two South Asian countries is a bright sign, it will prove to be a long and torturous road till the goals of free trade and regional integration are fulfilled. According to Hussain, Pakistan's reciprocation of trade facilitation measures by India is slow, and for each step that Pakistan takes, India takes two steps forward.

Ali Khizer disagreed with Hussain's comments regarding Pakistan's slow reciprocation, and pointed out that restrictions in India are greater than those in Pakistan. Even historically, Pakistan's trade regime has been much more liberal compared to India's, whose economy was closed up until the late 80's. Khizer identified that informal trade between the two countries is almost $3 billion, which presents a huge opportunity for both countries if it is channeled into formal trade. Furthermore, the military's paranoia in both countries has led to complex visa procedures, and only police reporting visas are granted after a long waiting period.

Next to speak was S.M. Munir, who laid stress on the need to open more trade routes along the border. India has built bigger and better warehouses on major trading routes such as the Wagah-Attari border, which provide storage facilities for all goods that are exported through these routes. The problem with exporting to India, according to Munir, is that the custom house delays the clearance of goods for almost 2-3 days. For goods that are perishable and require refrigeration, this causes major problems. Huge percentages of perishable items are lost as a consequence of these delays. Even goods exported for various trade exhibitions have been subject to delays by Indian custom officials, thus rendering the actual motive of the exhibitions useless. Cement exporters, for example, need to pay advanced guarantees of up to $10,000 depending on the size of the consignment, which acts as another major non-tariff barrier to trade. India no doubt is a bigger market, and the removal of these barriers will greatly benefit Pakistani exporters and in turn the Pakistani economy.

Afnan Ahsan began his address with a quote from the Holy Quran, the essence of which was that one should aim for progress and not perfection. This, in the context of trade agreements, meant that while the model of pure and perfect free market competition and free trade might not be implemented since it was not practical, both India and Pakistan should concentrate on progressing towards the eventual aim of regional market integration. He further stated that India's trade regime is complicated not only for Pakistan, but for all international exporters. He stressed on the need to put our own house in order first, before pointing fingers at India. While India's custom procedures are complex, export facilitation measures in Pakistan are also not worth mentioning. Additionally, most Pakistani food items are not of international export quality, the reasons for which are numerous. He stated that all major stakeholder groups need to share the blame for this, and that major sectors of the economy need to become more efficient and competitive if they want to trade with India. As an example, Ahsan stated the case of Pakistan's raw milk which is not exportable according to international trading standards. If the quality is made better, this may add to the cost, but the economic advantages of the possibility of exporting this raw milk would be enough to offset the effect of increased costs. Further, once the industry begins to enjoy economies of scale, it would eventually drive down the cost. India's rapid population growth means that even according to modest estimates, India will be a net importer of agricultural commodities in the near future. This presents itself as a major opportunity for Pakistan's agricultural sector. However, a major revamp of Pakistan's agricultural sector will be required to bring in the latest farming practices, engineered seeds, and other technological advancements to increase the efficiency and output of this sector.

Dr. Vaqar Ahmed clarified that non-tariff barriers cannot be brought down overnight, and will need to fade out gradually. Subsidies will exist in both economies to protect important industries from foreign competition, but to compete with subsidy-protected sectors manufactures will have to increase their efficiency and performance. Ahmed further went on to mention the possibility of trade in services, and stressed that trade discourse should not be limited to business-to-business ventures only. Services sectors make up a huge share of developed economies, and even in countries such as India and Pakistan the GDP contribution of services sectors is noteworthy. Thus, trade in services needs to be given its due share in trade negotiations. People-to-people contact should be increased to address the problem of trust deficit that exists between the two nations. Ahmed provided the suggestion that domestic national trade corridor projects should be developed so that transport costs in export markets can be brought down which would lead to the facilitation of tree trade with India.

Panel on Non-tariff barriers in India: Importers' Perspective

The panel on 'Non-tariff barriers in India: Importers Perspectives' was chaired by Dr. Ishrat Hussain – former Governor State bank of Pakistan and currently Director at Institute of Business Administration Karachi, with speakers including Zahid Adamjee – Managing Director Adamjee Automotives, Amin Hashwani – Co-chairman India Pakistan CEO's Business Forum, Naeem Yahya Mir – MD and CEO Pakistan State Oil and Haji Hanif – Cluster Lead, GSK Pakistan Procurement.

