The Need for a New Nuclear Security Framework for South Asia
Elliot McBride

The Poison and the Antidote
Lt. Gen. (R) Asad Durrani

Civilization: A Document of Barbarism
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Storming the Bastille in Pakistan
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The Need for the West
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Civil Disobedience 2014 and Pakistan's Democracy
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Nuclear Terrorism: Myth and Reality
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TRADING WITH INDIA: LESSONS PAKISTAN MUST LEARN FROM BANGLADESH AND SRI LANKA

Samavia Batool and Vaqar Ahmed* (SDPI)

Abstract
(India and Pakistan being major players in the South Asian region are least integrated in terms of trade and investment. We examine the case studies of India-Bangladesh and India-Sri Lanka trade to derive key implications for Pakistan. By analyzing the trade statistics from 2001 to 2014, we find that Bangladesh and Sri Lanka, as opposed to Pakistan, have proactively strengthened their trade ties with India during the last decade. Review of the literature suggest that this has not only resulted into enhanced export performance of these countries but has also improved the productive capacity of local manufacturers and purchasing power of the consumers. Comparative analysis of tariff structures, non-tariff barriers and trade agreements concluded between India, Bangladesh and Sri Lanka allow us to suggest that Pakistan has a relatively restrictive trade regime and domestic regulatory environment which needs to be revisited in order to improve trade relations with India and other South Asian economies. Furthermore, we argue that a) misplaced fears of Pakistani business community are hard to justify when Bangladesh and Sri Lanka - relatively smaller economies have opened their markets to trade with India, and b) not allowing India non-discriminatory market access seems naive when Pakistan has given a far more liberal entry to China almost a decade ago. — Author)

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1. INTRODUCTION

Despite the present Government’s renewed interest in the trade agenda especially India-Pakistan trade, the process of granting the Non-Discriminatory Market Access (NDMA) status to India remains incomplete. Pakistan has earned a reputation of defaulting on its promises when it comes to trade and investment cooperation with India. Pakistan has twice backtracked from giving MFN/NDMA status to its neighbour.

In the wake of US withdrawal from Afghanistan, Pakistan’s growing energy deficit and the increased import needs of industry, it is important to develop strong bilateral relations with India. The case studies discussed in this paper clearly support the argument that strong trade relations can act as a confidence building measure and over the longer run create interdependencies which guarantee regional peace. Nevertheless, keeping other factors constant, there is no economic justification as to why we should not be trading with India when we are expanding the same with other neighbors (particularly China) at substantially concessional basis.

India is the largest economy in the South Asian region, accounting for nearly 80% of the region’s GDP. It was mainly a closed economy until the 1990s, after which it opened its markets for foreign competition via trade and foreign direct investment (FDI). The South Asian economies are actively striving to become a part of the global supply chain by strengthening its ties with India. Today, India is the single-largest trading partner of Nepal and Bhutan and its trade share is also rising with Bangladesh, Sri Lanka as well as Pakistan (Ding and Masha, 2012). Although regional trade in South Asia has expanded over the last decade, it still stands low as compared to other regional blocs. It may be noted that Pakistan’s trade performance with its western bloc i.e. Economic Cooperation Organization (ECO) also remains well below its trade potential. Figure 1 exhibits time series data on bilateral trade of Bangladesh, Sri Lanka and Pakistan with India.
We observe that India-Pakistan trade has been lower as compared to bilateral trade of India with Bangladesh and Sri Lanka. Pakistan’s exports to India show a remarkable average growth rate of 46% from 2004 to 2008, which again decreased due to strained relation of both over the 2008 attacks in India.

Pakistan restricts Indian imports in the form of negative list whereas Non-Tariff Barriers (NTBs) are major impediments facing Pakistan’s exports to India. SAFTA tried to pave a way for relaxed trade regime between South Asian economies but has still not managed to reach its optimal outcome. In this context, India-Sri Lanka Free Trade Agreement (ILFTA) is exemplary for regional economies as a result of which the Sri Lankan exports to India increased by ten-fold (Kalegama, 2014). Another important aspect to note here (Figure 1) is the astounding difference in the value of Pakistan’s exports to India and Pakistan’s imports from India. Needless to say, Pakistan also has to overcome supply side constraints and adapt to non-tariff measures in order to penetrate into Indian markets.

