FICCI

Status Paper on

INDIA - PAKISTAN
ECONOMIC RELATIONS

February 2012



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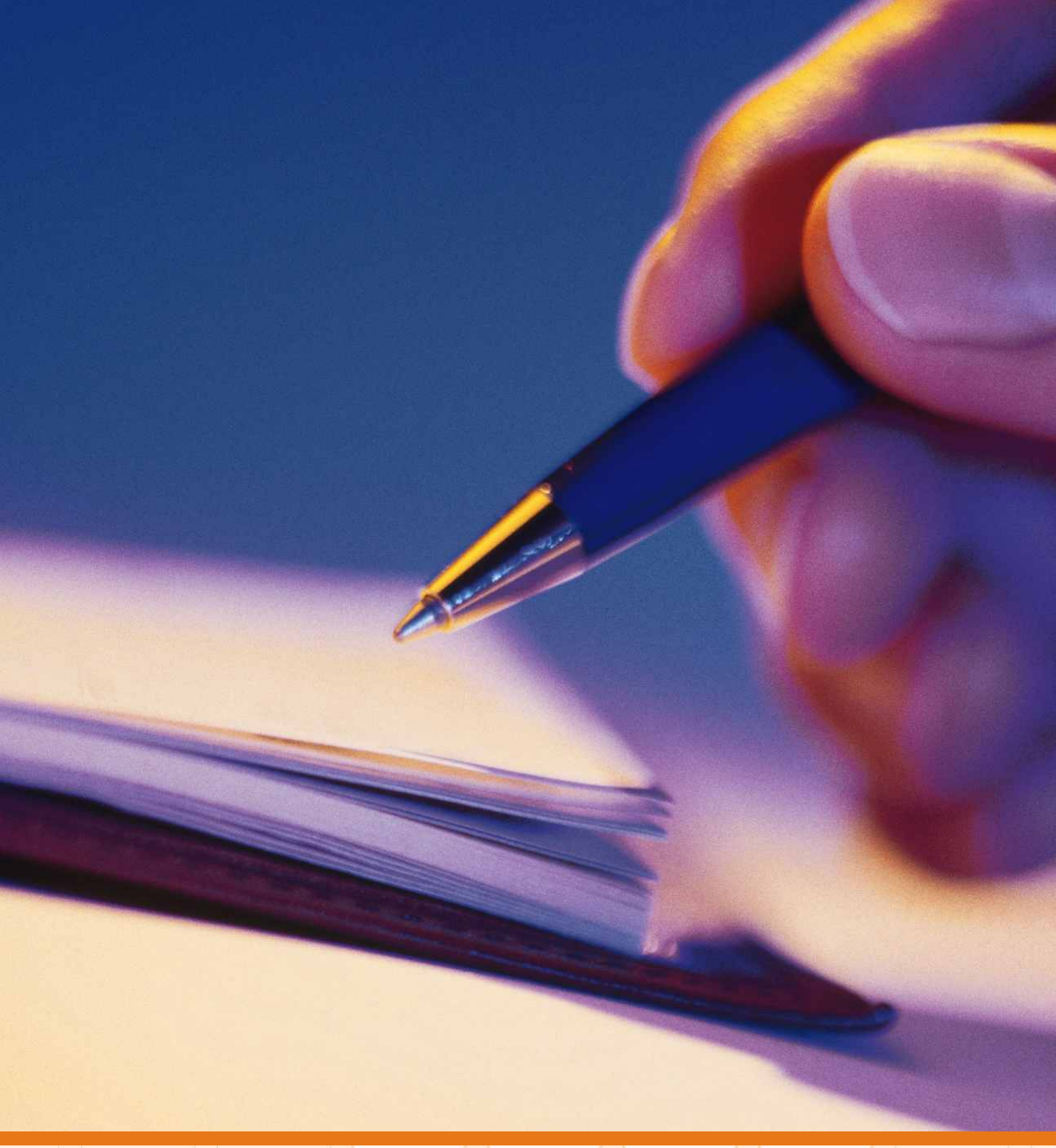
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Executive Summary

Executive Summary

Trade Integration between India and Pakistan

India and Pakistan are the two most populous and largest economies of the South Asian Region. However, official bilateral trade remains negligible and neither country falls in the category of top trading partners of each other.

Pakistan's share in India's total exports increased from 0.33 percent in year 2001-2002 to 0.99 percent in year 2010-2011 and imports from Pakistan as percentage of total imports of India, marginally declined from 0.13 percent in 2001-2002 to 0.09 percent in year 2010-2011.

The formal trade between India and Pakistan increased from USD 144 million in 2001 to USD 2.7 billion in 2010-11.

The informal trade including third country trade between India and Pakistan is estimated at USD 10 billion. The informal trade has flourished as Pakistan only allows imports from India based on a positive list of 1938 items. Trade through third countries or circular trade is mainly conducted through agents operating in free ports like Dubai or Singapore and the Central Asian Republic (CAR) countries. The size of circular trade underlines the potential of improving bilateral trade between the two countries.

Pakistan's Trade Policy with India

While Pakistan allows exports to India, it has maintained a positive list of 1938 items (vide import policy order of Pakistan 2008) which were officially importable from India. On the other hand, India has extended the Most Favored Nation Status to Pakistan and does not impose equivalent formal restrictions on exports to or imports from Pakistan.

Benefits of India - Pakistan Trade

India- Pakistan trade amounts to less than 1 per cent of India's global trade. However, the volumes of third country trade and informal trade indicate the tremendous potential for bilateral trade between the two countries. Several restrictions on official trade compel both the countries to import certain goods from far off sources, which they can easily import from each other. Increased bilateral trade would ensure cheaper raw materials

and low transportation and insurance cost which would translate into quality goods at competitive prices for both the countries. While consumers would gain in terms of lower prices, higher purchasing power and greater choice of traded goods; manufacturers will have access to the wider markets in the neighbourhood. The Government would have revenue gains by bringing informal trade into the formal channel. Ultimately, this would result in a win-win situation for everyone.

Prospects of Investment for MNCs and Indian Investors in Pakistan

At present investment flows from Pakistan are not allowed into India. Also, no Indian investment has been done in Pakistan. There exists a large potential for cross border investments. India and Pakistan have common multinational companies operating in their countries. These can act as meaningful conduits for trade and investment.



CHAPTER 1
Bilateral Trade Relations

Bilateral Trade Relations



Year 2011 witnessed breakthrough developments in India-Pakistan trade negotiations. The recent meetings between the Commerce Ministers of both the countries and a commitment from Pakistan to grant Most Favoured Nation (MFN) status to India are seen as major developments in taking forward the bilateral relations of the two countries. The Commerce Ministers of both the countries while acknowledging the fact that current level of trade is much below potential, vowed to increase it from USD 2.7 billion to USD 6 billion in 3 years' time. A number of studies have attempted to estimate the potential level of bilateral trade. These estimates range from USD 6 billion to as high as USD 42 billion. The bilateral trade between Pakistan and India, the two largest economies and trading nations in the region, has tripled in last six years but still remains below the potential trade. India-Pakistan trade relations have implications at the regional level as well. When it comes to South Asia, the situation is disappointing because intra-regional trade has remained stagnant at less than 5 percent of the total trade in the last twenty-five years.

In the light of recent moves towards improving economic and commercial ties, this study attempts to examine the issues concerning the move towards liberalizing trade with Pakistan and prospects for Indian investment in Pakistan.

India - Pakistan Trade Relations

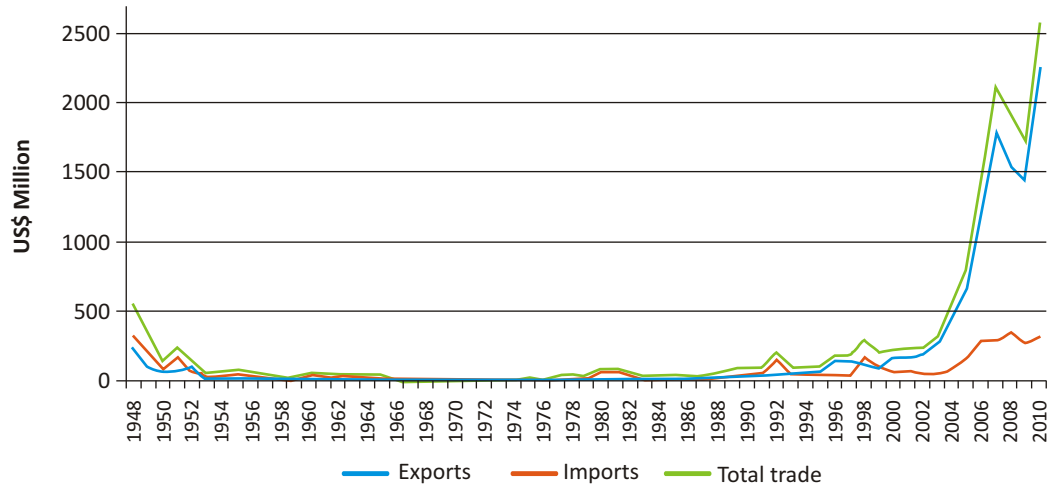
At the time of independence, India was Pakistan's major trading partner accounting for 70 percent of its total trade. In comparison, India accounted for less than 5 percent of Pakistan's trade in 2010-11. The share of Pakistan in India's trade at present is less than 1 percent. India and Pakistan are the two most populous and largest economies of the South Asian Region. However, official bilateral trade remains much below the potential.

Since, 1975 when Trading Corporation of Pakistan, a state owned company, was allowed to import 40 commodities, Pakistan has gradually increased the number of commodities permitted to be imported from India. It was only in 1982 that private corporations in Pakistan were allowed to import from India. Pakistan started trading with India based on positive list approach which included the approved imports from India. Trade started picking up corresponding to the number of commodities in the positive list, which reached 571 items by 1989.



In 1996, India and Pakistan both were signatories of South Asia Preferential Trade Agreement. India granted Pakistan MFN status and Pakistan decided to expand its positive list to include 596 items. The bilateral trade stood at USD 180 million. By 2005 trade between the two countries had increased to USD 602 million and the number of commodities traded increased to 770 items. The number of commodities in Pakistan's positive list were increased to 1075 by 2006. By 2007-08 trade had increased to USD 2.2 billion.

Figure1: India's Trade with Pakistan: 1948-2010

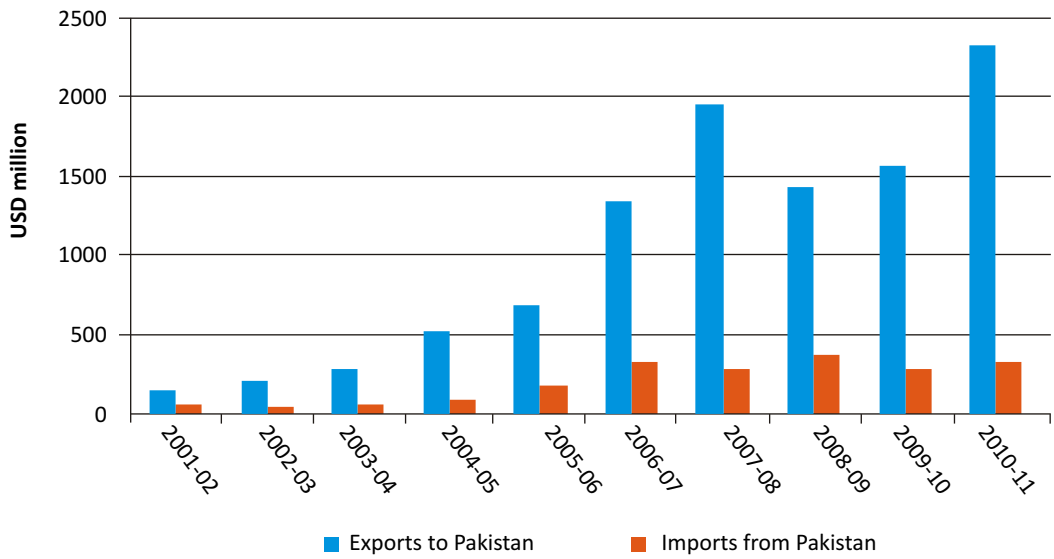


Source: Direction of Trade Statistics, IMF.

