

## MFN STATUS TO INDIA - II

### Definition

Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports but are not in the usual form of a tariff. Some common examples of NTB's are anti-dumping measures and countervailing duties, which, although they are called "non-tariff" barriers, have the effect of tariffs once they are enacted.

Their use has risen sharply after the WTO rules led to a very significant reduction in tariff use. Some non-tariff trade barriers are expressly permitted in very limited circumstances, when they are deemed necessary to protect health, safety, or sanitation, or to protect depletable natural resources. In other forms, they are criticized as a means to evade free trade rules such as those of the World Trade Organization (WTO), the European Union (EU), or North American Free Trade Agreement (NAFTA) that restrict the use of tariffs.

The term MFN means the country which is the recipient of this treatment must, nominally, receive equal trade advantages as the "most favoured nation" by the country granting such treatment. Trade advantages, among other things, include low or high may not be treated less advantageously than any other country with MFN status by the promising country. There is a debate in legal circles whether MFN clauses include only substantive rules or also procedural protections. The members of the World Trade Organization (WTO) agree to accord MFN status to each other. Exceptions allow for preferential treatment of developing countries, regional free trade areas and customs unions. Together with the principle of national treatment, MFN is one of the cornerstones of WTO.

### H I G H L I G H T S

- *MFN is one of the cornerstones of WTO.*
- *16 years ago India have granted the MFN status to Pakistan.*
- *India made its intentions that they would not raise objections to the Pak-EU unilateral trade concession.*
- *Pakistan will be given duty free access to European markets mainly for 75 textile related products.*
- *A tractor in India costs almost half the price in Pakistan.*
- *In the last one year alone, cost of production in Pakistan has gone up by almost 25 percent because of imposition of general sales tax (GST).*

However, Pakistan facilitating fair trade, Indian NTBs retarding progress. The road blocked in trade liberalisation was due to NTBs by India that could not increase volume in the last 16 years despite India having granted the MFN status to Pakistan.

After wasting 16 years, Pakistan has decided to grant MFN status to India, without analyzing its repercussions on the economy of the country. Pakistan should see its own interests rather than the policies made outside Pakistan.

According to the details, the federal cabinet on 2nd November approved the proposal for granting India the MFN status. In the year 2011, Indian exports to Pakistan stood at \$1.445 billion, whereas exports from Pakistan to India amounted to a marginal \$286 million. While India granted Pakistan the MFN status

in 1996, the Non Tariff Barriers such as visa issues and conditions whereby exporters are expected to have an office in India have retarded progress in establishing a fair trade regime.

Pakistan may have to finalize process of granting MFN status to India in February 2012. Therefore, it has not only to prepare domestic industry, but to extract greater facilitation for its exports to India.

Pakistan has in principle agreed to grant India the MFN status, while India in return has decidedly made its intentions that they would not raise objections to the Pak-EU unilateral trade concession. According to the EU Preferential Trade package, Pakistan will be given duty free access to European markets mainly for 75 textile related products.

The economic rationale of bilateral and regional trade would reduce tensions and enhance the economic potential of the entire South Asia region through the revitalization of the dilapidated South Asian Free Trade Area (Safta).

An expert say the potential impact on Pakistan of freer regional trade would be:

Availability of cheaper raw materials and intermediate goods to Pakistani industry, Pakistani consumers will benefit from cheaper goods, a large market next door will be available for Pakistani exporters, Government revenue from import duties will rise, though the net effect on the exchequer is less certain after accounting for the potential fall in tax revenue from the displacement of domestic producers.

Moreover, before giving MFN status to India it should be ensured that waiver of its objections would enhance market access for Pakistan to the EU. First, India's waiver does not guarantee that the EU package will get through. Second, the EU package to Pakistan is for a limited period, and is estimated by industry sources to amount to approximately \$300m a year, at best. In exchange, Pakistan has granted incremental exports of several billion US dollars a year to India, said an Indian analyst that exports from India to Pakistan may amount to about to over \$9bn a year post MFN. Therefore, there is a

need to make a deeper study of 'winners and losers' in domestic industry and a comprehensive policy should be formulated to mitigate the effects of possible disruptions to investment and employment in Pakistan.