While Pakistan is in the process of granting NDMA status to India, it still seems a remote possibility that this decision would materialize
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any time soon due to strict opposition from some industrial sectors and farming lobbies. It would be interesting to note that the decision to sign ILFTA also met with strong reservations of the local industries of Sri Lanka based on a major concern i.e. import of cheaper goods would wipe out local industries in Sri Lanka (Weerakoon and Thennakoon, 2007). Despite these concerns, the Sri Lankan Government, in the interest of consumers and to promote greater value added intermediate inputs took the decision to sign ILFTA and liberalize in a gradual manner. This proved to be a remarkable achievement in the trade history of India and Sri Lanka.

Bangladesh also serves as an example in this regard, as it managed to take duty concessions from India on the export of textile products to India which resulted in a substantial increase in the export of textile products to India as well as the rest of the world. Based on these gains, Bangladesh was able to build capacity and modernize its textile sector.

Pakistan has kept its traditional industries under protection since long and even during times when unilateral liberalization was in Pakistan’s interest. Under the current scenario it would be prudent to open local markets for India as we did for China and let both compete. Having said this, the decision regarding not to liberalize trade with India should not be based on arbitrary statement presuming Indian products wiping out local manufacturers and traders when the same access is already available to Chinese products in the local market. Nevertheless, the reservations of local businessmen can be taken into account by taking a sector-specific or product-specific approach to liberalize trade with India.

Why Pakistan is unable to increase its exports to India?
- Poor quality standards
- High cost of production (cost of production do not decrease with the increase in output)
- Not been able to export manufactured goods owing to technology constraints
- Lacking capacity to negotiate reduction in non-tariff barriers (NTBs) on the Indian side
- Absence of harmonized regulatory regimes across border
- Energy crises facing industrial sector of Pakistan
- Low people-to-people and business-to-business contact
  Lack of knowledge regarding state-specific movement of goods and services
(References: Hussain (2013); Ghaus (2013); Najib et al. (2012); Ahmed et al. (2013); Ahmed et al. (2014)).
2. SITUATION ANALYSIS

2.1. Bangladesh-India Trade

The period between 2010-11 marked the beginning of a new trade regime for both Bangladesh and India when the Prime Ministers of both the countries agreed on improving and strengthening access to each other’s markets, transit trade facilities and electricity trade (De et al., 2012). After this India became the largest trading partner of Bangladesh in 2013 (Mishra and Roche, 2013). Figure 2 exhibits Bangladesh’s exports to India and vice versa along with the growth rate of bilateral trade. On average, Bangladesh exports to India have increased 25% over the last decade whereas the Indian exports to Bangladesh have increased by 19% during the same period. While Bangladesh-India trade still appears to be lopsided in India’s favor, studies reveal that the growth of domestic industries in Bangladesh as a result of increased input imports from India caused Bangladesh’s total exports to rise three-fold thus offsetting any negative implications of trade deficit with India (De et al., 2012). Trade with India has also boosted government revenues in Bangladesh.

Figure 2: India-Bangladesh Bilateral Trade

Data Source: International Trade Centre & Ministry of Commerce and Industry (India), 2014
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It may be noted that the export value of Bangladesh’s apparel, knitted fabric, edible fruits, cotton, raw hides and skin, waste of food industry, animal fodder, footwear and vehicles have increased considerably as compared to export value in 2011. Table 1 presents the product wise break-up of Bangladesh-India bilateral trade. The average growth rate of the top 5 Bangladesh exports to India over the last ten years show tremendous increase in the value of exports, whereby the exports of textile articles have increased phenomenally (by 600%).

