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Trading Regional Trade
Pakistan's trade balance in the first ten months of current financial year was more than $12 billion, with both exports and imports registering a new mark at $20.2 billion and $32.3 billion. The trade balance for the first ten months is more than the gross remittances sent by overseas Pakistanis, during the last fiscal year. In April alone, there was a net negative balance of $870 million, with exports pegged at $2.4 billion and imports spiking at $3.3 billion. This leaves little room for any sustainable development of infrastructure and human resource, which in turn retards growth, and progress. Can regional trade be a solution to the problem which is peculiar, in many ways?

The Trade and Energy Corridor
Pakistan is located at the juncture of South and Central Asia, and is also connected to Middle East via Arabian Sea. The Gulf of Oman is so close that on a clear night, the street glow of city of Muscat is visible from the deep sea port of Gwadar. With China and Russia on the outskirts of the region, more than one third of the world population lives in the area. Similarly, major hydrocarbon energy resources are situated in the region, and with a continuous growth spurt in India and China, this is a region which is considered a major hub of energy consumption. Obviously, regional trade can be beneficial to the region. But, major barriers are blocking trade in the region; these barriers are not just tariff barriers but are also political in nature.

Trade in Pakistan
Pakistan has been recognized by international community, as the 'Trade and Energy Corridor of the World.' Increasing trade in Pakistan can contribute hugely to world trade and would stabilize the world economy to cater for new developments and the world-wide population growth. Britten Wood Institutions such as, the World Bank and the International Monetary Fund were established for trade stabilization in the last century, after the world war
negatively impacted international trade, resulting in recession in the west. Poor economic conditions and bad infrastructure in Pakistan could slowdown exports. The trade corridor, has even more importance then institutions such as the Britten Wood Institutions as it provides a passage to the west, independent of Russian influence on the vast oil and gas reserves of Caspian Sea basin. It is therefore not surprising that the largest ever loan programme suggested by the World Bank, for Pakistan, is the 'National Trade Corridor' loan through which the Bank has committed ten billion dollars of credit to Pakistan. This credit has a lavish mix of concessional loans in the overall portfolio. The programme is designed to help Pakistan facilitate regional trade, which in turn can support world trade.

A Plethora of Barriers
There are three principal barriers to trade in this region, and perhaps the international trade of goods and energy, which are; higher or unfriendly tariffs, political spanners in cross border with India, transit trade with Afghanistan and trade between India and Afghanistan through the land route of Pakistan.

Trade with India
Under the World Trade Organization's resolutions, Pakistan has to consider India as a trading partner. This means that both the countries should give priority to the import of goods and services from each other, rather than importing goods and services from any other country. This will boost regional trade. However political impediments rather than technical ones are stopping regional trade.

The trade liberalization agreement was signed among the seven SAARC member countries on January 4, 2004 in Islamabad. The landmark treaty, SAFTA (South Asian Free Trade Agreement) can increase intra-regional trade by 1.6 percent of the existing level. In this dynamic framework the gains from trade liberalization are about 25
percent higher. In a time frame of between 2 to 11 years, with the least developed countries (LDCs) being allowed the concession of a slower tariff reduction, the treaty will be fully implemented. However, both LDC and non-LDC countries will be allowed to draw up a sensitive items list. Pakistan has not been placed among the LDCs. Ironically LDC countries are resisting the implementation of the treaty. For example, Bangladesh is reacting negatively to its negative trade balance with India which is over $1 billion, in addition to which India is not purchasing Bangladesh's textile goods. By far, India is the largest trading partner of all the SAARC countries. If according to SAFTA, in maximum applicable tariffs for India are reduced to a maximum of 5 percent, this negative trade balance is likely to grow, as more Indian goods will find way to Pakistan. The situation seems bleak for Pakistan vis-à-vis India, with a massive trade balance in favor of India.

Political Impediment
In the presence of a political and territorial dispute with India, the largest country in the region, political leadership perceives bilateral trade in the name of regional trade with India, will help India dominate the arena with bilateral disputes permanently brushed aside, under the carpet. The international community and Institutions however insist that a thriving bilateral trade in the region will ultimately help solve political and territorial discord as a corollary of economic cooperation.

Afghan Transit Trade
On the western side of Pakistan Afghanistan is a landlocked country which needs Pakistani ports to conduct international trade. Obviously, Afghanistan needs import cargos, which land on Pakistani ports and reach Afghanistan after covering more than a thousand kilometers by land. This cargo is custom cleared after reaching the final destination in Afghanistan. If the bulk of this cargo is smuggled backed to Pakistan and sold there as retail items, the items compete with the local industry. There is a bazaar called the 'Baraha Bazar', in Baraha town in a tribal area near Peshawar where these re-smuggled goods are competing with local industry, at retail level. Such markets exist all over Pakistan.

