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Quantifying Informal Trade Between Pakistan and India

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Glossary of Terms

Achakzai	Afghan clan
Bandar Abbas	Sea port in Iran
Bara	A smuggling center in the tribal area adjoining Peshawar, and which falls under federal jurisdiction
Bareze	Variety of summer cloth with embroidery
Bari Elaichi	Spice
Bazaar	Market
Bhambro	A Sindi tribe involved in smuggling
Bhatoory	A Sindi caste involved in smuggling
Bhatti	Godown or warehouse in Bara
Biri	A local variety of cigarette smuggled from India
Chiffon	Variety of silk
Chilghoza	Pine nut
Dirham	Currency of the United Arab Emirates
Gandamar	Carrier of smuggled goods in the NWFP
Gaz	Yard
Georgette	A variety of cloth
Ghilzai	Afghan clan
Ghutka	An addictive concoction which includes betel nut. Highly carcinogenic, causes cancer of the mouth
Gumruk	Custom (Pashto)
Hawala, hundi	System of informal currency transactions based on trust
Islam Qila	Border city of Afghanistan and Iran from where all smuggled consignments enter Afghanistan
Isphaghol	Herbal medicine, a laxative
Jacobabad	City in Sind near the provincial border with Balochistan
Kala hareer	Herbal medicine
Katta	A sack
Kekra	Open bus used for traveling in the Thar Desert, originally converted from a truck and used to carry smuggled items
Khaki pulli	A tax charged by the Iran government on containers exiting from its border into Afghanistan
Khepia	A professional smuggler with multiple entry visas who personally smuggles Indian goods into Pakistan
Kuchis	Gypsies, who are also involved smuggling
Kundi	Informal financing system used in cross-border transactions in Sind
Laghri	Carrier of smuggled goods in Balochistan
Mangrio	A Sindi tribe involved in smuggling
Mehar	A Sindi tribe involved in smuggling
Malezai	A sub-clan of the Achakzai Afghan clan
Noshki	Border city in Balochistan and one of the transit points for smuggling into the province
Ograi	An informal loan arrangement where retailers get goods in advance from wholesalers and stagger payments in the future on a mutually agreed basis
Pushto	Language of the pathans

Rawangi mahsool	Road tax
Shinwari	A Pathan tribe in the NWFP
Surma	Eye liner
Than	Bundle of cloth, which varies by length (25, 50, 75 meters)
Thori	A Sindi caste involved in smuggling
Tuman:	Iranian currency
Ubten	A cosmetic, an aromatic face and body wash cream/paste
Wesh	A large smuggling center on the border between Pakistan inside and Afghanistan, near Chaman in Balochistan.

Acronyms

ATT	Afghan Transit Trade
BSF	Border Security Force
CBR	Central Board of Revenue
CCI	Chambers of Commerce and Industry
FIA	Federal Investigation Agency
FTA	Free Trade Agreement
IMF-DOTS	IMF Direction of Trade Statistics
LC	Letter of Credit
MFN	Most Favored Nation
NLC	National Logistics Cell
NWFP	North West Frontier Province
PRAL	Pakistan Revenue Automation (Pvt) Limited
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trade Agreement
SDPI	Sustainable Development Policy Institute
TOR	Terms of reference
TT	Technical Transfer
UNCOM	United Nations Commission on Trade Statistics
UP	Uttar Pradesh
USD	US dollars
WTO	World Trade Organization

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1. Introduction

Pakistan and India have recently undertaken initiatives to liberalize trade relations. Additional measures are required if trade between the two countries is to reach meaningful levels. However, a prerequisite for these measures is a holistic assessment of the potential impacts of trade liberalization. In this regard, and responding to a Government of Pakistan request, the World Bank has contracted with key research institutes and universities in Pakistan to undertake formal and informal sector studies. The aim of these studies is to assess the potential impacts of trade liberalization between the two countries. Such impacts entail both trade generation and conversion of informal to formal trade, the possible revenue effects this engenders, and the impact on domestic industries. SDPI was selected to conduct the study on informal trade and it complements the sector specific studies. Results of these studies will inform policy on the pros and cons of liberalizing trade with India and lead to a set of domestic measures needed to maximize the benefits from a liberal trade regime.

2. Context of the Study

In the light of the recent trade liberalization initiatives between India and Pakistan, specifically, three initiatives are of note. The South Asian Preferential Trade Agreement (SAPTA), signed in April 1993, allows for reciprocal, bilateral tariff reductions on mutually agreed tradable items. So far, four rounds of trade negotiations have been concluded under SAPTA covering over 5,000 commodities. Each round contributed to an incremental trend in the product coverage and the deepening of tariff concessions over previous rounds. SAPTA was a both a precursor and provided a spur to the South Asian Free Trade Agreement (SAFTA) [1]. The members signed the agreement during the 12th Summit of the South Asian Association for Regional Cooperation (SAARC), held in Islamabad in January 2004. The agreement comes into effect on 1st January, 2006. SAFTA calls for multilateral tariff reductions, eventually leading to free trade. It does, however, allow the SAARC members to maintain a 'sensitive' list of items which they will commit to phase out over a specified period. Pakistan, India and Sri Lanka are to reduce their tariffs to 0-5 % within 7 years from the starting date, while the LDCs, Bangladesh, Nepal, Bhutan and Maldives have 10 years to do so. Concurrently, SAARC members, particularly India, have entered into free trade agreements (FTA) with neighbors, such as Nepal and Sri Lanka.

SAFTA is likely to open up significant opportunities for intra-SAARC trade and enhance the historically lackluster economic exchange between South Asian countries. The greatest increase in trade volume is likely to be between Pakistan and India, where trade

1 The creation of SAFTA was agreed upon in 1998.

bans, tariff and other hidden barriers have historically restricted trade relations to a minimum and forced such trade into informal channels.[2] The scope for removing these trade barriers and diverting this trade into formal channels is the subject of this study.

3. Purpose and Hypotheses

Guesstimates of informal trade, defined as trade between India and Pakistan which takes place either through smuggling, or through quasi-legal channels (the latter implying trade between the two countries which shows in official trade statistics as trade between Pakistan and a country other than India) range widely from USD 0.5 -10 billion. Against the backdrop of the recent trade liberalization initiatives, it is important to get a more accurate fix on these guesstimates. The magnitude of such trade has a bearing on government policies with respect to the speed of liberalization as well as their sector focus. The study has a three-fold purpose:

- To estimate the value of informal trade and to assess whether such trade would be re-routed through official channels if trade barriers between India and Pakistan were removed under two alternative trade regimes:
    - Most Favored Nation (MFN) status
    - Free trade as envisioned under SAFTA
- To estimate the potential revenue impact of switching from informal to formal trade
- To assess the impact on local industries

The hypotheses follows logically, namely, trade-related barriers (tariffs and transactions costs) have restricted formal trade between Pakistan and India and forced a significant volume of trade to be conducted informally. If tariff barriers are removed, there will be a *significant* switch from informal to formal trade. This will generate revenue for the government. And, selective industry contraction is likely to occur. This study assesses such impacts primarily from a Pakistani perspective.

4. Literature review

While there is voluminous literature on the volume and dynamics of official trade flows between countries, existing literature on the issue of informal trade is extremely thin. This is true for the Indo-Pak case as well. There has only been one effort in the past- a Pakistan Ministry of Commerce study (1996)- to look at informal India-Pakistan trade, but that too was part of a larger study in which informal trade received cursory attention.

Due to the dearth of research initiatives in this area, there are no existing reliable estimates of informal trade between Pakistan and India. As already mentioned, the guesstimates that do exist range widely between $0.5-10 billion. However, these are mere conjectures and cannot be used in any analysis.

2 Hidden or invisible barriers are transaction costs, other than transport costs, present in the importing country. Examples are delays in customs clearance and valuation, restrictions on ports and inland custom posts to be used, rent seeking, problems in inland movement of goods, to name a few.These have been documented extensively in “Barriers to Trade in India,” *Pakistan-India CEO’s Business Forum*, 2005.

There are a slew of underlying factors that lead to informal trade activities flourishing between countries. Pohit and Taneja (2000) suggest that the reasons for high incidence of informal trade fall in one of the three categories: (i) policy relevant factors, (ii) institutional factors, and (iii) non-economic factors. While they make this observation specifically with regard to informal trade between India and Bangladesh, these are representative across the board. Joosens (1999) emphasizes the role of economic factors as well as geographical and socio-economic characteristics as determinants of the kinds of informal trade activities that take place.

Strictly from a trade perspective, a common argument given for existence of informal trade is the existence of trade distortions across trading partners. Restrictions such as high import tariffs, import quotas, and outright bans all incentivize informal trade activities. The impetus of course is to avoid customs duties and taxes to earn artificially high profits. In a study on smuggling in Pakistan, Ramzan highlights a number of economic, institutional and non-economic factors that have led to a large volume of informal trade. Among economic factors he prioritizes the existence of subsidies in other countries, which allow artificially cheap goods to be purchased and smuggled into Pakistan. Similarly, domestic policy distortions such as high price differentials, varying tax regimes, varying exchange rates, and administered price mechanisms also make informal trade more attractive (Ramzan; Pohit and Taneja). Chaudhury (1995) points to the presence of third country goods as a major reason for informal trade between India and Bangladesh. Third country goods were also found to be an important factor in India-Nepal informal trade by Muni (1992).

Another important factor in determining the level of informal trade is the transaction costs associated with such trade. In an Exim Bank study (1999) transaction costs have been defined as non-price factors that do not directly enter the physical process of a good's production. In all cases where a significant volume of informal trade has been recorded, transaction costs in informal trade are found to be lower than formal trade. With respect to South Asia, an extremely high transaction cost is the transport cost, courtesy of a poor transport infrastructure. Taneja (1999) documented high transport costs as creating a strong incentive for informal trade to take place in the region.

The issue of transaction costs is closely linked to the institutional aspects that impact the propensity of informal trade. Studies like Pohit and Taneja's have ranked institutional factors higher than all others while suggesting reasons for the high incidence of informal trade between India and Bangladesh. Many of the high transaction costs in part are a result of weak institutional mechanisms that create inevitable delays in the trading process. Three of the top four factors listed by Pohit and Taneja in their findings were quick realization of payments, no paper work involved, and no procedural delays in informal trade. In formal trade, cumbersome financing procedures, extensive documentary requirements, and long procedural delays remain a major irritant in the India-Pakistan context. Rational behavior would suggest that wherever informal trade institutions tend to act more efficiently than formal institutional arrangements, traders are likely to prefer the informal route (Williamson, 1985).

The role of anti-smuggling agencies in curbing informal trade is paramount. Literature ("Corruption, Trafficking and Institutional"; "Corruption and Trafficking") points to a strong correlation between a high incidence of smuggling and rampant corruption in anti-smuggling agencies. Ramzan emphasizes the failure of institutional functioning by highlighting the extremely low incidence of seizure in Pakistan despite legislation to this effect. One reason identified for this is the poor training, low morale, and low level of discipline among personnel of anti-smuggling agencies. Ramzan also highlights other institutional loopholes such as liberal baggage rules, duty free shops, and diplomatic privileges, which facilitate informal transport of goods across borders. Additionally, studies from African countries highlight the fact that much of the extra-legal trade activities are made possible as control of government institutions does not extend to the remote parts of the country (Deardoff and Stopler, 1990)

The third important factor contributing to informal trade is non-economic in nature. Interestingly, the importance of this factor is exaggerated in the South Asian context, largely due to the historical ties between countries of the region. Literature on informal trade in other parts of the world pays less importance to the non-economic factors. Taneja (1999) highlights the historical link in the South Asian region, with India, Pakistan and Bangladesh being one country before 1947. In addition, Ramzan points to a historical trend of free movement of people from Central Asian countries into the sub-continent, which continues to this day and contributes to informal trade. However, perhaps the most important non-economic factor with a bearing on the volume of informal trade is the ethnic ties of people now divided by international borders. Pohit and Taneja (2000) also point out that low level of education among informal traders often means that they are unable to access formal trading channels with the ease that educated traders potentially can. This implies a correlation between low level of education and high incidence of informal trade.

The qualitative aspects of informal trade, as identified in literature, were tackled in minor detail in the Ministry of Commerce study (1996) on India-Pakistan trade. The findings of this report stressed that institutional aspects contributed to the existence of informal trade. They mention the level of strictness of the border anti-smuggling agencies as a key determinant of the volume and margins earned in informal trade. In addition, the institutional delays in obtaining visas for India also incentivize informal trade where visa issues do not seem to be a major problem. The study also confirmed presence of relatively more efficient informal institutions, which helped to reduce the transaction costs in informal trade considerably.

Given the current impetus towards trade liberalization, recent literature has also looked at the ability of FTAs to incentivize a switch from informal to formal trade channels. Proponents of liberalization point to the fact that by eliminating tariffs, the economic incentives for trading informally disappear. However, the institutional hindrances still remain, which will result in at least part of the informal trade continuing. One such example is the requirement of Rules of Origin in FTAs, if goods are to be granted duty-free access. Given the complexity of the rules of origin, Krueger points out that these will become trade hindrances acting as non-tariff barriers and thus nullifying the perceived positive impact of FTAs on legalizing informal trade. While literature on the connection between trade liberalization and informal trade is still young, such examples do emphasize that arguments based purely on the economic logic miss the institutional and non-economic dynamics which are key to explaining the incidence of informal trade.