Table 1: Top 5 Bilaterally Traded Products between Bangladesh and India

<table>
<thead>
<tr>
<th>Top 5 Products</th>
<th>Value in 2011 (Million $)</th>
<th>Value in 2013 (Million $)</th>
<th>Average Growth (2003-13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India’s Imports from Bangladesh</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vegetable textile fibers, paper yarn, woven fabric</td>
<td>137.7</td>
<td>99.7</td>
<td>35.6</td>
</tr>
<tr>
<td>Edible fruit, nuts, peel of citrus fruit, melons</td>
<td>42.7</td>
<td>89.3</td>
<td>82.1</td>
</tr>
<tr>
<td>Articles of apparel, accessories, not knit or crochet</td>
<td>26.5</td>
<td>71.5</td>
<td>51.2</td>
</tr>
<tr>
<td>Other made textile articles, sets, worn clothing etc.</td>
<td>65.6</td>
<td>62.5</td>
<td>601.5</td>
</tr>
<tr>
<td>Salt, sulphur, earth, stone, plaster, lime and cement</td>
<td>30.5</td>
<td>21</td>
<td>89.4</td>
</tr>
<tr>
<td>India’s Exports to Bangladesh</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>958.4</td>
<td>1662</td>
<td>38</td>
</tr>
<tr>
<td>Cereals</td>
<td>257.9</td>
<td>620</td>
<td>32.2</td>
</tr>
<tr>
<td>Vehicles other than railway, tramway</td>
<td>262.2</td>
<td>459</td>
<td>23</td>
</tr>
<tr>
<td>Machinery, nuclear reactors, boilers, etc.</td>
<td>169.8</td>
<td>283</td>
<td>33.2</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>33.3</td>
<td>249</td>
<td>37.2</td>
</tr>
</tbody>
</table>

Data Source: International Trade Centre, 2014

Other than trade, India has in recent times invested in thermal power generation facilities and an electricity transmission interconnection project in Bangladesh (Ding and Masha, 2012). India invested approximately $2.5 billion in Bangladesh during 2013 (Gulati, 2014). This may support the argument that trade openness facilitates smooth operation of
bilateral investment cooperation as well. This trade-investment nexus is now well documented (Nishitateno, 2013; Aurangzeb, 2003). In order to increase people to people interaction India has also decided to ease conditionalities on tourist visas (for example multiple entry visas for 5 years instead of one year) for Bangladeshi nationals of ages under 13 and above 65 (Gulati, 2014).

Mishra and Roche (2013) also highlight that over-time improved relations between India and Bangladesh have resulted in concessions in tariff rates on textile imports from Bangladesh to India. Textile exports to India grew by 37% during 2012-13 after tariff concessions on nearly 46 textile products (Ovi, 2013) whereas the top exported products from Bangladesh to India in 2012 also comprised of textile products.

2.2. India-Sri Lanka Trade

India and Sri Lanka signed a Free Trade Agreement based on negative list in 1998 which was operationalized in 2000. Sri Lanka’s exports to India increased from $58 million in 2000 to $566 million in 2005, depicting a ten-fold increase over a period of 5 years. Later years witnessed a decrease in exports till 2009 after which exports again began to increase and reached $567 million in 2012 (Kalegama, 2014).

Figure 3 presents Sri Lankan exports to India and vice versa for a decade. Growth rate of Sri Lankan exports to India surpassed the growth of Indian exports to Sri Lanka from 2003 to 2005, 2008 and 2011. Average growth rate (2002-13) of Sri Lankan exports to India was 31% whereas it was 23% in the case of Indian exports to Sri Lanka.
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Figure 3: India-Sri Lanka Bilateral Trade

Data Source: International Trade Centre & Ministry of Commerce and Industry (India), 2014

The export value of coffee, tea, residues of food industry, animal fodder, pulp of wood, edible fruits, knitted fabric, special woven fabric, furniture, plastics, paper articles, lead articles, article of apparel, beverages, etc. have increased as compared to 2011. A remarkable increase can be observed in Indian export of aviation and shipping equipment to Sri Lanka over the last decade (Table 2).