The decline in global trade following the subprime crises impacted Indo-Pak trade as well. However, the bilateral trade picked up in 2009-10. Pakistan's positive list for trade with India was further increased to 1938 items and the total trade recovered from USD 1.8 billion in 2008-09 to USD 2.7 billion by 2010-11. The bilateral trade balance at present is heavily in favour of India.



Figure 2: India PakistanBilateral Trade (2001-2011)



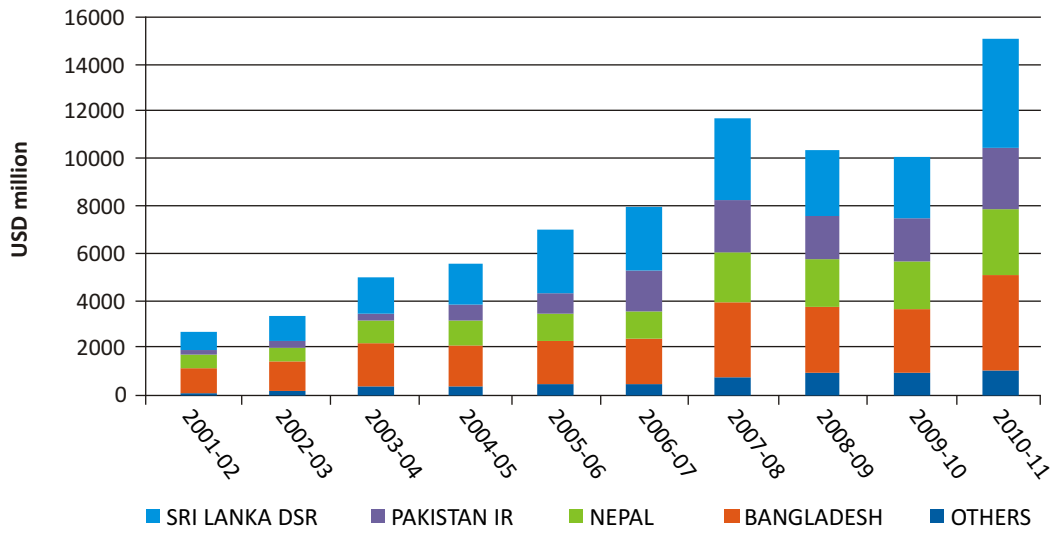
Source: Ministry of Commerce & Industry, Government of India

Pakistan's share in India's total exports increased from 0.33 percent in 2001-2002 to 0.99 percent by 2010-2011 and imports from Pakistan as a percentage of total imports of India, marginally declined from 0.13 percent in 2001-2002 to 0.09 percent by 2010-2011. The formal trade between India and Pakistan increased from USD 144 million in 2001-02 to USD 2.7 billion 2010-11.

Figure 3 shows India's trade with selected SAARC countries. It can be seen that India's trade with Pakistan has been increasing in recent years, but remains lower than other economies of the region. In the aftermath of the global financial crisis, in the year 2008-09, India's total trade with the world had increased by 17 percent, before contracting by 4 percent in the following year. But trade contraction with its SAARC trading partners was much more immediate. India's trade with SAARC fell by almost 12 percent in 2008-09 and further declined by 3 percent in 2009-10. Interestingly trade with Pakistan declined only for one year before marginally increasing by 2 percent in 2009-10. It needs to be noted that India's trade with Pakistan as compared to the pre-crisis level has recovered much slower compared to India's trade with other SAARC economies; It is higher by a factor of 27 percent with Bangladesh and Nepal and around 31 percent higher with Sri Lanka, the increase in trade with Pakistan was higher only by a factor of 19 percent.



Figure 3: India's Trade with SAARC Countries



Source: Ministry of Commerce and Industry, India. Note: Others include Afghanistan, Bhutan and Maldives

Table 1 gives the commodity wise export at 2 digit level HS Code. India exported USD 654.01 million worth of sugar to Pakistan in 2010-11. The sudden spike in the sugar exports was due to shortage of production in Pakistan. Following which, Pakistan had waived of a 25 percent duty on raw sugar in September, 2010.

The share of top 5 commodities (at 2 digit level) accounted for around 70 percent of total exports from India to Pakistan, of which textiles contributed 38 percent.

Table 1: Top Five Export Items from India to Pakistan *(Figure In USD Million)*

S No	HS Code	Commodity	2009-2010	2010-11
1	17	SUGARS AND SUGAR CONFECTIONARY	1.07	654.01
2	52	COTTON.	242.77	401.82
3	29	ORGANIC CHEMICALS	308.29	273.78
4	54	MAN-MADE FILAMENTS	419.78	234
5	7	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS.	59.85	74.05

Source: Ministry of Commerce and Industry, Govt. of India



India's major imports from Pakistan are given in Table 2. Top 5 commodities accounted for 65 percent of the total imports. The bilateral trade between the two countries is heavily concentrated into a few commodities.

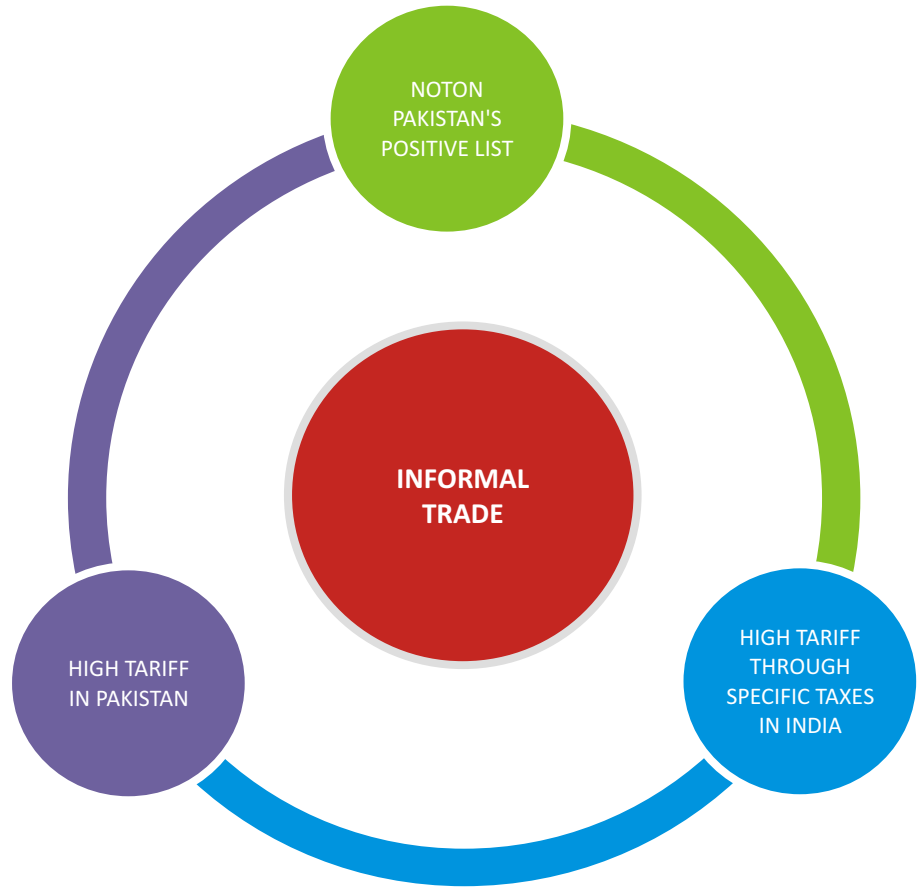
Table 2: Top Five Import Items from Pakistan to India *(Figure In USD Million)*

S No	HS Code	Commodity	2009-2010	2010-2011
1	8	EDIBLE FRUIT AND NUTS; PEEL OR CITRUS FRUIT OR MELONS	46.41	62.98
2	27	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUSTANCES; MINERAL WAXES	9.55	56.99
3	25	SALT; SULPHUR; EARTHS AND STONE; PLASTERING MATERIALS, LIME AND CEMENT	42.58	40.43
4	29	ORGANIC CHEMICALS	47.01	32.67
5	52	COTTON	39.1	22.45

Source: Ministry of Commerce and Industry, Govt. of India

Informal Trade

The fact that a large number of items are traded between India and Pakistan through informal channels presents the case for potential increase in bilateral trade. The informal trade between the two countries mainly takes place through two routes: One is smuggling across the borders and other is through a more circuitous route, involving a third country. Informal trade happens in goods that are not on Pakistan's positive list and hence cannot be imported legally (Pharmaceuticals, cosmetics, jewellery) and have a high import tariff in Pakistan (e.g. Beetle leaves, tractor tires). Estimates of informal trade vary from USD 500 million to five times the size of the formal trade. The main items of import from India are cloth, tires, pharmaceutical and textile machinery, cosmetics, livestock and medicines. They account for roughly 80 percent of the total import value.



While Pakistan's informal exports mainly consists of textiles[1]. 88 percent of these trades are routed through third countries[2]. The main implications of informal trade are: (i) loss of revenue for the exchequer and (ii) increased cost for the consumers. The cost of transportation goes up by 1.4 to 1.7 times when the indirect route Mumbai- Dubai-Karachi is used instead of the direct route Mumbai – Karachi. This is a clear indication that Pakistan should open up its trade with India. The major routes for informal trades are from Dubai, Singapore and Afghanistan.

[1] *Khan, Shaheen Rafi, Faisal Haq Shaheen, Moeed Yusuf and Aska Tanveer 2007. Regional Integration, Trade and Conflict in South Asia. Sustainable Development Policy Institute, Islamabad, Pakistan.*

[2] *Taneja, Nisha 2006. India Pakistan Trade. ICRIER Working Paper No. 182. New Delhi: Indian Council for Research on International Economic Relations.*



Trade Negotiations after Resumption of Composite Dialogue Process[3]

One of the major components of the composite dialogue process relates to enhancing economic engagements between the two countries. The trade between the two countries tends to prosper with improved bilateral political relations. The 5th round of India-Pakistan talks on Commercial and Economic Co-operation was held in Islamabad in April 2011. After a long period of time, trade was again back on the negotiating table. A number of important issues were discussed, though the progress was slow.

The Commerce Secretaries level talks held on 27-28 April 2011, in Islamabad laid out the roadmap for trade liberalization between the two countries. This was followed by the meeting of a Joint Working Group on "Economic and Commercial Cooperation and Trade Promotion" on 22-23 August 2011 in New Delhi. This meeting preceded the Indo-Pak Commerce Minister level talks in September 2011 in New Delhi.

The visit of Pakistan's Commerce Minister to India from 26th September to 2nd October 2011 was the first such visit in last 35 years, indicating the political will to improve economic and commercial relations. The Commerce Ministers stated their firm desire to move beyond normalization of trade to a preferential trading arrangement, under the framework of SAFTA. The Ministers agreed to work closely to increase trade from current level of USD 2.7 billion to USD 6 billion. In a very unequivocal message the ministers agreed that "the bilateral trade liberalization process should be uninterruptible and irreversible".

The Commerce Ministers had laid out mandates for the 6th round of India-Pakistan talks on Commercial and Economic Co-operation held in November 2011 at New Delhi, between the Commerce Secretaries of India and Pakistan. Taking the mandate forward, both sides agreed to work as per specific timeline to normalize trade relationships including dismantling of all non-tariff barriers, full implementation of SAFTA obligations and preparation of roadmaps for improving trading arrangements between the two countries. The need to improve intra-regional connectivity through road, rail, shipping and air was also agreed on.

There was also a meeting of the minds that everything should be done to facilitate a liberal visa regime, so that it is easier for the businessmen on both the sides to visit each other.

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[3]*The composite dialogue process has 8 components and Economic & Commercial Cooperation is a major component. The Dialogues have been on and off , influenced by the political environment.*



Box 1: Bilateral issues under discussion and the present position

1. **Pakistan Granting MFN Status to India:** During the visit of Pakistan's Foreign Minister in July 2011, it was announced that Pakistan is taking positive steps towards granting Most Favored Nation (MFN) status in trade. In November, Pakistan announced granting of MFN status to India, in principle. The first step includes a move towards replacing the positive list with the negative list for importing goods from India. A small negative list shall be finalized and ratified by February, 2012. This will be followed by the grant of MFN status to India.