5. Existing Barriers to Trade between India and Pakistan

Eliminating quota and tariff restrictions and trade facilitation are an integral part of the WTO global mandate. In the India-Pakistan informal trade context, the configuration of these barriers determines the potential for diverting such trade into formal channels. Trade barriers between India and Pakistan take the form of both formal and informal barriers.

Formal trade barriers comprise:

- Tariff barriers
- Non-tariff barriers. These consist of:
    - quota restrictions
    - trade bans, such as the denial of MFN status
    - social, environmental and quality standards

Informal barriers are defined as transaction costs and they fall into three categories namely:

- Procedural costs
- Transport costs
- Rent seeking -- a euphemism for bribes

5.1 Formal Barriers

In terms of their global trade, both India and Pakistan have abolished quota restrictions and reduced tariff rates steadily in conformance with the WTO mandate. Bilaterally, tariffs in India remain much higher, on average, than in Pakistan. Similarly, Pakistan has not given India reciprocal MFN status.[3] It maintains a positive list of over 800 importable items from India. One would expect this one-sided arrangement to lead to a positive trade balance for Pakistan. The reality is that relatively higher tariffs in India and an array of hidden barriers leave little wriggle room for Pakistani exports. By and large, moves to facilitate trade by India have remained cosmetic. The perception is that, despite the MFN status, official tariff rates and transaction costs (especially hidden costs) remain higher in India.[4]

Social, environmental and quality standards are another form of non-tariff barriers. These will not be considered in our study as their impact relates mostly to inter rather than intra-regional trade. (see Khan and Haider, 2004)

5.2 Informal barriers

As much as the official barriers, the existence of high transaction costs has forced much of the trade, even in commodities which are legally tradable, to flow through informal channels. **These barriers, in effect, become a key factor in determining whether informal trade is likely to flow through formal/legal channels. In other words, if formal sector transaction costs in importing exceed those in the informal sector, and**

3 India granted MFN status to Pakistan in 1995.

4 A detailed analysis of these hidden cost is in, "Barriers to Trade in India," *Pakistan-India CEO's Business Forum*, 2005.

this difference is greater than the tariff rate, then a switch from informal to formal trade is not likely to occur.

Broadly, transaction costs have three aspects: i) procedural costs; ii) transport related costs; and iii) rent seeking. Examples of transaction costs include port clearance time for cargo, extent of cargo movement required in the port, sanitary standards, bribes, documentary requirements for trade transactions and the amount of time spent, on average, in fulfilling these requirements, other procedural delays such as absence of staff, excessive department clearances (signatures), limited vehicle access, inefficient rail links, and transport through third ports. The cost of trading is increased significantly by the existence of transaction costs, not only financially but also in terms of added time spent in completing trade transactions.

6. Status of Formal Trade

The balance of trade has remained consistently in India's favor (see Table 1). Pakistan's exports to India have remained between 0.4% and 2.5% of its total exports, while in India's case the proportion is less than 0.5%. This does not say much for trade between the two countries – total annual trade over the past 7 years has never exceeded USD 250 million. This is less than one percent of the combined value of total trade of the two countries averaged over the past four years. So, even if our investigation confirmed the lower end of the guesstimate (USD 0.5 billion) for informal trade, this would demonstrate clearly the trade potential and production complementarities between the two countries.

Table 1: Pakistan-India Trade Statistics

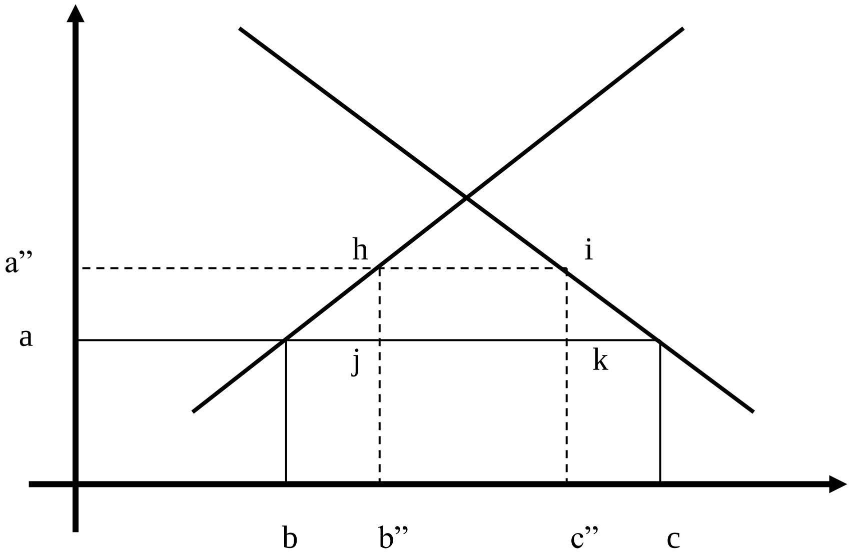
Year	Exports (Million USD)	Imports (Million USD)	Trade Balance (Million USD)	% of Total Exports for Pakistan	% of Total Exports for India
1996-97	36.23	204.70	(168.47)	0.43	0.61
1997-98	90.57	154.53	(63.98)	1.04	0.44
1998-99	173.66	145.85	28.81	2.39	0.43
1999-00	53.84	127.38	(73.74)	0.62	0.34
2000-01	55.41	238.33	(182.92)	0.60	0.53
2001-02	49.37	186.80	(137.44)	0.54	0.42
2002-03	70.66	166.57	(95.91)	0.63	0.31

Source: Foreign Trade Pattern of Pakistan, Karachi Chamber of Commerce and Industry
Economic Survey, 1998-99, Government of Pakistan.

7. Conceptual Framework and Scope of the Study

The conceptual framework draws upon the hypothesis and is presented in graphical form.

Figure 1: Conceptual framework



Three possible effects are illustrated. The price, output and trade configuration a-b-c represent the equilibrium imports of a commodity in the absence of tariffs. Imports are b-c. We abstract from transaction costs for the moment.

Now assume the presence of import tariffs a-a”. These costs cause the equilibrium to change to a”-b”-c”. c”-c represents the conversion to informal trade due to the tariff measure. b-b” is the increased domestic production thanks to the tariff protection. The gain in revenue is represented by h-i-j-k. So, reversing this – as in by liberalizing trade -- would cause a production loss (industry contraction), a trade gain and a revenue loss. The revenue effect of moving from a high to a low tariff regime would depend on the price elasticity of demand. In the case of moving from an outright ban to, say MFN status, there would clearly be a revenue gain.

Transaction costs complicate the situation. If transaction costs per unit in informal trade -- adjusted for formal transaction costs -- are equal to the tariff rate, then a slight reduction in the tariff rate will cause a switch from informal to formal trade. On the other hand, if these costs are low, then the tariff reduction will have to be large to cause this switch.

Our research investigates the effects of instituting a free trade regime with India. It also goes further to analyze the impacts on government revenues and domestic industries. The purpose is to provide policy guidelines to the government both with respect to the speed as well as sector specificity of liberalization policies.

We do not quantify the effects on informal exports that trade liberalization in India is likely to have. The lack of information on prices and quantitative data on transaction costs is a constraining factor. However, we do enumerate these effects based on the qualitative information on transaction costs.

8. The Context and Description

8.1 Informal Trade Routes

Figure 2: Informal Trade Routes

Legend: Routes

- Mumbai - Dubai - Karachi
- Dubai- Bandar Abbas- Herat- Kabul-Jalalabad-Bara
- Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Chamman
- Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Noshki
- Sind Cross Border
- Delhi – Amritsar - Lahore
- Afghan Transit Trade (Chamman)
- Afghan Transit Trade (Peshawar)
- Mumbai – Karachi (Switch BL)

The informal trade routes are color-coded; their importance is depicted by the thickness of the arrows. As indicated, there are five major and six minor routes. The major routes are:

- Dubai-Bandar Abbas-Herat-Kabul-Jalalabad-Bara
- Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Chaman
    - Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Noshki-Quetta
- Sind Cross Border
- India-Dubai-Karachi.

Trade through the first three channels is containerized; the containers are shipped to Bandar Abbas. These containers are opened at Herat by the customs authorities. From Herat the consignments take two routes: to Jalalabad via Kabul and on to Bara. On the Jalalabad route, about 4,000-8,000 mules and donkeys are used to bring goods across the border. These are then re-loaded onto trucks and finally stored in large godowns in Bara. Occasionally, the routes get blocked as a result of tribal in-fighting over control of the smuggling routes. The second route goes to Wesh via Kandahar. From Wesh the consignments go to both Chaman and Noshki. Here they are unloaded and carried across the border by pack animals and human carriers.

Currently, around 90 percent of the ATT trade is conducted through Torkham, while the remaining ten percent enters Afghanistan via Chaman. We found the leakage before reaching Afghanistan to be relatively insignificant. The value of Indian items re-entering Pakistan is equally small and has been subsumed under our estimates for the Dubai-Bara and Dubai-Chaman routes. Although the ATT facility through Karachi is more cost-effective, and theoretically should take less time than the ATT facility provided by Iran, informal traders still prefer the latter. This is due to the various problems traders face while importing through the Karachi route. These include unavailability of buggies, intermittent suspension of ATT due to various reasons, excessive custom clearance time in Pakistan, and high demurrage charges. The GOP is considering steps to streamline the process and reactivate the ATT route via Karachi.

Dubai-Karachi is the main channel for quasi-legal trade. The term refers to trade in Indian goods which are stamped with a certificate of origin other than India. These goods are rerouted through Dubai, an act which validates the new origin. In effect, the trade shows up in official trade statistics as exports from the country whose origin is stamped to Pakistan. In a minority of cases, trade shipments are conducted through what is known as the ‘switch bill of lading’. In such an arrangement, ships containing items banned in Pakistan are supposed to travel to Karachi via a third port (e.g. Dubai). However, in reality the ships travel directly from an Indian port to Karachi. The bill of lading of that ship, which shows its origin, is switched in the documentation to Dubai. This process is completed even before the ship has left the Indian port. The documents are prepared by agents and provided to the concerned party within 24-48 hours of the request. While the cost of obtaining a switch bill of lading in Karachi is low -- approximately USD 50, we were informed that it varies by both the location it is obtained at, and the port at which the origin is to be changed on the certificate. Karachi is the cheapest port to obtain a bill of lading. The cost from Indian ports such as Mumbai is reportedly as high as USD 200. For the switch bill of lading to work, in effect, the shipment needs to consist primarily of banned Indian items. If the vessel carries consignments destined for many countries, it is not viable for it to dock in Karachi.

On the Sind cross border route, trade takes place in three ways. The bulk of the trade takes place from areas where the border is not fenced, the rest is conducted through trenches dug by the local population and on ‘kekras’ which travel weekly across the border. The border security forces on both sides are fully aware of the trade and are bribed on a regular basis to allow the trade to continue.

The six minor routes are:

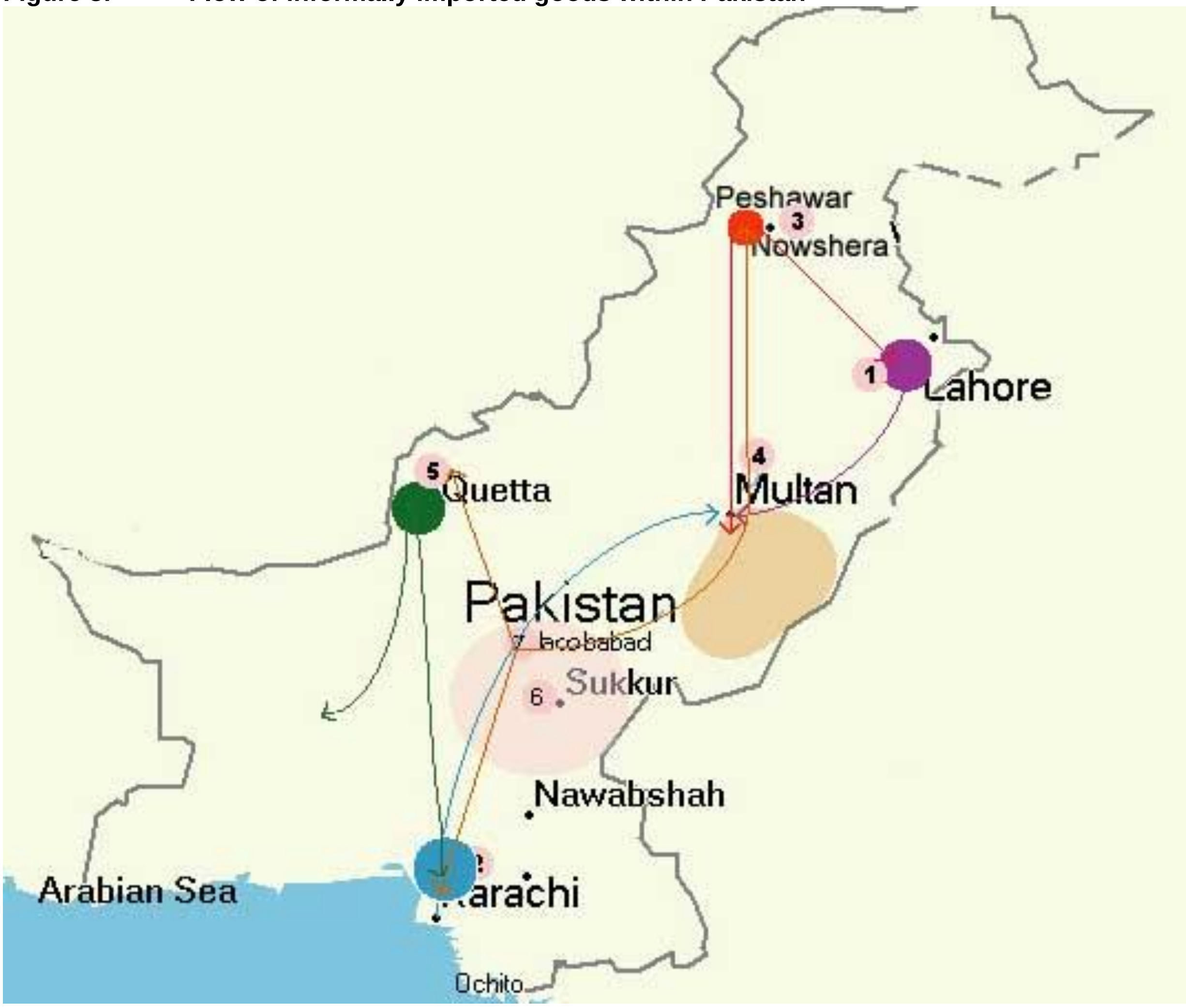
- Delhi-Amritsar-Lahore
- India-Singapore-Karachi
- India-Hong Kong-Karachi
- Mumbai-Karachi (boats, launches)
- Mumbai-Kabul-Bara
- Afghan Transit Trade (ATT)
    - Karachi-Chaman-Afghanistan
    - Karachi-Peshawar-Afghanistan