Pakistani traders said that there should be no fear that India would over run Pakistan and especially its agriculture. Pakistan has already opened its borders to China much cheaper producer than India. If Pakistan can withstand Chinese trade onslaught, there is no reason why Pakistan can not compete Indian products.

The Indians have an edge in vegetables and perishable items over Pakistan, especially the Sikh community; have proven to be more enterprising and innovative when it comes to agriculture. The Indians have made huge strides in local, and much cheaper, manufacturing of tunnels, drills and other technologies.

Pakistani farmers can be benefited by learning farming techniques, if they want to compete in the world and keep their agriculture financially relevant to the world.

Once borders are opened up, Pakistani farmers would certainly have easy access to much cheaper farm machinery. A tractor in India costs almost half the price in Pakistan.

In Pakistan, inputs are grossly taxed. Two additional factors, weak governances and crude cartelisation of commodity trade, make them comparatively expensive, add to the cost of production and do so almost on yearly basis. In the last one year alone, cost of production in Pakistan has gone up by almost 25 percent because of imposition of general sales tax (GST) and farmers are demanding corresponding increase in support prices. Fertilisers, pesticides, electricity and diesel carry very heavy taxes.

Sindh Revenue Board (SRB) has proposed the provincial government to set up trade terminals at Khokhrapar to boost up economy by starting trade through Khokhrapar-Munabao border. It was estimated that Sindh government would earn more than Rs1 billion in the head of Sales Tax on Services with the establishing of trade terminals at this border.

All the provinces, Punjab, Balochistan and Khyber Pakhtunkhwa, had their trade terminals on their road-trade-routes, therefore, it is the need of the hour to establish trade terminals at Khokhrapar.

### **MFN, a Dream or a Reality**

Pakistani cabinet's decision of granting the Most Favoured Nation (MFN) status to India is one of the most burning topics in both the countries. It would affect social as well as political scenario on both sides of the Indo-Pak border. Pakistan government has linked the implementation of the pact to more agreements as an exercise to ensure level playing field to protect the interests of Pakistani traders who may hurt by the export potentials of a huge economy like India.

Pharmaceuticals some industries like feared that cheap Indian goods will ravage local producers. There may be a sudden down fall, said Riaz Hussain, General Secretary of the Pakistan Pharmaceutical Manufacturers' Association. He says the local industry is worth Rs1.64 billion and produces 90 percent of the drugs for the domestic market. Opening trade with India would flood the market, therefore, all finished products should be on the negative list.

The textile industry, which accounts for nearly 60 percent of Pakistan's exports, is also worried. They are particularly concerned about synthetic fiber and synthetic made ups that should also be on the negative list. said Mohsin Aziz, chairman APTMA.

Abdul Waheed Khan, Director General of Pakistan Automotive Manufacturers' Association said we are with the government on this issue but the government should not open every thing to import from India.

Rice exporters fear liberalizing trade with India will harm export of Pakistani rice. The rice exporters of Pakistan, who are already facing cut throat competition in the international market with cheap non Basmati rice of India, would upset about the liberalisation of trade with the neighboring countries. The free imports from Delhi will result into great losses for both rice growers and exporters. They said the

rice sector of Pakistan will lose its markets in Iran, Afghanistan and other Central Asian states.

Taufiq Ahmed Khan, former Vice Chairman of Rice Exporters Association of Pakistan (REAP) said that the rice exporters are too much confused over the move of Ministry of Commerce who through a 15 days notice demanded recommendation over the negative list of trade being prepared for trade talks with India. As the sector needs almost a year to evaluate the impacts of imports from India which comparatively has three times high stock and quality of rice. The exporters have demanded to postpone the enlisting process as they were fearful about the imports from India after granting it the 'Most Favored Nation' status. India is eyeing other important markets of the region where Pakistan enjoys geographical benefits, we can also face huge losses in terms of exports to these countries. The country's exports have already become stagnant in the last one month due to the arrival of cheap Indian rice in the international market.

Besides, India also has a bumper crop this year with almost 20 kinds of exportable rice against the only two to three kinds of rice being exported from Pakistan. Showing the immediate and negative impacts of the proposed imports from India, the exporters have shown their serious concerns over the opening of rice imports. Commenting on the ministry's notice, he said that the exporters are not able to evaluate the impacts of the imports from India and give their inputs within 15 days. The process of the issue is very serious and sensitive.