The panel started with Mr. Zahid Adamjee's brief address. Adamjee focused on how political insecurity in the region was a major non-tariff barrier. Even though India has allowed foreign direct investment from Pakistan to enter the Indian economy, political insecurities and a trust deficit on both sides of the border would hinder implementation of the recent FDI agreement. He stated that in case there was any terrorist attack in India which was blamed on Pakistan, what would then be the fate of Pakistani investments in the Indian economy. He discussed how Pakistan and India do not have an agreement on trucks passing through the borders, and the current arrangement does not allow large trucks to pass through into India. He therefore laid stress on the need for a new and revised truck-pass agreement, if trade through the borders was to be increased. Adamjee closed his address by mentioning how India's large middle-class poses as a huge market for Pakistani goods. Within this huge market, niches could be identified and catered to by Pakistani exporters from different sectors. To state an example, he mentioned the case of a large Indian Muslim population that could act as a big niche market for halaal food products and other goods used in large quantities by Muslims of the subcontinent.

Naeem Yahya Mir of PSO focused on the oil and oil derivative market and its international trade patterns. Mir mentioned how Pakistan did not invest in its refineries in the last 30 to 40 years, during which India heavily invested in its own. Therefore Pakistan's oil products market remains to be an import oriented market. Thus, in case trade between Pakistan and India opens and barriers are reduced, the flow of trade will be from India to Pakistan in the oil sector. Stressing on the disadvantages of any market interventions by the government, Mir mentioned how any such interventions in any sector and especially the oil market will only have short term advantages. In the long run, these interventions will only have disadvantages for the domestic as well as for other regional economies. Taking this point further, Mir said that the dynamics of any sector should be controlled by market forces to create optimal results. On the effects of political insecurities and cultural hostilities between the two countries on economic variables and outcomes, he said that commodities do not have a caste, religion or creed, and should therefore be allowed to flow freely between two countries to increase bilateral trade. Currently, PSO imports high speed diesel from Kuwait, whereas the same oil product is available at a cheaper freight cost from across the border in India. Thus, Indian high speed diesel is a more viable option according to economic fundamentals given that bilateral trade is opened between India and Pakistan.

Next to address the audience was Amin Hashwani, who mentioned that it is always the larger economy that drives the regional economy. India has recently brought down tariffs on major products which is a welcome sign. Hashwani further said that India Pakistan trade relations are subject to political hostilities between the two nations, and the 60 year old baggage of mutual mistrust has always had an effect on bilateral economic negotiations. Therefore, even though recent agreements prove that there is political will on both sides to integrate the two South Asian economies, it will take time to bring the relations to a normal level. While identifying non-tariff barriers on the Pakistani side, Hashwani mentioned the lack of road and truck networks, railway networks and other institutional incapacities as major barriers. He clarified that trade surpluses or deficits are relatively unimportant. What is important is the presence of a level-playing field for the growth of bilateral trade, which currently does not exist. He further said that in case bilateral trade grows between India and Pakistan, Pakistan could benefit by importing cheaper machinery and raw materials from India. Thus trade may not be restricted only to finished goods, but cheaper inputs could be imported from India too which would greatly benefit Pakistani businesses. For example, Pakistan's pharmaceutical industry could benefit from cheaper raw materials from India. Furthermore, trade in the pharmaceutical sector will lead to more competition and efficiency in Pakistan's pharmaceutical sector, and thus lesser cases of fake medicines that have increased during the past few years in Pakistan. The consumer is an important player in the relationship between India and Pakistan, and currently India has an edge since it is home to more international brands. However, recent exhibitions of Pakistani products in India, such as lawn fabrics and bridal wear, have been a booming success. Therefore, the market for certain Pakistani finished products in India is huge. Hashwani also commented on the fact that the delay in granting India MFN status by Pakistan has brought Pakistan a lot of bad name, even though India's non-tariff barriers were very effective in hindering bilateral trade. Therefore on paper, India enjoys a better reputation as far as the will for increased bilateral trade is concerned, even though the situation on ground is the opposite when India's non-tariff barriers are brought into the picture.

Haji Hanif, in his very brief address, talked about how India's pharmaceutical industry was more developed. Packaging components are cheaper in India, which can be imported if non-tariff barriers are brought down while importing these goods. Better infrastructure in Pakistan can be developed using cheaper imports from India.

Dr. Ishrat Hussain closed the discussion by mentioning the importance of free trade. He narrated the case of Ghana's economy, where second hand imported clothes were banned for a brief period to protect the local clothing industry. However, the consumers rebelled stating that the government had only banned these second hand imported clothes to protect the few local producers. Thus, millions of consumers stood to face higher living costs only for the benefit of the few local producers. This ban on imports of second hand clothes was therefore lifted. The point of this example was to show how cheaper imported goods could increase savings in an economy, which could either be invested or spent on other consumer goods, thereby increasing the standard of living in an economy. He stated that no country can benefit without international trade. He said that Pakistan needs to increase trade with the one of the largest economies of the world that is India, since Pakistan only stands to benefit from such an arrangement. He went on to state that trade surpluses do not matter. What matters is efficiency and cost-saving, which come with competition, which in turn is a by-product of international trade. Therefore competition from international trade will only bring benefits, and an economy's policy makers should thus not sleep with complacency.

