Consultative Meeting on

Trade Normalization and FDI Prospects for India and Pakistan

29\textsuperscript{th} November, 2012
Karachi

Welcome Remarks by Dr. Vaqar Ahmed, DED, Sustainable Development Policy Institute

Dr. Vaqar in his welcome remarks said these happen to be very interesting times to talk about India – Pakistan trade. The region has growing realization as to how openness and connectivity can foster deeper integration.

The rise of China and India presents unique opportunity for a country that borders with both. These economic giants will continue to compete for markets and sectors which will require them to find out venues for transit through Pakistan not just in merchandise but also in important resources such as oil and gas which will play an important role in keeping the growth in both countries sustained.

Sustainable Development Policy Institute (SDPI) has been at the forefront since the past 20 years in bringing the governments of India and Pakistan together through a sustained Track-II approach. We have worked with over a dozen civil society networks in India and wider South Asia in order to foster people-to-people contact, business platforms, youth forums, and engagement at the community level.

Today’s effort in Karachi is again an effort to renew our faith in regional integration that starts with India and focuses on the overall South Asia.

Session I: FDI Perspectives in India: Concerns and Opportunities

The first session was chaired & moderated by Dr. Shahida Wizarat, Head Economics Department, Institute of Business Management, Dr. Mirza Ikhtiar Baig, Federal Advisor on Textiles to the Prime Minister of Pakistan made special comments and other speakers in the session included, Haroon Askari, Deputy Managing Director, Karachi Stock Exchange, Ashraf
Dr. Mirza Ikhtiar Baig, Federal Advisor on Textiles to the Prime Minister of Pakistan

Dr. Mirza Ikhtiar Baig is of the view that regional trade is the successful model and looking at the India’s large market, it is one of the potential markets for Pakistan to enhance our trade and investment. We can collaborate in Textile, I.T., Light Engineering, Cement, Petroleum products, Pharmaceutical sectors etc.

Both governments have already worked hard for the tariff reduction under SAFTA, removal of several non-tariff barriers, visa liberalization and enhancing private sector contacts through exchange of delegation and trade fairs.

Ashraf Kapadia, Managing Director, Systems Limited

He said opening up trade and FDI with India perhaps is the single most advantageous move that can boost I.T sector of Pakistan. We should try our best to conduct FDI and also to take this process to the next steps of deeper integration. We are also poised to gain from the sophisticated I.T. sector labor force in India which should be welcomed in Pakistan.

Majyd Aziz, Ex President Karachi Chamber of Commerce & Industry

Majyd Aziz was of the view that we need to study the city-specific potential of investment in India. Every city is a distinguished marker on its own. We need to completely understand all trade agreements and their specificities. A large number of Muslims in India present and opportunity for Pakistani banks to open up Islamic windows.

He further said it is ideal for Pakistan businesses to enter into joint ventures and not take sole flight. In the start we should focus on complimentaries.

Haroon Askari, Deputy Managing Director, Karachi Stock Exchange

Haroon Askari described the low investment situation in Pakistan, he said FDI remained very low in Pakistan since 2007-08 and we have to seriously think about it. We should work to maintain law and order situation in Pakistan so that other countries’ investors along with India can make FDI in Pakistan. We are looking for FDI from India and also we are in favor of enhancing trade relations with India.

Further to this, he said India is a big market and we have only US $2 billion trade with India. So we must go ahead and try best to increase maximum trade with India along with FDI. Focus should also be on attracting portfolio investment from India.
Eng. M. Abdul Jabbar, C.E.O, Qaim Automotive Manufacturing (Pvt) Ltd

Eng. M. Abdul Jabbar was of the view that Pak-India informal trade should be formalized and it has the potential to US $15 billion. India’s research is of much better standard and compliments their business and investment; we need to have the same.

Institutions such as SDPI should focus their energies on engaging the private sector further so that deeper research and advocacy carried out.

Dr. Shahida Wizarat, Head Economics Department, Institute of Business Management

She said it is good that both countries are trying to normalize trade relations but these should be sustainable and business community should address this.

For Pakistanis to invest in India it is important that India provide some guarantee that any political upheaval will not affect Pakistan’s investment in India. India has still not returned the investments of Pakistanis which were confiscated in 1971. We also want India to show serious approach in solving longstanding issues like Kashmir, water etc.