Afghanistan-India trade, through a land route in Pakistan is possible. If these goods are custom paid in Afghanistan, at a lower tariff than what is applicable in Pakistan, the danger that the bulk of these goods will be smuggled back to Pakistan is real, at least empirically. If it becomes a reality, smuggled Indian goods will choke local manufacturing, at retail outlets. And with the trust deficit between India and Pakistan, trade facilitation measures like efficient custom clearance, prompt border crossing and establishing of good transportation links can never be rolled out significantly.

Trading Tariff
The Planning Commission of Pakistan has suggested a straight and drastic reduction in tariff down to a maximum of ten percent across the board. If it is adopted, the net impact on the local industry, employment elasticity, and industrial development can be negative. This can have a massive two-fold negative fiscal impact. There will be a considerable loss through custom income, sales tax and will impact income tax.

This can have a social impact too. To match the manufacturing prices against landed prices of imported goods, industries would reduce social benefits for employees and reduce their number, resulting in massive unemployment. Tariffs should be cascaded every now and then to fulfill national social, fiscal and industrial needs, recommendations of study, carried out by academician and international individual consultants, relying often on the secondary data of the past. The tariff policy should always be in line with national growth needs, and for specific sectors there should be specific tariffs, adopted over a suitable period of time, required for adoption and adjustment. A sudden, blanket reduction can cause a shock to the local economy, creating surpluses and shortages of an undefined nature, that ultimately results in overall loss.

Trading Energy
Energy trading as a part of regional trade cooperation is perhaps the most important trade. Pakistan importing electricity from India, and Central Asian states and the multibillion Dollar, Turkmenistan-Afghanistan-Pakistan-India (TAPI)
Reducing Tariffs: A Few Implications
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The economy of Pakistan has been deeply affected in the first half of the current fiscal year. Flash floods and the ongoing war on terror are the two major events which almost brought the economy to its lowest ebb. These factors have squeezed the allocated development resources in the current fiscal year. The GDP growth rate is not expected to be on a fast trajectory and is projected to grow at 2-3 percent in the coming fiscal year. Pakistan is ranked with the lowest tax-GDP ratio in the region. This situation along with the failure of the government to produce alternate resources for enhancement of the tax base, will surely not improve the fiscal deficit. Recently, the IMF has also announced that it will stop the imposition of revised GST in the country due to severe political and mass criticism. It has left the government with limited options including burdening the existing taxpayers instead of widening the tax base and improving the tax collection system to lower the leakages.

Moreover, despite low tax collection, the revenue structure of Pakistan shows a heavy dependence on indirect taxation. Total net revenues of Rs. 661.6 billion have been collected during the period July-December 2010-11. Direct taxes and indirect taxes—sales tax, federal excise duty and custom duties, mainly constitute total net revenues. Out of the collected net revenues, Rs.240.9 billion direct taxes, Rs.282.6 billion sales tax, Rs.58.1 billion Federal Excise Duty and Rs. 80 billion customs are collected during the first half of the current fiscal year. Custom Duties (CDs) play a
significant part in the generation of revenues as these comprise 12.1 percent and 19 percent in total taxes and indirect taxes respectively during the first half of the fiscal year 2010-11. The gross collection from CDS, in the first two quarters of the fiscal year has been Rs. 85.1 billion while net collection has remained Rs. 80.3 billion. Although the share of the customs has declined over the years it still contributes substantially to the government exchequer.

The historical data of revenues from international trade has shown a sharp decline due to the adoption of trade liberalization impacting the fiscal side of the economy. The high tariff regime during the 1990s protecting the domestic industry under tight control also generates more revenues for the government. The country embarked upon the trade liberalization programme in 1996/97 and removed all quota restrictions by 2003 which drastically reduced tariffs. During the period, the unweighted average tariff went down from 42 percent to 17.3 percent lowering the potential for high tariff structures. The decline in revenues from international trade has supported the fact that country exports increased by 110 percent during 2003 and 2007.

While at present, domestic industry is highly protected at high tariff rates for enhancing the capacity of small, medium and large sectors of the economy. In contrast, a recently conducted study on trade policy demands a change in the tariff structure in the textile and automobile sector. It points out the high maintained tariff rates in the auto sector ranging from zero to 50 percent as compared to just four standard normal rates ranging from 5 percent to 25 percent in 2002/03.