2. **Support for Business Communities in Promotion of Trade:** There is need for business seminars, trade fairs, exhibitions etc. There have been a number of interactions between the Chambers of Commerce of both the countries. This has been institutionalized in the form of India-Pakistan Chamber of Commerce. FICCI is the main nodal head from the Indian side for this interaction.

3. **To Promote Trade both Tariff and Non-tariff Barriers (NTBs) need to be Removed/reduced:** Pakistan had sought clarification on non-tariff barriers which its trading groups face in India. These are related to visas, requirement sampling or customs inspection, requirement of technical or standard certification (eg. cements, textiles, leather), labelling and marking rules (eg. processed foods), packaging rules specification, multiple certifications (eg. surgical instruments) etc. and investment related issues. These issues are being pursued by both the sides. (See Annexure for details). Recently the two sides have signed agreements on "Acceptance of Certification of Internationally Accredited Laboratories" and "Redressing of Grievances" to remove non-tariff barriers.

4. **Infrastructure at Integrated Check Post on Attari-Wagah Border**[4]**:** In March, 2011 discussions were held to open a second gate at the Attari-Wagah border for handling cargo. The second gate is being constructed at the zero line. An approach road is also being constructed connecting the integrated check posts to the second gate and also connect Amritsar- Lahore highway. This is expected to increase the number of trucks crossing the border from current 150-200 to 500-600 trucks daily[5]. The ICP is expected to be operationalized by end of February, 2012.

[4] *http://articles.timesofindia.indiatimes.com/2011-03-25/india/29187891_1_gate-india-and-pakistan-border-infrastructure*

[5] *Ranjeet Singh, Indian Customs Commissioner in http://www.indianexpress.com/news/india-pakistan-set-up-border-hotline-for-sm/804162/*



5. **Expansion of Trade through Attari-Wagah Border:** There has been agreement to increase trade through land border. In addition to the opening of second gate at the integrated check post, the following steps are being taken to improve trade:

   - Increasing trading hours to take advantage of improved infrastructure.
   - Facilitating movement of large vehicles and containerized cargoes.
   - Data sharing (examination report sharing in real time).

6. **Removal of Trade Restrictions by Land Route:** Pakistan agreed to remove its present restriction on the number of commodities traded by land route through Wagah, once the construction of new infrastructure is completed.

7. **Customs Liaison Border Committee (CLBC):** In the April 2011 meeting between the Commerce Secretaries, it was decided to set up this committee to formalize the customs liaison arrangements. At the end of the first meeting of CLBC in June 2011, it was decided to set up a telephone hotline at Attari International Railway station for improved communication. The hotline became operational after the CLBC meeting in December. It was also decided that the trade routes be opened on Sundays to clear the heavy backlog of trucks which are stranded on both sides of the border[6].

8. **Harmonization of Customs Procedures:** Pakistan and India have finalised Customs Co-operation Agreement to avoid arbitrary stoppages of goods at each other's ports[7].

9. **Trade in Electricity between both the Countries:** A Joint Technical Committee has been set up to discuss the potential for electricity trading between the two countries. A broad understanding has been reached on possible grid connectivity between Amritsar-Lahore to enable trade of up to 500 MW of power[8].

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[6] *http://articles.timesofindia.indiatimes.com/2011-12-13/india/30511245_1_customs-officials-attari-and-wagah-hotline*

[7] *http://www.brecorder.com/market-data/stocks-a-bonds/single/636/0:/1147368:pakistan-india-finalise-three-agreements/?date=2012-01-27*

[8] *Joint statement of the 6th round of talks on commercial and economic co-operation between Commerce secretaries of India and Pakistan*



10. **Expanding Trade in Petroleum products:** A committee consisting of group of experts from both countries has been setup to study the potential of expanding trade in petroleum products. Pakistan lifted the ban on importing diesel from India in 2009 but does not allow import of petrol.

11. **Initiative to Promote Bilateral Trade in Bt. Cotton seeds:** Pakistan has recently opened up commercial cultivation of Bt. Cotton seeds; this provides export opportunities for Indian biotechnology firms.

12. **Cooperation in Information Technology (IT) Sector:** India and Pakistan have both agreed to explore the potential in the IT sector in the forthcoming Commerce Minister's visit. NASSCOM from India and Software Export Promotion Board of Pakistan have been appointed as nodal agencies.

13. **Implementation of SAFTA:** As part of its commitment under SAFTA, India has reduced peak tariff rates for Pakistan to 8 % by 1st January 2012 and the peak rates would be further reduced to 5 % by 1st January 2013. Pakistan needs to work towards implementation of SAFTA.

14. **Promotion of Bilateral investments[9]:** Pakistan is the only country in the negative list of countries, from which inflow of investments into India is not permitted. Also, no Indian investment exists in Pakistan. The post MFN status negotiations are likely to focus on the promotion of bilateral investments.

15. **Opening up of Bank Branches in each other's Territory:** While talks have been going on this issue for long, nothing concrete has come up so far. Discussions between the central bankers are expected to continue.

16. **Collaboration in Trade Promotional Activities:** Both countries have agreed to collaborate on trade promotional activities. India Trade Promotion Organization (ITPO) and Trade Development Authority of Pakistan, the two trade promoting organizations in both the countries, signed a Memorandum of Understanding in September 2011.

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[9]*There are indications, that Pakistan may be removed from the negative list of countries not allowed to invest in India. This would mean that soon Pakistani firms may invest in Indian markets. http://articles.economictimes.indiatimes.com/2011-08-22/news/29914920_1_negative-list-mfn-status-india-and-pakistan*



17. Visas: Visas remain a major issue of irritation for the trading communities of India and Pakistan. The granting of visa is regulated by the Bilateral Visa Agreement of 1974 and is considered to be restrictive in nature. The talks on this were revived in March 2011 at the Joint Working Group meeting held in New Delhi. In recent talks there has been a general acceptance that visa regime for businesspersons needs to be more liberal.



CHAPTER 2
Investment Scenario

Investment Scenario



Investment promotes the transfer of technology and expertise, which in turn stimulates the economic growth of developing countries. Encouraged by such facts, host countries offer various incentives which include tax breaks, liberal rules and regulations, special grants, etc.

Investment in high technology industries is widely seen as desirable in developing countries like Pakistan, given that it provides employment opportunities, boosts exports by increasing production and helps in modernizing the economy.

As India and Pakistan compete to sell their goods in the global market, there are many areas in which both the countries can complement each other's needs and hence produce cost-effective quality goods. The Board of Investment has indicated that Pakistan has so far made bilateral investment agreements with 46 countries (except India) during the period from 1959 to 2004. At present, joint ventures between the two countries are non-existent, and so is direct investment.

There are no Indo-Pak joint ventures, in spite of a strong business interest on both sides due to the absence of an enabling environment for such investment. For example, there are no institutional mechanisms for bilateral investment guarantees. There is considerable lack of information and awareness about each other's trade regime, commercial policies and business and regulatory procedures.

Potential Joint Ventures (JVs) between India and Pakistan

SAARC Chamber of Commerce and Industry has identified investment possibilities in Pakistan in sectors such as fish processing, chemicals and pharmaceuticals, automobile components and information technology.

A study commissioned by FICCI jointly with SAARC Chamber of Commerce & Industry and formulated by Tata Economic Consultancy Services outlines the industrial investment opportunities & scope for joint venture in SAARC Countries.



In this report, the various potential JVs identified between India & Pakistan are as follows:-

Table 3: Potential JVs between India & Pakistan

Industry Group	Project Focus
Information Technology (IT)	• Software Exports Training Centre / Center for Software Training & Management (CSTM) Software Development Center (SDC). • Pakistan has the potential to become an important software exporting and training center. • India can become a role model & both the countries should co-operate & collaborate to tap the large global market for software.
Fish Processing	• Processed Frozen / Canned Fish Products • Future thrust should be on value added canned products exports to the developed countries
Drugs & Pharma-ceuticals (DAP)	• Bulk drugs • Expansion of formulation sector (tablets, capsules, ointment, injections etc.). • Expansion of health care products (IV fluids, disposable syringes, diagnostic kits etc.). • Indian pharma industry can provide the necessary support & assistance to Pakistan for the expansion of its Industry.
Agro-Chemicals	• A pesticides manufacturing unit in Pakistan. • With the expansion of agri business, demand for agro chemicals will grow in future. • Indian major players can play an important role through transfer of technology.
Chemicals	• Dyes and pigments manufacturing unit in Pakistan • Pakistan has a strong manufacturing base for textiles & leather. • Indian players and multinationals can assist Pakistan in developing the sector.
Automobile Ancillary	• Integrated auto component complex. • Next to India, Pakistan is the only country in the SAARC Region to Manufacture & Assemble Passenger Cars. • Pakistan may also consider Assembly of HCV & LCV in collaboration with Tata Motors / Ashok Leyland from India.



Industry Group	Project Focus
Light Engineering	• L P G cylinder manufacturing unit in Pakistan • Technology can be sourced from India. • Scope for Inclusion of cylinders for industrial gases.
Leather Processing Complex : value added products for exports	• Manufacturing complex for a variety of value added ❖ Leather Footwear ❖ Leather Garments ❖ Leather Bags • Pakistan & India should cooperate to tap the global market & expand market share.



CHAPTER 3
Line Of Control Trade

Line Of Control Trade Between India And Pakistan



India and Pakistan have allowed trade across Line of Control (LoC) boosting mutual confidence, promoting economic dialogue and opening a trade outlet for people of the Himalayan region. The bilateral trade across the border resumed after a period of 61 years. The border trade is one of the key confidence building measures (CBMs) which was agreed at a meeting between Prime Minister of India, Dr. Manmohan Singh and Pakistan President Mr. Asif Ali Zardari in New York on September 25, 2008. Initially the trade began with twice a week-Tuesday and Wednesday. This has now been extended to four days – Tuesday, Wednesday, Thursday and Friday from July, 2011.

Trade across Line of Control is restricted to 21 items which include the following:

- Fresh and dry fruits,
- Carpets,
- Shawls,
- Pillow and pillow covers,
- Blankets,
- Rugs,
- Woolen garments
- Masalas,
- Honey,
- Peshwari leather slippers,
- Walnut – wood furniture,
- Wall hangings,
- Embroidery items,
- Tamarind,
- Green gram,
- Black mushrooms,
- Saffron and popular vegetable known as kadam.



LoC trade is operational at two points – *Uri-Muzaffarabad and Poonch-Rawalakote routes*. Till December 2010, exports worth Rs. 311.87 crore and imports of Rs. 499.12 crore (Pak currency) have taken place [10]. The LoC trade is tariff free. Trade Facilitation Centers were setup in 2010 - for Uri-Muzaffarabad trade route at Salamabad and for Poonch- Rawalakote trade route at Chakkan-da-Bagh. These centers inspect goods meant for trading and also provide a telecommunication link with the other side. There is no qualitative restriction on trade. The goods being traded through LoC are not meant for re-routing to other part of either country. There is also provision to review this every three months.

The next step in the cross border trade between the two countries is to add another land route in Punjab and allowing trade through rail link between Khokrapar in Sind and Munabao in Rajasthan. In addition, Pakistan is likely to increase the number of commodities allowed to be traded through Wagah – Attari border.

As the trade is duty free and in either currency, the LoC trade would help Pakistan maintain its foreign exchange reserves if these products are imported from India rather than from other countries.

[10] *Kira, Altaf (2011), "Cross-LoC trade in Kashmir: From Line of Control to Line of Commerce" Working Paper-2011-20, IGIDR. http://www.igidr.ac.in/pdf/publication/WP-2011-020.pdf*



CHAPTER 4
Potential Sector of Cooperation

Potential Sector of Cooperation



Agriculture: India and Pakistan, both agrarian economies, could cooperate in agricultural sector which is a major component of GDP and largest employment generating sector in either country. The food and agri-business industry has a significant impact on the regional economy. This industry has one of the highest economic multiplier effects among the various industries even ahead of telecom or power. Liberalized India-Pakistan trade in agro sector would give further boost to employment generation in both the countries. The recent export of sugar, onion, tomato, fresh meat and live animals from India to Pakistan helped Pakistan to overcome short-term fluctuations in supply.