Trade through the Amritsar-Lahore and Sind-cross border route is non-containerized. On the Lahore route, informal trade is conducted via the ‘Samjhota Express’ train which operates twice a week. Informally traded items are brought by genuine passengers looking to cover the cost of their trip or by professional informal traders, ‘khepias’ who travel on the train on a frequent basis and carry large quantities of goods from India to Pakistan and vice versa. The goods are taken to established wholesale markets in Lahore from where they are distributed to retail markets within Lahore or transported to other cities.

The dynamics of the India-Singapore-Karachi and the India-Hong Kong-Karachi routes are identical to the India-Dubai-Karachi route. Indian items travel to Pakistan via Singapore or Hong Kong with their origins changed to the respective ports. These items then show up as official trade between Pakistan and Singapore and Pakistan and Hong Kong respectively. In an extreme minority of cases, the bill of lading is switched, as in the case of ships scheduled to travel from Mumbai to Karachi via Dubai. The incidence of switch bill of lading on the Singapore and Hong Kong routes is even lower than on the Dubai route.

While the route map above shows informal trade routes through which Indian items enter Pakistan, the outreach map below tracks the internal routes within Pakistan from origin to destination – basically to the wholesalers and retailers. For instance, goods unloaded at Peshawar and Nowshera are shipped onwards to Lahore and Southern Punjab. The circular areas represent the outreach (extension) while the numbers rank order the size of the retail market within the numbered location. So Lahore is the largest retail market for informally traded Indian goods.

Figure 3: Flow of informally imported goods within Pakistan



8.2 Items and Value of Informal Trade

The existence of significant informal trade between India and Pakistan is well established. However, guesstimates on the value of informal trade fluctuate wildly from USD 0.5-10 billion.[5] Globally, the WTO's liberalization mandate and, regionally, political rapprochement, have combined to create tangible prospects of trade liberalization between India and Pakistan. This lends urgency to the need to obtain more reliable data on informal trade; the value of such trade, the items being traded; the route-specificity of these items and; the balance of informal trade. For instance, one could assume that manufacturers would prefer to import legally (more precisely, quasi legally) via Dubai rather than buying smuggled goods, while consumers might be indifferent. In general, the official perception is that quasi-legal trade via Dubai forms the bulk of informal trade and that the incidence of smuggling between the two countries is low. This study will attempt to shed light on some of these questions with a view to informing policies.

5 op cit.

8.2.1 The Dubai-Bandar-Abbas-Bara Route

Background Information: The main retail outlet for smuggled items from Bara is Karkhano Bazaar. This is situated close to Bara, which is in the Khyber tribal agency. The bazaar consists of 15 to 16 sub-markets; on average, 150 shops are located in each. The town of Nowshera serves as the wholesale outlet for cloth, for Lahore, Rawalpindi, Gujranwala, Faisalabad, and Multan. Cloth comprises the bulk of trade in Indian items in Bara. There is one single wholesaler of cosmetics in Noor Plaza just opposite Karkhano Bazaar who supplies these products to Karachi, Lahore, Rawalpindi, and other major cities. About 25-30 shops deal in smuggled medicines; consignments are also transported directly from Bara to the Punjab on the basis of purchase orders. Spices and tires in moderate quantities are other smuggled items.

Orders for consignments smuggled through this route are placed in Dubai and India. Members of the Afridi tribe living in Bara travel to Dubai and place orders for shipments to be made to Bara. In addition, Afridis or Afghans carrying Afghani and Pakistani passports also visit India to place orders. Consignments on this route are containerized. They enter from Iran into Afghanistan at Islam Qila. After paying *gumruk* (custom duty) at Islam Qila, they reach Kabul and head for Bara via Jalalabad. At Door Baba, trucks off load the goods, which are smuggled across the Pakistan border on mules and donkeys. These goods are again reloaded on to trucks, unloaded at Bara and stored in large bhatties (godowns). From here they are smuggled to different parts of the country.

In terms of design, quality and cost, Indian winter fabrics have an advantage over Pakistani and Korean winter cloth. Chinese cloth is cheaper, although poorer in quality and variety of design. Indian cloth, such as chiffon sells well from August to March. This was also confirmed by importers who reported that the majority of their transactions took place during this period. Summer is the slack season because consumers prefer Pakistani summer varieties such as bareze. Indian cosmetics are preferred both because of better quality and affordability compared to Pakistani counterparts.

Retailers and wholesalers select cloth in the Bara market from bhatties owned by importers. The importers accept deferred payments linked to sales. The system is known as ograi and, clearly, client credibility is a precondition. The importers arrange commission agents for retailers and wholesalers. The commission agents hire gandamars who are tasked to deliver the goods at the destination specified by the retailers/wholesalers. Commission agents are responsible for the delivery of consignments and have to bear the costs in case of confiscation or any damage. Gandamars-- the carriers employed on a daily basis or on piece rates-- includes men, women, children and paraplegics, who carry goods across the border to Karkhano Bazaar, the main bus and truck terminal in Peshawar, and to Mardan and Nowshera. Transport employed between Bara and Karkhano are bicycles and motor cycles. Cars and specially constructed buses ply the routes to the Peshawar terminal and Nowshera. Buses and trucks are the main inter provincial modes of transport. Bribing police and customs officials at the several intermediate check posts is common; the gandamars incur these costs. Wholesalers of cloth and cosmetics arrange carriers for onward delivery across the provincial border into the Punjab and bear responsibility for loss or damage.

Items and Value: The key items from India smuggled through this route are cloth, drugs and medicines, and cosmetics. These are shown in Table 3.

Table 2: Items and value of annual imports

Import Items	Cost ('000 USD)
Cloth	128,000
Tires	1,000
Cosmetics	20,000
Spices	**6,250**
Medicine	1,600
Total cost	156,850

Source: SDPI Survey, January-May, 2005

8.2.2 The Dubai-Bandar Abbas-Chaman Route

Background Information: Smuggling is a major livelihood source in Chaman, a town with a population of 500,000 people, situated in the Balochistan province on the border between Afghanistan and Pakistan. It is a source of income for large importers, wholesalers, retailers and a large community of carriers of all age groups, known locally as 'laghris'. The town of Wesh just across the border is a market for smuggled items. The carriers cross over to Wesh and bring back items on foot, donkey carts, bicycles, motorcycles, and trucks. These items are delivered at Chaman. For items delivered to Quetta and beyond, the laghris use cars, trucks and specially constructed buses with concealed compartments. The small laghris whose movements are restricted between Wesh and Chaman carry small items such as blankets and cartons containing paan, ghutka, biri, medicines, blades, electronics, cutlery, crockery and other household items. They are not held liable if the authorities confiscate their goods. The large laghris carry larger consignments (ranging from tires to medicines), use 4-wheeled transport and trains and their beat extends from Chaman to Quetta and beyond. [6] They charge higher rates than their smaller counterparts and can afford to pay bribes to the authorities. Transactions in smuggled goods involve a diversity of items, including medicine, biri, ghutka and cloth.

Containers or consignments enter from Iran into Afghanistan at Islam Qila. After paying *gumruk* (custom duty) at Islam Qila, they reach Kandahar through Herat, and head for Wesh. At Wesh, trucks off load the goods, which are stored in large containers and later smuggled to Pakistan. There is an alternating hard-soft character to the various routes used. For instance, at present, security along the Wesh-Chaman route has tightened up, resulting in a considerable diversion of smuggling traffic to Noshki. This entails a 4-hour drive south on practically a dirt track along the border. Obviously, this becomes a costly proposition. Yet another less costly but more dangerous route is short of Noshki across the Gulistan mountains. Locals traverse these mountains and deliver their goods at Qila Abdullah.

The Chaman border also serves as an exit point for the Afghan Transit facility through Pakistan. According to an official on the ATT route, about 30% of the goods reaching Afghanistan through Chaman come back into Pakistan via Wesh. However, very little of this consists of Indian items. The bulk of the commodities in transit are wheat, sugar, textiles, toilet items (soaps, shampoos) and medicines. While the ATT is a relatively low-cost option

6 Laghris use the train route in collusion with railway staff whom they bribe. They get off before Quetta at the Sheikh Mandh station, as goods are liable to be confiscated at Quetta or the staff demand higher bribes.

for smugglers, it is not used because of the frequent policy, administrative and logistical disruptions which result in high demurrage charges.

*Items and Value***:** Table 3 presents details and values of the Indian items smuggled into Balochistan.

Table 3: Items and annual value of annual imports

Items	Value ('000 USD)
Tires	72,282
Clothes	1,066
Isphaghol (husk)	1,350
Elaichi	8,500
Black hareer	3,825
Medicine	18,250
Paan ghutka, Paan parag	3,306
Indian razor blades	2,225
Biri (cigarette)	8,572
Total Value	**119,376**

Source: SDPI Survey, January-May 2005

Six to seven Indian brands of truck tires are smuggled to Pakistan from Chaman and Noshki. At least 150 to 200 tires are smuggled daily through the Chaman border and about 500 cross over from Noshki. These are truck and tractor tires. However, most of the tractor tires are smuggled across the Noshki border. The cost of Indian tires varies according to brand and quality. An 11x20 rim pair costs between USD 267- 300. In comparison, Chinese tires cost USD 350-450 for a pair of the same size. The smuggling in tractor tires amounts to USD 2.3 million.

Even though trade in Indian tires is legal it is not competitive to purchase them directly from India, since the CIF price includes Indian sales and excise tax and Pakistani sales tax post entry. On the other hand, Dubai companies have regional agency rights, which allow them to purchase these tires free of domestic taxes. This fact, combined with the existing Pakistani sales tax and transactions costs, makes illegal trade in tires via Dubai profitable in NWFP and Balochistan. However, the formally imported tires come out to be cheaper for consumers in Sind. Competition from China has reduced smuggling in Indian tires ten-fold over the past year or so.

Reportedly, about 50% of the medicines purchased in Balochistan consist of Indian medicines because they are cheaper and more efficacious. Close to 100 brands of Indian medicine are on sale in local markets. The demand for sexual capsules is high, with about 10 brands being seen on display in medical stores. On average, three containers of medicine enter Afghanistan daily; half this amount is smuggled into Pakistan. Reportedly, some of the better private hospitals, such as the Shaukat Khanum and Aga Khan hospitals use Indian medicines. For example, Methorexito, an anti cancer drug, is in widespread use because it is much cheaper than and as effective as the Pakistani version. The dealers in drugs and medicines are Afghans who have easy access to Pakistani passports and also do not face visa restrictions to India. Medicines are also brought in powdered form, packaged in Pakistan and sold under Pakistani brand names.

Five types of ghutka are being smuggled through Chaman to Pakistan -- King, Paanparag, 21st Century, City and One-Two-One. Close to 80 shops in Quetta retail Ghutka. In addition, there are 5 distributors. The bulk of the ghutka is consumed in Karachi.

The three brands of smuggled Indian razor blades are Vidyut, Topaz and Super Max. While Chinese substitutes are competitive, Indian razor blades continue to be imported in substantial quantities. The demand for Indian biri (cigarettes) is high; the two most popular brands are S. Biri and Chakar Biri. A small amount of Indian cloth is smuggled into Chaman consisting mainly of quality suiting, saris and three-piece cloth. Chinese substitutes are also affecting the demand for Indian cosmetics although they continue to be competitive.