Kalegama (2014) highlights that in the post ILFTA period along with a significant increase in the number of products exported to India (505 tariff lines in 1999 to 2100 tariff lines in 2012) the type of exported products also changed. Overtime, Sri Lankan exports to India replaced primary products for example dried fruit, waste paper, etc. with value added products like insulated wires, ceramics, etc.
Table 2: Top 5 Bilaterally Traded Products between India and Sri Lanka

<table>
<thead>
<tr>
<th>Top 5 Products</th>
<th>Value in 2011 (Million $)</th>
<th>Value in 2013 (Million $)</th>
<th>Average Growth (2003-13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India’s imports from Sri Lanka</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee, tea, mate and spices</td>
<td>60.3</td>
<td>85.7</td>
<td>31.9</td>
</tr>
<tr>
<td>Residues, wastes of food industry, animal fodder</td>
<td>37</td>
<td>48.9</td>
<td>442.5</td>
</tr>
<tr>
<td>Electrical, electronic equipment</td>
<td>47</td>
<td>37.6</td>
<td>20.9</td>
</tr>
<tr>
<td>Pulp of wood, fibrous cellulosic material, waste etc.</td>
<td>24</td>
<td>26.2</td>
<td>29.1</td>
</tr>
<tr>
<td>Rubber and articles thereof</td>
<td>38.3</td>
<td>26</td>
<td>43.3</td>
</tr>
<tr>
<td>India’s exports to Sri Lanka</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft, spacecraft, and parts thereof</td>
<td>1.6</td>
<td>930</td>
<td>163.4*</td>
</tr>
<tr>
<td>Mineral fuels, oils, distillation products, etc.</td>
<td>775</td>
<td>661</td>
<td>21.9</td>
</tr>
<tr>
<td>Vehicles other than railway, tramway</td>
<td>917.3</td>
<td>441</td>
<td>33.2</td>
</tr>
<tr>
<td>Cotton</td>
<td>242</td>
<td>257</td>
<td>14.2</td>
</tr>
<tr>
<td>Ships, boats and other floating structures</td>
<td>233</td>
<td>233</td>
<td>1204.5</td>
</tr>
</tbody>
</table>

*Normalized for outliers

Data Source: International Trade Centre, 2014

Sri Lanka is now India’s largest trading partner among the South Asian countries where as India is the largest global trading partner of Sri Lanka (Indian Ministry of External Affairs, 2013).

A substantial amount of cross-country investments can also be observed. The trade investment nexus has gained in terms of boosting trade in services and foreign direct investment. India has invested in Sri Lanka’s petroleum, retail, hospitals, telecom, vanaspati, food processing and real estate, telecommunication, banking and financial services while Sri Lanka has invested in Indian food.

How Sri Lankan exports to India have increased?
- Signing and timely implementation of ILFTA
- Reduction in Indian tariffs in 2003
- Addressing supply side constraints
- Replacement of primary commodity export by manufactured goods
- ILFTA enhanced the competitiveness of the previously uncompetitive products
- Increase in Indian FDI to Sri Lanka in turn boosting production capacities

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manufacturing, hotels, garments, freight servicing and logistics (Indian Ministry of External Affairs, 2013).

2.3. India-Pakistan Trade

Trade relations between India and Pakistan have been subjected to frequent shifts. Both became signatories to SAPTA and then SAFTA, after which there were hopes that regional trade relations would improve substantially. Unfortunately, progress under SAFTA has remained extremely slow and many regional economies now count on bilateral trade agreements for improving trade relations. While no such agreement exists between India and Pakistan, trade relations of both countries are still operating under SAFTA where both countries maintain negative as well as sensitive lists to protect local industries which is a major reason of low levels of trade between them (Hussain, 2013). In recent times, there is renewed attention on granting NDMA status to India which holds the possibility of enhancing trade flows between both neighbors.

Trade statistics reveals that the growth of Pakistan’s exports to India has mostly remained less than the growth of India’s exports to Pakistan during the last decade (Figure 4) which is contrary to the percentage growth of Bangladesh and Sri Lankan exports to India. Average growth rate (2002-13) of India’s exports to Pakistan was 33.3% whereas it was 25% in case of Pakistan’s exports to India. Pakistan’s exports to India (absolute value) has shown an increasing trend in recent years (2009-12) but decreased by 24% in 2013.