Trade in agriculture between India and Pakistan till date has been crisis driven. However, if a robust regulatory mechanism is put in place in both the countries, agriculture trade could well become market driven. Integration of markets across the border would have a favorable impact on agriculture trade as it shall even out fluctuations in supply, moderate prices and provide a wider basket of agricultural goods for consumption.

Cement: There has been sharp increase of export of cement from Pakistan to India in recent past because of the increasing demand in India. This is due to the boom in the housing and construction sector. Rising trade in cement is win-win situation for both countries and will help Pakistan to reduce its trade deficit with India.

Engineering Industry: Trade liberalization with India especially for iron ore which is an important raw material for steel industries will place the engineering goods industry of Pakistan at a significant advantage by bringing down prices of steel and that of finished engineering goods. At present, Pakistan imports basic raw material, iron ore, at a high cost from Brazil and Australia.

Transport Equipment: As a consequence of high protection provided to domestic auto assemblers (two & four wheelers), prices paid by Pakistan consumers are substantially higher than comparable prices internationally. Bicycle is another category where Indian products could impact the Pakistan market particularly if tariffs were to be lowered. India's comparative advantage lies in its lower steel price together with scale economies.



Tea: Pakistan has recently emerged as the largest market for exports of Indian tea. India's share of Pakistani tea market has increased in recent times, however still remains low. Pakistan has been sourcing most of its tea from Kenya. There is immense potential for Indian tea in the Pakistani tea market.

Pharmaceutical: Considering that Indian pharmaceutical products are cheaper than Pakistani products, it would certainly make a difference to the common citizen in Pakistan. In turn, this would help Indian pharmaceutical products including bulk drugs and formulation to sell in large volumes in geographically proximate markets besides impacting positively on industrial growth.

Textile Machinery: In Pakistan, there is no high-tech textile machinery industry. The opening of trade with India would help Pakistan to acquire this machinery directly at much lower prices rather than high cost machinery from Germany. Pakistan has allowed the imports of textile machinery from India and presents major opportunities for Indian firms.

Chemicals: Import of cheaper chemicals and dyes from India can particularly help to enhance competitiveness of its leading export sectors i.e. textile and leather.

Plastics: Pakistan's plastic products could dominate Indian market but for their high cost. This is largely due to the machinery imported by this industry from Taiwan, Korea and Germany. This machinery can be made available from India at competitive rates.

Textiles: Pakistan has competitive advantage in cotton textile products which need to be revitalized. India, on the other hand, has an upper hand in silk and other synthetic fibre. The opening up of trade will help Pakistan to acquire textile chemicals and other inputs at cheaper rates and thus to make their products more competitive in international market.

Petroleum Products: As of now, Pakistan has banned imports of Indian petrol. Though it allowed diesel imports in 2009, due to preferential prices offered by Pakistan's allies such as Kuwait, supplies from India did not really take off.

However, India has offered to export petrol, diesel, and aviation turbine fuel, fuel oil, besides sulphur, polyethylene and polypropylene to the neighbour. Pakistan is currently importing these products from other countries. Imports from India will be advantageous for Pakistan as it will be saving on the freight cost since several Indian refineries are



located close to the India-Pakistan border. The refiners who will benefit include Indian Oil Corporation, Reliance Industries, Essar Oil, and the soon to be fully commissioned refinery at Bhatinda.

Services:

a). Information Technology

India has established itself as a major player in the information technology segment. The software industry in Pakistan is still in its nascent stages though it has a huge potential to emerge as a major software exporting and training centre. India and Pakistan could enter into joint ventures to tap the global market for software. The prospects for success in this sector seem to be good. As the basis of India's comparative advantage in IT – low cost and qualified English-speaking technical personnel – is replicable in Pakistan. In terms of infrastructure requirements, the IT sector is relatively less demanding, both in terms of sheer scale of investment and challenges of security management.[11]

The Indian IT training market has also grown significantly. Several training institutions such as NIIT, APTECH and SSI have set up training centers in many countries including South Asian countries. India and Pakistan could enter into collaborative arrangements to set up training institutes in Pakistan which would enable enlarge the technical workforce in Pakistan).

b). Tourism

Tourism holds immense potential for the two countries. A liberal visa regime as well as improved transport linkages would go a long way in improving tourism between the two nations

c). Health

Pakistani patients could also come to India for treatment. Easing visa restrictions would greatly help Pakistanis to come for treatment. So far, only a handful of Pakistani patients have visited India for treatment. Removal of visa restrictions for patients, and for doctors would greatly facilitate such trade.

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[11] *Inderfurth, Karl F. 2011.India-Pakistan Trade and "Other Channels of Engagement". Centre for Strategic and International Studies, April 25, 2011.*



d). Entertainment

The common culture and language between India and Pakistan facilitate immense opportunities for trade and cooperation in the film, television and music sector. This potential in the entertainment industry can be tapped by encouraging joint productions. Removing the ban on screening movies would benefit both countries. Exchanging broadcasting rights to telecast each other's programmes on television is yet another trade opportunity for the two countries. Removal of visa restrictions would encourage individuals to participate in each other's entertainment industries.



CHAPTER 5
Energy Cooperation

Energy Cooperation



The big benefit - Gas Pipeline: The greatest economic benefit of improved relations between India and Pakistan would occur in the sphere of energy cooperation. India is one of the most rapidly growing energy markets in the world and will be able to absorb new sources of supply as they materialize in the region. Pakistan's potential role in fulfilling this need is not as a supplier but as a potential transit route for energy from Iran and Central Asia. This would require construction of one or more new pipelines, a major capital investment that makes sense only if the political stability and economic feasibility of the project can be counted on.

The economics looks very promising. The two major projects under consideration for a very long period of time are the Iran-Pakistan-India (IPI) pipeline and Turkeministan-Afghanistan-Pakistan-India (TAPI) pipeline. The TAPI pipeline project is approximately pegged at a cost of USD 7.6 billion. As per the latest arrangement agreed on - India will pay transit fee to Pakistan and Afghanistan to get its share of 38 million standard cubic meters a day of gas through the pipeline, while Islamabad will pay ferrying charges to Afghanistan[12].

Iran-Pakistan-India (IPI) pipeline project is a 2700 km pipeline from Iran's South Pars fields in the Persian Gulf to Pakistan's major cities of Karachi and Multan and then further to Delhi. Iran is offering to cover 60 percent of the construction costs of the pipeline. A land-based pipeline would be four times cheaper than any other option, even after taking into account transit fee payments to Pakistan. Pakistan could earn transit fees from the pipeline and also would be able to purchase natural gas from the pipeline[13]. Pakistan is expected to earn about USD 200 - USD 500 million in transit fee. India would benefit from diversified sources of pipeline gas and lower dependence on more expensive liquid natural gas (LNG). Even with LNG prices dropping, industry sources believe that there would be a significant cost advantage, especially to a pipeline from Iran. Both these projects present a win-win opportunity for both India and Pakistan and can go a long way in meeting the energy requirements in one of the world's fastest growing regions. Energy cooperation between India and Pakistan would have a stabilizing effect on the region as a whole.

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[12] *http://www.thehindu.com/news/national/article2832202.ece -*

[13] *http://www.gulfoilandgas.com/webpro1/projects/3dreport.asp?id=100730*



Electricity

In recent times Pakistan has been facing a major power shortage, from both gas and electricity sources. In this regard, India and Pakistan are considering the option of electricity trading. The first meeting of the Joint Group of Experts to examine feasibility of trade of electricity was held on 20th October 2011 at New Delhi. Central Electricity Authority and Power Grid Corporation of India limited / Power System Operation Corporation Ltd have been designated as the nodal technical agencies from the Indian side. They are interacting with National Transmission and Dispatch Company Ltd of Pakistan to work out the optimal technical solutions for grid connectivity between both the countries. A broad understanding has been reached on possible grid connectivity between Amritsar-Lahore to enable trade of up to 500 MW of power[14].

[14] *Joint statement of the 6th round of talks on commercial and economic co-operation between commerce secretaries of india and pakistan*



CHAPTER 6

Infrastructural and policy impediments

Infrastructural and policy impediments



Positive List Approach

As discussed earlier in this paper, Pakistan currently allows only 1938 items to be imported from India. This restricts bilateral trade much below its potential. The positive list approach is in violation of both SAFTA and WTO norms.

Infrastructural Barriers and Regulations

The infrastructure on border is not well equipped to handle cross border trade and tends to be a major impediment. Lack of warehousing and storage facilities along the border act as a major barrier. Manual data entry and antiquated custom procedures lead to delays in movement of cargo. Also, lack of proper testing facilities along the port tends to cause unnecessary delays. The transport infrastructure and regulations relating to them also act as major hindrances.

Transport

One of the major reasons trade is hampered is the limited routes available for trade. This hinders both the movement of people as well as the movement of goods.

(a) Air Transport: Only 12 flights are operating between India and Pakistan per week. The flights operate between Karachi-Mumbai and Lahore- Delhi. There are no direct flights between the capital cities of Islamabad and New Delhi. Number of promises has been made to increase the number of flights; however, no significant change in this respect has been witnessed so far. In spite of talks over increasing the number of flights between the two countries to 28 per week the plan is yet to materialize.

(b) Rail: There are certain factors which hamper the use of trade through the rail route- like availability of wagons, requirement of wagon balancing, non-containerized rail wagons, and inadequate handling capacity at Lahore and insufficient infrastructure facilities at the rail cargo station. Sometimes allotment of wagons can take up to two months.



(c) ***Road:*** The limited number of entry points along the border and similarly a cap on number of commodities[15] which can be traded through the land routes affect trade. Some of the regulations which hamper trade[16]:

(i) Trucks are only allowed to cross between 08:00 to 16:00 hours; this in turn often is the cause of congestion.

(ii) Containerized Cargo is not permitted on land routes, resulting in higher instances of damage and pilferage.

(iii) Restriction on tonnage to 1 MT for trucks and 21 items across LOC in Kashmir.

The opening up of second gate at Wagah-Attari border with warehousing infrastructure along with off-port and on-port facilities on both sides would greatly facilitate the trade between India and Pakistan.

To overcome the infrastructural impediments, both governments have been working towards development of Integrated Check Posts (ICP) at Wagah-Attari border. The foundation stone at Attari was laid on 20th February, 2010. The work of physical infrastructure has however been delayed. As per the revised schedule the ICP is expected to be operational by end of February, 2012. The delay is due to the time taken for arriving at a mutually agreed site of the second gate, decision to construct new road, delayed decision on fencing, removal of High Tension (HT) line and decision on Heating Ventilation and Air Conditioning (HVAC)[17].

As per the latest assessment by the Ministry of Home Affairs, Government of India- at Attari, 97% of the construction work has been completed. Critical elements such as passenger terminal building warehouses, substation & roads are complete, minor works in no man's land & buildings are being done.

Visa

A major barrier faced by the business community is related to visas. Visas can be obtained only for specific cities prior to entry into Pakistan. Also police reporting on arrival is a major irritant. Businessmen have also pointed out that the restrictions on exit from the city of entry curbs their business plans and adds to travel cost and time.

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[15] *For a detailed list of items permitted to be imported from India into Pakistan by road, refer Appendix G of The Import Policy 2009, Government of Pakistan. http://www.commerce.gov.pk/SROs/IPO_2009.pdf*

[16] *2007 Taneja, Nisha 2007. India Pakistan Trade Possibilities and Non-tariff Barriers. ICRIER Working Paper No. 200. New Delhi: Indian Council for Research on International Economic Relations.*

[17] *Status Report of Integrated Check Posts as on 31st Dec 2011 http://mha.nic.in/pdfs/BM-DQR-060112.pdf*



Communication Links

Communication links need to be improved including allowing the roaming facility on mobile phones. Uninterrupted telecommunication links would facilitate trade between the two countries.