8.2.3 The India-Dubai-Karachi Route

Background Information: Informal trade with India through Karachi is conducted through two modes:

- smuggling through khepias
- quasi-legal trade

The khepia route is well established. All khepias operate by the air route. As many as 2000 khepias are involved in informal trade. On average, 200 khepias travel daily between Dubai and Karachi. Each khepia carries, on average, items worth USD 1335. Given that the average daily traffic to Dubai is approximately 3000, khepias constitute less than 7 % of the total traffic. The majority make day trips, taking the morning flight from Karachi and returning by the late-night flight. There are two types of khepia, dependent and independent. The former is financed by shopkeepers or large khepias. A dependent khepia earns about USD 50 per day.

Since khepias travel frequently, they acquire multiple entry visas and maintain permanent residence or rent apartments in Dubai. The khepia travels 4-5 times on single entry visas over a period of 8-10 months. Then, having notched up the necessary travel time, he applies for a long term multiple visa. In the majority of cases the visa is granted. The second method is to bribe agents in Dubai who facilitate this process. The bribe comes to around USD 3350. Khepias with long term visas earn more. This is because they can buy return tickets from Dubai, which are almost USD 60 cheaper than the price in Pakistan. Further, tickets purchased from Dubai ensure lenient treatment by airline staff and as much as 60 kg weight is allowed per passenger. Additional benefits are gained by traveling constantly, such as free airline tickets after logging the requisite flight miles. Also, given the frequency with which they travel, they are seldom asked to pay excess weight charges. Khepias usually carry between 70-80 kg per trip.

The term quasi-legal trade refers to trade between India and Pakistan, where Indian goods destined for Pakistan are rerouted through third ports. The most frequently used third port is Dubai, although Singapore and Hong Kong are also used. “Quasi-legal” means that although the trade is recorded in official trade statistics, it does not feature as trade between Pakistan and India. Instead, the items are issued a new certificate of origin at the third port, which then becomes the official exporting country. Quasi-legal trade takes place in those Indian items, which are not on the positive list of importable items to Pakistan.

The process followed in Dubai in order to ensure safe passage for the consignments into Pakistan varies by commodities. Some commodities like Indian cloth actually enter Dubai, are offloaded and taken to godowns in Dubai. Dubai based clearing agents acquire or forge a certificate of origin other than India and reload the consignments in Pakistan onto a Karachi bound vessel. Alternatively, the origin can be stamped directly on the items. The stamps are purchased and taken to godowns where the consignments are stamped. The largest forging unit for these stamps is reportedly in Jabal Ali.

On the other hand, some commodities do not even enter Dubai. Items such as tires are directly transferred from one vessel in the port to another. The reason for this is the higher loading, unloading, and storing cost for tires if they were to enter Dubai. Additionally, tires stored over long periods lose their hardness which reduces their road life.

Items and Value of Trade: Tables 4 and 5 below show items and value of imports and exports through khepias.

Table 4: Items and value of annual import through khepias

Items	Value (000' USD)
Cloth	45,350
Cosmetics	36,280
Jewellery	4,000
Blankets	5,000
Other	5,070
Total	90,700

Source: SDPI Survey, January-May, 2005

Note: **Other items include cardamom, cashew and a small quantity of medicines**

Table 5: Items and value of annual export through khepias

Items	Value (000' USD)
Cloth	6,800

Source: SDPI Survey, January-May, 2005

The items and value of import through quasi-legal trade are cloth, rickshaws and motorcycle parts, pharmaceutical and textile machinery and electroplating chemicals.

The bulk of the cloth imported quasi-legally is georgette. The peak season is the four summer months, where about 20 containers per month come in via Dubai. The rest of the 8 months account for about 5 containers per month. The average value of each container is approximately USD 0.1 million.

Spare parts for rickshaws and scooters (Vespa) are also imported through Dubai. Recently, the import of these items has decreased considerably as the Pakistan government has moved (on environmental grounds) to ban rickshaws and old scooters from plying the roads. The import of spare parts could discontinue as early as in the current year.

A substantial amount of pharmaceutical and textile machinery comes from India via Dubai. The value of the machinery is reported to be much higher than that of pharmaceutical end products, which come in small volume through the quasi-legal route. The estimated value of the machinery and spare parts is USD 75 million per year. Chemicals used for electroplating also enter Pakistan via Dubai. The import of these chemicals has increased tremendously in the recent past due to price advantages. Their value is estimated to have increased by 80% in the past 2-3 years.

Table 6: Quasi-legal imports (annual)

Items	Value (000' USD)
Cloth	2,500
Pharmaceutical and textile machinery	75,000
Electroplating chemicals	15,000
Rickshaw and Motorbike parts	5,000
Total	97,500

Source: SDPI Survey, January-May, 2005

8.2.4 The Sind Cross-Border Route

Background Information: In Sind, cross border informal trade takes place through three distinct modes. First, there are some stretches along the border without electrified fencing. There are four entry points on the Ghotki-Sukkur beat, twelve entry points on the Khairpur-Sanghar beat and fifteen entry points at the Umarkot-Khokrapar beat. Approximately 60% of the informal trade in the region takes place through these beats. Tribes living on the border are involved in this trade.

Man-made trenches are another route for informal trade and are to be found in heavily patrolled areas. The local population digs trenches in the dessert on a frequent basis and can manage this feat in 3-4 hours. Trade in items such as alcohol and medicines is conducted through these trenches. The Pakistani rangers and the Indian border security forces are aware of such trade and, reportedly, are paid bribes on a regular basis. As such, they have a vested interest in maintaining these trenches but keep a close eye on weapons smuggling.

The 'kekra' (a modified truck used in desert area) is the third mode for informal trade. This means of transport is used by the local population, mostly tribes from Mithi and Umarkot, to carry goods through the desert. Carriers visit India, and vice versa, on personal guarantees. The carriers make verbal commitments to the border guards to return within one week. Thus far, the commitment has never been violated. On average 30-40 passengers travel in one kekra. These kekras commute weekly between India and Pakistan.

Trade Items and Value: Table 7 and 8 show the items and value of informal trade.

Table 7: Items and annual value of informal imports to Sind

Items	Value (000' USD)
Cloth (georgette and chiffon)	7,800
Medicine	10,400
Cosmetics/jewellery	2,600
Spices	1,300
Livestock	33,340
Total	55,500

Source: SDPI Survey, January-May 2005

The largest smuggled item is livestock. These are largely bulls and are smuggled in considerable numbers across the border in Tharparkar.[7] The animals are then taken either to the Larkana Jacobabad or Bahawalpur market. On average 200 animals cross the border daily. Most of the animals eventually reach Balochistan and are consumed; some cross over to Iran and

7 Although only bulls smuggling has been reported here, our impression is that goats and sheep are also smuggled. The figure is underestimated as it excludes trade in goats and sheep. We were not able to get a handle on the volume of sheep and goat trade.

Afghanistan. A small number of animals are taken to Karachi. Hazar Gunji near the Takhtani bypass in Quetta is the largest livestock market in Balochistan.

Table 8: Items and value of annual informal exports from Sind

Items	Value (000' USD)
Cotton cloth	1,775
Dry fruit (Anjeer, Almonds)	375
Others (footwear, rickshaw parts, livestock (sheep and goats)	375
Total	2,525

Source: SDPI Survey, January-May, 2005

Informal trade across the Sind border tends to be volatile. Among other things, it varies with the incidence of 'bribe loving officers' posted at the border. The Border Security Force (BSF) on the India side of the border defers to the historical tribal linkages between India and Pakistan. Prior to the Kargil issue, informal trade was three times its current value. The Kargil crisis has had adverse economic and social ramifications for tribes/families on both sides of the border.

8.2.5 The Delhi-Lahore Route

Background Information: Lahore is a major market for informally traded Indian goods. Almost all of the direct informal trade entering and leaving the city is through passengers traveling on the train, the 'Samjhota express'. The mechanism for smuggling goods is well established.

Passengers can be classified in two categories: (i) genuine visitors who carry trade items in order to cater for their expenses during the visit and (ii) *khepias* who are professional smugglers and travel frequently between Pakistan and India for this purpose.

When traveling from Lahore, genuine passengers can go to Delhi Gate, which is the hub of informal Pakistan-India trade in Lahore. At Delhi Gate, passengers can either choose to carry specific items in any particular quantity, or take ready-made gift packs containing various banned items. In the majority of cases, retailers provide passengers with names and addresses of retailers in New Delhi who are ready buyers of the goods. In other words, the retailer in New Delhi has already conveyed his demand for certain products to his contact at Delhi Gate. The contact simply uses a passenger as a carrier to send the specific items. The retailer quotes a price in Lahore which is paid to the passenger upon delivery.

Passengers are allowed between USD 133-166 worth of goods as personal baggage when they travel by Samjhota express. In an overwhelming majority of cases, they carry goods within the prescribed[8] limit and are therefore not required to pay any bribes to customs officials.

Passengers traveling from India to Pakistan follow an identical process. They purchase consignments from established markets (Bano Bazaar being a famous one in New Delhi) and bring them to Pakistan. In Lahore, the bulk of the consignments arrive at Delhi gate. From here, they are distributed to major markets dealing in Indian products. The only exception is paan, which is either sold at the Lahore railway station to touts and retailers or taken to the Paan Mandi in Lahore from where it is purchased by retailers. The markets, in turn, retail products to

8 There is no limit on personal baggage by law. However, in practice customs officials in Lahore allow up to USD166 worth of goods as personal baggage. As determining commercial intent is left to the discretion of customs officials, it incentivizes bribes to allow passengers with higher values to pass.

customers within Lahore and retailers/wholesalers from other parts of Punjab. Some of the goods also make their way to shops in Karachi.

The majority of the khepias act only as carriers, buying and selling from markets dealing mostly with Indian and Pakistani goods. A minority comprises of retailers who sell the consignments themselves to maximize profits. Unlike genuine passengers, khepias are not concerned with the prescribed limit of allowed baggage and usually carry goods worth up to USD 1,250 per trip. They factor in an amount for bribes, which allows them to pass through. Depending on the value of the consignment, they pay as much as 5%-15% per cent of the total value. In a few cases, custom officials seize the consignment, which is only cleared after paying a much higher bribe. Bribes could be as high as 25% of the total value.

The principal carriers are known to travel lower class. On average, 400-500 passengers travel in lower class compartments on each of the 8 trains arriving and departing from Lahore each month. This brings the total number of potential carriers to 3200 to 4000. The major items imported from India through this route include cloth, cosmetics, artificial jewellery, spices and herbs, betel leaves, auto parts, and pharmaceuticals. Export items include cloth, cigarettes, dry fruit (pistachio, almonds, chilghoza), video games/CDs, footwear, prayer mats, bed sheets, surma, rexin/plastic, and hardware used in drilling machines (VITS/TIPS).

Value of Traded Items: The overall estimate of the value of smuggled goods from India on each train is USD 0.07 million. This figure reflects a convergence arrived at after all our discussions in Lahore. The figure has been crosschecked by estimates provided for the value of Indian products being sold in major retail markets in Lahore and the percentage of value transported out of Lahore to other retail markets. The monthly estimate is USD 0.60 million and the annual estimate approximately USD 7.15 million.

The total estimated value of exports on each train is USD 0.01 million. The monthly estimate is USD 0.08 and the annual estimated value USD1.04 million. Since we could not crosscheck this data from Indian markets, the error percentage in the case of exports is higher. The total annual informal trade directly through Lahore aggregates to USD 8.19 million.

A rough product-to-product breakdown (per annum) is provided below. All these figures reflect convergences, crosschecked according to the procedure described in the methodology section.

Table 9: Annual informal imports

Item (by categories)	Value (000')
Paan	2,880
Clothes	1,280
Cosmetics and Jewellery	960
Spices and Herbs/Edibles	800
Rickshaw/Motorcycle parts	250
Pharmaceuticals (medicines)	500
Others	480
Total	**7,150**

Source: SDPI Survey, January-May, 2005

Table 10: Annual informal exports

Items	Value (000 USD)
Clothes	520
Cigarettes	100
Dry Fruit (Pistachio, Almonds, Chilghoza)	52
Video Games/CDs	100
Footwear	52
Prayer Mats	52
Bed Sheets	135
Others	30
Total	**1,041**

Source: SDPI Survey, January-May, 2005

8.2.6 Data Aggregation

Export and import data for the various routes is consolidated and aggregated in Tables 11and 12. The most notable aspect of this data is that the balance of informal trade is overwhelmingly in India's favor. It is probable that informal exports have been underestimated as we did not have access to information from India. However, be that as it may, even if the correct figure were higher by a factor of five, it would not make much of a dent in the imbalance. This has important trade and industrial policy implications and we address these a little later.

Table 11: Source, Destination and Annual Value of Informal Exports (USD '000)

Items	Dubai Karachi (Third country)	Sind cross-border	Delhi-Lahore	Total by item
Cloth	6,800	1,775	520	9,095
Cigarettes			100	100
Dry fruit		375	52	427
Video games, CDs			100	
Footwear			52	52
Prayer mat			52	52
Bed Sheet			135	135
Others		375	30	405
Total Value	**6,800**	**2,525**	**1,041**	
Sigma Total				**10,366**

Source: SDPI Survey, January-May, 2005

Note: "Other items" include surma, hardware used in drills (TIPS/VITS), Rexene, and cigarettes. Edible oil and wheat were once considered 'hot ticket' export items. However, the price differentials for edible oil suggest that this should be coming into Pakistan rather than the other way around. Also, India has become self-sufficient in wheat. Also, there are large outflows via the ATT to Afghanistan under various aid/relief programs.