Another interesting aspect to note here is that Indian exports to Pakistan increased by 33% in 2013 despite the negative list in place. While the Imports from India (both formal and informal) are increasing, there is only limited effectiveness of the negative list. Pakistan should however further rationalize the negative list and negotiate favorable terms of trade with India to provide greater market access to its exports and possibly also enhance its government revenues.
Product wise trade data of India and Pakistan shows that there has been little diversification of Pakistan’s exports since 2005. Also, major traded commodities exported to India comprise of primary products like fruits, vegetables, fish, cotton, salt, stone, etc. Table 3 exhibits the top 5 commodities traded between the two countries.

<table>
<thead>
<tr>
<th>Top 5 Products</th>
<th>Value in 2011 (Million $)</th>
<th>Value in 2013 (Million $)</th>
<th>Average Growth (2003-13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edible fruit, nuts, peel of citrus fruit, melons</td>
<td>72.8</td>
<td>103</td>
<td>51.2</td>
</tr>
<tr>
<td>Cotton</td>
<td>26.4</td>
<td>41.6</td>
<td>55.6</td>
</tr>
<tr>
<td>Salt, sulphur, earth, stone, plaster, lime and cement</td>
<td>46</td>
<td>40</td>
<td>166</td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>15</td>
<td>31.4</td>
<td>711.3</td>
</tr>
<tr>
<td>Mineral fuels, oils, distillation products, etc.</td>
<td>38</td>
<td>28.4</td>
<td>890</td>
</tr>
</tbody>
</table>
Trading with India

<table>
<thead>
<tr>
<th>India's exports to Pakistan</th>
<th>290.9</th>
<th>488.3</th>
<th>138.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>284</td>
<td>300.8</td>
<td>31</td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>168.3</td>
<td>222</td>
<td>34.6</td>
</tr>
<tr>
<td>Residues, wastes of food industry, animal fodder</td>
<td>70.4</td>
<td>159.5</td>
<td>54.8</td>
</tr>
<tr>
<td>Plastics and articles thereof</td>
<td>124.8</td>
<td>147.1</td>
<td>159</td>
</tr>
</tbody>
</table>

Data Source: International Trade Centre, 2014

The export of several products (from Pakistan to India) have increased during the last two years, including edible fruits, cotton, organic chemicals, raw hides, oil seeds, wool, sugar, glass, aluminum, etc. This, however, is still far below the potential level of exports. Despite trade restrictions, several Indian goods (due to high demand) find their way in to key Pakistani markets. The inflow of such goods from India through informal channels was estimated at $1.79 billion in 2012-13 (Ahmed et al., 2014).

3. TRADE AGREEMENTS AND BILATERAL RELATIONS

Analysis of trade agreements between most South Asian countries reveal that bilateral trade agreements are delivering successfully as compared to regional trade agreements. One of the major reason for this is that regional trade agreements are less likely to be equally opportune for every country signatory to it. The political economy of foreign relations also play a strong role in regional agreements. Countries, like firms have the tendency to prefer bilateral agreements with less risk to local industry.

3.1. Bangladesh-India Trade Agreements

Both the countries are signatory to a number of regional trade agreements which include the SAARC Preferential Trade Arrangement (SAPTA), South Asia Free Trade Area (SAFTA), Bay of Bengal Initiative for multi-sectoral Technical and Economic Cooperation (BIMSTEC) and Asia-Pacific Trade Agreement (APTA) (Rahman et al., 2011). Under
these trade agreements, Bangladesh’s exports to India receive various tariff concessions. Bhattacharjee (2012) explains that nearly 98% of the products exported to India now enjoy duty free access to Indian markets.

Several ministerial level meetings were held in 2011, which resulted in the signing of various agreements and MoUs such as the Agreement on Cooperation for Development and grant of permission for duty-free import of nearly 46 textile items. The Ministerial level working relationship between the two has strengthened over time and is evident from the recent 9th round of bilateral talks on trade which primarily focused on eliminating NTBs as a step to further boost bilateral trade (Rashid, 2014). Owing to improved bilateral relations, both countries are now trying to address more pressing issues such as water and boundary conflicts.

The Federation of Bangladesh Chamber of Commerce and Industry (FBCCI) also played a crucial role in strengthening trade relations between Bangladesh and India. FBCCI in collaboration with the Federation of Indian Chambers of Commerce and Industry (FICCI) conducted various meetings and roundtables between business communities of both countries to develop win-win terms for bilateral trade (FBCCI, 2014). The ‘Made in India’ show promoted Indian products, particularly industry raw material, in Bangladesh and sector specific business to business meetings were also facilitated through the joint efforts of FBCCI and FICCI. Both governments are now exploring ways by which people to people contact may be enhanced.