Banking

The current payment system is formalized through Asian Clearing Union (ACU) which is inefficient because the payments are often delayed. The two countries need to expedite opening up of scheduled bank branches in each other countries which would promote financial efficiency, facilitate trade and promote further economic interactions.

Investments

Currently there are no joint ventures between India and Pakistan. As several Indian companies are showing an interest in having joint ventures in Pakistan, it is imperative to understand the nature of such investment and provide timely facilitation. The Government of India and Pakistan should set up institutional mechanism that would guarantee protection of each other's investments.



CHAPTER 7

Economic Cost of Conflict and Current Economic Relations

Economic Cost of Conflict and Current Economic Relations



India-Pakistan trade takes place through two channels - the official channel which is quite meagre and the informal channel which includes trade via third country. Given the market size available in the two countries, the current volume of official trade between India and Pakistan is just USD 2.7 billion.

However, the size of informal trade underlines the potential of bilateral trade between the two countries. It is estimated that the current unofficial trade is more than USD 10 billion. These volumes of third country and informal trade indicate the tremendous potential for bilateral trade between the two countries.

The normalized economic relations would not only benefit the governments and businessmen, but also consumers across the borders. The exchequer of both the countries will earn significant revenue, which is lost due to unofficial trade. Direct trade would also ensure cheaper raw material lower transportation cost and wider markets for the businessmen who would be enjoying the advantage of geographical proximity (see Table 4 below). The main beneficiary would be the consumer of those products across the borders, as they would benefit from good quality products at economical prices with wider variety.

Table 4: Reduction in Cost if imported from India

Sector	Pakistan's Cost Reduction if Imported from India (*in per cent*)
Steel	55
Transport Equipment	26
Engineering goods	15
Bicycles	20
Pharmaceuticals	35
Fruits & Vegetables	40
Sugar	30

Source: FICCI Survey (2009)

Impact on SAFTA

The lack of good relations between the two countries has also affected the SAFTA agreement. While India has given the MFN status to Pakistan but it has not reciprocated the same and still maintains a limited list of positive items which can be imported from India. It is expected that the bilateral trade would increase manifolds, if SAFTA is implemented in letter and spirit by Pakistan. The comparison of India's bilateral trade with Bangladesh and Sri Lanka indicates that in spite of bigger economic size, trade with Pakistan is meagre at USD 2.7 billion.

Table 5: Comparison with other SAARC Countries

Country	Population (in million) 2010 est.	GDP, PPP (constant 2005 billion international $)	Total Trade with India in 2010-11 (in USD billion)
Bangladesh	148.69	221 (2010 est.)	4.05
Sri Lanka	20.86	95 (2010 est.)	4.54
Pakistan	173.59	419 (2010 est.)	2.67

Source: WDI & Ministry of Commerce and Industry, India



CHAPTER 8
Policy Recommendations

Policy Recommendations



- Bilateral trade between India and Pakistan is limited to a list of 1938 items. These products alone are importable from India. The rest of the items are totally banned. An analysis of this list reveals that a large number of these items are confined to minerals, chemicals and other raw materials. Most of the manufactured finished goods, bulk drugs and pharmaceuticals, textile products and food products are banned. Indian industry would like the Pakistan Government to adopt the Negative list approach at the earliest and subsequently grant MFN status to India.

- The advantage of land contiguity and low transaction cost for India - Pakistan bilateral trade is lost due to limited trade land routes. FICCI has been suggesting the opening up of an additional land route at Sindh border of Monabao-Khokhara Par in addition to the opening up of second gate at Attari-Wagah border. Having a bilateral agreement on regular cargo movement and warehousing and other infrastructural facilities on both the sides would greatly facilitate the trade between the two countries.

- There is a large potential of trade in services specially export from India of services like IT and IT enabled services, medical, construction, tourism, etc. The inclusion of these services will not only increase our exports to Pakistan but also technologically upgrade these sectors in Pakistan.

- At present, there is no possibility of setting up joint ventures between the two countries. However, potential exists in large number of areas including chemicals, plastics, textiles, hydro-power, tourism, information technology, telecommunications, automobile ancillaries, environment, drugs and pharmaceuticals and water management.

- FICCI has been suggesting a bilateral treaty on investment promotion and protection. This should remove the apprehension in Pakistan about being flooded with Indian goods and directly add value to their GDP, enhancing the level of their industrialization.



- Since there are seasonal and periodic shortages both in India and Pakistan for the same kind of agricultural items like food grains, sugar, onion, potatoes etc., India and Pakistan can enter into special trading arrangements with respect to these agricultural items. This will be mutually advantageous and benefit the people on either side by removing such shortages that result in higher prices.

- Economic engagement of any nature whether trade in goods or services or investment presumes easy travel to each other's countries. It is necessary for both the governments to work on easing visa regulations for businessmen. This means multiple entry long-term visas with no city specific, no police reporting which causes harassment for businessmen and discourages them.

Many of the aforesaid issues are being discussed currently at the inter governmental level (Refer Box 1 on page 14).



FICCI's Initiatives in fostering India-Pakistan Economic Relations

FICCI's Initiatives in fostering India-Pakistan Economic Relations



For achieving the cherished goals, FICCI is working intimately with its counterpart apex chamber, Federation of Pakistan Chambers of Commerce and Industry (FPCCI) for the last many years.

FICCI signed a MoU in 1999 with FPCCI to jointly form India-Pakistan Chamber of Commerce and Industry (IPCCI).

Under the umbrella of IPCCI, several trade delegations have been exchanged between India and Pakistan. In 2005, a 105 member FICCI business delegation, the largest ever Indian trade delegation led by Mr Onkar S Kanwar, the then President FICCI, visited Pakistan. The delegation was well received and had fruitful business interactions across Pakistan.

To carry forward the process, FICCI hosted an 80-member business delegation of FPCCI in November, 2008. To mark the occasion, FICCI organized a conference on “India-Pakistan Economic Relations” which was inaugurated by Mr Jairam Ramesh, the then Hon'ble Minister of State for Commerce & Industry and Power, Government of India.

Also, FICCI organized a 10-member and 5-member business delegation in 2006 and 2010 respectively, on the occasion of Pakistan Expo held at Karachi.

Besides promoting bi-directional trade delegations, FICCI, in its pursuit to present a comprehensive all inclusive frame work for bringing about awareness towards inherent business capabilities of India and Pakistan, organized “Made in Pakistan” exhibition at New Delhi in 2004. Over 300 Pakistani businessmen participated in the highly successful exhibition. A cultural programme and food festival were also organized at the sidelines of the exhibition.

In April 2010, FICCI organized an interactive business meeting with Her Excellency Dr Firdous Ashiq Awan, Hon'ble Federal Minister for Population Welfare of Pakistan at New Delhi. In her address, the Hon'ble Minister stressed the need to resume the composite dialogue between our countries. Dr. Awan also recognized that a stable Pakistan would



have far reaching positive impact on the entire region, especially India. The visiting minister also assured FICCI that she would favourably look into the process of organizing the "Made in India" exhibition in Pakistan and on the issue of granting of MFN status to India.

In November 2010, FICCI successfully hosted a 40 member strong business delegation from Pakistan to India and on the occasion organized a conference on India-Pakistan Economic Relations: Prospects and Challenges which deliberated on issues impeding trade and investments and potential sectors of cooperation between the two countries.

In September 2011, in an endeavour to strengthen the bilateral economic ties with Pakistan, FICCI hosted a high powered 78 member official-cum-business delegation from Pakistan led by Mr Makhdoom Muhammad Amin Fahim, Senior Minister for Commerce, Government of Pakistan. FICCI organized a series of meetings with the visiting delegation at Mumbai and New Delhi.

The business-to-business and government-to-business interaction is an innovative, yet simple method of addressing information gaps on the business environment between the two countries. This not only serves as a powerful means to confidence building but is an effective trade-facilitation measure.

Further towards this end, in November 2011, FICCI organized an interactive meeting with Pakistan business delegation which deliberated on issues impeding trade and investments and potential sectors of cooperation between the two countries.

In December 2011, FICCI organized B2B Meeting with Pakistan Business Delegation from Lahore Chamber of Commerce and Industry.

In February 2012, FICCI would be hosting an India Show in Lahore from February 11-13, in its pursuit to further build upon the gains and initiatives already undertaken and seeking newer opportunities for promoting business ties between India and Pakistan. A high powered CEOs' delegation will be led by Mr. Anand Sharma, Minister of Commerce, Industry and Textile.

FICCI, as the voice of the whole of Indian business and industry, will work vigorously to further build upon the gains and initiatives already undertaken and seek new opportunities for promoting business ties between India and Pakistan. FICCI will also continue to play its pro-active role in promoting regional integration in South Asia.

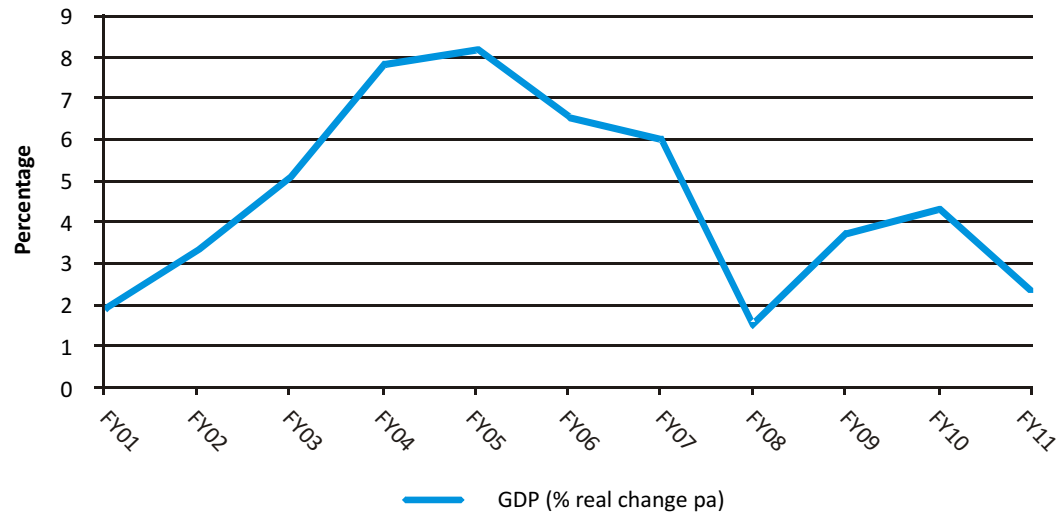


Pakistan Economy in Figures

Pakistan Economy in Figures

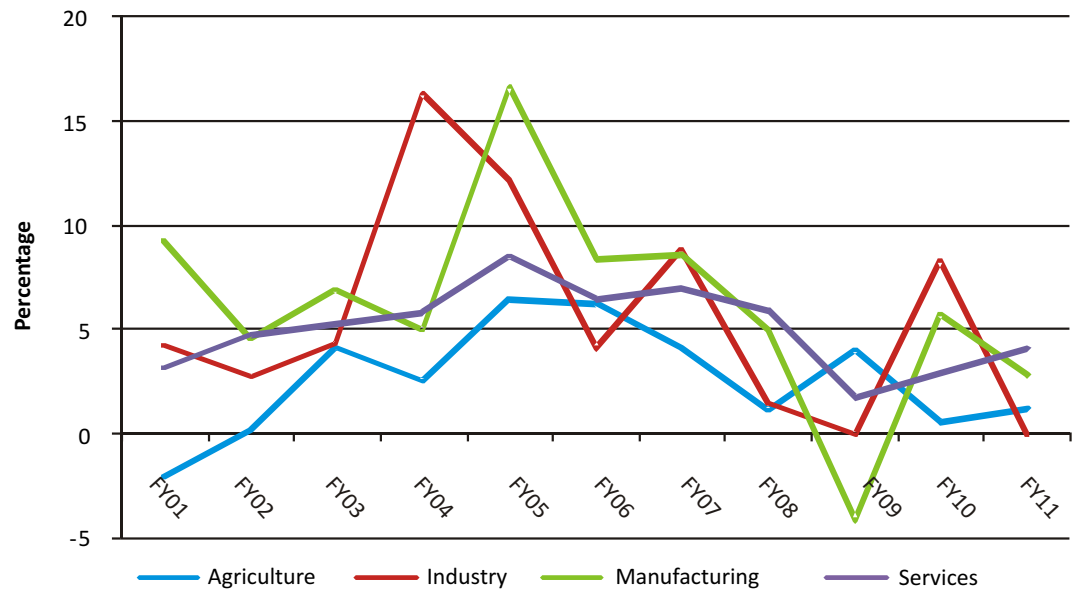
This chapter gives a graphical representation of Pakistan's economic indicators.