Table 12: Source, Destination and Annual Value of Informal Imports ('000 USD)

Items	Dubai-Bandar Abbas-Bara	Dubai-Bandar Abbas-Chaman	Dubai-Karachi (Informal)	Dubai Karachi (Third country)	Sind cross-border	Delhi-Lahore	Singapore-Karachi	Total value by item
Cloth	128,000	1,066	45,350	2,500	7,800	1,280		185,996
Livestock					33,340			33,340
Medicines	1,600	18,250			10,400	500	2,000	32,750
Pharmaceutical and textile machinery				75,000				75,000
Electroplating chemicals				15,000				15,000
Cosmetics and Jewellery	20,000		40,280		2,600	960		63,840

Continued…

Items	Dubai-Bandar Abbas-Bara	Dubai-Bandar Abbas-Chaman	Dubai-Karachi (Informal)	Dubai Karachi (Third country)	Sind cross-border	Delhi-Lahore	Singapore-Karachi	Total value by item
Herbs and spices	6,250				1,300	800		8,350
Ispaghol (husk)		1,350						1,350
Big elachi		8,500						8,500
Black hareer		3,825						3,825
Betel						2,880		2,880
Blankets			5,000					5,000
Rickshaw/Motorbike parts				5,000		250		5,250
Tires	1,000	72,282						73,282
Paan ghutka, Paan parag		3,306						3,306
Indian razor blades		2,225						2,225
Biri (cigarette)		8,572						8,572
Others			5,070			480	500	6,050
Total Value	**156,850**	**119,376**	**95,700**	**97,500**	**55,440**	**7,150**	**2,500**	
Sigma Total	**534,516**							

Source: SDPI Survey, January-May, 2005

8.3 Bans and Tariffs

As we mentioned earlier, the configuration of bans, tariffs and duties and transaction costs, both in the formal and informal sectors, determine the likelihood of informal trade being converted to formal trade. Table 14 provides details of trade restrictions on items that are traded informally.

Table 13: Banned and Dutiable Items

Items	Duty (%)	Sales Tax (Cumulative %)	Total (%)	Advanced Income Tax (%)
Cosmetics and Jewellery	Banned	-	0	
Medicines	Banned	-	0	
Blankets	Banned	-	0	
Electroplating chemicals	Banned	-	0	
Cloth	Banned	-	0	
Rickshaw and motorbike parts	Banned	-	0	
Paan ghutka, Paan parag	Banned	-	0	
Indian blade	Banned	-	0	
Biri (cigarette)	Banned	-	0	
Paan	100(Rs.150/kg)	15	130	6
Spices and herbs	5	15	38	6
Cattle	5	15	21	6
Pharmaceutical machinery	5	15	21	6
Truck Tires	5	15	21	6
Tractor tires	20	15	44	6

Source: Information compiled from customs and CBR data.

8.4 Transaction Costs

There is both a cost and a time dimension to transaction costs. Both need to be taken into account when determining the feasibility of switching to informal trade.

8.4.1 The Dubai-Bandar Abbas-Bara Route

Costs: Cloth containers are purchased in Dubai and the payment is made in dirhams. The value of a 40 ft. container varies from USD 80,000-106,700 depending on the quality of the cloth. The containers are trucked from Bandar Abbas to Bara. They are off-loaded at Islam Qila, where Afghan customs officials charge gumruk (custom). The custom varies, according to cloth quality from USD 0.01-0.03 per meter. From Islam Qila they are reloaded and trucked to Door Baba.

The cost of transporting a 40-feet container from Mumbai to Dubai is **USD 850**. Insurance cost on this route is USD 50-100. From Dubai to Bander Abbas, the total cost is about USD 800, broken down as follows:

• Godown to port fare	USD 54
• Ocean freight	USD 285
• Insurance cost	USD 75
• Processing documents (THC fee)	USD 220
• Bill of lading	USD 45
• Inspection of items (AD costs)	USD 20
• Loading cost:	USD 95
Total:	**USD 794**

From Bander Abbas to Islam Qila the total transport charge per container is **USD 1,800** which includes the following nominal charges:

• Coupon charges	USD 5.5
• Khaki pulli (at exit of container from Iran border)	USD 55.6

From Islam Qila to Bara the total cost is **USD 6,300**

• Gumruk (Customs duty)	USD 1,800
• Fare from Islam Qila to Bara (broken down as)	USD 4,500
o Islam Qila-Door Baba	*USD 2840*
o Door Baba-Tabay (animal costs)	*USD 832*
o Tabay-Baa (truck costs)	*USD 666*
o Additional bribe per consignment	*USD 160*
Total cost:	**USD 9,744**

Gandamars charge both daily and piece rates to move items from Bara to various destinations in the NWFP. The daily rate for a cyclist is USD1.66/- while the piece rate is USD 0.02 to USD 0.06 per meter depending on the value of the cloth. They charge a higher rate for taking responsibility of the smuggled items (on average USD 4.16). Bribes to police and customs officials at the checkpoints range from USD 0.33 to USD 3.33. Women and paraplegics used as carriers invoke sympathy and reduce bribes and interdictions. The cloth commission agent charges USD 0.03 per meter for Nowshera and USD 0.08 per meter for Lahore. For onward delivery to the Punjab, the carrier charges USD 0.10 per meter.

Communications (internet, telephones) are beginning to replace face-to-face transactions. This has reduced both costs (transport) and bureaucracy (visa requirements).

Time-wise it takes a container 35 to 45 days to reach Bara from Dubai. About 90% of the fabric smuggling is on this route while the remaining 10% comes in via Karachi.

Financing: Deferred payments both to importers and wholesalers (ograi) are the traditional financing mode and it is based on client credibility. Bank financing is both difficult and involves interest. Instead business capital is raised from family members or own savings are utilized. Payments for consignments are done through inter-bank transfers to Dubai.

8.4.2 The Dubai-Bandar Abbas-Chaman Route

Costs: As mentioned in the Dubai-Bandar Abbas-Chaman route, the cost of transporting a 40-feet container from Mumbai to Dubai is USD 850, and insurance costs are USD 50-100. From Dubai to Islam Qila the cost is USD 2600, which includes loading, unloading, insurance, khaki pulli, insurance and ocean freight. From Dubai to Bander Abbas, the transport cost is about USD 794 and from Bander Abbas to Islam Qila the total transport charge per container is USD 1,800.[9]

The average duty (gumruk) paid on the container upon entry into Afghanistan is USD 1,750. This duty varies according to the value of the items. The container transport charges on the Islam Qila-Herat-Kandahar-Wesh route are USD 1,670. The total comes to about USD 6,000.[10] Demurrage accrues on the consignments after the first fifteen days. The rate of demurrage is USD 7.7 per day.

Laghris make 4-5 trips from the border to Chaman per day and earn between USD 5-7. The larger laghris transport items to Quetta, Karachi and other parts of the country. They are rich and make deals in advance with the border police and other officials. They buy goods from Wesh, deliver them to the required destination, and receive money at the time of delivery.

The consignments take 7 to 8 days to reach Dubai from India and about 35 days from Dubai to Islam Qila. It takes another 12 days to reach Wesh, which includes a four-day delay in Herat for customs clearance. So the total time is almost two months.

Financing: Some traders buy goods on cash. The large traders, who have a credit record, buy them on loan on mutually agreed repayment terms. Unlike the ograi system in Bara, the trader pays in 2-3 installments via hundi (hawala). In the case of cloth and ghutka both cash and loan transactions take place. Pakistani and Afghan currencies are accepted for transactions on both sides of the border.

8.4.3 The India-Karachi-Dubai route

Costs: The transaction costs for the Karachi-Dubai route vary by mode. For the khepias, transaction costs differ between short-term and long-term (multiple entry) khepias. For short-term visas, khepias have to bear the cost every time. The process is relatively system-driven. Documents are forwarded to wholesalers/shopkeepers in Dubai who have direct connections with the khepias. Whenever visas are needed, they communicate the need to these contacts who arrange the visa. The visa fee is USD 50.

The breakdown of transaction cost for the two types of khepias is shown in Table 14.

9 For a breakdown of these costs, please see the estimates in the Dubai-Bandar Abbas-Bara route.
10 Some goods, such as tires are not containerized as it reduces the cost of transport from Dubai to Islam Qila to about USD 1,700.

Table 14: Transaction costs for khepias

Type of cost	Long term visa holder (USD)	Short term visa holder (USD)
Taxi charges in Karachi	4.20	4.20
Taxi charges in Dubai	2.50	5.30
Return ticket	166	225
Visa fee	3,300*	50**
**Hotel charges	0	6.60/day
Food	5/day	7.50/day
Time	Less time	More time

Source: SDPI Survey, January-May, 2005
Note: * this is only a one time cost
** this cost is incurred for each trip

Technically, in the case of quasi-legal trade -- since items flowing through this route are processed through the formal channel, all transaction costs involved should be the sum of any formal trade transaction costs in Dubai and Karachi. These costs are as follows:

Table 15: Transaction costs for quasi-legal trade

Freight from Mumbai-Dubai	USD 850/ 40 ft container
Freight from Dubai-Karachi	USD 200/40 ft. container
Insurance costs	USD 100-200
Total additional costs in Dubai (loading/unloading/change of certificate of origin, agents' fees), storage, clearing agent fee	4% and a duty of 5% which is rebated once the item is exported so, in effect, 4 %.

Source: SDPI Survey, January-May, 2005

Formal transaction costs at Karachi are the same for any country. Consignments brought in through this route are processed by customs authorities at the port of entry. The costs for a 20 ft. container from the time a consignment enters the port to its delivery to the importer or his agents at the port are:

Cost per container (imports):

- Wharf charges USD 20
- Custom examiner report USD 5
- Bribe to Appraiser USD 3.3
- Bribe to Principal appraiser USD 5
- Gate fee USD 5
- Miscellaneous agency charges USD 33.3 per container
- **Total USD 71.6**

Cost per container (exports):

- Coupon fee USD 1.1
- Container in port USD 1.7
- Examination officer USD 5
- Appraiser USD 3.3
- Principal Appraiser USD 5
- Wharf charges USD 45
- Miscellaneous USD 0.83
- **Total USD 60.2**

Financing: Financing of informal trade through khepias takes four forms. First, khepias use their money. Hundi is the second form of financing. Khepias have close relations with money changers involved in the hundi business. The system is inherently based on trust. Laborers in Dubai send remittances through the hundi system. They pay dirhams to the money changers (hundi walas), who get in touch with khepias and ask them to deliver the equivalent amount to relatives in Pakistan in local currency. When the khepia returns to Dubai, he receives dirhams from the hundiwala and spends them in the market on items which are then smuggled and sold in Pakistan. The third mode of financing is Karachi based shopkeepers who have close relations with wholesalers in Dubai and khepias in Karachi. They place orders in Dubai via telephones and khepias bring the consignment to Pakistan. Funds are then transferred through the National Bank of Pakistan or through multi-national banks with branches in Karachi and Dubai. The khepias receive commissions from the shopkeepers and suppliers in Karachi and Dubai. Fourth, large Khepias finance their smaller counterparts who earn commission for acting as carriers. Each large khepia has a group of 3-6 small khepias which, in effect, increases his trade volume.

Financing for the quasi-legal trade is the same as for any formal trade transaction based in Pakistan.

8.4.4 The Sind Cross-Border Route

Costs: Trade through this route involves high transaction costs in the form of bribes on both sides of the border. On average, bribes constitute 5-10 % of the total value of goods carried. Bribes are higher in Pakistan than in India. Transport costs are approximately USD 15. The travelers have relatives both in India and Pakistan which minimizes boarding and lodging cost.

Financing: Informal trade transactions are financed predominantly through the ‘hundi system’. No formal cash transactions take place in the sense that khepias do not carry money across the border. Instead, they carry a piece of paper with a code written on it. The codes refer to either the amount of money that the recipient of the paper is requested to pay the informal trader, or the actual consignment that needs to be carried back into the trader’s country. The process is identical for both sides. The system revolves around ethnic/tribal ties and is based on trust. The informal trader, the sender of the message, and the recipient all belong to the same tribe. The sender and recipient of the coded message do not exchange any cash or consignment directly. They are compensated as both continue to send traders across the border and a running account is maintained.

8.4.5 The Delhi-Lahore Route:

Costs: Transaction costs for passengers are low; these entail travel from New Delhi to Lahore via train. Once in Lahore, passengers can either sell the goods at the railway station (e.g. Betel leaves) or take it to Delhi gate. Costs for the reverse movement, from Lahore to Delhi are identical. In terms of time spent, genuine passengers only require time to reach and sell in the desired market, which is insignificant.

The transaction costs for khepias are significantly higher. Typically, a khepia travels to India for 7-10 days; during that period, he sells his consignment, buys one to take to Lahore, and gets new orders for the next trip - or simply gauges demand. This entails boarding and lodging expenses. Furthermore, bribes have to be paid to customs officials to ensure safe transport of consignments across the border. Here, one also needs to factor in the cost of acquiring multiple passports and visas in order to travel frequently to India. On average a bribe of USD 75 has to be paid to submit each visa application. Time wise, the only delay would be in acquiring visas, each of which takes about 8-10 days to be processed.[11] Apart from that, there is no delay since the 7-10 day period of stay in India is when transactions are being carried out.

