

# MFN STATUS TO INDIA - I

## INTRODUCTION

### Present Scenario

The two countries would take the process of normalisation of trade to its “logical conclusion” and India would also work towards a preferential trade agreement with Pakistan and easing of visa restrictions for businessmen.

After giving MFN status to Pakistan, 16 years ago, India is now forcefully demanding that Pakistan should give it the status of MFN which would result in a five fold increase in bilateral trade, from \$2 billion to \$10 billion between the two countries. India granted MFN status to Pakistan in 1996 but Pakistan has not yet reciprocated in the same manner said Indian officials. This was observed in the Federation of Indian Chamber of Commerce and Industry’s (FICCI) conference on India-Pakistan Economic Relations Prospects and Challenges, held in India.

Pakistan has a positive list of imports from India consists of 1934 items. India said the government of Pakistan should not only give India MFN status but also shift from positive list of imports to a negative list, which would be beneficial to both the economies and create a more conducive environment for trade and commerce to flourish, observed by the speakers.

India has maintained a ‘sensitive list’ of about 850 tariff lines for all Non Least Developed Countries members of SAFTA, including Pakistan. Trade under these items is allowed under MFN basis. India claimed that over the years, tariff rates would come down to the global levels. To improve infrastructure and streamline and harmonize customs procedures at land borders. The Indian government is setting up a modern integrated check post at India Pakistan border at Attari for trade facilitation, which was

## HIGHLIGHTS

- *India is demanding that Pakistan should give it the status of MFN which would result in a five fold increase in bilateral trade.*
- *Pakistan has a positive list of imports from India consists of 1934 items.*
- *The Indian government is setting up a modern integrated check post at India Pakistan border, at Attari, for trade facilitation.*
- *Pakistan allows import of 110 items from India land route while it was allowed export of only one item, cement by land.*
- *India is Pakistan’s ninth largest trading partner, it trades far more than France, Italy, Thailand, Iran, Canada, Malaysia and Japan.*

expected to be ready by April 2011.

Presently, Pakistan allows import of about 110 items from India through land route while it is allowed export of only one item, cement, to India by road route. Pakistan should be permitted all permissible items for trade via Attari, Wagah route.

Amongst more than 100 countries with which Pakistan trades, India is Pakistan’s 9<sup>th</sup> largest trading partner. This shows that Pakistan traded far more with India than it did with France, Italy, Thailand, Iran, Canada, Malaysia and Japan in 2007-08.

MFN is one of the instruments in use by the WTO to make member countries’ trade more competitive and non discriminatory. India and Pakistan are the signatories of the WTO Agreement; therefore, Pakistan is bound to grant MFN status to all member countries including India, without any

discrimination. In stead of granting MFN status, Pakistan has gradually increased the number of items permissible for trade with India.

However, Pakistani manufacturers feared that liberalizing trade between the two countries, after granting MFN status to India, will benefit more to India because it has a strong industrial and engineering base. Moreover, it has been the experience that India dumps cheap substandard products in the Pakistani market which posed problems for the Pakistani manufacturers.

### Advantages

India said if trade between the two countries expands it would take lesser freight cost, quick deliveries and short inventories are the advantages of trade. However, all depends if India and Pakistan resolve their political disputes through dialogue.

Total trade with Pakistan had reached \$2.5 to 3 billion but after 26/11, reduced to about \$1.65 billion, noted by Indian High Commissioner. The Indian envoy said that the ICCP would be fully computerized and equipped most modern facilities after which the trade between India and Pakistan would increase and the traders from both the countries would be able to ship their consignments speedily.

India imported about 1,181 items valuing \$3.9 billion that are common between Pakistan's exports and India's imports during FY04, covering 45 percent of the total items exported by Pakistan. About 70.3 percent of the common items exported from Pakistan have unit values less or equal to the Indian imports unit values. There is a large scope for export of these items by producing the quality required in India.

India and Pakistan compete to sell their goods in the global market, there are many areas in which they can complement each other's needs and hence produce cost effective quality goods.

A SBP report indicated that allowing import of items from India, i.e. expanding the current list of positive items, will give Pakistan an average saving of \$400 to \$900 million. Pakistan's economic reforms offer unprecedented and favorable opportunities to all MNCs including Indian based investors.

### Historical Background

Pakistan and India have fought three wars, two of them over the Himalayan region of Kashmir, since their independence in 1947 but their relations have improving now.

During the period 1959-04, Pakistan has signed bilateral investment agreements with 46 countries, excluding India. At present, the joint ventures between the two countries are almost non existent.

India and Pakistan have many common MNCs operating in their countries. These MNCs can act as conduits for trade and investment if they source raw material from each other. In order to attract export oriented FDI, Export Processing Zones may be the best place where creation of exclusive economic zones in Pakistan for Indian based investors have good option to attract investment.

Potential sectors for mutual cooperation between India and Pakistan include:

Agricultural industries, auto tires and spare parts, minerals, chemicals, pharmaceuticals, leather, textiles, telecommunications, gas pipeline, electricity generation using coal and wind energy especially in Sindh province.

### Saarc Preferential Trade Agreement (SPTA)

SPTA came into being and was implemented on November 8, 1995. Under this Agreement India agreed to allow concessional duties on import of 106 items from other member countries and Pakistan on 35 items.

However, official bilateral trade between India and Pakistan remained negligible and neither country falls in the category of top ten trading partners of each other, partly due to their history of being relatively closed economies.

Pakistan has made a policy to gradually open trade with India, especially in sectors in which it is not so competitive. Pakistan allows all kinds of exports to India. It had maintained a positive list under which items were officially importable from India. Under the South Asian Preferential Trade Agreement (SAPTA) negotiations, the positive list of importable

items was expanded in February 2006. On the other hand, India does not impose equivalent formal restrictions on exports to or imports from Pakistan, but other restrictions, e.g. on travel, remittances, banking, customs clearance, are generally believed to have a similar effect, especially as regards imports. The total number of items on which Pakistan has so far given concession to India has been extended to around 463 items while India extended concessions on 262 items. Under SAPTA, Pakistan and India were to scale down tariff rates from 25 percent to 20 percent within a time frame of two years, w.e.f. January 2006.