Indian government had banned private companies from shipping nonbasmati rice in April 2008 amid a global food crisis, lifted that restriction on Sept 8. Exports from the world's second largest producer were a total of 4 million ton in the year. From April 1, Indian shipments accounted for 11 percent of global trade this calendar year; over taking the US and Pakistan to become the third largest exporter.

Though it was estimated that shipments from Pakistan may exceed 4 million ton with the production

of 6.5 million ton and an increase of 38 percent during 2011-12, the damages made to rice crop after the heavy monsoon rains in Sindh were also likely to affect the country's exports.

They suggested that following information should be analysed:

- (i) Tariff lines (along with HS 6 digits code identified) for inclusion in the negative list;
- (ii) Total production of the recommended item;
- (iii) The use of various inputs in production (in percentage terms);
- (iv) Total employment with factory wise breakup;
- (v) Pakistan global imports of that tariff line;
- (vi) Retail prices in Pakistan;
- (vii) National Tax Number/Sales Tax Number of the manufacturers; and
- (viii) Any other justification for import ban.

### **MFN Status to India & Edible Oil Industry**

The local edible oil industry has proposed revision in the duties and taxes structure and tariff rationalisation with regards to the vegetable ghee and cooking oil sector along with changes in customs and warehousing rules, procedures on grant of MFN status to India.

The industry has proposed doing away with warehousing surcharge @ 0.75 percent and admissibility of zero rated imports of raw material, edible oil, used in export of vegetable ghee or cooking oil instead of Duty and Tax Remission for Export (DTRE) scheme and inclusion of edible oil, vegetable ghee and cooking oil in negative list on giving MFN status to India.

A working paper of the Pakistan Vanaspati Manufacturer Association (PVMA) revealed negative impact of MFN status to India on the existing taxation regime and tariff structure as far as the local edible oil industry is concerned. The paper said the industry has recommended enhanced duty of 35 percent on imports of vegetable ghee currently imported in (flexi-

tanks) containerised form, anti dumping and countervailing duty on imports from India up to 35 percent, removal of anti dumping duty imposed on ghee industry inputs such as on import of tin plate and effective check on cross border smuggling on both eastern and western border.

The industry further recommended the Federal Board of Revenue (FBR) to revise the existing taxation structure on the edible oil industry following grant of the MFN status to India. It has been further proposed inclusion of edible oil, vegetable ghee and cooking oil in negative list under MFN status trade with India. PCT Code of requested items is 1507.1000, 1511.1000, 1511.9020, 1511.9030.

It has been apprehended that under existing duty or tax regime, after granting MFN status Pakistan will become dependent on India to fulfil its national consumption of this food item. There is a need to revise the taxation regime for the vegetable ghee/ cooking oil sector to avoid any kind of negative situation for local industry, which would arise after granting MFN status to India.

The manufacturers pointed out that the technical and tariff barriers restrict Pakistani importers to build stocks compulsory for 90 days. For instance batch of ware housing surcharge (0.75 percent) effective after 30 days from date of in-bonding forces importers to reduce their imports and keep it in line with 15 to 20 days consumption. Though national exchequer receives no benefit from this latch but on the other hand the local market loses its strength to fight inflation in international market prices of edible oil for longer duration, hence rise in prices of end product is being borne by end consumers.

They also proposed necessary agreement between State Bank of Pakistan and Indian Reserve Bank to facilitate opening of letter of credits and other banking facilities. The formation of inter ministerial committee under Ministry of Commerce further armed with representatives of trade bodies, sectoral associations, to ensure harmonisation and marrying up of all stakeholders, regulators, traders and manufacturers) for successful trade and further

address to impediments if observed during brain storming session. The committee so constituted shall also address in house existing technical and tariff barriers currently impeding the imports cum manufacturing cum exports.

According to the industry, since the 80 percent of total imports consist of Palm oil, therefore, the sector has remarkably improved the infrastructure to handle the large imports, approx. 2 MT per year. In this regard, the Tank Farm at Port Qasim to store 350,000 MT and 70,000 metric ton.. At any given point of time edible oil stocks available at Port Qasim, Karachi port for disappearance ranges between minimum 150,000 M Ton to maximum 225,000 M Ton.