A cost break-down is as follows.

Costs for Passengers:
Travel on Delhi-Attari train: USD 2.66
Travel on Samjhota Express: USD 1
Total Cost: USD 3.66

Costs for Khapias:
Railway ticket: USD 1 (Samjhota Express) + USD 2.66 (Attari-Delhi)= USD 3.66
Boarding and Lodging: 7-10 days @USD 5.83 day = USD 40.80-58.30
Bribes to cusotms: USD 100-200
Visa formalities: USD 66.66-83.33
Total: Ranges between USD 212-347

Financing Informal Trade: The mode of financing varies with the mode of transaction. Genuine passengers simply pay for whatever they chose to carry. If a contact is identified, in most cases a price is also quoted. The passenger receives the quoted price on delivery. Khepias use their personal funds. Khepias do not seem to have problems carrying cash as bribing customs officials allows them a safe passage. Furthermore, the majority of khepias has become financially solvent over time and do not depend on loans.

8.4.6 Formal Trade Costs

The transaction costs in formal trade come out to be much higher than for informal trade. The single biggest complaint from formal exporters was with regard to customs procedures. An overwhelming majority of formal traders interviewed complained bribes were demanded to expedite formal consignments. However, there was a consensus that the amount of bribe paid was low and did not affect the profit margin in any way. Were a bribe not paid, customs officials retaliated by slowing down the clearing process. Consequently, demurrage charges became extremely high. Almost all interviews revealed that demurrage was a major hurdle in trade as the excessive amount reduced the profit margins substantially. In a few cases, high demurrage costs were even cited as one of the reasons for low formal trade volume.

Financing Formal Trade: Formal trade transactions between India and Pakistan are financed in the same manner as trade transactions for any other country. The predominant modes of financing formal trade are a Letter of Credit (LC) or Technical Transfer (TT). The procedural costs (documentary requirements, time required) of formal financing mechanisms is considerably higher than for informal trade.

Table 16 provides details of formal transaction costs in Karachi and Lahore.

11 Given that 8-10 days is normal processing time for Indian visas, formal traders also need this time. Therefore, in a comparative framework this delay can be ignored.

Table 16: Costs involved in formal trading

Nature of cost	Lahore	Karachi
Cost of purchase	Yes	Yes
Duty	Varies according to item	Varies according to item
Adv. Income Tax	6%	6 %
Sales Tax at import	15%	15%
Freight	USD 7/tonne (rail)	USD 550-600/ 20 ft. container USD 800-900/ 40 ft. container
Clearing	0.5% of total value	0.5% of total value
Bribes	1-5 % of total consignment value	1-5 % of total consignment value
Handling charges	USD.0.83-16.66/consignment	USD 75/USD 112 (20 ft/40 ft)
Insurance	USD 20-50/ consignment	USD 50-100/container

Source: SDPI Survey, January-May, 2005

8.4.7 Consolidated Data on Costs and Financing

Table 17: Consolidated data on costs and financing

Nature of cost	***Formal Trade***	***Informal Trade***					
		Dubai-Bandar Abbas-Bara	***Dubai-Bandar Abbas - Chaman***	***Dubai-Karachi (informal)***	***Dubai-Karachi (quasi-legal)***	***Sind cross-border***	***Lahore***
Procedural costs							
Cost of purchase	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*
Clearing charges	*0.5% of total value*	*2 % of total value*	*2 % of total value*	*None*	*4.5% of total value*	*None*	*None*
Average bribe as percent of total consignment value	*1-5%*	*1-5%*	*1-5%*	*3-5%*	*Same as formal trade*	*5-10 %*	*5-15%*
Volume per consignment		*Same as formal trade*	*Same as formal trade*	*Much lower than formal trade*	*Same as formal trade*	*Much lower than formal trade*	*Much lower than formal trade*
Frequency of consignments		*Higher than formal trade*	*Higher than formal trade*	*Much higher than formal trade*	*Lower than formal trade*	*Much higher than formal trade*	*Much higher than formal trade*
Risk	*Low*	*Low/Medium*	*Low/Medium*	*Medium/High*	*Low*	*Low*	*Low*
Handling charges	*Lahore: $1-16* *Karachi: $75 (20 ft)* *$112 (40 ft)*	*$149 (40 ft.)*	*$149 (40 ft.)*	*None*	*$75 (20 ft)* *$.112 (40 ft)*	*None*	*None*
Insurance	*USD50-100*	*USD 150*	*USD 150*	*None*	*USD100-200*	*None*	*None*
Financing	*LC, TT: High procedural costs*	*Ograi: Low procedural costs*	*Ograi: Low procedural costs*	*Self, Hundi, financed by other contacts: Low procedural costs*	*LC, TT: High procedural costs*	*Hundi: Minimal procedural costs*	*Own finances: Minimal procedural costs*
Ethnic/cultural factors	*None*	*Help to reduce transaction costs*	*Help to reduce transaction costs*	*None*	*None*	*Yes*	*Help to reduce transaction costs*
Transport costs							
Sea	*Mumbai-Karachi: $550 to 600 (20 ft) $800-900 (40 ft)*	*$1135/40ft*	*1135/40ft*		*$1100 (40 ft.)*		
Rail	*$7/tonne (for Lahore)*						*$7.24 per one-way trip*
Road		*$6300/40ft*	*$3600/40ft*			*$7.5 per one-way trip*	
Air				*$85-117.5 per one-way trip*			
Tariffs/taxes related cost							
Duty	*Yes*	*None*	*None*	*None*	*Yes*	*None*	*None*
Adv. Income Tax	*6%*	*None*	*None*	*None*	*6%*	*None*	*None*
Sales Tax at import	*15%*	*None*	*None*	*None*	*15%*	*None*	*None*

Source: SDPI Survey, January-May, 2005

8.5 Stakeholder Attributes

8.5.1 Ethnicity

Importers of Indian cloth in Bara are predominantly Afridi Pathans. The single large importer of cosmetics is a Hindu. Retailers of Indian cloth are a mix of Sikhs, Hindus, Afghans and Pathans. The Sikhs and Hindus settled in the tribal areas almost a century ago, have adapted to Pathan culture and are fluent in Pushto. Religious tolerance is evident in the tribal areas as well as in Nowshera and Peshawar.

Three major tribes the Mehar, Mangrio and Bhambro dominate the Sind cross-border trade. A small proportion of this trade is conducted by the Thori and Bhatoory castes.

Three Afghan clans - Achakzais, Malezais and Ghilzais – live on both sides of the border and dominate illegal trade. On the Gulistan route, a dangerous smuggling channel which ends at Qila Abdullah, only the local Achakzai and Afghan Mohajirs are involved in smuggling. Consignments are loaded on to trucks from Wesh, offloaded near the Gulistan border, and smuggled into Pakistan on moles and donkeys.

Most of the tire business in Balochistan is conducted by “kuchis" (gypsies) whose fortunes have improved visibly over time.

8.5.2 Information Access

The ethnicity-language-information interface is strongly evident. The tribal/ethnic connections across the border in Sind facilitate information flows on prices and demand for goods. They also make possible telephone communications, both for traders trading via the Delhi-Amritsar-Lahore route, and between traders in Bara and their suppliers in Dubai. Urdu is the common language between Karachi khepias and their Dubai sources. Common ethnicity and language make information a costless service. Technology has been an enabling factor. For instance, formerly, khepias used to travel to the Wagah border at set times on certain days and convey their orders in codes. The use of telephones has made this practice redundant. Rather than traveling to the border, traders simply place orders with their contacts via telephone. However, on the Sind cross-border route, use of codes to convey orders is still in practice.

8.5.3 Risks

The Karachi khepias cannot conceal their identities from customs officials. Usually, a new khepia comes to their notice after 4-5 trips. After that the khepias have to bribe the customs officials in Karachi and Dubai and the Federal Investigation Agency (FIA) officials in Karachi to ensure uninterrupted traveling. Khepias provide their tentative weekly flight schedule to officials at the airport. Additional bribes are paid to the airport security police at Karachi and to police on the road leading to the airport.

Bribes notwithstanding, sometimes goods are seized pending payment of duties. The situation regarding sea travel is unequivocal: the coast guard is reputed for its integrity and does not allow passage of goods until duties are paid. Often the duties exceed the value of the goods in which case the khepias are constrained to forfeit the goods.

On the Lahore-Delhi route, the risk of loss due to seizure or theft is borne solely by the passenger/khepia. Neither the supplier nor the recipient is liable for any loss. Similarly, additional expenditure due to bribes is also borne by the passengers. Bribes help reduce the risk of seizure to a minimum.

Carriers of consignments from the NWFP to Punjab also bear the risk of seizure, theft, or accident en route. Again, bribes are a factor in reducing this risk. The carrier mafia has police officials on their monthly payroll in order to ensure uninterrupted transportation of goods. Personal contacts and ethnic connections also act as risk mitigating factors across trade routes. Default is at a minimum with regard to the delivery, specifications and payment for goods.

Bribery is a common practice at the Chaman border. It can range from USD 0.15 to USD 2,000 depending on the volume and quality of goods, as well as the size of laghri carrying the goods. The amount of bribe is usually proportional to size of a laghri. Five different agencies are stationed within half a kilometer, from Wesh to Chaman. They are the Frontier Constabulary, Pishin Scouts, the regular police, the Federal Intelligence Agency (FIA) and Customs. The various authorities are paid both on a weekly and monthly basis. According to a customs source, an assistant commissioner customs on the take pulls in up to USD 3,000 per month. Payments are graduated up the hierarchy of command. Small laghris who cannot afford to pay bribes have their goods confiscated. The brutal beating of small children is not uncommon. Confiscated consignments are difficult to get back.

8.5.4 Education

Informal importers and exporters transporters, gandamars, laghris and passengers, regardless of route, tend to have weak educational credentials. Most have not matriculated but make up for it through experience, street smarts and cool nerves.

8.5.5 Socio-economic antecedents

The socio-economic driver for illegal trade is extreme deprivation, as in the absence of social and physical infrastructure and economic opportunities. In other words, there are few schools, medical facilities, roads, utilities and jobs in the major smuggling areas, whether in the tribal agencies, or close to the Pakistan international borders. This is the stark common reality on both the western and eastern borders where illegal trade flourishes, whether it is Bara, Chaman, Gandasingh Wala or Tharparkar. Smuggling becomes the only viable recourse, a source of enormous profit for the favored few, and meager livelihoods for a multitude of dependant carriers and transporters working under brutally harsh conditions. It goes without saying that such trade provides huge illegal gratuities for government officials. Not surprisingly, this income distribution pattern replicates the national macroeconomic scenario. While it is difficult to ascribe exact numbers, impressionistically, anywhere between a half to one million people and their dependants are sustained by smuggling. The clan and tribal connections provide a historical context to this trade. Such connections also ensure some economic stability in a highly volatile business environment. The situation clearly demonstrates that broad-sweep policy-cum-ethical takes on smuggling not only buck self-interest and tribal prerogatives but are premised upon providing alternative economic opportunities in marginalized areas, which the government traditionally has not been prone to do.

8.5.6 Rate of Entry/Exit

Entry and exit from informal trade is low. Many factors contribute to this. First, such trade has an ethnic complexion which makes inroads difficult. Also, the common ethnicity on both sides of the border eases communications. Second, such ethnic ties increase credibility in a business much of which is based on trust and credit. Third, those entrenched in this business derive profits from accumulated experience and advantages, which is difficult to replicate by new entrants. For instance, khepias already in the business have many passports and multiple visas; they can access officials; they have confirmed buyers and sellers across the border; in general they have an understanding of market conditions and its nuances which a new comer would not be able to assimilate without a substantial initial investment of time and money. Fourth, importers have established networks towards which the various stakeholders in the business (khepias, transporters, carriers and wholesalers and retailers) gravitate naturally.

A low rate of exit could be explained by the high profit margins, difficulty to re-enter once exited from the system and ethnic and personal ties across the border.

9. Analysis

9.1 Trade Liberalization Impacts

The information on tariffs and transaction costs is combined in Table 18, to arrive at a qualitative determination of the scope for diverting informal trade to formal channels. Basically, informal transaction costs adjusted for formal transaction costs are compared with tariff rates. This determines the extent of tariff reduction required to switch to formal trade.