### Duties

India started its trade liberalization process in 1991-92 and from 2002-03 the general maximum customs duty was reduced from 35 percent to 20 percent (30 percent for agricultural products) in January 2004. The agricultural tariffs at an average of 40.1 percent remained substantially higher than non agricultural tariffs, 19.7 percent. The highest rate of basic customs duty in India is 70 percent whereas some agricultural products are subject to import duties as high as 80 to 150 percent.

In India, significant non tariff barriers (NTBs) include: requirement of political or security clearance, sampling or customs inspection, requirement of technical or standard certification, labeling and marking rules, packaging rules specification, etc.

Government mandated import monopolies in the areas of agricultural and petroleum products are also in place. In Pakistan, trade liberalization started in 1980 and by 2002-03, the basic maximum tariff was reduced to 25 percent. Currently, Pakistan operates with a relatively simple, four-rate structure, i.e. 25 percent, 20 percent, 10 percent and 5 percent. The average unweighted customs duty is 14.9 percent. Pakistan's trade liberalization has included the agricultural sector, where the unweighted average tariff is 20.5 percent, which is only moderately above the non agricultural tariff averaged 13.8 percent.

Both the countries can achieve specialization in various sub sectors of the economy. Moreover, the strengthening of bilateral/regional trade would provide

a cushion to the economies of both the countries from the financial or stock markets' shocks.

### Official Trade

The total trade was estimated, exports plus imports, between India and Pakistan, both formal and informal, is about \$10 billion, targeted amounting to less than one percent of their world trade; in 2008 it amounted to \$2 billion, up from \$500 million in 2000. The studies show that India-Pakistan trade could increase up to 20 to 50 times from its current level.

While formal trade between the two countries was only \$2.5 billion per annum, unregulated trade is much larger routed through third countries.

The volume of official trade between Pakistan and India is negligible compared to their respective global trade. This is partly due to their history of being relatively closed economies, but more importantly, past political and trade relations. The share of India in Pakistan's total exports remained less than one percent, whereas in total imports, it fluctuated within a narrow range of 1.24 to 2.66 percent.

Many people are against the free flow of trade between India and Pakistan. Some fear that this will lead to an economic invasion of Pakistan while others fear that it will facilitate terrorist activities.

However, winds of change are flowing but certain measures need to be taken, before starting free trade that includes building public support for liberal trade relations. The supporters said that trade between India and Pakistan will benefit both the countries by raising their GDP and household incomes. Moreover, strong economic relations will serve as a means towards the peace building process.

India agrees to eliminate nontariff barriers (NTBs) for sectors such as textiles, leather, cement, agricultural produce and surgical instruments. Both the countries agree to liberalise visa provisions for businessmen that is a significant barrier to the rapid expansion of trade would be modified.

In 6<sup>th</sup> round of talks on commercial and economic cooperation India and Pakistan agreed to move towards normalisation of bilateral trade by removing hurdles. Pakistan also agreed to notify small

negative list of items by developing physical infrastructure for trade through the Attari-Wagah land route was also under discussion. It was agreed that the Joint Technical Group would work to meet at the end of November 2011 and there would be follow up monthly meetings in December 2011 and January 2012. All infrastructure construction would be completed and fully operational no later than the end of February, 2012. The 7th round of talks would take place in Pakistan in April or May 2012.

### **Main Items of Exports to India**

Vegetables and fruits, textile yarn and fabrics, leather and leather manufacture, petroleum crude, plants for perfume, pharmaceuticals, rice, sugar refined etc, table-3.

India's tariff rates are high, especially for goods of particular interest to Pakistan, such as textiles, leather and the mineral onyx, and non tariff barriers (NTBs) are substantial.

### **Main Items of Imports from India**

Capital goods, dyes and chemicals, iron and ore, spices and fruits are imported into Pakistan from India through third country.

Despite suspension of the rail traffic, the traders from both sides continue to trade these items via Dubai.

About bank branches in each other's countries, both said opening branches is important and the process needs to be fast tracked. Both sides realized that increase in trade and economic engagement would help not only in the mutual quest for national development, but also contribute to building trust between the two countries. It was also said that the full potential of bilateral trade should be realized and to facilitate this objective, they would make efforts to create an enabling environment for trade on both sides. Both the countries would encourage the private sectors of their country.

Pakistan also appreciated India's support in WTO for the EU concession package for Pakistan which would give the Pakistani businessmen poise and create an environment of trust and cooperation.

Recently, Pakistan allowed expansion in positive list of items importable from India by adding 12 more items and granting a number of relaxations for one time import of industrial and relief goods. The items were selected by the commerce ministry in consultation with the ministry of industries and had got it cleared from the prime minister in September.

The additional list include import of printed books of all kind and newsprint from India, which was already allowed through sea and air routes and had now been allowed through the land route to reduce transportation costs. Empty aluminium alloy, milk cans, accessories for leather bags and footwear, jigs and dyes for vehicles, polymers, LUFENURON Chemical for pharmacy sector, cotton linter, fungicides for leather industry and other chemicals (Ucer G-50) for leather industry are some of the other items on the list.

Moreover, import of textile spinning machines, cone or bobbin winding machines, reeling machines, power looms, sewing, darning or embroidery needles, fly ash for cement industry only, thermo plastic rubber sole, traction motors and their spares, printed books of all kinds and plastic strip, a rust proof plastic packing material, has also been allowed.

### **Benefits of MFN**

#### **Cement Exports to India Boost**

Pakistan, with a vast potential to meet India's cement demand of construction sector, is likely to enhance its exports manifold to the neighbouring country with granting of Most Favoured Nation (MFN) status.