Shaikh Muhammad Munir, Chairman Din Group of Industries & President India Pakistan Chamber of Commerce and Industry (IPCCI)

Investment in India is a good opportunity for Pakistani Investors, but I as a businessman will only investment after a wait of one year, as this is a recent development and some things related to this need to be matured on both sides at government level and business community level as well. Once the officials on both sides have developed a trust with each other then perhaps I will be more comfortable to invest in India.

At the end the participants were of the consensus that we need to move towards a bilateral investment treaty (or a similar arrangement) with India so that sovereign guarantees prevent reversal of current success at the diplomatic level.

Session II: Non-Tariff Barriers in India: Exporters Perspective

The panel on ‘Non-tariff barriers in India: Exporters Perspectives’ was moderated by Junaid Iqbal of Chief Executive Officer, Elixir Securities Karachi, with speakers including Khurram Hussain of Dawn News, Ali Khizer, Head of research at Business Recorder, Shaikh Muhammad Muneer, Chairman Din Group of Industries & President India Pakistan Chamber of Commerce and Industry (IPCCI), Afnan Ahsan, CEO of Engro Foods and Dr. Vaqar Ahmed – DED, Sustainable Development Policy Institute.
Khurram Hussain, Business Journalist, Dawn News

He started his address by identifying key non-tariff barriers while exporting to India that included complex custom procedures and quality standard regulations. These also included financial measures and para-tariff measures as well as visa difficulties. He stressed further on how India provides subsidies to key sectors such as agriculture which proves to be a conscious obstruction to the eventual goal of free trade. More importantly, goods arriving at Indian ports are arbitrarily valued for tariff calculation. Some goods are valued at cost, while others on volume or weight, depending on whichever is greater.

The inefficiency of transport arrangements, especially railway networks acts as another major barrier to trade between the two South Asian countries. To avoid such arbitrary arrangements, most exporters route their goods through Dubai, which in some cases increases their cost by around 40 percent. The agreement between India and Pakistan for transit through India is often not followed, which causes major problems for the food, cement and textile industries of Pakistan. On the Wagah-Attari border, there are restrictions on the size of trucks that can pass through, which adds to the cost of exporting goods through this route. As far as custom procedures are concerned, the use of discretionary measures by custom officials is widespread and there is a lack of complaint procedure mechanisms at major trade routes.

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

Ali Khizer, Head of Research, Business Recorder

He disagreed with Hussain’s comments regarding Pakistan’s slow reciprocation, and pointed out that restrictions in India are greater than those in Pakistan. Even historically, Pakistan’s trade regime has been much more liberal compared to India, whose economy was closed up until the late 80s. Khizer identified that informal trade between the two countries is almost $3 billion, which presents a huge opportunity for both countries if it is channeled into formal trade. The governments will also gain revenue if more trade is formalized. Furthermore, the military’s paranoia in both countries has led to complex visa procedures, and police reporting visas are granted after a long waiting period.
Shaikh Muhammad Muneer, Chairman Din Group of Industries & President India Pakistan Chamber of Commerce and Industry (IPCCI)

Next to speak was Shaikh Muhammad Muneer, who laid stress on the need to open more trade routes along the border. India has built bigger and better warehouses on major trading routes such as the Wagah-Attari border, which provide storage facilities for all goods that are exported through these routes. The problem with exporting to India, according to Munir, is that the custom house delays the clearance of goods for almost 2-3 days. For goods that are perishable and require refrigeration, this causes major problems.

Huge percentages of perishable items are lost as a consequence of these delays. Even goods exported for various trade exhibitions have been subject to delays by Indian custom officials, thus rendering the actual motive of the exhibitions useless. Cement exporters, for example, need to pay advanced guarantees of up to $10,000 depending on the size of the consignment, which acts as another major non-tariff barrier to trade. India no doubt is a bigger market, and the removal of these barriers will greatly benefit Pakistani exporters and in turn the Pakistani economy.

Afnan Ahsan, Chief Executive Officer Engro Foods Limited

He said while the model of pure and perfect free market competition and free trade might not be implemented since it was not practical, both India and Pakistan should concentrate on progressing towards the eventual aim of regional market integration. He further stated that India’s trade regime is complicated not only for Pakistan, but for all international exporters. He stressed on the need to put our own house in order first, before pointing fingers at India. While India’s custom procedures are complex, export facilitation measures in Pakistan are also poor.