Table 18: From Informal to Formal Trade

Type of transaction cost	Dubai-Bandar Abbas-Bara	Dubai-Bandar Abbas-Chaman border	Dubai-Karachi (Illegal)	Dubai – Karachi (Third country)	Sind cross-border	Lahore-Delhi	Karachi ATT
Tariffs/taxes	None	None	None	Same as formal trade	None	None	None
Procedural	Much less than formal trade	Much less than formal trade	Much less than formal trade	Same as formal trade	Much less than formal trade	Much less than formal trade	More than formal trade
Transport	More than formal trade	More than formal trade	More than formal trade	More than formal trade	Much less than formal trade	Much less than formal trade	More than formal trade
Expected outcome	Will switch if duties reduced substantially	Will switch if duties reduced substantially	Will switch if duties reduced substantially	Likely to switch to formal trade	Unlikely to switch to formal trade	Unlikely to switch to formal trade	Will revert to a smuggling route if predictability can be assured

Source: SDPI assessment

The overall impression is that it will require a significant reduction in tariffs to change the status quo for almost four-fifths of the trade. For example, on the Bara route, the total transaction costs are about 10% of the value of a container of winter suiting. This consists mostly of chiffon. The duty and sales tax comes to about 40%. In addition, formal trade would incur a 1-2 % transport cost from India to Pakistan. If the ban were removed it would require approximately a 32% tariff reduction to divert informal to formal trade channels. Thus trade liberalization, as in giving India MFN status is a necessary but not sufficient condition for affecting a substantive change. Existing tariffs and procedural restrictions would, in addition, need to be reduced substantially to achieve this change. This was also borne out in interviews with stakeholders. In particular, in Bara, where transport costs are high, importers were not unduly concerned. Their sense was that the combination of tariffs and procedural requirements would more than offset the high transport costs they needed to factor in to their prices.

Also, the Delhi-Amritsar-Lahore and the Sind cross-border routes have extremely low transaction costs, and informal trade through these routes is unlikely to switch. In these cases, even zero tariffs are not enough to compensate for the formal procedural requirements and transaction costs.

On the other hand, for smuggled goods on the Dubai-Karachi route, which accounts for about one-fifth of the informal trade, moving to MFN status suggests that such trade would switch to formal channels. The same goes for quasi-legal trade where lower transport costs under formal trade would make the switch attractive.

There is another unexpected aspect and that has to do with the secondary effects of trade liberalization. There is a specific and a general context to this. The specific context relates to drugs and medicines through the ATT route where, as we show in the next section, the prevailing three-tier price structure can induce an increase in informal trade, if trade is liberalized. The general context relates to opening more proximate access routes, such as cross-border trade between the two countries. This can induce an increase in smuggling, thanks to a combination of existing tariffs and lower transport costs. Ultimately, it leads us to the conclusion that providing MFN status to India may not be enough of a stimulus to divert informal to formal trade. For that to happen, we need to transit into a free trade regime a la SAFTA, (presuming of course that SAFTA will eventually lead to zero tariffs in all potentially tradable items) and/or work on non-tariff barriers via trade facilitation. We tackle the issue of trade facilitation next.

9.1.1 Addressing trade facilitation: An alternate channel

The framework of the above analysis is limited to a comparison of formal trade costs with the costs associated with various informal routes. The outcome is based on the presumption that the underlying factors that contribute to the costs of formal versus informal trade would remain unchanged. The only variable considered is the formal tariff levels.

One limitation of such an approach is that it ignores the potential for trade facilitation and its impact on the various scenarios forecasted. Indeed, the relevance of trade facilitation to the issue of informal trade switching to the formal ambit is implicit throughout the discussions in this paper. However we do not tackle the potential impact trade facilitation is likely to have on our findings.

As is clear from the above, the very factor, which allows informal trade to take place is a combination of tariff and procedural costs. Table 18 shows that procedural delays, which cover aspects of trade facilitation, are lower than formal trade on all informal trade routes except Karachi-ATT. The link between low level of trade facilitation and dampened formal trade flows is thus clear.

Were trade facilitation measures to be taken within the formal trade protocol, the procedural costs that are currently anywhere between 2-10 percent of the total consignment value, could be substantially lowered. Savings of personnel cost who currently perform procedural tasks and the time taken to fulfill requirements are additional benefits. Trade facilitation in terms of simpler and more transparent customs and port clearance mechanisms, efficient transport protocols, wide access to information (these are all defined as elements of trade facilitation under WTO) and the like would also help induce predictability in trade transactions, leading to higher level of 'trader-trust' in the export/import mechanisms. This is also likely to check rent-seeking practices.

While reducing procedural costs and delays is one aspect, another extremely important pillar of the drive towards trade facilitation under WTO is the notion of 'freedom of transit'. While this stipulation is imperative for cross-border integration in the regional context, our analysis would suggest that a more efficient transit agreement between Pakistan and India would actually further incentivize the flow of informal goods. This might tremendously enhance Pakistani informal exports to India, as goods destined to Bangladesh or Nepal could end up in India. The ATT route could also gain prominence for Indian exports. Of course, the modalities for such an arrangement could indeed be devised in a manner than takes away such an incentive, but some incidence of informal trade would remain.

While in the final outcome, the switch may still be extremely small under MFN, and a free trade regime under SAFTA may well provide the only answer, in either case trade facilitation is necessary to optimize gains.

9.2 Revenue Impacts

The revenue impacts are likely to be insignificant since most of the informal trade would continue despite giving MFN status to India. As Table 18 indicates, the only switch that is likely to take place is on the Dubai-Karachi route where the assessed value of third country trade is in the region of USD 95 million. Additional tariff realization would depend on whether Indian tariffs are higher than those in 'substitute' countries. Invoicing of Indian goods entering Pakistan via third country trade can, potentially, lead to increased revenue realization once such imports are legalized, provided Pakistan customs maintains a detailed price list of these imports. The existing official view is similar, namely revenue impacts under a liberalized scenario are not likely to be high. However, this has been argued on the premise that majority of informal trade is being conducted via quasi-legal routes. While our study comes to the same conclusion, we suggest this for a different reason: because of a low probability of informal trade switching to formal channels.

9.3 Price Impacts: Industry contraction

Re-directing illegal trade into formal channels is not likely to have much of an impact on domestic industry per se, as it merely changes the importing modality rather than the magnitude of imports. However, a price comparison of smuggled items illustrates the potential for industry contraction in terms of the formal trade flows it would induce. Tables 19 and 20 present comparative prices of medicines and cosmetics.

Table 19: Comparative prices of medicinesPak Rupees)

Medicine	Quantity	Subsidized price in the ATT	Pakistani Price
Ciproxin	100 tab	135*	2867
Vivioptal (Vitamin)	30 capsule	90	269
Lanszol (lansoprazole)	100 tab	120	1580
Zentic	10 tab	9	88.20
Superman (vitamin)	75 capsule	90	
Volin (Diclofanic S)	50 injection	100	
Analgesic+vitamin	50 tab	100	
Zucalm plus (flu)	200 tab	90	
Ampiclox (500 mg)	100 tab	190	4189
Alprazolam (0.5mg)	100 tab	25	213
Omeprazole	100 tab	70	1000
Diclocene forte (diclo+paracetanole+magnesium trisilicate)	100 tab	65	800
Fomatadine	100 tab	25	380
Proxican (Diclo.S)	100 tab	35	
Sildenafil Citrate (Sex capsule)	4 tab	20	
Metadine	100 tab	65	127
Ranatidine	100 tab	35	767
Ampiciline (500)	100 tab	190	419

Table 20: Comparative prices of cosmetics (Pak rupees)

Item	Use	*Price	Price of similar item in Pakistan
Moove	Herbal painkiller	35/25 gm tube	No substitute
Krack	Cream for foot heel cracks	35/ 50 gm tube	35/50 gm tube
Ujala	Neel (used for white cloth shining)	Not available	50/225 gm bottle
Vatika	Shampoo	**35/325 ml bottle**	100/325 ml bottle
Fair & Lovely	Facial Cream	130/ 300ml tube 50/150 ml tube	50/300 ml tube 30/150 ml tube
Nomars	Cream	72/tube	No substitute
Kesh kala	Hair dyer	35/ 50 ml bottle	70/ 50 ml bottle
Fair glow	Soap	260 per dozen	120 per dozen
Marble white	Toothpaste	15/100 ml tube	20/ 100 ml tube
Amla hair oil	Oil	95 per bottle	50 per bottle
Mehndi	Hina (hair dyer)	39 per pack	5 per pack

Source: SDPI Survey, January-May, 2005

Drugs and medicines coming into Pakistan via illegal channels are valued at approximately USD 34.4 million and cosmetics at approximately USD 63.8 million. Note that the large price difference for drugs reflects the subsidy on ATT consignments to Afghanistan. The illegal trade in these is valued at USD 1.6 million. However, non-subsidized drugs and medicines, making up the remaining USD 34.4 million illegal trade, are also priced much lower than in Pakistan, and of a better quality. At present, there are internal checks on their sales which prevent a large influx of these drugs -- an influx warranted by the price difference. Trade liberalization would remove these checks. And as long as tariffs remain, and informal transaction costs are not high there will always be an incentive to smuggle goods triggered by the opening of the more proximate routes (Delhi-Lahore, Mumbai-Karachi). So we come to the interesting result that liberalization can lead to industry contraction not only through the larger quantum of formal trade, but through the induced increase in informal trade as well. In fact, this is an argument that applies across the board for all illegally traded goods.

10. Trends in Informal Trade

There is a sense that on the whole informal trade between Pakistan and India is coming down. This can be attributed to multiple factors. For one, on certain items, Government of Pakistan has reduced duties substantially, with regards to trade with India. One example is car tires, a smuggling prone item, which has now almost completely switched to formal India-Pakistan trade channels. However, such a switch has only been seen in cases where the transaction costs for informal trade were high and the duty reduction made formal trade more cost effective. Another reason is the switch from informal Pakistan-India trade to informal Pakistan-China trade. The guesstimated value of this switch is around USD 0.5-1 billion. Below is a list of informally traded Indian items replaced by smuggled Chinese goods.

- Bicycles (completely replaced)
- Electronics (completely replaced, although India was never a big player in electronics)
- Tires (some Indian tires have been replaced)
- Cosmetics (partially replaced as Chinese are cheaper; Indian cosmetics still being sold in large numbers; also, Chinese cosmetics are being sold under Indian brand names)
- Cloth (some replaced though Indian quality is still considered much better)
- Jewellery (partially; Indian designs still considered better; some Chinese jewellery sold as Indian)
- Razor Blades (partially replaced)

The second aspect of Pakistan-China informal trade is the overall value of smuggled Chinese goods. Our estimates suggest this figure to range between USD 3-4 billion -- and growing rapidly. The popularity of cheap and reasonable quality products across a large choice spectrum became increasingly evident during the course of our study. This is likely to have important implications for government revenues and local industries. It also underscores the need for an independent study on the subject.

The downward trend in informal trade can also be attributed to specific cases such as import of rickshaw and scooter parts, government regulations against the use of these modes of transport have become a natural eliminator of trade. As mentioned, informal trade in these items could finish as early as the current year.

Finally, one could posit that informal trade between Pakistan and India is likely to decrease further in the near future if Pakistan's bilateral trade agreements with other countries in the region reach fruition. For example, our surveys revealed that betel leaves are now being imported in huge quantities from Sri Lanka. While the reason for this is the prohibitively high duty on Indian betel, Pakistan's recent FTA with Sri Lanka could impact Pakistan-India trade in betel further. The FTA could have two effects: i) diversion from informal Pakistan-India trade in betel to formal Pakistan-Sri Lanka trade, and (ii) due to the India-Sri Lanka FTA, Indian betel could be transported to Sri Lanka, and then re-exported to Pakistan under the changed origin. The latter would be an example of quasi-legal trade between Pakistan and India.

11. Conclusions and Recommendations

A priori, trade liberalization between India and Pakistan offers prospects of directing informal trade into formal channels. At present, while tariff rates and quantitative restrictions are coming down under various bilateral, regional and global (WTO) initiatives, Pakistan has not granted India MFN status. Similarly, India continues to maintain a host of hidden restrictions against imports from Pakistan. As a result, trade between the two countries continues to remain at historically low levels and is exceeded by the volume of informal trade.

However, a discernible momentum is building up to lower the remaining restrictions, which should not only increase cross-border trade but also lower the incidence of smuggling. As potential trade dynamics between the two countries change, it is necessary to finesse trade policies further to maximize fiscal benefits and to ensure that adverse impacts on local industry are kept to a minimum. The process of fine-tuning trade policies entails determining the extent and speed of trade liberalization, as well as its sector focus. An investigation of Indo-Pak informal trade was part of this policy imperative. Its purpose was to quantify the value of informal trade and assess the prospects of channeling such trade legally, under partial (MFN), and complete (SAFTA) trade liberalization regimes.

Not surprisingly, the ex post findings deviate substantively from the ex ante expectations. Guesstimates of informal trade between the two countries ranged from USD 0.5 to USD 10 billion. Our study confirms the lower end of the range. Total informal trade approximates USD 544.88 million, only USD 10.37 million of which flows from Pakistan to India. Six items (of a total of 17) constitute 80% of the total import from India (USD 534.51 million). These are, in order of priority, cloth, tires, pharmaceutical and textile machinery, cosmetics, livestock and medicines. Cloth exports constitute 88% of the total trade flows from Pakistan to India.

A major revelation is that most of the trade flows are channeled through Afghanistan, and not through quasi-legal trade from third ports as was previously established. There are five major routes: Dubai-Bandar Abbas-Herat-Kabul-Jalalabad-Bara, Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Chaman, Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Noshki-Quetta, Sind Cross Border, and India-Dubai-Karachi. In addition there are six minor routes. Each route has its own set of institutional modalities. Items traded and the costs incurred also vary across routes.