The local cement manufacturers said that in India is a place where they can offload huge surplus production of the commodity as their supplies are restricted against productions. Pakistan cement manufacturers have a combined installed capacity of around 44 million ton with a demand of about 31 million ton consists of 30 percent exports and 70 percent local consumption, leaving around 10 million ton of surplus capacity can be imported.

Pakistan has exported bulk of cement to Afghanistan but India has so far received only a tiny

chunk of it.

Average prices in Pakistan are around Rs417 per 50 kg bag in the northern areas while Rs401 per 50 kg bag in the southern region.

As compared to Pakistan, India has an opposite supply demand situation. The cement industry in India has been facing certain challenges to bridge its local demand in spite of having 300 small and 130 large units with a capacity of around 234 million ton. There has been an acute shortage of cement in the Indian market that takes around 15 days for delivery of cement bags on cash basis from Pakistan.

Indian cement prices stand at almost 280 rupees per 50 kg bag but if cement is imported from Pakistan, the landed cost of such import is lowered than almost 235 rupees per 50 kg bag or 16 percent lower than local price.

Local cement manufacturers are exporting cement to India through trains only. Therefore, only a limited quantity of cement could be exported to India. If India allows cement imports through Wagah border, it would be more beneficial for the players in the northern region like DG Khan, Lucky, Maple Leaf Cement, Gharibwal Cement, Bestway Cement and Pioneer Cement as they would have acting of lower transportation cost with improved export margins. The cement exports to India through Gujarat port would benefit southern cement players, as their location is nearer to the sea port.

The cement sector claimed that Pakistani cement is better in quality than Indian cement and also cheaper for Indian markets. In view of this competitive advantage, Indian government had created hurdles in free trade to protect its local industries.

The cement manufacturers pointed out exports from Pakistan remained negligible to India even after MFN status due to placing NTBs by India on the imports from Pakistan and other countries.

They said cement export to India was subjected to certification from Bureau of Indian Standards (BIS). The export licenses are issued to the exporters after visiting the factory premises and carrying out laboratory tests, to ensure that cement quality conforms to BIS standard. The license validity is for

one or maximum two years. It is mandatory requirement of BIS to conduct a quality inspection visit once in two years' time, only then they can issue renewal.

### **Power from India**

It was said that Pakistan's decision to import 500MW electricity from India would not only help to ease growing power shortages but would also lead to a new era in energy cooperation between the seven South Asian nations, comprising those who are in need of energy and those who are capable of providing electricity to their neighbours.

Iran has also offered to sell 1,000MW of electricity to Pakistan. However, the government appears reluctant to take the Iranian option at a time when American pressure has stalled progress on the import of gas from Iran.

PM gave the go ahead for the purchase of electricity from India, only a day before the federal cabinet agreed to grant MFN status to India.

However, it will take at least another year before electricity from India lights up Pakistani homes and markets even if the two sides are able to finalise the deal by end December, 2011.

The government decision to import electricity from India had come at a time when the country is facing increasing criticism from the opposition for its failure to eliminate electricity shortages in the country. In spite of continuous raising prices and long duration power cuts fueled negative public perceptions of the ruling PPP and is a major rallying point for the rival PML-N. Allegations of corruption in the award of rental power and IPP projects being heard by the Supreme Court would not much help the government's image building.

### **IT Firms see Business Growth**

Businessmen of the Information Technology (IT) industry are optimistic to enhance trade with India after it was granted MFN status. They hoped that potential of IT industries of both states will double their growth in various industrial and commercial

sectors with mutual sharing of IT based applications.

IT giants of both countries have been working together for helping each others' businesses flourish, however there are lots of restrictions in their path owing to foreign and trade policies of India and Pakistan.

President of PASHA Jehan Ara is optimistic about the initiatives of the government to improve trade ties with India. She said that Pakistani ICTs companies will reap the benefit with the current development, provided it will be implemented with true letter and spirit by the two states.

Pakistani and Indian companies have intended to invest in each other states but they are not provided access because of lack of states' support such as visa policy, financial transactions and corporate regulations, she hopes that all these issues will be resolved soon.

It was suggested that a few of Pakistani and Indian companies can merge to form a large corporation to expand their business with sharing of mutual expertise. It could not be possible because of restrictions in countries regulations, she said.

One of the top ICT company in Pakistan, Netsol, has been engaged with Indian companies to provide applications of financial services. Similarly, Ten Pearl has reportedly signed deal with Indian company for creating different mobile apps.

Besides, Pakistan's System Limited has been working with Indian firm for quite long period through its sister organisation in USA.

There is a lot of potential for Indian companies for investing in the field of IT in Pakistan, said Ashraf Kapadia, former chairman PASHA.

Indian IT giants are looking for outsourcing their business of BPOs to different countries and Pakistan could be its potential partner as an expert of producing services of this field. There will be lot of employment could be generated in the field of BPOs, if Indian companies invest in Pakistan. Indian and Pakistani companies are also exploring markets in Africa, Middle East and Europe.

Pakistan and India can boost their mutual trade

in Information and Technology (IT) sector up to \$5 billion through joint ventures, investment and exchange of expertise. Indian IT market is huge with volumetric exports but it is lacking of high quality of services, in contrast, Pakistani market is small comparatively but has gained tremendous reputation with its products and services.

Pakistani IT firms are experts of gaming and animation whereas Indians are master service providers of IT enable services. The real growth in trade between the two countries particularly in the field of IT could multiply significantly when India and Pakistan establish and operate their offshore offices at each other lands.

### **Confusion on Grants MFN to India**

There is lot of confusion about the announcement of given MFS status to India.

For instance, according to the Minister the federal cabinet unanimously granted Most Favoured Nation (MFN) status to India, deciding also to obtain parliamentary approval for the decision later on.

The Ministry of Commerce apprised the federal cabinet on the current process of trade normalisation between India and Pakistan. The cabinet fully endorsed the efforts of Ministry of Commerce for complete normalisation of trade relations and directed them to implement in letter and spirit the decisions taken in this regard. The cabinet gave the Ministry the mandate to take the process of normalisation forward, which would culminate in the observance of the MFN principle in its true spirit.