The volume of 150,000 to 225,000MT is barely enough to meet the national requirement for 20 days only. Whereas 90 days of stock, which totals to approximately 500,000 MT is the need of the hour, since import process consumes about the same length of time. Being perishable item storage for longer duration is yet another challenge.

The working paper further disclosed that on exports front the dominant presence of Indian origin Ghee in Afghanistan reveals the effectiveness of subsidy given by India to the sector. The lesser, the Nil Custom Duty on imports of Palm Oil and competitive tax structure on Indian locally produced edible oil, when compared to Pakistan, are promoting the exports of this product.

It is evident that under same duty and tax regime, after granting MFN status Pakistan will become dependent on India to fulfil its national consumption of the food item.

Moreover, India and China are the largest importers of edible oil in the world, while making purchases enjoys concessional prices and cheaper freight rates as well. The international market prices are also disturbed at any given point of time, besides many other factors when these two giants make purchases to build up their stocks.

In the international edible oil import scenario

Pakistan occupies 3rd or 4th position. Since the exports of ghee to Afghanistan and Central Asian Republics (CARs) are not materialised fully due to in house tariff and technical barriers, therefore, importers-cum-manufacturers-cum-exporters are handicapped and can not compete with India in price negotiation. Furthermore comparison of duty in Pakistan and India further retards the scope.

The manufacturers further said that in the absence of any announced national policy and untested effectiveness of regulatory bodies, opening of trade with India under MFN status is likely to give advantage to Indian exporters of edible oil, vegetable ghee and cooking oil to Pakistan.

India can easily bag the advantages of international market price fluctuation, which is obvious after the closure or retarding of local industry and edible oil imports in Pakistan. Nevertheless, it is sure that no credit of declining prices shall be shared with Pakistani consumers. Hence Pakistan will lose its grip on food security and availability of product at affordable prices, industry opined.

Large scale subsidies given by India to its agriculture and manufacturing sectors has to be addressed by imposing anti dumping and countervailing duties on imports from India or similar identical subsidies be granted to local sectors to compete with them. Besides, eminent food insecurity, following industries depending on manufacturing of vegetable ghee and cooking oil will also be affected. The sectors included soap industry, transport sector and solvent extraction industry, the paper said.

Under Safta, Pakistan has committed to a sensitive (negative) list of 1,169 items that was likely to be reduced to only a few items.

### **Pakistan to benefit by granting MFN status to India**

Pakistan's former ambassador to World Trade Organisation Dr Manzoor Ahmad said in an interview, with profit, that the granting of MFN status to India is in Pakistan's interests as it will allow diversification

and increase in exports.

He was confident that it is in Pakistan interest to do so. There are several reasons why this decision should have been taken much earlier. Firstly, Pakistan needs to diversify its export destinations, as currently 50 percent of its exports go to either United States or European Union. Secondly, our imports from India come mostly through third countries adding to costs. Thirdly, all successful trading nations build on their regional base. In contrast, our regional trade is less than five percent.

He further said the experience of many small economies is that developed closer trade relations with larger ones shows that it was a win-win situation for both sides. For the smaller economy there was the gain of access to a bigger market. For instance, when Turkey signed an agreement with EU in 1996 for free movement of industrial goods, its exports totaled a mere \$11.5 billion.

Fast forward fifteen years and Turkey's exports to the largest economy in the world have multiplied five times, reaching \$61 billion last year. Similarly, Mexican exports to United States more than quadrupled after it joined North American Free Trade Area (NAFTA) in 1994, climbing from \$60 billion to \$280 billion per year. As for direct trade between Pakistan and India, at the very least it would help increase our global exports as our input cost would come down.

He said our exporters would need to specifically identify such barriers and bring them to the notice of Ministry of Commerce. It is a fact that India used to be a closed economy but it has been gradually opening up. Its imports are now growing at a fast pace. Pakistan should try to benefit from this opening of Indian economy. An example is when Pakistan started exporting cement to India, many exporters complained of difficulties in meeting the Indian standards because of bureaucratic hurdles. However, these problems have been resolved to a large extent. Now the main problem is non-availability of railway carriages. If India allows import of cement through

Wagha border by road, Pakistani exporters may be able to export up to 10 million ton as India is facing a shortage and Pakistani cement is more competitive and has access capacity.