Figure 4: Pakistan's GDP growth per annum



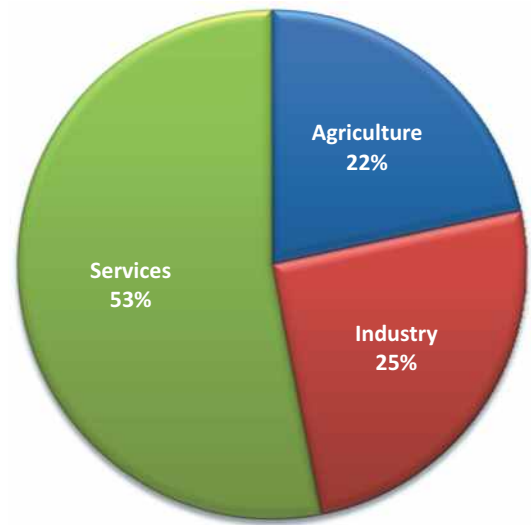
Source: State Bank of Pakistan

Figure 5: Sector wise growth



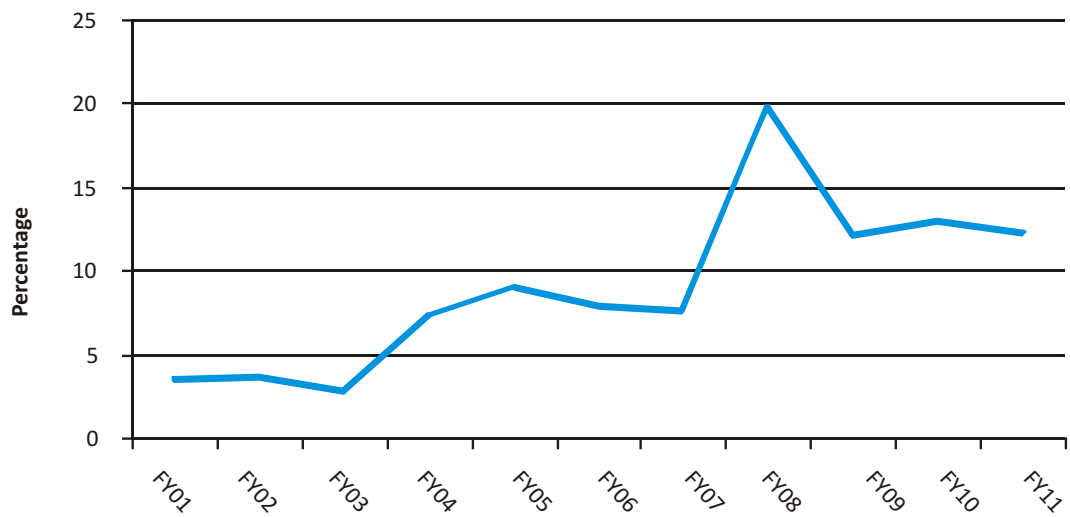
Source: State Bank of Pakistan Note: Industry is inclusive of manufacturing. For details see World Bank definition.

Figure 6: Sector wise Composition of GDP(2011)



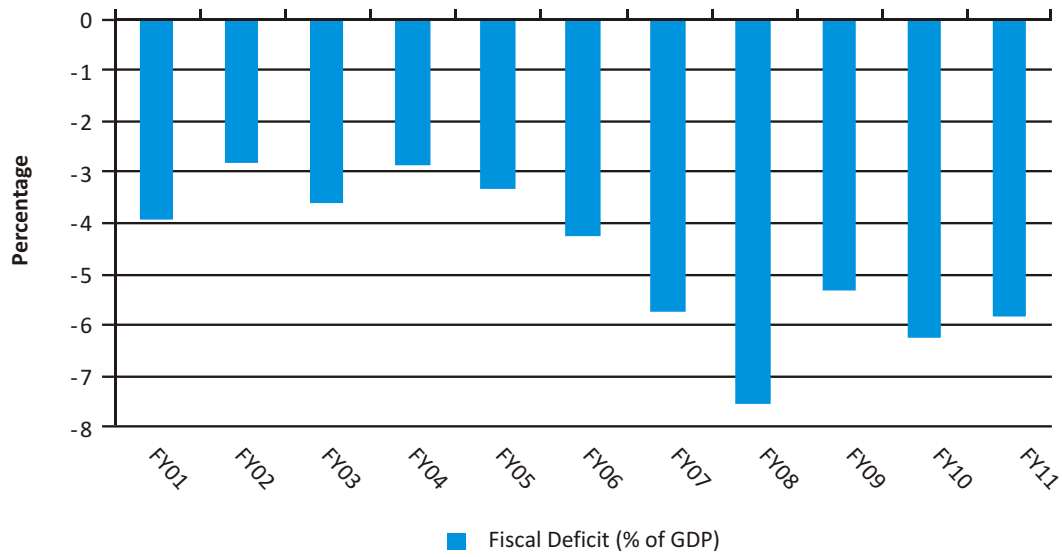
Source: State Bank of Pakistan

Figure 7: Change in Price Level



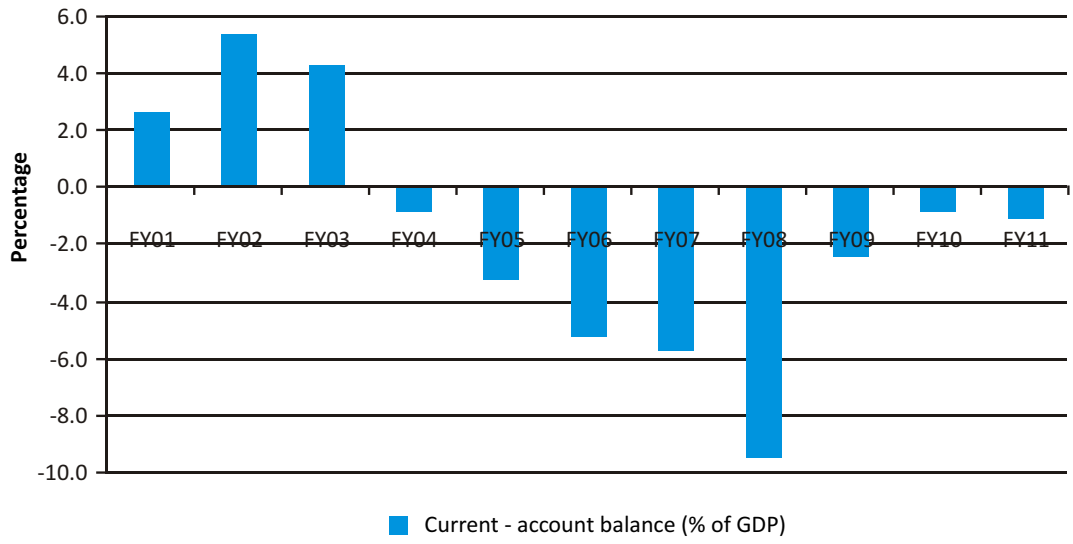
Source: State Bank of Pakistan

Figure 8: Fiscal Deficit as a percentage of GDP



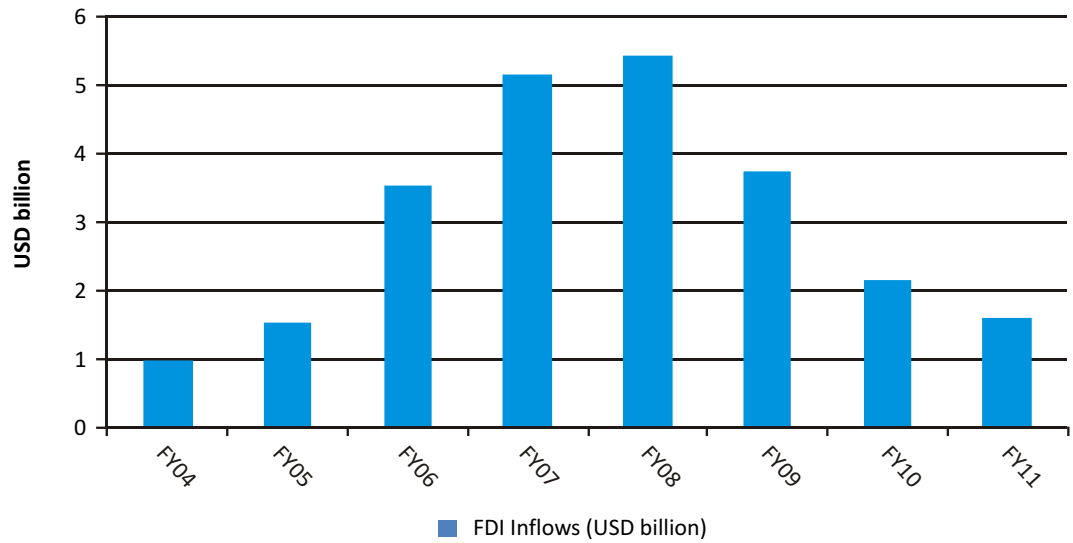
Source: International Financial Statistics, IMF

Figure 9: Current Account Balance as a percentage of GDP



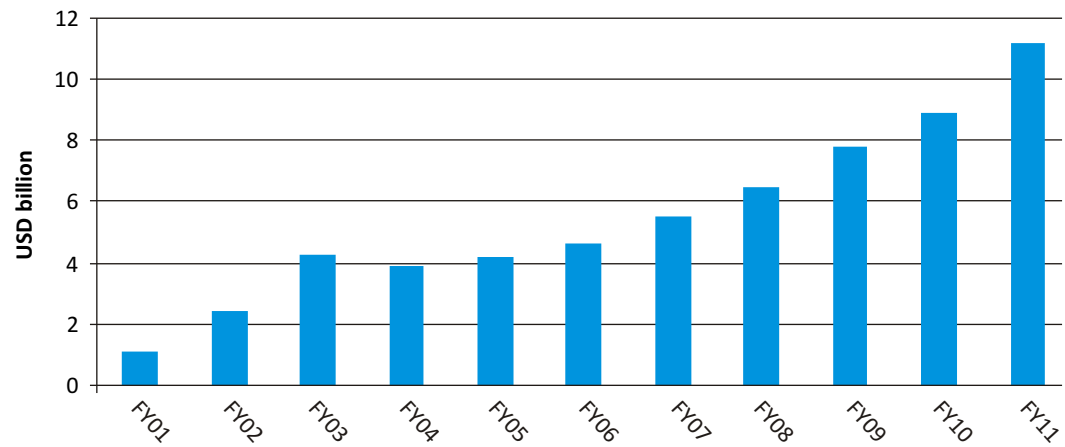
Source: International Financial Statistics, IMF

Figure 10: Foreign Direct Investment Inflows (USD billion)