According to details Minister for Information Dr Firdaus Ashiq Awan informed a post cabinet briefing that the Cabinet meeting, chaired by Prime Minister took a unanimous decision for granting MFN status to India after a comprehensive briefing by the commerce secretary on economic benefits of bilateral trade between the two countries and alleviation of some members concerns over relations with India on political, defence, strategic and Kashmir issues.

She said that the decision taken by the Cabinet would also legalise the ongoing illegal trade of Indian goods to Pakistan through Dubai.

The cabinet decision of November 2, made public by different officials with contradictory statements, caused confusion in both India and Pakistan, but clearly indicated that it would take more time to grant Most Favoured Nation status to India.

Four days later, Indian foreign secretary also said such a step could take some time. Created more confusion. Furthermore, the Information Minister she announced that the cabinet had decided to grant India the MFN status to improve trade relations between the two countries.

Hours later, a press note issued by the commerce ministry did not say that Pakistan had granted MFN status to India. It said that the cabinet has given the ministry, the mandate to take the process of normalisation forward, which would culminate in the observance of MFN principle in its true spirit.

After the commerce ministry statement, Dr Awan backtracked from her earlier statement. She said, the cabinet had granted approval to the secretary of commerce to continue the trade normalisation talks with India.

Hours before the news briefing at the Foreign Office, the commerce ministry's statement was removed from the Press Information Department's website.

Commerce secretary Zafar Mehmood, was of the view that the entire trade liberalisation process is linked with the removal of nontariff barriers by the Indian government. But Indian High Commissioner to Pakistan pointed out on November 5 in Karachi, that India's nontariff barriers a uniform for all the countries and not Pakistan specific. However, Zafar Mehmood has set up committees to identify trade barriers to exports to India.

Three days later, Prime Minister Gilani also added the confusion, by saying that the cabinet has not granted India the MFN status. "How can we have given go ahead if the situation is quite favourable and in the national interest; otherwise, proceedings on it would be withheld." On Gilani's remarks, the Economic Times of New Delhi came against the "background of a flip-flop" by the Pakistan government on the issue.

The PM made a departure on the MFN issue and said, "we can brief Parliament on the cabinet's decision of going ahead with MFN, but according to my point of view, it is not necessary. He said only cabinet approval is necessary" to negotiate with other countries.

Many MNAs opposed to give status to India. In the beginning some of the ministers had also opposed over granting MFN status to India but dropped opposition after assurances from the PM.

Indian media severely criticized and said Pakistan now dilly-dallying on MFN status to India. It said a day after announcement of granting most favoured nation status to India, the Pakistan government appeared to be playing to the gallery by being ambiguous on the issue. They said India had granted Pakistan MFN status in 1996 but Pakistan was reluctant due to opposition from some trade lobbies and religious and hardline political parties, which contended that such a move would harm the country's stand on the Kashmir issue.

A large number of social, political, security personnel and religious elements are also not in favour to normalize trade relations with India unless the Kashmir dispute, in particular, is resolved according the UN resolutions.

However, the business community is not clearly opposing, but seeking protection of their businesses interests, which they fear may be swept away with the perceived flood of Indian products in the country.

A former ambassador said Pakistan may not gain much from trade liberalisation with India or any developing country because it does not produce much surplus that can be sent abroad. It does not enjoy a price advantage in more than a handful of products because cost of doing business far higher than regional countries.

But the Pakistan Business Council, which represents the 35 largest companies in the country, strongly favours unrestricted trade with India. Its members said that since they have had to compete with the MFN granted products from all other WTO members, they can compete favourably with Indian products as well. Besides, the increased trade with India, they believe, would improve Pakistan's GDP

growth rate by one to two percent.

They said it is the flawed policies of the governments that kept sectors such as textiles, pharmaceuticals and automotive incompetent and is still in infant industry stage. In pharmaceuticals, Pakistan has not encouraged the production of generic drugs under the pressure of multinationals while India is one of the leaders in this sector.

The manufacturers of Pakistan said although India has given MFN status 16 years ago but the country has not received any extra share in trade due to lingering red tape and alleged mishandling by the Indian government. Business men said due to NTB created by Indian bureaucracy, the Pakistani exporters could not get access to Indian markets.

The experts say that both the countries would have to disband non tariff barriers to move towards normalisation of trade and explained that it was not something new as both the countries had enjoyed MFN status from 1947 to 1965 and had signed four agreements.

Being the signatories of the General Agreement on Trade and Tariff (GATT), both the countries are bound not to involve in discriminatory attitude in trade with any of the member countries.

MFN status would be good for business, commerce and most importantly it would increase confidence on the economic front that both Pakistan and India are committed to move the social and trade agenda forward.

The Indian authorities due to superior quality of Pakistani textile products deliberately stopped its entry, as they feared the Pakistani textile would supersede the Indian textile. Therefore, declaring India as MFN will only give a nominal business of \$150 million to the textile sector in Pakistan as European Union is likely to allow imports from Pakistan after this decision, said FPCC&I. It said due to the NTBs Pakistani exports failed to achieve their true potential in Indian markets, while bureaucracy is in a hurry to award India MFN status ignoring the ground realities.

Further, to visit Pakistan, all Indian officials have to seek for approval from their Ministry of Interior and the process takes a lot of time thereby creating a

major bottleneck for businesses.

For instance, the recent inspection visit schedule of BIS representative got delayed for more than six months and then the BIS inspector refused to go to Pakistan's four cement factories: Attock cement, Cherat cement, D G Khan cement and Kohat cement effectively eliminating them for export to India.

The cement makers said presently all cement export via land route is through train. While trains have limited capacity. Additionally the train movement between two countries is governed by another treaty according to which only limited number of interchanges of trains can take place. Moreover, train movement involves double loading, unloading and storage capacity at Lahore has its limitations, thereby restricting the growth of export of cement to India.