It is a fact that India is the world's most frequent user of anti dumping duties but most measures are applied against China. Despite frequent application of anti dumping against Chinese imports, their mutual trade has been growing rapidly. When India and China agreed to give MFN status to each other in 1984, their mutual trade was very low. Over the last 20 years, their trade has grown from less than \$1 billion to over \$60 billion in 2011. This is an increase of over 60 times. So far there is no known case where India has imposed any anti dumping duties on exports from Pakistan.

Commenting on Indian automobile industry he said no doubt India is one of the largest automobiles manufacturers and some of its cars such as Tata's Nano brands are sold at less than \$2000 per unit. Pakistani cars cost many times more and our industry does not have economies of scale and is therefore less competitive than India's.

MFN status, however, is not likely to have any impact on the auto-industry for the foreseeable future since MFN status does not mean that tariff rates will be brought down to zero. Currently, custom duty and other taxes on imports of vehicles are more than 100 percent, which is enough to protect local industry. Import of second hand cars is only allowed under special conditions and it is not likely that they would be imported from India. Also, it is likely that the government may place automobiles on negative list, which is under preparation.

Analyzing the pharmaceutical industry, he said, India is one of the largest manufacturers and some of the medicines are much cheaper than those produced in Pakistan. He said Pakistan has a smaller pharmaceutical industry than India but it is making quality products. It is already exporting medicines worth over \$150 million to 45 countries and access to the big Indian market will be an advantage.

Furthermore, import of medicines into Pakistan is controlled through the Drugs (Import and Export) Rules, 1976. Pakistan is already allowing import of some high quality life saving drugs from India. They are much cheaper than importing from Europe.

Even such common medicines as Aspirin, Amoxillin, Ampicillin, Ciprofloxine, Famotidine, Laxotanil, Renitidin, whose import is not allowed are smuggled in, because they are cheaper. Allowing imports would only legalise the current situation. It will also bring down prices of essential medicines which would greatly benefit the poorer section of our society.

He mentioned the sectors where Pakistan would benefit and where India would gain. He said in my view Pakistan has comparative advantage in textiles sector in particular bed linen and towels. Likewise, in several light engineering products such as surgical goods, cutlery and sports goods Pakistan would have an edge and can get a good market share.

On the other hand, for heavy machinery, Indian manufacturers would be in an advantageous position. For auto parts, India may replace traditional suppliers such as Thailand and Taiwan.

As far as agriculture sector is concerned Dr Manzoor said it is likely to be a balanced picture. In some cases, such as citrus fruit, mangoes, rice and wheat, Pakistan may have an advantage as it enjoys advantage of better quality. On the other hand, India may have an advantage in several other agricultural products such as garlic, red chilies, capsicum, beans and soybean meal. For most other products, it will vary from year to year depending upon harvest conditions. This will stabilise prices, bring down inflation and make these products more quantity available, if products are not hoarded.

Trade experts say giving MFN status would provide the following benefits:

- A country that grants MFN on imports will have its imports provided by the most efficient supplier. This may not be the case if tariffs differ by country.

- MFN allows smaller countries, in particular, to participate in the advantages that larger countries often grant to each other, whereas on their own, smaller countries would often not be powerful enough to negotiate such advantages by themselves.

- Granting MFN has domestic benefits:

Having one set of for all countries simplifies the rules and makes them more transparent. It also lessens the frustrating problem of having to establish to determine which country a product (that may contain parts from all over the world) must be attributed to for customs purposes.

MFN restrains domestic special interests from obtaining measures. For example, butter producers in country A may not be able to lobby for high tariffs on butter to prevent cheap imports from developing country B, because, as the higher tariffs would apply to every country, the interests of A's principal ally C might get impaired.

To reciprocate this gesture, the Indian government would formally withdraw its opposition to an EU trade concessions package at the World Trade Organisation. The WTO was scheduled to take up the EU waiver issue on Oct 20 and the Indian decision is likely to be announced the same day, but Bangladesh lodged a complaint the issue remained unsolved.

Commenting on the giving MFN status to India Commerce Secretary Zafar Mahmood said the government decision would not be implemented the free trade regime without ensuring level playing field for its exporters.