The call for a reduction in the existing tariffs, makes them as low as possible and a uniform and complete removal of non-tariff barriers, has a strong bearing on the different sectors of the economy including automobile and textile sectors. It is argued that uniform tariff would protect all import substitution activities at an equal rate and all would be equally efficient in replacing the imports. The numerous non-uniform tariffs would result in protecting the specific industries resulting in shifting of capital and labour resources towards the protected industry. It is often the result of the continued lobbying of the import substitution producers for low tariffs on intermediate inputs.

It is important to highlight that the auto sector is playing a considerable role in the economy as it generates revenue of more than Rs: 63 Billion, employs more than 200,000 people and pays taxes as well. Besides, it also pays heavy customs duty due to varied and high rates. Rs: 12.969 Billion has been collected in the first six months of the current fiscal year. It nearly constitutes 15.2 percent of total customs duties. It shows a growth of 28.2 percent in customs duties in the first six months as compared to the same period in the last fiscal year. Similarly, the textile sector is also a major contributor towards national GDP and a mainstay of the total exports. The share of imports of the textile sector is not significant as Rs: 1.968 Billion constitutes 2.3 percent of the total custom duty revenues. The growth in the import of textile machinery and raw material is clearly reflected in the increased revenue growth of 100 percent as against the same period last year.

Encountering the uniform tariff rate proposal, the academicians have strong negative responses due to the associated revenues, protection and income distribution objectives which uniform objectives fail to achieve. The varied tariffs across the sectors generate significant revenues which help the developing economy in lowering the fiscal deficit. As stated earlier, non-uniform tariffs contribute towards the national exchequer. Customs constitute one-eighth of the total taxation revenues in the country. The country that is facing acute revenue shortages may come up
with uniform tariffs losing a huge source of income. Furthermore, a uniform tariff is not an appropriate instrument for protecting the infant-industry in the country. It does not provide differential protection across the sectors in the economy. The purpose of the uniform tariff is to take value added products in the domestic import competing sectors above the free trade level. Alternatively, this can be achieved by applying a subsidy which creates equal distortions in all the sectors. In Pakistan’s case, the automobile sector is a highly protected sector even after the removal of quota restrictions and TRIMS under the Uruguay round. There are certain measures which need to be looked upon before adopting the suggestions of uniform and minimum tariff rates i.e. in auto sector continuity of deletion programs, high tariffs ranges from 50% to 100% on Completely Built-up Units (CBUs), 50% tariffs on most components and auto spare parts produced in Pakistan and 32.5% tariff on “non-localized” parts.

Instead, the tariffs may be phased out as suggested by World Bank “Aid Memoir” and AR Kamal studies in the mid decade. It will not only result in a reduction in tariffs but also prepare the finance ministry to find out alternate resource generation sources to fill the revenue gap over the years.

Regional Trade in Energy
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22% of the world’s population lives in South Asia which constitutes just 2% of the world land mass. Countries in the region have a population growth rate higher than the world average however about 40-50% of the people do not have access to electricity. A growing population has given rise to enormous energy consumption and a ballooning demand-supply energy crisis. Although the region is resource rich having an immense power generation potential, the exploitation of these resources has till date remained sluggish and unimpressive. This may be attributed partly due to the oil monopoly that exists in many of these countries. Oil prices are subject to considerable fluctuation and price spikes have negative repercussions for the competitiveness of exports and dents the national exchequer. In order to advance economic development objectives, South Asian countries are increasingly seeking the diversification of their energy mixes so as to reduce their reliance on the import of fossil fuel to meet their energy needs and explore potential avenues of collaboration. South Asian countries are increasingly looking at working together on energy security, as this would entail devising a strategic framework of cooperation, which is anticipated to culminate in mutual benefits of all countries involved. Energy Security is a term used to describe the capacity of a nation to meet its energy needs at all times and at affordable prices. Traditionally, South Asian countries relied on biomass to meet energy needs. However, for long term sustainable growth, this is being phased out and is being replaced by commercial energy sources. Many countries are looking into exploiting indigenous resources for meeting their
needs and the prospects of exporting surplus power.