The manufacturers suggested that the Indian government should allow Pakistani trucks to carry cement to the Indian side of the border from where trans shipment should be carried out by the Indian trucks.

India has now developed the facility of truck parking close to the border, which can be used for transshipment area.

Giving MFN status to India is creating a rift between the industrialists and traders; one believes that local industry has no benefit of MFN status.

The traders' lobby was trying its best to get access to European Union, that is why they are using India as a staircase at the cost of local industries.

### **Opening Monabao-Khokrapar Border**

Discussions are underway to improve infrastructure of land routes and opening trade from Monabao-Khokrapar border said High Commissioner of India, Sharat Sabharwal. Non-tariff barriers on Pakistani exports to India are also being under discussion. Indian Interior Ministry was working on visa liberalisation.

### **Connecting Mumbai with Karachi**

Karachi Chamber of Commerce and Industry President Mian Abrar Ahmad said it was the need of

the hour that both the governments should positively consider to connect Mumbai with Karachi through air and sea links as the businesspersons in Karachi are serious to import from India what was imported from China and other countries owing to lower cost and minimum logistics charges and shorter time.

Abrar Ahmed President KCCI said Karachi and Mumbai are sister port cities, natural partners and developed as two regional commercial hubs therefore there is a need to form Karachi-Mumbai joint chamber of commerce.

### Win-win Situation

The win-win situation need to be created to explore untapped potential, which is enormous and estimated around \$10 billion or more as compared with the current level of trade of only \$2.7 billion between India and Pakistan, 2010-11. It is estimated that the trade has a scope to increase from the present to at least \$6 billion per annum.

Pakistan has also kept its negative list in excess of 500 items out of over 7,000 tradable items that will be maintained initially, but will be eliminated with the passage of time.

People of Balochistan are also interested in trade with India. Large number of Balochistan's traders, importers and exporters are already doing business with India. Traders can export dry fruits, herbs and fine quality cotton, presently produced in central and southern parts of Balochistan and other products. They are already exporting dry fruits and herbs to India for the last many years.

Pakistan has a complete infrastructure of ports and shipping and other necessary equipment, which can be used for lessening freight and would be cost effective to traders.

Despite the fact the volume of informal trade is still by far larger than formal trade, but it is equally encouraging to see there is a persistent growth in the formal trade as well. Presently, Pakistan and India were exchanging goods to the tune of \$1.2 billion per annum through traditional sources formalised the trade of about \$3 billion.

It may be recalled that US President Barack Obama initially supported resolution of this lingering issue but stepped back. The Agra Summit is said to have resolved almost all the contentious issues between the two countries, but it failed, at the eleventh hour, in documenting the agreed points and bringing them into the knowledge of the international community.

The United States has said that cooperation between the two regional powers would be a win-win situation for the entire region. State Department said that Washington backs constructive dialogue between the two South Asian nuclear neighbours and cooperative ties between them would benefit the region. "We've said many, many, many times that we support constructive dialogue between the two countries."

### Impediments

Poor railway and road connections linkages make trade costly and difficult. Besides, inadequate sea shipments facilities and bureaucratic attitude restrict trade. Moreover, issuing limited number of visas and cumbersome payments and customs procedures further limit the trade. Moreover, in spite of no specific restrictions, there is in fact no trade in services or no foreign direct investment (FDI) flows between the two countries.

### Pakistan & India may Relax Business visas

India's Home Ministry and Pakistan's Interior Ministry have reached at a 'broad agreement' on a liberalised visa regime for Indian and Pakistani businessmen. For prominent businessmen, the two sides will grant multiple entry visas valid for a year.

The announcement was made in a meeting hosted by the FICCI. Arvind Mehta, Joint Secretary, Ministry of Commerce and Industry had announced the visa facility and Shahid Malik, Pakistan High Commissioner to India confirmed it.

The one year multiple entry visa would allow businesspersons to visit up to 10 cities with no requirement of a police report and no restriction on places of entry and exit.

In this regard a note to this effect will be ready in a week for the consideration of the Union Cabinet.

Do not be fearful of the future because things are changing. The South Asian Free Trade Agreement (SAFTA) has several safeguards to give comfort to domestic industry as these safeguards would allow imports to be stopped should there be any disruption of the domestic industry, Mehta said.

He also sought to allay the apprehension that India had imposed non-tariff barriers on imports from Pakistan. Citing the case of cement imports, he said there is zero customs duty on cement import, a policy signal that India welcomes cement from Pakistan.

Pakistan High Commissioner Malik, however, remarked that there is genuine apprehension amongst Pakistani businesspersons about the existence of Non Tariff Barriers (NTBs). These barriers do exist and there is no point in brushing this aside.

On visas, Malik said that the High Commission's mission statement was that business visas applied for at 11 AM should be given by 4 PM the same day. He hoped that this would be reciprocated by the Indian side.

**Table - 1**  
**Imports by India from Pakistan**

	(000' Rs)
2000-01	13928480
2001-02	11471155
2002-03	9737430
2003-04	22003807
2004-05	32487661
2005-06	48071604
2006-07	74937968
2007-08	106872116
2008-09	93470759
2009-10	102872370