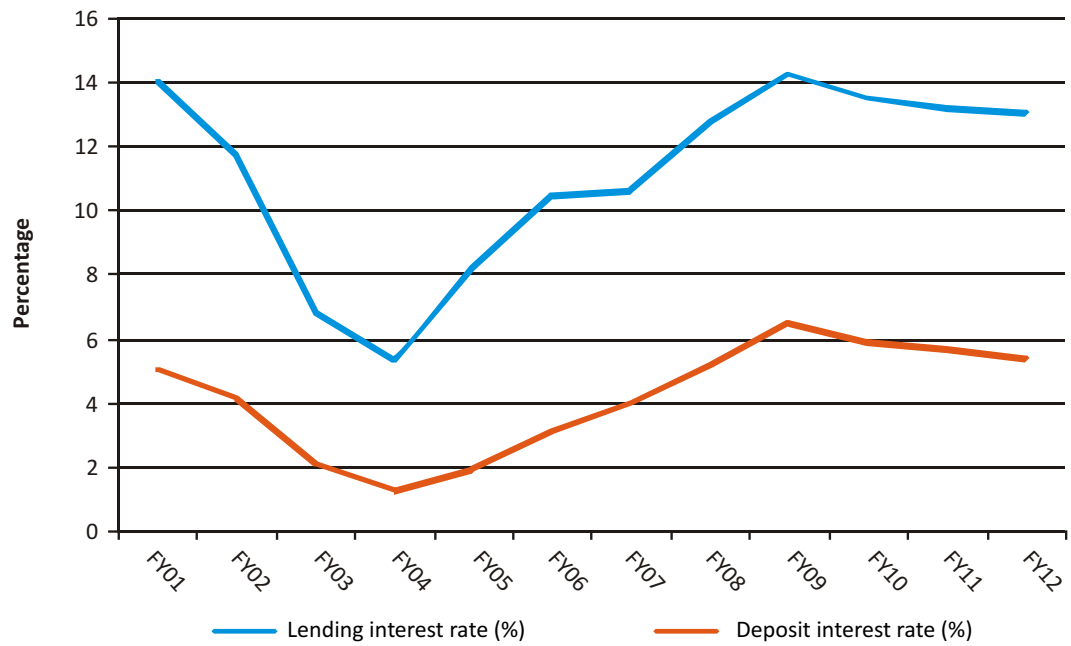
Source: State Bank of Pakistan

Figure 11: Workers' Remittances in USD billion



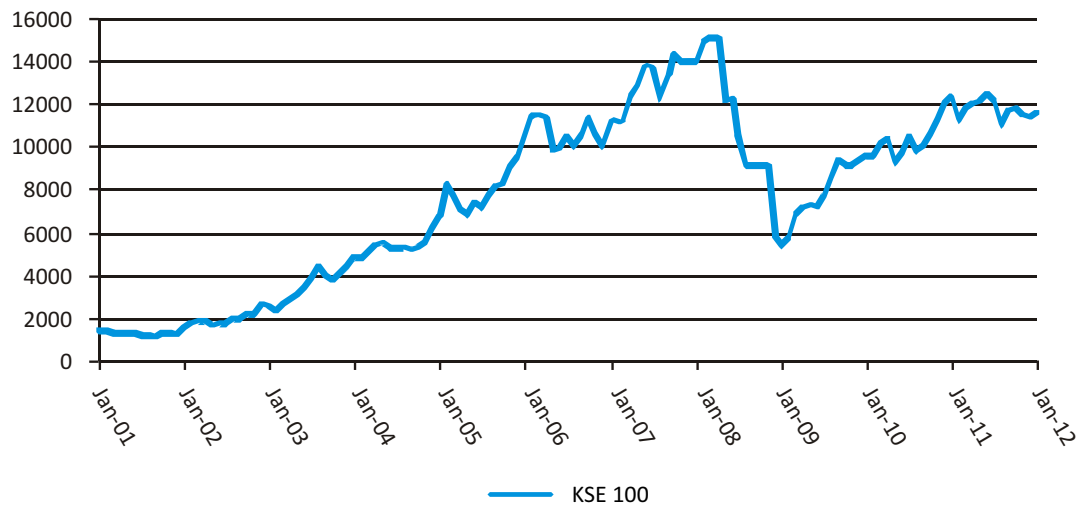
Source: State Bank of Pakistan

Figure 12: Lending and Deposit Interest Rates



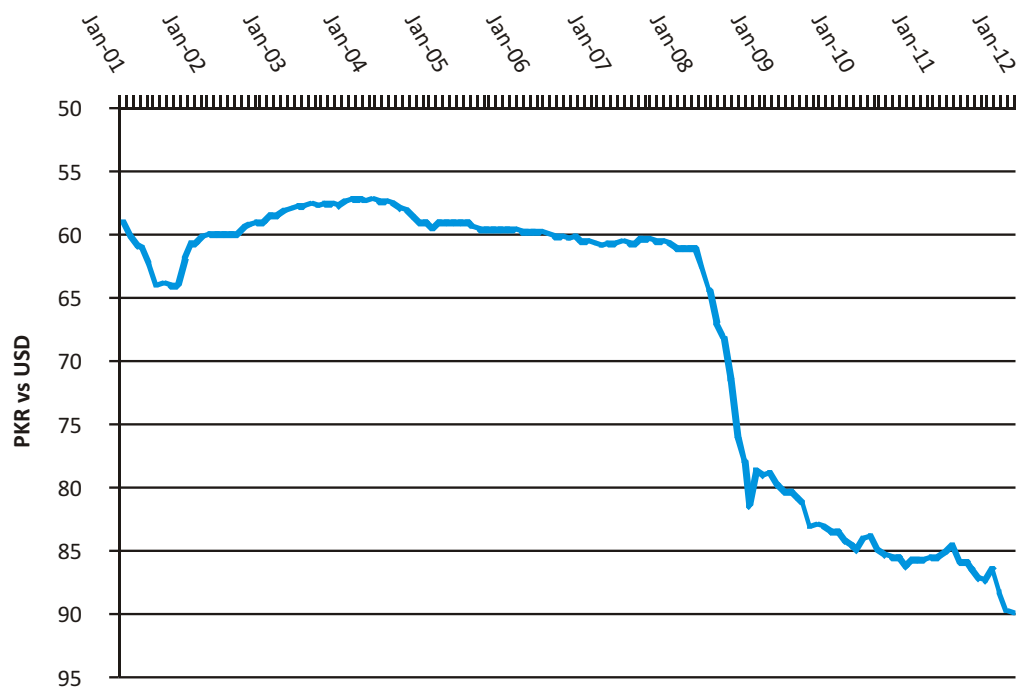
Source: State Bank of Pakistan

Figure 13: Stock Market- KSE 100 Index (Monthly Closing)



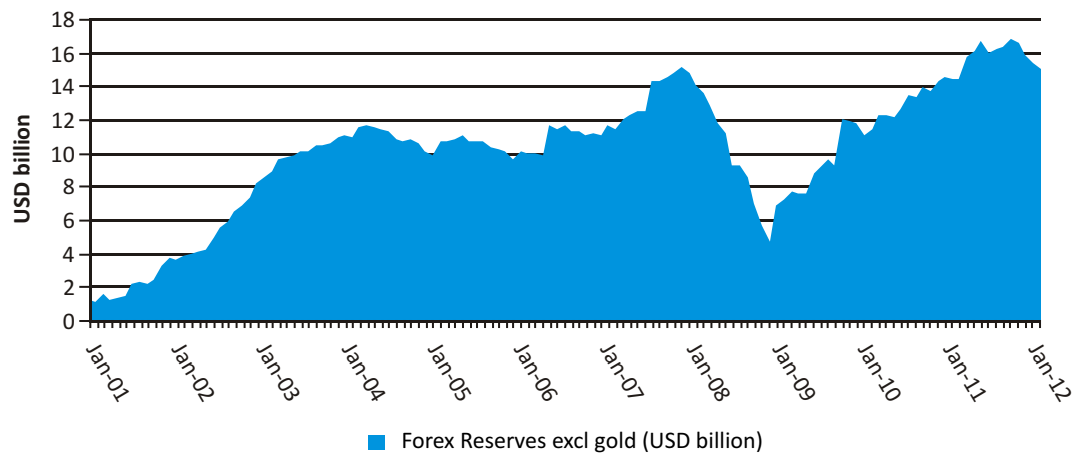
Source: Yahoo Finance

Figure 14: Exchange Rate: Pakistan Rupee (PKR) per US Dollar (USD)



Source: International Financial Statistics, IMF

Figure 15: Forex Reserves excl gold (USD billion)



Source: State Bank of Pakistan



Table 5: Pakistan- Doing Business Ranking

Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	90	86	↓-4
Dealing with Construction Permits	104	100	↓-4
Getting Electricity	166	170	↑4
Registering Property	125	125	No change
Getting Credit	67	64	↓-3
Protecting Investors	29	28	↓-1
Paying Taxes	158	116	↓-42
Trading Across Borders	75	75	No change
Enforcing Contracts	154	155	↑1
Resolving Insolvency	74	71	↓-3

Source: Doing Business Report, World Bank
http://www.doingbusiness.org/data/exploreeconomies/pakistan



APPENDIX

APPENDIX

JOINT STATEMENT OF THE 6TH ROUND OF TALKS ON COMMERCIAL AND ECONOMIC CO-OPERATION BETWEEN COMMERCE SECRETARIES OF INDIA AND PAKISTAN

The 6th round of India-Pakistan talks on Commercial and Economic Co-operation was held during 14th-16th November 2011 at New Delhi, between Commerce Secretaries of India and Pakistan under the dialogue process which started in 2004.

2. The Pakistan delegation was led by Zafar Mahmood, Secretary, Commerce and the Indian delegation was led by Commerce Secretary, Rahul Khullar.

3. Both sides expressed satisfaction with the overall progress being made to fully normalize the bilateral trading relationship. To take forward the decisions taken during the 5th round of talks in April 2011, many bilateral Groups/Sub-groups were set up. Almost all of these Groups/Sub-groups have met and worked on their specific designated tasks. The Working Group to address sector-specific barriers to trade met in August, 2011. The Joint Technical Group to oversee progress in development of physical infrastructure at Attari-Wagah Land Customs Station has met frequently. The Customs Liaison Border Committee was formalized and has met at bi-monthly intervals and done commendable work in facilitation of all trade consignments. The JWG on Economic and Commercial Cooperation, and the Sub-Group on Customs Cooperation met in August 2011. The first meeting of the Group of Experts on trade in electricity was held in October 2011 and the Sub-Group to facilitate trade in petroleum products is slated to meet in December 2011. Both sides agreed that the momentum of work and the determination to move forward had transmitted positive signals about advancing the bilateral trade agenda. In this context, India welcomed the decision taken by Pakistan to accord Most Favoured Nation (MFN) status to India and to the mandate given for full normalization of the bilateral trade relations, as also meeting of all legal obligations.

4. The Commerce Ministers of both countries met in September 2011 and gave a clear political mandate to the respective Commerce Secretaries to lay down specific timelines for full normalization of the trade relationship, dismantling of remaining non-tariff barriers, and full implementation of the legal obligations under the SAARC Agreement on South Asian Free Trade Area (SAFTA). Both sides agreed that Pakistan's Commerce Minister's visit to India after 35 years and the political ownership of

leaders of both the countries has not only given the trade normalization process further strength and direction but a great hope and confidence to the business community also. They expressed hope that positive developments in the trade track would encourage similar progress in other components of the dialogue process.

5. During the 17th SAARC Summit held at Maldives (9 – 11 November 2011), the political leadership on both sides directed that the two sides also work on enhancing preferential trading arrangements as part of the shared vision to significantly expand bilateral trade.

6. Pakistan side informed that its Cabinet has given a mandate to the Commerce Ministry for complete normalization of trade with India. It appreciated India's support in WTO for the EU concession package for Pakistan which would give the Pakistani business community confidence and create an environment of trust and cooperation. The Indian side welcomed the Cabinet decision and reiterated its support for the normalization process and building trust.

7. In context of outcomes agreed in the 5th round of talks, progress was reviewed and further decisions taken as follows:

A. Trade Normalization:

(i) The move to full normalization of trade relations shall be sequenced. In the first stage, Pakistan will transition from the current Positive List approach to a Negative List. The consultation process on devising this Negative List is almost complete. A small Negative List shall be finalized and ratified by February, 2012. Thereafter, all items other than those on the Negative List shall be freely exportable from India to Pakistan. In the second stage, the Negative List shall be phased out. The timing for this phasing out will be announced in February 2012 at the time the List is notified and it is expected that the phasing out will be completed before the end of 2012.

(ii) In terms of the clear mandate given by the political leadership, both sides agreed to move towards enhancing the preferential trading arrangements under the SAFTA process. As agreed earlier, bilateral trade can be significantly expanded by extending tariff concessions on products of commercial interest. Both sides designated the Joint Secretaries in their respective Ministries of Commerce as Chief Negotiators for working on how to improve preferential trading arrangements under SAFTA.