3.2. India- Sri Lanka Trade Agreements

Despite resistance from Sri Lanka’s domestic industries as well as from some sectors of India, the India-Sri Lanka Free Trade Agreement
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(ILFTA) was concluded in 1998. Exports of Sri Lanka to India from 1980 to 1998 show a highly stable trend with no major rise in exports (pre-FTA period). It was only in 2000 (post-FTA period) that Sri Lankan exports to India took a sharp upward turn. What makes this agreement successful from other regional trade agreements is the specific negotiation approach (based on pragmatic negative lists, more concession offered to Sri Lanka based on the asymmetries in both economies, grant of preferential duty margins to Sri Lanka etc.) adopted during bilateral interactions. (Werakoon and Thennakoon, 2007).

While ILFTA proved to be a success story, both countries have started working on further improving trade relations in recent times. There have been fresh talks towards the Comprehensive Economic Partnership Agreement (CEPA) which aims at liberalizing trade through upgradation of existing agreements (The Hindu, 2012). This agreement is yet to be concluded and is postponed since 2005 due to opposition from various groups of stakeholders (Kalegama, 2014; Nag, 2011). Now given the present trade ties of India and Sri Lanka, it seems that trade liberalization between these countries is not necessarily dependent on CEPA.

Lessons from Sri Lanka?
Move ahead of SAFTA and negotiate a bilateral agreement with focused terms of trade
Fostering inter-Governmental relations on sustained basis
Focus on strengthening trade-investment nexus
Export diversification is as important as export volume
Move towards export of value added products over time.

India and Sri Lanka are signatory to SAPTA and SAFTA but these agreements did not deliver much in case of Sri Lanka (Asian Development Bank, 2013). Both these countries enjoy good Government-to-Government relations which is a critical factor in expansion of trade. The Indian government extended support to Sri Lanka after the conflict ended in 2009. Special support was offered to conflict affected people. Indian Ministry of External Affairs (2013) reports various executive level meetings on trade (including President, Prime Minister, Speaker National assembly and Ministerial level meetings) between these two countries.
3.3. **India- Pakistan Trade Agreements**

Pakistan and India’s trade relations in theory are guided by SAFTA. Pakistan replaced its positive list by a negative list in 2012 in order to liberalize its trade with India. Now there are concerns that the negative list is restricting the smooth working of trade relations between the two neighbors and that Pakistan should grant the NDMA status to India which would cause the negative list to phase out completely (Dawn, 2013). There is evidence of both informal (Ahmed et al., 2014) and indirect flow of goods from India which renders the negative list of Pakistan redundant in case of several goods.

With the Government of PML (N) in the federal, there are renewed hopes of improving bilateral relations. Meeting of Commerce Ministers of both India and Pakistan in January, 2014 concluded on a positive note allowing Wagah-Atari border to be operational for 24 hours and Indian trucks to be offloaded in Lahore rather than at the border (Daily Times, 2014).

A Joint Business Council forum also held cross border meetings in 2013 and 2014 to identify priority areas for trade. Other engagements between the business communities include the India Expo in Karachi (2013), the Made in Pakistan exhibition (2012) in India and various other trade expos that were organized by the Federation of Pakistan chambers of Commerce (FPCCI) and FICCI (Indian Ministry of External affairs, 2014).

Although these steps are encouraging, they remain insufficient to deliver any substantial outcome. Having said this, Pakistan, on its part has to take a bold step by further rationalizing the negative list that would put it in a position to negotiate favorable terms of trade with India, particularly in the post NDMA milieu.