Source: FBS

**Table - 2**  
**Key Economic Indicators**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
					<b>R</b>	<b>P</b>
GDP (fc) (I+II)	480217	518344	569044	619409	660236	n.a.
GROWTH RATE GDP (%) (Const fc)	5.8	6.8	3.7	1.7	3.8	2.4
CONSUMER PRICE INDEX (CPI) (Growth %)	7.9	7.8	12.0	20.8	11.7	14.1
Per Capita Income (fc-Rs)	31826	33345	33973	33957	35218	n.a.
Per Capita Income (mp-Rs)	33904	35154	35106	35908	37308	n.a.
STOCK EXCHANGE (Growth %)						
- KSE - 100 Index	18.6	28.2	2.6	-41.0	35.7	21.5
- Aggregate Market Capitalization	37.4	43.9	17.0	-43.0	27.5	15.2
TRADE AND PAYMENTS (Growth %)						
- Exports (fob)	13.8	4.5	18.0	-6.4	2.9	27.0
- Imports (fob)	31.4	8.0	31.6	-10.3	-1.7	13.2
- Trade Deficit	89.8	15.0	56.1	-15.7	-8.6	-10.8
- Workers Remittances	10.4	19.4	17.4	21.1	14.0	23.8
- Current Account Deficit	-222.2	-30.3	94.3	-33.2	-57.4	-121.6
As % of GDP (MP)						
- Exports(fob)	13.0	11.9	11.6	11.8	11.1	9.7
- Imports(fob)	19.4	18.5	24.4	19.6	17.6	13.6
- Trade Deficit	6.5	6.6	9.0	7.8	6.5	3.9
- Current Account Deficit	4.4	5.1	-8.7	5.7	2.2	+0.35

Population #

155.4      158.2      161.0      163.8      173.5      177.1

Source: SBP

**Table - 3**  
**Export to India**

2009-10		2008-09		(Value in 000 \$)			
Export	% Share	Export	% Share	Value	%		
(16.05)	268,332	1.39	319,619	1.81	(51,287)		
PRODUCT INCREASE				PRODUCT DECREASE			
JULY-JUNE				JULY-JUNE			
	2009-10	2008-09	VAR.	2009-10	2008-09	VAR.	
OTHER CHEMICAL	49,610	6,627	42,983	CEMENT	36,439	37,636	(1,197)
FRUITS	43,805	39,736	4,069	PETROLEUM PRODUCTS	16,158	134,451	(118,293)
COTTON CLOTH	33,362	26,510	6,852	RAW COTTON	2,959	13,879	(10,920)
PLASTIC MATERIALS	11,744	3,259	8,485	KINTTED OR CROCH. FAB.	1,421	2,038	(617)
LEATHER	11,426	10,058	1,368	FRUIT & VEG.JUICES	1,399	1,817	(418)
COTTON YARN	9,011	8,926	85	OIL SEEDS, NUTS & KERNALS	1,274	3,332	(2,058)
SURGICAL GOODS,MEDICAL	3,560	2,802	758	FISH & FISH PREP.	829	903	(74)
RAW WOOL	3,234	1,615	1,619	TEX.MADE UPS EXC.T.& BED.	612	902	(290)
ARTICLES OF PLASTIC	2,406	1,338	1,068	OTHER MACHINERY	366	969	(603)
ANIMAL HAIR	1,911	475	1,436	WASTE MATERIAL OF TEX.	178	299	(121)
SPICES(INCL. CHILLIES)	1,655	780	875	ONYX MANUFACTURED	127	156	(29)
MACHINERY SPECIALIZED	1,080	639	441	BOOKS & PRINT.MATTERS	105	144	(39)
KNITWEARS	924	566	358	FOOT BALLS COMPLETE	100	109	(9)
ART SILK & SYNT. TEX.	613	208	405	MARBLES AND STONES	68	123	(55)
READY MADE GARMENTS	541	479	62	AUTO PARTS	60	623	(563)
BED WEAR	512	261	251	LEATHER GLOVES	26	323	(297)
OTH. ELECT. MACHINERY	381	214	167	HANDICRAFTS	18	23	(5)
OTHER (SPORTS)	273	113	160	TRANSPORT EQUIPMENT	18	46	(28)
COTTON BAGS/SACKS	242	-	242	TULE, LACE, EMBR. ETC	13	72	(59)
Y. OTH. THAN C. YARN	240	28	212	OTHER FOOTWEAR	11	23	(12)
TENTS & OTH.CANVAS GOOD	164	20	144	W. CARPETS & RUGS	8	186	(178)
PREC./SEMI-PREC.STONE	152	129	23	OTH. LEATHER MANUF.	2	8	(6)
VEGETABLES	144	19	125	CARPETS KNOTT. & OTH.	1	64	(63)
PAPER & PAPER BOARD	76	-	76	RUBBER MANUF.	-	9	(9)
FURNITURE	69	13	56	HOUSE-HOLD EQUIPMENT	-	17	(17)
RICE OTHER VARIETIES	63	-	63	COTTON WASTE	-	128	(128)
APPAREL & CLOTHING	61	46	15				
RAW HIDES AND SKINS	58	18	40				
GLOVES (SPORTS)	45	28	17				
CUTLERY	38	37	1				
PHARMAUTICAL PROD.	33	17	16				
JEWELLERY	24	20	4				
TOWELS	20	5	15				
CRUDE FERTILIZER	13	-	13				
TEX.FABR.WOVEN(OTHER	13	9	4				
LEATHER FOOTWEAR	7	6	1				
CRUDE ANIMAL MATERIAL	3	3	-				
OTHER COMMODITIES	28,627	16,335	12,292				
<b>TOTAL</b>	<b>206,140</b>	<b>121,339</b>	<b>84,801</b>	<b>TOTAL</b>	<b>62,192</b>	<b>198,280</b>	<b>(136,088)</b>
	<b>62,192</b>	<b>198,280</b>	<b>(136,088)</b>				
	268,332	319,619	(51,287)				

Source: TDAP

**Table - 4**  
**Trade Between Pakistan & India**

Year	Export	Import	Balance of Trade	Total Export of Pakistan	% Share in Total Exp.	Total Imports of Pakistan	(Million \$)
							% Share in Total Imports
2001-02	49.370	186.809	(137.44)	9202.218	0.536	10342.865	1.806
2002-03	70.664	166.571	(95.907)	11160.246	0.633	12220.253	1.36
2003-04	93.74	382.14	(288.40)	12313.000	0.76	15592.000	2.45
2004-05	288.134	547.131	(258.997)	14,391.081	2.002	20,598.114	2.66
2005-06	293.310	802.002	(508.692)	16,452.398	1.783	28,586.007	2.809
2006-07	314.875	1181.403	(866.528)	16,976.243	1.855	30,539.709	3.868
2007-08	253.232	1701.566	(1448.334)	19,222.857	1.317	39,968.496	4.257
2008-09	319.619	1195.065	(875.446)	17,688.007	1.807	34,822.045	3.432