Islamabad has proposed three agreements to be signed with New Delhi. The first is the Customs Cooperation Agreement to address Pakistani exporters' complaints of Indians charging high taxes. Mutual Recognition Agreement for standardisation of quality standards and grievances Agreements to address consumer protection issues. It was learnt that the demand was made after exporters complained about Indian Non-Tariff Barriers (NTBs) which could hinder trade.

## NTBs

The two examples of the trade restrictive regime adopted by India are: export samples are required to be sent to any number of 'standards testing' laboratories across India, but without a certain waiting period for the results. A Pakistani garments exporter was recently asked to send his samples to Pune, Chennai and a third city across the length of India, adding to costs and uncertainty. In addition, a frequent complaint of Pakistani exporters is that their containers are routinely opened while it is raining in Mumbai, to which the Indians respond that all containers are routinely opened in the rain in Mumbai.

To fully exploit the potential of the MFN move, three concessions should be drawn from India before further progress is made:

- Opening of land routes between the two countries.
- The provision of transport infrastructure to be expedite on the Indian side, such as railways wagons etc.

Opening of more Pakistan specific standards testing laboratories to ease the constraint facing our exporters.

Non Tariff Barriers (NTBs) refer to a range of actions, other than tariffs, that governments apply to restrict imported goods. Often bureaucratic in nature, the intention of Non-Tariff Barriers is to raise the prices of imported products to make them less attractive to consumers, or to restrict their availability in favour of domestically produced versions of the same goods. Although most non-tariff barriers violate World Trade Organisation rules, their use is increasing. Pakistan's trade and industry sources repeatedly criticise the deliberate impediments enforced by the Indian authorities in the name of formalities.

They complained that NTBs implications included inordinate delays in customs clearance of Pakistani goods, frequent dispute over valuation of goods for determination of duties, strictly applying Indian standardisation laws and charging composite tariffs on textile and hardships in issuing visas to

Pakistani traders.

In September this year Pakistan decided to replace tradeable list, known as positive list currently comprising 1,958 items, with nontradeable list, known as Negative list by February 2012. Pakistani traders have proposed to add 600 items to the negative list.

## Kashmir

Pakistani people, generally, are opposing this agreement and they want to link it with the solution of Kashmir issue. The history of events leading to its division have long been contested and led to at least three wars between India and Pakistan. India claims that the former princely state of Jammu and Kashmir legally acceded to it in 1947. Pakistan claims that Kashmiris were denied their choice of which state to join and has since held that the status of Kashmir can only be decided by a plebiscite in line with UN Resolutions passed in 1948. Kashmir has been divided since 1948 by a cease-fire line, known as the Line of Control (LoC).

Pakistani administered Kashmir is almost exclusively Muslim, divided between so-called Azad ("Free") Kashmir and the more remote Gilgit-Baltistan, (formerly known as the Federally Administered Northern Areas). Indian-administered Kashmir is divided into three main and very different sectors: the Kashmir Valley which is mostly Muslim, Jammu which has a slim majority of Hindus, and Ladakh, which is sparsely populated and half Buddhist. Political orientations of people in Indian-administered Kashmir are not governed by religious identity alone. Each of these regions are internally differentiated on linguistic, religious and cultural lines.

There has been continued violence in the Kashmir Valley between armed groups and the Indian security forces since the insurgency began in 1988/9. Levels of violence have fallen in recent years, but remain high: from a total of around 4,500 deaths in 2001 (including over 1,000 civilians) to around 381 in 2009 (including 78 civilian deaths). The Indian security force presence in Indian-administered Kashmir remains high, and there continue to be

allegations of serious human rights violations by both militants and security forces. The Pakistani security force presence in Pakistani-administered Kashmir also remains high with strong controls on freedom of expression and constant security surveillance. There are reports of militant camps in Pakistani-administered Kashmir. The Indian Government has said that levels of militant infiltration across the LoC have begun to rise since 2009 after showing a decline since 2005. (official figures say there were 342 incidents of infiltration in 2008 and 485 in 2009).