B. Trade Infrastructure:

Both sides reviewed the progress made in developing physical infrastructure for trade through the Attari-Wagah land route. It was agreed that the Joint Technical Group overseeing the work would meet at the end of November 2011 and there would be follow-up monthly meetings in December 2011 and January 2012. It was also agreed that all infrastructure construction would be completed and fully operational no later than the end of February 2012. This timeline would coincide with the announcement of the Negative List (See para 7 A (i) above). The new trading regime will thus be applicable to all trade through the land route after the infrastructure at Attari-Wagah is commissioned.

C. New Trade Initiatives:

(i) The first meeting of the Joint Group of Experts to examine feasibility of trade of electricity was held on 20th October 2011 at New Delhi. Central Electricity Authority and Power Grid Corporation of India limited/Power System Operation Corporation Ltd have been designated as the nodal technical agencies from the Indian side. They are interacting with National Transmission and Dispatch Company Ltd of Pakistan to work out the optimal technical solutions for grid connectivity between both countries. A broad understanding has been reached on possible grid connectivity between Amritsar-Lahore to enable trade of up to 500 MW of power. The second meeting of the Experts is scheduled to be held in Islamabad in the first week of December, 2011. It is expected that the Group of Experts will reach a final understanding on grid connectivity at this meeting.

(ii) Regarding trade in petroleum products, it was agreed that the Joint Group would hold its first meeting before January 2012.

D. Non-Tariff Barriers:

(i) A JWG meeting was held in August, 2011; co-chaired by the Joint Secretaries of the respective Commerce Ministries. The Pakistan side furnished a specific list of non-tariff barriers, as perceived by their business community, for sectors such as textiles, leather, cement, agricultural produce and surgical instruments. It was agreed that these would be comprehensively examined on the Indian side and interactions would be arranged between the concerned Regulators and Pakistan's business community to discuss and find solutions for all issues raised.

(ii) A comprehensive discussion, "Nuts and Bolts of Trade Facilitation", was organised in Delhi by FICCI, on 29.09.2011. Participants included Pakistan and Indian business delegates, technical experts, representatives of Indian regulatory bodies, and senior government officials. The feedback received was that this seminar had been most useful to address issues raised by businesspersons as well as to dispel misapprehensions. It was clarified that all standards and specifications were non-discriminatory, viz., they applied to all countries exporting goods to India. The discussions also explained how insistence on specific standards by importers was due to commercial considerations and not because of any Government requirement.

(iii) A comprehensive special session was held during this round of talks on matters of concern to Pakistan side. Detailed responses were provided by concerned officers on the Indian side. A summary of issues raised and addressed is at Annexure.

(iv) It was agreed that the JWG would continue interaction to address any clearly identified sector-specific barriers to trade. The Joint Secretaries of the respective Commerce Ministries would convene focused meetings on these issues, as necessary. A delegation comprising officers from various regulatory bodies would visit Lahore/Karachi in the first quarter of 2012 to provide necessary outreach so that businesspersons in Pakistan can be better informed about India's trade regulations, standards and labeling/ marking requirements.

(v) Both sides agreed to initiate the process of a limited MRA as a formal mechanism to address the issues of standards and conformity assessment.

(vI) It was agreed that there was a need to institute a mechanism for redressing grievances arising from clearance of trade consignments at land, sea and airports. Pakistan side proposed that an agreement be concluded between both countries to address the concerns of the business community. Indian side agreed to consider this proposal and undertake further consultations in this matter.

E. Trade facilitation.

(i) Both sides appreciated the work done by the Customs Liaison Border Committee (CLBC) in resolving the operational issues at Wagah-Attari. The CLBC was mandated to undertake a comprehensive overview of the requirements to

ensure expeditious clearance of goods including harmonization of customs procedures and to make recommendations to the Joint Working Group on Economic and Commercial cooperation.

(ii) The Sub Group on Customs Cooperation met in New Delhi on 24th August 2011. It discussed issues relating to harmonization in customs procedures, facilitation of trade consignments, and exchange of trade data and information. Nodal customs officers on both sides have been notified. They would maintain direct contact on all matters pertaining to delays in trade consignments, trade document requirements, and other matters of customs cooperation.

(iii) The Pakistan side handed over a draft of the Customs Cooperation Agreement. Both sides agreed that best efforts would be made to finalise the Agreement by 31st January, 2012.

F. Economic Cooperation.

(i) Regarding Bt cotton seed imports from India, it was noted that Government of Pakistan has constituted a committee to examine this issue. The first step may be permitting limited import solely for the purpose of field trials in Pakistan.

(ii) Both sides realized that there is a potential for cooperation in Information Technology, however, lack of information regarding capacity of Pakistani IT companies, difficulty in availability of visa for technical staff and absence of banking facilities has hindered cooperation in IT between the two countries. It was agreed that NASSCOM in coordination with Pakistan Software Export Development Board would facilitate a road show for Pakistani IT companies at Bangalore, Hyderabad and other Indian IT Hubs in February, 2012.

G. Business to Business interactions:

(i) To boost bilateral business confidence for enhanced bilateral trade, both sides agreed to encourage greater interaction amongst the business entities. It was noted with satisfaction that Apex Chambers of Commerce and Industry on both sides have formed a Joint India-Pakistan Chamber at the apex level (FICCI and FPCCI). Similarly, arrangements have been worked out for regional-level Chambers between Bombay and Karachi. It is expected that a similar joint arrangements between the Lahore and PHD Chambers would be worked out.

(ii) It was agreed to give a greater thrust to this B-to-B interaction of trade delegations. It was necessary to expand outreach and information dissemination activities to bridge information gaps relating to bilateral trading environment and economic opportunities. The Indian side noted the Pakistan side's request for mounting a Trade Delegation comprising representatives of private sector who are responsible for procurement of goods for departmental stores, large retail shopping chains and whole-sale distributors.

(iii) It was noted with satisfaction that India Trade Promotion Organization (ITPO) and Trade Development Authority of Pakistan (TDAP) had entered into a MOU for collaborative efforts to promote bilateral trade. The possibility of FIEO mounting a trade exhibition at Lahore Expo was also explored; this could be done in February, 2012. TDAP intimated that they would like to organize a lifestyle exhibition in New Delhi in March, 2012 and invited Indian participation at the Agro-Processing Value Addition Exhibition scheduled to be held in Karachi.

H. Other trade related issues:

(i) Both sides agreed that the present visa regime for businesspersons was a significant barrier to the rapid expansion of trade. It was noted that the Interior Ministry of Pakistan and India's Ministry of Home Affairs had reached a broad understanding to put in place reciprocal arrangements which shall substantially liberalise the visa provisions for business persons. Discussions were held on how there would be further improvements on the understanding already reached. It was agreed that best efforts would be made by the respective Commerce Secretaries to push for further liberalisation of the business visa arrangements. However, with or without enhanced provisions, both sides would work with their respective authorities to ensure that the liberalised visa provisions already agreed to are put in place before the end of December, 2011.

(ii) The issue of promotion of bilateral investment was discussed. It was agreed that both sides would continue efforts to remove impediments to such investments.

(iii) On the opening of bank branches in each other's countries, it was agreed that the Central Banks of both countries need to further discuss this issue. Actual dialogue needs to take place through a bilateral visit.

8. In conclusion, the Commerce Secretaries of both countries expressed faith in the ongoing process for increase in bilateral trade. Institutional arrangements put in place for promoting bilateral trade and commerce would continue and the concerned working groups shall meet as required, to take forward the charted roadmaps in this 6th round of talks.

9. The 7th round of talks would take place in Pakistan in April/May of 2012.

10. The talks were held in a very cordial and constructive atmosphere.

Annexure

In the bilateral talks held today, a specific slot was allotted for discussing the 'non-tariff barriers' perceived by Pakistan side in respect of their exports to India.

Representatives from BIS, Department of Revenue, Ministry of Textiles, Ministry of Health and Family welfare, Department of Agriculture and Cooperation, and Ministry of External Affairs attended the meeting.

Sl.no.	Issue	Status
1.	Compulsory certification/long time in renewal of BIS certificate for cement.	Indian side stated that there are 120 labs recognized by it which are allowed to draw and test samples of cement as per the simplified procedure adopted for the domestic manufacturers. On the basis of these test reports, BIS issues product certificate. A visit by a BIS team is mandatory before a regular license can be issued, as per domestic regulations. Pakistan side was informed that 13 licenses are already operational. One application for grant of license was received in the month of October, 2011. BIS has already nominated an officer for conducting the inspection visit. Both sides agreed that Pakistan side will suggest the date for the visit. Pakistan side was informed that BIS is mandated to give license within six months and the inspection visit has to be completed within 1-2 months after an application is registered. However, in case of Pakistan site visits, delay mostly occurs because the team is not allowed certain site visits due to security reasons. Pakistan government assured to make required security arrangements so that the inspection visits by BIS team can be conducted in time. Pakistan side was also informed that BIS has been granting renewal licenses for two years to those Pakistani cement manufacturers who have applied for the same.

Sl.no.	Issue	Status
2.	Opacity of SPS measures/import permit/non-availability of labs	(i) Indian side stated that the tolerance limit specified is 10% and the country of origin needs to certify the total quantity being exported. The only exception is ***zero tolerance*** in respect of a phyto-sanitary certificate. It is unacceptable if there is a difference in the quantity specified in the phyto-sanitary certificate vis-à-vis the quantity exported. Pakistan also follows the same procedure in case of phyto-sanitary certificate. (ii) Indian side also stated that product source is important for SPS concerns. Fresh fruits and vegetables are tested at the laboratory at Attari and consignments are cleared within 6 hours. Further, all perishable consignments are cleared within the same day and no delays are being reported.
3.	Food Products – testing and packaging requirements	Indian side agreed to send a team for educating the exporters reg. packaging and labelling requirements as and when requested for by the Pakistani authorities.
4.	Textile Consumer Protection Regulations – -Testing for Azodyes	Indian side informed that since Azodyes are banned in India, testing for these is a mandatory requirement. Pakistan side informed that Azodyes are banned in Pakistan and therefore, no manufacturer uses them. Testing laboratories are available in Mumbai and Delhi. No complaints of delays have been received. **The testing procedure includes drawing of a 25% sample (by weight) only if the consignments are not certified by the country of origin. A certificate by accredited Certification Bodies/ Labs of Pakistan National Accreditation Council (www.pnac.org.pk) is acceptable.** Pakistan side was also informed that certificates issued by international accredited labs under the WTO International Accreditation Procedures are accepted. India follows the international protocol for testing. If Pakistan has accredited WTO labs, certificates issued by the same can be accepted.

Sl.no.	Issue	Status
	Marking and labeling requirements for cloth and Ready Made Garments (RMGs).	BIS informed that it has not prescribed any mandatory requirements as regards standards on Textiles. However, if any country requires a certificate/license it has to apply for it and the certificate/license will be given after an inspection visit.
5.	Surgical Instruments – Indian Conformity Assessment Certificate (ICAC) mark	Indian side stated that Government of India does not regulate import of surgical instruments and therefore does not insist on any ICAC mark. BIS certification is sufficient; even this is voluntary and not mandatory. It is the buyers who decide on the specific certificates required or these certificates may be made compulsory by inclusion into the tender conditions.
6.	Customs Procedure - Delay in Customs clearance	Indian side stated that no delays have been recorded but if there are any specific cases, the same will be addressed as and when the Pakistani side provides details. Further, the Pakistani side was also informed that all the consignments except which require other mandatory procedures to be followed are cleared within 24 hours. Even those consignments which fault on some customs procedure are cleared immediately with the understanding that the problems will be sorted out in time.
	-Valuation procedures	Indian side stated that their valuation system is based on the WTO Agreement on Customs value which provides for the transaction value concept and the circumstances for rejection and re-determination of the assessable value. In case of a dispute, an assessment order is issued which can be appealed against through a clearly laid down channel of appeals. Both sides agreed that specific commodities of export interest to Pakistan and their Ports of entry can be identified to facilitate faster clearance of consignments.

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N O T E S

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally. FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 53 sectors of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with 75 countries around the world.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of around 2,50,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking. Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.



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