**Table - 5**  
**Major items of export from Pakistan to India**

Commodity	(\$ Million)							
	03-04	04-05	05-06	06-07	07-08	08-09	09-10	
Petroleum products & oil	n.a.	39.048	173.22	96.97	85.33	134.45	16.16	
Ed. Vegetables	32.545	12.445	19.422	55.417	64.81	0.19	0.15	
Cotton yarn & woven fabrics	5.110	9.246	23.7	42.055	63.532	8.93	9.01	
Ed. Fruits & nuts etc.	21.41	19.56	26.12	27.40	32.24	39.74	43.81	
Sugar & sugar confectioners	n.a.	2.75	17.07	0.003	0.03	n.a.	n.a.	

Share of Pakistan Exports in India's total Imports (2007)= 0.16 %

Source: WTO Trade data base, World Development Indicators, Federal Bureau of Statistics.

**Table - 6**  
**Major Items of Import from India to Pakistan**

Commodity Description	(\$ Million)				
	03-04	04-05	05-06	06-07	07-08
Organic Chemicals	156.198	204.99	300.48	442.63	637.51
Residues from food ind., animal feed	28.005	38.98	57.14	84.18	124.24
Plastic & articles there of	24.304	63.87	93.62	137.91	198.63
Ores, slag & ash	30.953	65.39	95.86	141.20	203.36
Rubber & articles there of	19.185	33.72	49.42	72.80	104.85

Share of Pakistan Imports in India's total Exports (2007)= 0.85%

Source: WTO Trade data base, World Development Indicators, Federal Bureau of Statistics.

**Table - 7**  
**Export and Import Commodities from India**

Commodity	(Million \$)						
	Export			Import			
	2007	2008	2009	2007	2008	2009	
Petroleum products & oil	173.221	160.325	50.525	Organic Chemicals	300.48	308.67	464.12
Ed. Vegetables	19.422	32.238	34.335	Residues from food ind., animal feed	57.14	99.84	78.92
Cotton yarn & woven fabrics	23.7	63.536	49.547	Plastic & articles there of	93.62	154.75	140.22
Ed. Fruits & nuts etc.	26.122	27.401	32.238	Ores, slag & ash	95.86	53.06	62.24
Sugar & sugar confectioners	17.072	0.003	0.034	Rubber & articles there of	49.42	72.80	104.85

## PROFILES OF PAKISTAN AND INDIA

### INDIA

**Location:** Southern Asia, bordering the Arabian Sea and the Bay of Bengal, between Burma and Pakistan

**Area:** 3,287,623m sq km (1,269,219 sq miles)

**Surface area:** 3,288 thousand sq km

**Port & Harbors:** Chennai (Madras), Cochin, Jawaharal Nehru, Kandla, Kolkata, Mumbai (Bombay), Vishakhapatnam

**Capital:** New Delhi

**Official language:** Hindi/Sanskrit

**Languages spoken:** The official language of India is Hindi, written in the Devanagari script and spoken by some 30% of the population as a first language. Since 1965 English has been recognised as an 'associated language'. In addition there are 18 main and regional languages recognised for adoption as official state languages.

**Religions:** Hindus (81%), Muslims (13%), Christians (2.3%) and Sikhs (1.9%), other groups (2.8%).

**Population:** 1.21 billion (provisional Government of India Census data, 2011)

% population < \$1.25 day: 34.3% (UNDP, 2007)

% population < \$2 day: 80.4% (UNDP, 2007)

**Unemployment:** 9.4%

**Literacy rate:**

**Currency:** Rupee

**Major Political Parties:**

**Government:** United Progressive Alliance, a Congress-led coalition.

**Head of State:** President Pratibha Patil

**Prime Minister:** Prime Minister Manmohan Singh

**Foreign Minister:** S.M. Krishna

**Membership of international groupings/**

### PAKISTAN

**Location:**

**Area:** 803,940 sq km (499,545 sq miles)

**Surface area:**

**Port & Harbors:**

**Capital:** Islamabad

**Official language:** Urdu

**Languages spoken:** Punjabi, Sindhi, Pashtun, Urdu, Balochi, English and many other local languages

**Religions:** Islam (97%), Hinduism, Christianity and others (3%)

**Population:** 177 million

Punjabi 48%, Sindhi 12%, Siraiki (a Punjabi variant) 10%, Pashtu 8%, Urdu (official) 8%, Balochi 3%, Hindko 2%, Brahui 1%, English (official; lingua franca of Pakistani elite and most government ministries), Burushaski, and other 8% Official languages: English and Urdu

**Population below poverty line:** 43 million

**Literacy rate:** Male: 63%; Female: 35.2%; Total: 49.9%

**Currency:** Rupee

**Major Political Parties:** Pakistan People's Party (PPP); Pakistan Muslim League - Nawaz (PML-N); Pakistan Muslim League - Quaid-i-Azam (PML-Q); Awami National Party (ANP); Jamiat Ulema-i-Islami- Fazlur Rehman (JUI-F); Muttahida Qaumi Movement (MQM)

**Government:**

**Head of State:** President Asif Ali Zardari

**Prime Minister:** Yousaf Raza Gilani

**Foreign Minister:** Hina Rabbani Khar

**Membership of International Organisations:** United Nations (UN); the Commonwealth; South Asian Association for Regional Co-operation

**organisations:** Commonwealth, United Nations, United Nations Human Rights Council, World Trade Organisation; G20, South Asian Association for Regional Co-operation (SAARC), ASEAN (dialogue partner); G4, IBSA.