Additionally, most Pakistani food items are not of international export quality, the reasons for which are numerous. He stated that all major stakeholder groups need to share the blame for this, and that major sectors of the economy need to become more efficient and competitive if they want to trade with India. As an example, Ahsan stated the case of Pakistan’s raw milk which is not exportable according to international trading standards. If the quality is made better, this may add to the cost, but the economic advantages of the possibility of exporting this raw milk would be enough to offset the effect of increased costs.

Further, once the industry begins to enjoy economies of scale, it would eventually drive down the cost. India’s rapid population growth means that even according to modest estimates, India will be a net importer of agricultural commodities in the near future. This presents a major opportunity for Pakistan’s agricultural sector. However, a major revamp of Pakistan’s agricultural sector will be required to bring in the latest farming practices, engineered seeds, and other technological advancements to increase the efficiency and output of this sector.
Dr. Vaqar Ahmed, Deputy Executive Director, Sustainable Development Policy Institute

He clarified that non-tariff barriers cannot be brought down overnight, and will need to fade out gradually. Subsidies will exist in both economies to protect important industries from foreign competition, but to compete with subsidy-protected sectors manufactures will have to increase their efficiency and performance. He further went on to mention the possibility of trade in services, and stressed that trade discourse should not be limited to business-to-business ventures only.

Services sectors make up a huge share of developed economies, and even in countries such as India and Pakistan the GDP contribution of services sectors is noteworthy. Thus, trade in services needs to be given its due share in trade negotiations. People-to-people contact should be increased to address the problem of trust deficit that exists between the two nations. Ahmed provided the suggestion that domestic national trade corridor projects should be developed so that transport costs in export markets can be brought down which would lead to the facilitation in trade with India.

Session III: India Pakistan Trade Normalization: Importers Perspectives

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

Zahid Adamjee, Managing Director Adamjee Automotives

The panel started with Mr. Zahid Adamjee’s brief address. Adamjee focused on how political insecurity in the region was a major non-tariff barrier. Even though India has allowed foreign direct investment from Pakistan to enter the Indian economy, political insecurities and a trust deficit on both sides of the border would hinder implementation of the recent FDI agreement. He stated that in case there was any terrorist attack in India which was blamed on Pakistan, what would then be the fate of Pakistani investments in the Indian economy.

He discussed how Pakistan and India do not have an agreement on trucks passing through the borders, and the current arrangement does not allow large trucks to pass through into India. He therefore laid stress on the need for a new and revised truck-pass agreement, if trade through the borders was to be increased.
Adamjee closed his address by mentioning how India’s large middle-class poses as a huge market for Pakistani goods. Within this huge market, niches could be identified and catered to by Pakistani exporters from different sectors. To state an example, he mentioned the case of a large Indian muslim population that could act as a big niche market for halaal food products from Pakistan. Pakistanis halaal food certifications are well respected across the world.

Naeem Yahya Mir, M.D. & C.E.O. Pakistan State Oil

Naeem Yahya Mir focused on the oil and oil derivative market and its international trade patterns. Mir mentioned how Pakistan did not invest in its refineries in the last 40 years, during which India heavily invested in the same sector. Therefore Pakistan’s oil products market remains to be an import oriented market. Thus, in case trade between Pakistan and India opens and barriers are reduced, the flow of trade will be from India to Pakistan in the oil sector. Stressing on the disadvantages of any market interventions by the government, Mir mentioned a number of such interventions which only have short term advantages. In the long run, these interventions will only have disadvantages for the domestic as well as for other regional economies. Taking this point further, Mir said that the dynamics of any sector should be controlled by market forces to create optimal results.

On the effects of political insecurities and cultural hostilities between the two countries on economic variables and outcomes, he said that commodities do not have a caste, religion or creed, and should therefore be allowed to flow freely between two countries to increase bilateral trade. Currently, PSO imports high speed diesel from Kuwait, whereas the same oil product is available at a cheaper freight cost from across the border in India. Thus, Indian high speed diesel is a more viable option according to economic fundamentals.

Amin Hashwani, Cochairman India Pakistan CEO’s Business Forum

He mentioned that it is always the larger economy that drives the regional economy. India has recently brought down tariffs on major products which is a welcome sign. Hashwani further said that India-Pakistan trade relations are subject to political hostilities between the two nations, and the 60 year old baggage of mutual mistrust has always had an effect on bilateral economic negotiations.