4. **COMPARATIVE ANALYSIS OF NEGATIVE LISTS AND TARIFF STRUCTURES**

SAFTA, which was concluded between the South Asian economies in 2004, is based on the negative list approach, which aims at protecting domestic industries. Nonetheless, this condition was subject to
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gradual decrease overtime i.e. by reducing the number of products in the sensitive list. Not all countries signatory to SAFTA differentiate between a sensitive and negative list (Abdin, 2009). India and Pakistan are an exception to this and are maintaining both negative and sensitive lists. India maintains a negative list for trade with every country while Pakistan maintains a negative list for only India. India’s sensitive list for Non-Least Developed Countries (NLDCs) is only applicable to Pakistan since trade with other NLDCs (Sri Lanka in particular) operates through bilateral trade agreements (Taneja et al., 2013).

Pakistan’s negative list for India mostly comprises of vehicles, electronic equipment, machinery, iron and steel products, ceramic products and paper products (Figure 5). While most of the SAFTA member states are protecting their industries with a sensitive list, it leaves Pakistan as the only country clinging on to the negative list for the protection of its domestic industries. Sri Lanka however maintains a negative list for India but only under ILFTA which consists of 1220 items mostly related to the food industry. It can thus be argued that the protection of the domestic industries is not necessarily dependent on the negative list and can be done through more prudent safeguards (as done by other SAFTA members through sensitive list).

Figure 5: Percentage of Products in the Negative List of Pakistan for India

Source: Ministry of Commerce, Pakistan (2014)
Sensitive lists between the SAARC countries are to be reduced in three phases till 2016. Till date, India has reduced its sensitive list for LDCs by 95% and for NLDCs by 29.3%. Whereas Pakistan has reduced its sensitive list by just 20% (SAARC Secretariat, 2014). This indicates Pakistan’s fear of even competing with countries other than India which are much smaller in physical and market size.

Table 4 further presents the comparison of custom duties on the import of various products prevailing in Bangladesh, Pakistan, India and Sri Lanka. We observe that Sri Lanka has the most liberal tariff regime as compared to other regional counterparts. It allows duty free import of certain products like organic and in-organic chemicals, iron, steel, etc. India on the other hand has somewhat relaxed custom duties but protects some of its industries like automobiles, sugar and confectionary by imposing 100% duty on foreign imports. Bangladesh and Pakistan have a similar tariff range for the products under analysis. In some product categories (like footwear, edible vegetables etc), Pakistan has a leverage to increase tariff rates to bring it at par with regional players. Once the negative list is removed, Pakistan can consider revamping the tariff structure. India, as opposed to Pakistan, has a simpler tariff structure minimizing the role of arbitrary discretion. There are however state level levies in India.

Table 4: Custom Tariffs (2012-13)

<table>
<thead>
<tr>
<th>Products</th>
<th>Bangladesh</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat and edible meat</td>
<td>25</td>
<td>5-25</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Edible vegetables, certain roots &amp; tubers</td>
<td>5-25</td>
<td>5-15</td>
<td>15-30</td>
<td>30</td>
</tr>
<tr>
<td>Sugars and sugar confectionery</td>
<td>25</td>
<td>10-30</td>
<td>5, 15, 30</td>
<td>30, 100</td>
</tr>
<tr>
<td>Mineral fuels &amp; mineral oils</td>
<td>5-25</td>
<td>5-25</td>
<td>0, 5, 15</td>
<td>10</td>
</tr>
<tr>
<td>Inorganic chemicals</td>
<td>5-25</td>
<td>5-25</td>
<td>0, 5</td>
<td>5, 10</td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>5-25</td>
<td>5-25</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>0, 5, 12</td>
<td>5-25</td>
<td>0, 15</td>
<td>10</td>
</tr>
<tr>
<td>Paper and paperboard</td>
<td>5-25</td>
<td>5-25</td>
<td>0-35</td>
<td>10</td>
</tr>
<tr>
<td>Special woven fabrics</td>
<td>25</td>
<td>25</td>
<td>0, 15</td>
<td>10</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Unit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear</td>
<td>25</td>
<td>20,25</td>
<td>0, 15, 30</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>5-25</td>
<td>5-20</td>
<td>0, 5-30</td>
</tr>
<tr>
<td>Electrical machinery and equipment and parts thereof</td>
<td>3-25</td>
<td>5-35</td>
<td>0, 5-30</td>
</tr>
<tr>
<td>Vehicles</td>
<td>0, 3-25</td>
<td>10-100</td>
<td>0, 5-30</td>
</tr>
</tbody>
</table>