**ECONOMY**

**Basic Economic Facts**

**GDP:** \$1.4 trillion (CSO, 2010)

**GDP Growth:** 8% (Gol,2009-10)

**GDP by sector:** Agriculture (15%), Industry (28%), Services (57%)

**Major Industries:** Textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software, gems and jewellery, leather manufactures.

**Major trading partners for 2009-10:** China (9.1%), USA (7.8 %), Saudi Arabia (4.5%), Germany (3.4%)

**Imports for (2009-2010):** China (10.7%), UAE (6.8%), Saudi Arabia (5.9%), USA (5.9%), and Switzerland (5.1%)

**Key imports/import partners:** Crude oil, machinery, gems, fertilizer, chemicals from China (11.1%), Saudi Arabia (7.5%), US (6.6%), UAE (5.1%), Iran (4.2%), Singapore (4.2%), Germany (4.2%)

**Exports for 2009-2010:** UAE (13.4%), USA (10.9%), China (6.5%), Hong Kong (4.4%), Singapore (4.2%), Netherlands (3.5%), UK (3.5%)

**Key exports/export partners:** Crude oil, machinery, gems, fertilizer, chemicals from China (10.7%), UAE (6.8%), Saudi Arabia (5.9%), USA (5.9%), Switzerland (5.1%)

	2008-09	2009-10	2010-11 (forecasted)
Real GDP growth (%)	6.7%	8%	8.6%
Consumer prices (% change) (April '10/January '11)	9.1%	12.3	11.3

(SAARC); Organisation of Islamic Conference (OIC); ASEAN Regional Forum (ARF)

**ECONOMY**

**Basic Economic Information:**

**Major Industries:** Cotton yarn and thread, raw cotton, cotton fabrics, rice (EIU data)

**Major Trading Partners:** USA, Japan, Germany, UK, Italy

**Major Foreign Investors:** USA, UK, Switzerland, UAE and Norway

**Exchange rate** (on 26 January 2011): £1 = 135.68 PKR (Pakistan Rupee) US\$1 = 85.88

**GDP (mp)** (FY 2009-2010): Rs 6,018,865 million

**GDP (mp)** (FY 2009-2010): Rs 6,212,576 million

**GDP Growth Rate** (FY 2009-2010): 4.1%

**Inflation:** (July 2009-June 2010): 13.3%

**GEOGRAPHY**

Pakistan is about three-and-a-half times the size of the UK. It shares borders with 4 countries: India to the east, China to the north east, Iran to the south west and Afghanistan along the western and northern boundaries. Pakistan’s coastline on the Arabian Sea is 1,064 km long. The climate can be roughly split into 3 seasons: cool (October through February), hot (March through June), and wet (July through September). There are, however, significant regional variations.

Pakistan is divided into four provinces: Balochistan, the Khyber-Pakhtunkhwa (formerly North-West Frontier Province), Punjab and Sind. In addition to the four provinces there are also the Federally Administered Tribal Areas (FATA), the Federally Administered Northern Areas (FANA), and the Islamabad Capital Territory. Pakistan-administered Kashmir is known in Pakistan as Azad Jammu and Kashmir (AJK).

**HISTORY**

In 1947, on independence from Britain, the subcontinent was split into 2 successor states: the

## GEOGRAPHY

India forms a natural sub-continent with the Himalayas to the north. The Arabian Sea and the Bay of Bengal, which are sections of the Indian Ocean, lie to the west and east respectively. India's neighbours are China (Tibet), Bhutan and Nepal to the north, Pakistan to the north-west, and Burma to the north-east. To the east, almost surrounded by India, is Bangladesh. Near India's southern tip, across the Palk Strait, is Sri Lanka.

India has 28 states with constitutionally defined powers of government. The states vary greatly in size, population and development. Each state has a Governor appointed by the President for five years, a legislature elected for five years, and a Council of Ministers headed by a Chief Minister. Each state has its own legislative, executive and judicial machinery, corresponding to that of the Indian Union. In the event of the failure of constitutional government in a state, the Union can impose President's Rule. There are also seven Union Territories including the National Capital Territory of Delhi, administered by Lieutenant Governors or Administrators, all of whom are appointed by the President. The Territories of Delhi and Puducherry also have elected chief ministers and state assemblies.

The 28 states are: Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Manipur, Maharashtra, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand, and West Bengal.

The Territories are: Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Delhi, Lakshadweep, and Puducherry.

Dominion of India and that of Pakistan, both with the UK Monarch as Head of State and represented in each by a Governor General. East and West Pakistan was created from the frontier areas of British India, where the military had always been an integral part of local administration. Civilian institutions were correspondingly weak, provincial loyalties strong. Pakistan was created by the Muslim League to be a homeland for the Muslims of British India. However, Pakistan's new leaders found it hard to devise a constitutional structure that could unite the various provinces, and incorporate both the East and West portions of the country. Early state-building was further complicated by a war with India in 1947, and the early death of Pakistan's founding father M A Jinnah in 1948, and first Prime Minister, Liaquat Ali Khan in 1951.

It took almost eight years to agree a final constitution. This established Pakistan as a republic within the Commonwealth in 1956. But the new parliamentary system was soon in difficulty: in 1958, General Ayub Khan launched Pakistan's first military coup. Martial law was declared, political parties abolished and a pattern of military control was established that has characterised almost half of Pakistan's existence since independence. In 1960 Khan became President. A new constitution, placing politics firmly under military guidance, was promulgated in 1962. But a failure to win a second war with India in 1965, mounting corruption and increasingly uncontrollable Bengali frustrations in East Pakistan gradually undermined Khan's authority, finally forcing his resignation in 1969. The first election on a nationally democratic basis was conducted in 1970. The elections saw the East-Pakistan Awami League gaining an overall majority, which the West Pakistan administration refused to accept.

This set the stage for a new constitutional crisis that in turn led to civil war in March 1971 and, following Indian intervention, the emergence of East Pakistan as the independent state of Bangladesh.