Since 2004, India and Pakistan have had several rounds of negotiations including a 'Composite Dialogue' aimed at settling all bilateral issues, including Kashmir. The Composite Dialogue remains suspended following the terrorist attacks in Mumbai in November 2008 but bilateral talks resumed in February 2010. Foreign Ministers of both countries met in July 2010 and are expected to meet again before the end of 2010. Both countries have agreed to a range of confidence building measures (CBMs) including the introduction of bus services on the Srinagar-Muzaffarabad and Poonch-Rawalkot routes to connect Kashmiris on both sides of the Line of Control (LoC). Five crossing points on the LoC have been opened to enable movement of people between both sides. India and Pakistan also opened up trade on select items across the Line of Control in October 2008. These CBMs are significant symbolic advances for both India-Pakistan relations and for the people of Kashmir.

Prime Minister Manmohan Singh has held talks with several Kashmiri separatist leaders since 2005 and subsequently instituted five 'working groups,' comprising political party representatives and experts, to frame recommendations for addressing the issue. In October 2009, Indian Home Minister Chidambaram announced that he would start a "quiet dialogue" with moderate Kashmiri separatists.

In September 2010 an all party delegation from the Indian Parliament visited Kashmir to hold talks with a range of political leaders and ordinary Kashmiris.

The Special Committee of the National

Assembly on Kashmir discussed the issue of granting the Most Favoured Nation status to India. The federal cabinet at its Nov 4 meeting had approved giving the MFN status to India.

The Senate committee on commerce discussed the issue on Dec 22 when it was informed that trade liberalisation with India had been partially linked to signing of four agreements to remove tariff and nontariff barriers that hindered Pakistani exports to Indian market.

### UK Position on Kashmir

The long standing position of the UK is that it is for India and Pakistan to find a lasting resolution to the situation in Kashmir, one which takes into account the wishes of the Kashmiri people. It is not for the UK to prescribe a solution or to mediate in finding one. We welcome the positive steps being taken by Pakistan and India to build trust and confidence.

"We remain committed to our engagement in a practical way through the UK Government's Conflict Pool, which continues to fund a number of projects designed to assist those in India, Pakistan and on both sides of the Line of Control with efforts to facilitate dialogue and address the causes and impact of conflict in the region.

#### UK Exports (goods only) to India

2005	£2,812.4m
2006	£2,703.9m
2007	£2,964.3m
2008	£4,118.9m
2009	£2,893.3m
2010	£4,071m
% Change ('09-'10)	38%

#### UK Imports (goods only) from India

2005	£2,832.9m
2006	£3,187.8m
2007	£3,772.9m
2008	£4,266.3m
2009	£4,325.3m
2010	£5,777.0m
% Change ('09-'10)	27%

The UK is the fourth largest FDI (Foreign Direct Investment) investor into India, the other three being Mauritius, Singapore and USA.

Bilateral trade (both goods and services) is worth £11.5bn as at 2009-10.

In 2008-09, the UK attracted 108 project investments from India, 2nd after the US), generating 4139 new jobs (again, 2nd only after the US).

There are more than 600 Indian companies with investments in the UK; about two thirds are in the ICT/software sector. The value of Indian investment in the UK is estimated to be £9bn. Taking the large acquisitions in to account, the UK receives more than 50pc of India's investment in to Europe. About 20% of India's IT revenues come from the UK. In this situation it can not be expected that UK will favour Pakistan.

## EU

The first Summit in June 2009 marked the beginning of a long term strategic EU-Pakistan partnership. It recognised the critical importance of a stable, prosperous and democratic Pakistan to the member states of the European Union.

The second EU-Pakistan Summit, held on 4 June 2010, built on the outcomes of the 2009 Summit to further deepen and consolidate the EU-Pakistan relationship. The EU and Pakistan agreed to develop a five year strategic engagement plan, and to greater coordination in the areas of development, trade, security and human rights.

In 2009 the EU remained the largest trading partner. EU exports to Pakistan totalled •3.9 billion and EU imports from Pakistan at •3.0 billion.

## Indian Economy

Before giving MFN status to India points to be considered are:

India's economy is one of the fastest expanding economy in the world, with a rapidly expanding consumer class.