Annexure 1

Speakers

Afnan Ahsan	CEO Engro Foods
Ali Khizer	Head of Research, Business Recorder Group
Amin Hashwani	Co-Chairman India-Pakistan CEO's Business Forum
Ashraf Kapadia	Managing Director, Systems Limited
Dr. Ishrat Hussain	Former Governor State Bank of Pakistan
Dr. Mirza Ikhtiar Baig	Federal Advisor on Textiles to the Prime Minister of Pakistan
Dr. Vaqar Ahmed	Head Economic Growth Unit, Deputy Executive Director SDPI Islamabad
Haji Hanif	Cluster Lead, GlaxoSmithKline (GSK) Pakistan Procurement
Haroon Askari	Deputy Managing Director, Karachi Stock Exchange
Junaid Iqbal	CEO, Elixir Securities Karachi
Khurram Hussain	Head Business Section, DAWN News Group
Majyd Aziz Bagamwala	Ex President, Karachi Chamber of Commerce and Industry & President MHG Group of Companies
Naeem Yahya Mir	MD and CEO Pakistan State Oil
S.M. Munir	Chairman, Din Group of Industries & President India Pakistan Chamber of Commerce and Industry
Zahid Adamjee	Managing Director Adamjee Automotives
Engr. M. Jabbar	CEO Qaim Automotive Manufacturing,
Dr. Shahida Wizarat	Head Economics Dept, Institute of Business Management

Annexure 2

Key Participants

Afnan Ahsan	CEO	Engro Foods
Ahmed Habib	Director	ACE Consultants
Ahsan Achakzai	Economist	US Consulate
Ali Khizar	Research Head	Business Recorder
Amber Fatima	Economist	Federation of Pakistani Chambers of Commerce and Industry
Ashraf Kapadia	MD	Systems Ltd
Assad Rana	Sales Executive	Tri-Pack Group
Badar Farooqi		National Insurance Company, Pakistan
Bilal Nasir	General Manager	Elixir Securities
D.W. Jinalasi		Sri Lanka Consulate
Dilawar Ali	Assistant Manager	National Insurance Company, Pakistan
Dr. Shahid Wizarat	Director Research	Institute of Business Management
Engr. M.A. Jabbar		Federation of Pakistani Chambers of Commerce and Industry
Faiza Umer	Graduate Student	AERC
Farooq Salman	COO	Shirazi Trading
Farzal Ali		NEXTGENI
Ghulam Sardar Bhutto	CRG Member	Secta Nagar
Hina Mujahid	Researcher	AERC
Huma Fakhar		MAPS Services Group UK
Ibrahim Mahmood	Research Officer	Pakistan Ready Garments Exporters Association
Iffat Ara	Principal Economist	Social Policy and Development Centre, Pakistan
Imran Ghani	Chairman	Pakistan Pharmaceutical Manufacturers Association
Imran Zahid	Bureau Chief	PPA
Junaid Iqbal	CEO	Elixir Securities
Kara Babrousi	Economic Officer	US Consulate
Khaleeq ur Rahman Khan	CEO	Shirazi Trading
Khurram Hussain	Journalist	DAWN News Group
Lubna Naz	PHD Scholar	Pakistan Institute of Development Economics
M Waqas	Graduate Student	AERC
M. Asghar Khan	Deputy Director	State Bank of Pakistan
M. Hanif Lakhay	Executive Member	Pakistan Sugar Mills Association
M. Umair		AERC
M. Umar Zahid	Executive Member	Federation of Pakistani Chambers of Commerce and Industry
M.I. Malek	Economic Adviser	DFID
M.Siddique Shahid	Chairman	Federation of Pakistani Chambers of Commerce and Industry
Majyd Aziz	President	MHG Group of Companies
Mohsin Nasir	Editor	Business Recorder-Research
Rabia Nusrat		International Alert
Rashid Mehmood	Mphil Student	AERC

Sadiq Ansari	Deputy Director	State Bank of Pakistan
Safdar Ali	Senior Economic Officer	British Deputy High Commission
Shah M Azhar	Graduate Student	Institute of Business Administration
Shahid H. Sheikh	CEO	AGROSOL
Shahzad Salim	Executive Member	Pakistan Ready Garments Exporters Association
Sufyan Javed	Sales Executive	Tri-Pack Group
Taimoor Siddiqui	Marketing Executive	Shan Foods Group
Yahya Zakaria	Brand Manager	Pfizer Pharmaceuticals
Zohib Jawed	Graduate Student	Institute of Business Administration