Regional energy trade needs to be viewed as a means to boost energy security of the region's nations. The growth in electricity demand in some of the countries is higher than their economic growth. The demand for electricity is projected to grow from 43.3 mtoe (million tons of oil equivalent) in 2005 to 165.6 mtoe in 2030, with an annual rate of increase at 5.5%. In light of the natural resource distribution and the demand constraints that exist, energy trade is a viable means to increase energy security, which can in the long run be instrumental in consolidating regional peace. There are varying energy situations in the different countries that comprise the region. In Nepal and Myanmar, for instance, the potential to exploit hydro sources for power quite significantly exceeds demand. There are large gas reserves in the Bangladesh and Myanmar regions. Currently, existing energy trade is restricted between India, Bhutan and Nepal whereby there is immense potential of intra-regional trade. The Central Asian regions have significant gas reserves and hydropower potential, which can be tapped into. Energy exports would benefit all countries; with particular beneficiaries being the transit countries, as this can potentially spur considerable economic growth. Trade can include electricity transfer in addition to the transport of gas through pipelines from one region to another. In order to boost the energy trade, governments need to strengthen the power sector reforms that have been initiated, utilities are made more financially viable and improving the regulatory structures in place.

Pakistan's economic growth in recent years has been affected by declining productivity in all national sectors. The demand supply gap in Pakistan is touching about 6000 MW, and is set to widen in the absence of development of substantial power generation capacity. In 2009-10, Pakistan's economic growth was 4.1%, which was greatly constrained due to the debilitating energy shortfall. In order to ease the country's energy situation, efforts can be expended in encouraging the liberalizing of intra-regional energy trade and this would in turn be a means to enhance energy security. The share of intraregional trade comprises less than 5% of the overall trade, and totals less than US$6 billion. Intra-regional trade is confined between the economies: India-Bangladesh, India-Nepal, India-Pakistan and Pakistan-Afghanistan. The structure of trade is commodity based, with petroleum products as the third main intra-regional export. It is evident that trading in energy products already exists however the trade structure necessitates greater diversification. This may include the export of power machinery such as wind turbines, and greater liaison on technology transfer. Regional trade can help boost greater regional integration, by infusing interdependency between trading nations. The geographical situation of Pakistan is advantageous from a transit standpoint; whereby the country is at the vantage point for energy trade between the Central Asian, Middle Eastern and South Asian
markets. Regional integration can be spearheaded by enabling an environment conducive to joint resource management under a socio-economic and environmental framework.

A coherent institutional and regional approach is required to allay the energy security risks. As South Asian countries are heavily reliant on oil imports, it is necessary that they are cushioned against the price hikes that are a frequent occurrence in recent years. According to the Regional Energy Security Report for South Asia, it is proposed that an oil price contingency fund should be created, whereby taxes levied on the sale of oil can help fund the cost burden due to high fuel prices. Additionally, the building up of a strategic petroleum reserve can be relied upon during times of fuel shortage and high prices. The ambitious goal of power trading merits the setting up of a regional electricity grid, which would facilitate the transfer of power from power surplus areas to areas where it is needed. A regional gas grid is plausible however the gas reserves of many countries are fast depleting and may compromise national priorities. These would be contained in the region’s energy sector blueprint, which would stress on joint collaboration and development of institutional mechanisms to encourage funding and research on resource development. Furthermore, as rural areas in South Asia are often remotely connected to the grid, they are economically stifled due to the lack of electricity provision. However, the extension of the grid to these areas is severely undermined by monetary concerns and the failure to address the question of how an increase in power demand from these areas would be met. The challenge is not only for nations to meet the national power demand but to consolidate power exchanges and setting up of grids across borders to help save the costs associated with grid extension done from national parameters. Furthermore, cooperation on what is essentially the promotion of energy security between the states may entail learning from best practices in neighboring countries: joint procurement of fuel; transfer of technology and training of manpower, etc.

Regional trade in energy can also merit the construction of large hydropower projects, and the power infrastructures that would support the transport of electricity between countries can be made to be financially feasible/cost effective. There needs to be development of a political awareness about the importance of regional energy trade as a means to boost peace and stability in the region. Important transit countries are Pakistan and Bangladesh, whereby they will help cater for north-south and east-west supply routes. The cooperation between regional nationals would cover exchange of energy related knowledge, establishment of a regional grid and exploitation of renewable sources for power generation. Driving factors behind expanded energy trade in the region include reforms favoring exports and an impressive economic growth rate in the past few years. In order to enhance the energy trade between countries, development of storage hydropower projects needs to be expedited. It is envisaged that an expansion of trade leading to the formation of a well integrated regional energy market. The driving force behind the opportunity for trade stems from supply exceeding demand in some of the smaller countries. On the other hand, in other countries the demand for energy is far surpassing the existing supply.

Pakistan’s unique geopolitical situation makes it a watershed point for the transit of energy between the Central Asian Region and South Asia. It also presents an excellent location for transit of energy to western China. For there to be a credible expansion of South Asian intra-regional energy trade, the main prerequisite however is the normalization of relations between India and Pakistan. Political tensions have a tendency to overshadow and hijack any positive development that accrues in this regard.

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