What is interesting to note is that while costs vary, on all routes but one (ATT, which is insignificant in terms of informal trade volume), the transaction costs are lower than that for formal trade. This is excluding the formal tariff and duty barriers in formal trade. The relative difference between the total costs associated with formal trade versus each informal trade route essentially determines the likelihood of a switch to formal trade on the particular route. In that regard, the likelihood of diverting informal trade to legal channels is low under an

MFN regime, as existing tariffs and formal transaction costs would more than offset the net transaction costs on the circuitous but important informal trade routes. It would take a substantial tariff reduction to re-direct informal trade to the more direct routes between India and Pakistan. In fact, if tariffs remain - even at lower levels - the more proximate and legal direct routes may trigger additional informal trade. The injection of the trade facilitation element changes the equation somewhat. Although the trade facilitation element by itself would not be able to ensure the switch from informal to formal trade, it would certainly reduce the level of tariff reduction required to ensure such a switch. Given that on average, 2-10 % of consignment value is expended in overcoming procedural costs, the tariff reductions required to ensure a switch could be significantly less. Freedom of transit on both sides, with minimal procedural costs however might provide an added incentive for informal trade to flow. With or without trade facilitation, revenue generation for the government in this scenario is also not likely to be significant. The policy implication is that free trade, ala SAFTA regime, which is not restrictive in the list of tradable items, is likely to yield higher trade gains. However, even here maximization of gains is only possible if trade facilitation concerns are addressed simultaneously. Even under SAFTA, if formal transaction costs remain high, the cost of doing business may curtail some of the potential benefits. Free trade ala SAFTA would however, constitute a threat to local industries, especially, cosmetics and drugs and medicines, and the engineering industry. The comparative prices in cosmetics and drugs and medicines are highly indicative and suggest that tariff reductions may need to be staggered.

Finally, trade policies need to consider the socio-economic consequences of disrupting practices which are both historically entrenched and generate employment. In fact, they cushion the effects of government neglect in marginalized and politically volatile areas. So complementary polices which provide alternative livelihoods and establish social and physical infrastructure become key.

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Annex 1

12. Methodology

12.1 Geographical Scope of the Study

The study was conducted in

- *N.W.F.P*: Bara, Peshawar, Nowshera
- *Punjab*: Lahore, Multan
- *Balochistan*: Chaman, Quetta
- *Sind*: Karachi, Sukkur, Khairpur, Ghotki and Jacobabad

12.2 Data collection

We tried to implement a research methodology that was both robust and practical. The following data was acquired:

- List and value of items traded informally and entering Pakistan and India directly
- List and value of items traded formally but entering Pakistan through third countries
- List and value of items traded informally but given quasi-legal status by changing the certificate of origin
- List and value of items traded formally between India and Pakistan
- Information on transport costs, transport infrastructure bottlenecks and other difficulties faced by transporters in both formal and informal trade
- Comparative profit margins for suppliers and retailers in selling goods imported formally and informally
- Data on official tariff rates and additional taxes on goods traded formally
- Data on prices of goods imported illegally into Pakistan
- Data on prices of local substitutes for illegal imports
- Data on informal and formal trade financing mechanisms
- Information on the attributes of informal traders
- Information on the modalities of carrying out informal trade

12.3 Sampling Methodology

We collected the data/information through secondary as well as primary sources. Primary data was collected through surveys and personal interviews with stakeholders and public officials. The respondents are profiled as follows:

- Formal and informal importers and exporters. Informal traders fall into three categories (large, small (khepias) and carriers (irregular))
- Retailers
- Members of the Chambers of Commerce and Industry (CCI)
- Customs officials
- Forwarding agents
- Rangers, security officials
- Wholesalers

- Transporters (ships, by air, trucks, buses, cars, motorcycles, cycles (gandamars, laghris), pack animals, women, paraplegics). The truck and bus drivers also act as agents for retailers and wholesalers in the Punjab. They both order and transport goods.

Respondent details

Respondents	No. of structured questionnaires	No. of semi-structured interviews
Formal exporter	5	5
Formal importer	8	8
Informal exporter	1	5
Informal importer	6	35
Retailers	15	50
Members of chamber of commerce and industry		8
Customs		9
Transporters		9
Wholesalers		6
Clearing/Fwd. agents		6
Rangers/security officials		2

Source: SDPI Survey, January – May, 2005

The sub-sections below provide details of the types of questions the respondents were asked to address.

12.3.1 Review of Trade Statistics/Custom Records

Official trade statistics of the most frequently traded items between Pakistan and India were compiled. We gathered data on Indian exports to Dubai and Singapore. This data was cross-checked with data collected from international databases and customs records in Pakistan to highlight Indian items (and estimate their value) reaching Pakistan via Dubai and Singapore.

12.3.2 Survey of Formal Importers and Exporters

A private sector traders' survey was undertaken to solicit information on various aspects of the study. The survey was conducted through structured questionnaires which comprised of three sections.

- The first section focused on identifying formally traded items between India and Pakistan through cross-border transactions or through third countries. Traders were asked to differentiate between items primarily traded across the border and those smuggled through third countries as well value these items
- The second section of the survey dealt with the various difficulties/barriers faced in formal trade. What kind of transaction costs, broadly defined, did Pakistani exporters face when trading with India? Similarly, what transaction costs did importers confront? The questionnaire included a preliminary list of identified barriers which the respondents were encouraged to supplement. The respondents were requested to quantify the cost of each identified barrier. Another sub-section solicited information on formal tariff barriers and trade taxes.
- The third section of the survey was aimed at extracting information on prices of traded items. It also included questions on profit margins.

The team conducted thirteen surveys in Lahore and Karachi; eight of these were of importers and five of exporters. We used the snowball technique to contact respondents as both formal (and, more so, informal traders) were reluctant to share information on their business practices with us. The team used personal and professional contacts to identify respondents. In turn, they, through their personal contacts, guided us to additional respondents.

Following up on the structured questionnaires, personal interviews were also held with the same set of private sector traders. We used a semi-structured checklist to guide the interviews. The questions focused on the pros and cons of trading with India and the potential threats to local industries.

12.3.3 Survey of Informal Importers and Exporters

We also conducted structured surveys with informal traders, soliciting information on the type and value of the items traded informally. The second section dealt with informal trade financing. The third section probed for information on informal trade barriers: traders were asked to both identify and quantify barriers in terms of cost and time. The fourth section dealt with the risks and difficulties faced by informal traders. We solicited information on the prices of smuggled items. Finally, questions were asked regarding competition with Chinese and local substitutes.

As in the case of formal traders we conducted follow-up semi-structured interviews. However, the team was only able to conduct 7 surveys. The respondents were much more comfortable with the interviews which were free-flowing and yielded useful information. Subsequently we decided to abandon the surveys. A total of 7 structured and 40 semi-structured interviews were conducted across the locations covered during this study.

12.3.4 Survey of Domestic Markets

A comprehensive survey of domestic markets predominantly selling Indian goods was undertaken The objective was to: i) determine the mix and value of the identified Indian imports and; ii) determine prices and trading margins for the commodities. Again the survey was based on structured questionnaires. It consisted of two sections:

- Section 1 required a simple listing of the informally traded commodities (from the identified list) retailers sell. Additional questions related to the approximate overall value of each commodity obtained either by importing directly or through other importers and; the channel (cross border or third country) through which specific products entered Pakistani markets.
- The second section was designed to obtain information on prices and trading margins for both importers as well as retailers. The information on retailers' purchase price of goods from importers aimed at validating traders' responses to the same question. We also probed the question of Indian imports depressing prices of local items/products.
- We probed into the possibility of Pakistan-China informal trade displacing India-Pakistan informal trade. As in the interviews with traders, we requested information on price differentials between Indian and Chinese goods and whether any substitution was taking place

We conducted a total of 65 domestic market surveys. The locations were Lahore and Multan in Punjab, Karachi and Sukkur, in Sind, and Peshawar and Nowshera in the NWFP and Quetta and Chaman in Balochistan. Twenty retailers were interviewed in Lahore. Ten surveys each were conducted in Karachi, Peshawar and Nowshera. The team selected the respondents purposively, according to the items they sold.

12.3.5 Personal Interviews and Literature Review on Transport Issues

We conducted personal interviews with various stakeholders in order to quantify transport related costs and identify the major bottlenecks in the transport system, both in relation to formal and informal trade. The interviews were guided by semi-structured checklist of questions. Information from the interviews provided a cross-check to the transport related information obtained from the traders' survey.

Transporters moving consignments in the formal sector provided information on border-to-market highway infrastructure, port infrastructure, policies and tariff structures, transport costs by sea, air, and land (direct and through third countries), rail transport issues, and other problems the faced in general. The stakeholders interviewed included truck drivers, custom officials, port authorities, forwarders, transport agents, and human carriers, such as gandamars and laghris. The team interviewed these carriers in the border areas of Bara, Chaman, and Sukkur. We solicited information from them regarding their mode of movement, the costs and risks involved, and the incomes they earned through these activities.

12.3.6 Personal Interviews with Business Stakeholders/Chamber of Commerce

We conducted interviews with a total of ten officials from the Lahore and Karachi Chamber of Commerce, and the Federation of Pakistan Chamber of Commerce and Industry to determine the likely revenue and industry effects of formalizing trade and granting India MFN status. We chose the respondents purposively initially and through contacts and, subsequently, through client recommendations.

12.3.7 Custom Officials and Port Authorities

We interviewed custom officials and port authorities in Karachi, Chaman and Lahore, and the rangers and border patrols in Lahore and Sukkur. A total of ten customs officials/port authorities and three security personnel were approached. The purpose was to obtain information on the value and composition of smuggled items passing through the check-points, customs procedures and other trade barriers. We cross-checked this information with information provided from other sources (questionnaires for formal and informal traders).

12.4 Data Reliability

This is the first attempt in Pakistan at moving past guesstimates and attempting to document informal trade between India and Pakistan. It was a difficult exercise and we have tried to cross-check and validate the data we collected through different sources. The first set of cross checks were inserted in the various stakeholder surveys and interviews (see Methodology), where we asked the different respondents identical questions on the value of informal trade, both aggregate and across items. In addition, as explained below, we also compared data collected from the source with that collected at the point of entry and at destination points. The team carried out a similar exercise for transaction costs. Finally, we surveyed retail markets for specific items to get an estimate of the value of the item available in the market.

Quasi-legal trade from Dubai: We collected disaggregated data on Indian exports to Dubai from official statistics, focusing on those items that, we found from primary surveys, are imported illegally into Pakistan. From international databases, like the UNCOM, and IMF-DOTS we collected data on exports from Dubai to Pakistan, again focusing on items we assessed would have originated in India. These items are stamped with a certificate of origin other than India and constitute quasi-legal trade. We cross-checked this information with data on imports from Dubai, which we obtained from PRAL and CBR. Data on Indian exports to Dubai and Pakistan's import from Dubai were then analyzed and items assessed as being of Indian origin highlighted. The difference in value of Indian exports to Dubai and the same items imported into Pakistan provided us with an estimate and a ceiling for the value of the particular item that probably originated in India and reached Pakistan via Dubai. The information provided a guide for primary data collection, which helped to firm up estimates provided by this analysis.

Smuggled items from Dubai: We collected information on informal trade at the points of entry in Pakistan, namely, Bara, Chaman and Karachi and cross-checked this information with data collected at source, in Dubai. Formal re-exports from Dubai to Pakistan, for instance, from China and Republic of Korea and Singapore blur the comparison. Indian items are inserted into containers from these countries and, in this manner, smuggled into Karachi.

Cross border imports from India: The entry points for the significant cross-border informal trade are Lahore, Ghotki, Tharparkar and Sukkur. A small volume of trade also goes on across bridges in the Neelam valley, in Azad Jammu and Kashmir and across the border near Sialkot (we did not investigate these routes).

Annex 2

Detailed list of items
Imports

Cloth

• Cotton (different varieties)	• Fancy suits (different varieties)
• Leelan (different varieties)	• Banarsi suits (different varieties)
• Silk (different varieties)	• Laces (different varieties)
• Sarees (different varieties)	• Chaddars (different varieties)

Fair and lovely

• Cream products	• Anti-marks
• Lotions	• Acne
• Soap	

Himalayas

• Shampoo	• Soap
• Lotions	• Hair oil

Vatika (Dabar)

• Shampoo	• Soap
• Lotions	• Hair oil (light, normal, coconut)

Parachute

• Hair tonic	• Hair oil
• Coconut oil	

Levon

• Hair oil	• Shampoo

Silk Shine

• Hair oil	• Shampoo

Clerical

• Soap	• Herbal anti-marks
• Herbal acne cream	

Pears

• Soap	• Face wash
• Shampoo	•

Sexual medicines

• Viagra	• Diagra
• Penagra	• Sexual herbal medicines/creams (20 types)

Baby products

• All variety of Johnson	• All variety of mother care
• All variety of clinic	

Jewellery

• Necklace	• Bangles
• Rings	• Earrings
• Mangal sootars	• Payal

• Toothpaste (12 varieties)	• Face powders
• Breast developer creams	• Pearls
• Crack creams	• Rickshaw spare parts
• Move creams (pain killers)	• Spices
• Itch guard	• Footwear (kolapuri)
• Ring guard	• Proxicame (salt)
• Condoms	• Amprazole (salt)

Exports

Dry fruit

• Almond	• Aniseeds
• Pistachio	• Anjeer
• Walnut	• Manaka

• Thermometers	• Water coolers
• Lightweight surgical instruments	• Burqas
• Handicrafts	• Used jeans