Source: Commerce Ministries of countries under analysis, 2014

5. NTBS AS A POTENTIAL THREAT TO EXPORTS

With regard to Non-Tariff Barriers (NTBs) in trade with India, studies highlight the following most common NTBs faced by Bangladesh, Pakistan and Sri Lanka: requirement of extensive testing of food products, pharmaceutical items, cosmetics etc., packaging requirement, lack of warehousing facilities, countervailing duties, stringent visa regime, lack of testing facility at the border, issues of irrevocable letter of credit, standard harmonization, requirement of import licensing and port restrictions.

It is interesting to note that these NTBs are often highlighted as a justification for maintaining a negative and sensitive list by Pakistan because of the presumption that the liberalization of trade would go in favor of India, as Pakistan’s exports would fail to penetrate into the Indian market due to these NTBs. On the contrary, one can also see how Chinese exports (mostly consisting of machinery, organic chemicals, fertilizers, plastics, vehicles, iron and steel, mineral fuels etc.) have successfully made their way into Indian markets despite these NTBs which are common to every trade partner of India, even the European Union (Wouters et al., 2013). Trade data reveals that the Chinese exports to India has increased from $15 billion in 2006 to $48.4 billion in 2013 with an average growth rate of 21% (International Trade Centre, 2014).

Similar trends have been observed in the case of Bangladesh-India and India-Sri Lanka trade. Currently Bangladesh is apprehensive about
the NTBs it faces while trading with India and is discussing these at various bilateral track-I and track-II meetings. Likewise, Sri Lankan traders have reported that Tamil Nadu charges 21% taxes as opposed to 10.5% which they charge on local sales (Kalegama and Mukherjee, 2007). But the fact that the Bangladeshi and Sri Lankan exports to India have substantially increased despite these NTBs overrides the supposition of Pakistani industries.

6. POLICY RECOMMENDATIONS

The advantages of stronger trade relations with neighbors is now established and is attributed to a sharp reduction in transport, warehousing and distribution costs and improved border related trade infrastructure. It is thus important for the two major economies of South Asia to improve as well as strengthen bilateral trade relations. Some of the important recommendations for the Government of Pakistan based on the case studies analyzed in this study are:

1. In the wake of US withdrawal from the Afghanistan, it is important to improve relations with India. India is interested in Afghanistan and Pakistan can position itself in a manner that transit to India should provide strategic, trade, investment and revenue gains to Pakistan.

2. The continued trade dialogue between Bangladesh and India has opened doors for dialogue on other issues. Both countries are now more actively pursuing dialogue on water and boundary conflicts due to increased trade related interdependencies. On similar lines, Pakistan should try to develop strong trade and investment ties with India which would not only have favorable implications for Pakistan but also for the region.

3. It is time to move ahead of SAFTA like Sri Lanka. Pakistan can also consider signing a bilateral trade agreement with India with terms of trade in favor of local industries.

4. The structure of existing trade with India also needs to be revisited. Export of primary products need to be replaced overtime with the export of value added products along with the export sophistication measures of traditional products.
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This requires Pakistan to improve its product standards and compliance with internationally accredited standards. The exporter should be helped by the government to better adapt to NTMs in India.

5. The prolonged protection to the local industry must come to an end and local manufactures should be exposed to foreign competition. Protection of local industries from India can no longer be justified in the presence of Chinese products in the Pakistani market. Introducing Indian products would create a competition between Indian and the Chinese products and would substantially bring down the prices for both producers and consumers.

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1. After the term ‘MFN status’ became controversial in Pakistan, Government changed the title of the status to NDMA. The conditionalities however are still unchanged and are according to the World Trade Organization framework.
2. Only trade figures for 2014 have been taken from the Ministry of Commerce and Industry (India).
3. Negative list consists of items which are restricted to be imported from the other country whereas sensitive list includes the items which are exempted from low SAFTA tariffs but are allowed to be imported.
4. India maintains separate sensitive lists for NLDCs and Least Developed Countries (LDCs) under SAFTA.
5. 10% or Rs. 200 per kg-whichever is higher.

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