Therefore, even though recent agreements prove that there is political will on both sides to integrate the two South Asian economies, it will take time to bring the relations to a normal level. While identifying non-tariff barriers on the Pakistani side, Hashwani mentioned the lack of road and truck networks, railway networks and other institutional incapacities as major barriers.
He clarified that trade surpluses or deficits are relatively unimportant. What is important is the presence of a level-playing field for the growth of bilateral trade, which currently does not exist. He further said that in case bilateral trade grows between India and Pakistan, Pakistan could benefit by importing cheaper machinery and raw materials from India. Thus trade may not be restricted only to finished goods, but cheaper inputs could be imported from India as well which would greatly benefit Pakistani businesses. For example, Pakistan’s pharmaceutical industry could benefit from cheaper raw materials from India. Furthermore, trade in the pharmaceutical sector will lead to more competition and efficiency in Pakistan’s pharmaceutical sector, and thus lesser cases of fake medicines that have increased during the past few years in Pakistan.

The consumer is an important player in the relationship between India and Pakistan, and currently India has an edge since it is home to more international brands. However, recent exhibitions of Pakistani products in India, such as lawn fabrics and bridal wear, have been a booming success. Therefore, the market for certain Pakistani finished products in India is huge.

Hashwani also commented on the fact that the delay in granting India MFN status by Pakistan has brought Pakistan a lot of bad name, even though India’s non-tariff barriers were very effective in hindering bilateral trade. Therefore on paper, India enjoys a better reputation as far as the will for increased bilateral trade is concerned, even though the situation on ground is the opposite when India’s non-tariff barriers are brought into the picture.

**Haji Hanif, Cluster Lead, GSK Pakistan Procurement**

Haji Hanif, in his brief address, talked about how India’s pharmaceutical industry was more developed. Packaging components are cheaper in India, which can be imported if non-tariff barriers are brought down in Pakistan. Better pharmaceutical products units can be developed using cheaper intermediate goods from India.

**Dr. Ishrat Hussain, Director, Institute of Business Administration**

Ishrat Hussain closed the discussion by mentioning the importance of free trade. He narrated the case of Ghana’s economy, where second hand imported clothes were banned for a brief period to protect the local clothing industry. However, the consumers rebelled stating that the government had only banned these second hand imported clothes to protect the few local producers. Thus, millions of consumers stood to face higher living costs only for the benefit of the few local producers.

This ban on imports of second hand clothes was therefore lifted. The point of this example was to show how cheaper imported goods could increase savings in an economy, which could either
be invested or spent on other productive uses, thereby increasing the standard of living in an economy.

He stated that no country can benefit without international trade. He said that Pakistan needs to increase trade with one of the largest economies of the world that is India; since Pakistan only stands to benefit from such an arrangement. He went on to state that trade surpluses do not matter. What matters is efficiency and cost-saving, which come with competition, which in turn is a by-product of international trade. Therefore competition from international trade will only bring benefits, and Pakistan’s policy makers should not be complacent.

**Key Participants**

1. Farooq Saleem, Chief Operating Officer, STC, Karachi
2. Khaleeq-ur- Rahman Khan, Chief Executive Officer, Shirazi Trading
3. M. Asshar Khan, Deputy Director, State Bank of Pakistan
4. Sadiq Ansari, Deputy Director, State Bank of Pakistan
6. Ahmed Habib, Director ACE Consultants
7. Safdar Ali, Senior Economic Officer, BDHC
8. M.I. Malek, Economic Advisor, DFID
9. Huma Fakhar, Map Services, UK
10. Iffat Ara, Principal Economist, SPDC
11. Mobin Nasir, Editor, Business Recorder Research
12. Shahid H. Shaik, Chief Executive Officer, AGROSOL
13. M. Siddique, Chairman, FPCCI R&D
14. Rabia Nusrat, International Alert
15. Dilawar Ali, Assistant Manager, NICL
16. Asad Rana, Sales Executive, Tri-Pack
17. Amber Fatima, Economist, FPCCI
18. Imran Ghani, PPMA
19. Yahya Bandukala, Pfizer Pakistan
20. M. Hanif, PSMA

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