- A Four-Pronged Strategy to spur growth in the Agriculture Sector. This includes Agricultural Production, reduction in wastage of produce, credit support to farmers and thrust to the food processing sector.
- New tax incentives announced for the infrastructure sector.
- Emphasis on consolidated growth, improving investment environment, inclusive development and strengthening transparency and public accountability.
- Lowering fiscal deficit to 5.5pc of GDP.
- Targeted disinvestment program to raise capital.
- Simplify FDI.for the first time, both ownership and control recognized as central to the FDI policy.
- Indian rupee to get a symbol, join the select club of currencies.
- Major tax relief were given to agriculture and related sectors.

India's economy was among the first in the world to recover after the global crisis, growing by 5.9 percent in 2009. Looking ahead India is expected to play an increasingly vocal role in key international negotiations.

Since 2004, India and Pakistan have several meetings including a 'Composite Dialogue' aimed at settling all bilateral issues, including Kashmir. The Composite Dialogue remains suspended following the terrorist attacks in Mumbai in November 2008 but bilateral talks resumed in February 2010.

The Prime Ministers Singh and Gilani met in April 2010 and announced their aim to build trust and confidence in order to pave the way for substantive dialogue. In February 2011, the Indian and Pakistani Foreign Secretaries met in Bhutan and announced that they would take forward dialogue in line with the mandate given to them by their Prime Ministers.

Since 2005, both countries have agreed to a range of confidence building measures including the introduction of bus services on the Srinagar-Muzaffarabad and Poonch-Rawalkot routes to

connect Kashmiris on both sides of the Line of Control (LoC). Five crossing points on the LoC have been opened to enable movement of people between both sides. India and Pakistan also opened up trade on select items across the LoC in October 2008. These are significant symbolic advances for both India-Pakistan relations and for the people of Kashmir.

Prime Minister Manmohan Singh has held talks with several Kashmiri separatist leaders since 2005 and subsequently instituted five 'working groups,' comprising political party representatives and experts, to frame recommendations for addressing the issue. In October 2009, Indian Home Minister Chidambaram announced that he would start a "quiet dialogue" with moderate Kashmiri separatists.

In September 2010 an all-party delegation from the Indian Parliament visited Kashmir to hold talks with a range of political leaders and ordinary Kashmiris. In October 2010 the Indian Government appointed three interlocutors to take forward dialogue between Delhi and a range of stakeholders to help resolve the situation in Indian administered Kashmir, these interlocutors have made a number of recommendations to the Government including the release of prisoners held without charge, allowing peaceful protest and exercising proper crowd control techniques.

### Electricity from India

Pakistan's decision to import 500MW electricity from India could help to ease growing power shortages. It should also usher in 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 expressed its willingness 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. Prime Minister Yousuf Raza Gilani gave the go-ahead for the purchase of electricity from India only a day before the federal cabinet agreed to grant MFN status to

New Delhi. Thus, trade in electricity between the two countries should also strengthen efforts to bolster bilateral economic cooperation between the two neighbours.

The issue of trade in electricity between India and Pakistan is also expected to come up for discussion when the prime minister meets his Indian counterpart on the sidelines of the Saarc conference in the Maldives towards the end of this month.

But 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 as expected by some officials here.

The government decision to import electricity from India has come at a time when it is faced with increasing criticism from the opposition for its failure to make good on its pledge to eliminate electricity shortages in the country in spite of raising consumer prices manifold.

Long duration power cuts fuel 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 do not help the government's cause; besides, they stall investment in the power sector. People are angry because the government has failed to implement several hydel power projects such as the Neelum Jhelum Hydropower Project, the Kohala Hydropower Project and the Nandipur Combined Cycle Project, whose completion would have somewhat eased power shortage woes in the country.

A government so besieged would be desperate to tap just any source to salvage its public image as a general election draws closer. Yet, a pipeline must still link the Indian energy theory with the practical through a terrain that is fraught with dangers of all kinds, including the political.

### Bilateral Trade

Pakistan is losing \$300 million to \$700 million

annually due to the application of positive list. Currently, the balance of trade is in favour of India as Pakistan's exports to New Delhi are \$264 million against imports of \$1.7 billion. At present many products are coming to Pakistan from India via Dubai with different brand names. This cost addition amount of \$300 million to \$700 million annually. Direct import of such raw materials and machinery from India would reduce its cost for the local industries. However, the trade balance would remain in favour of India. Before announcing to phase out negative list the government should take input from those industries that would be immediately exposed to competition.

Pakistani officials have admitted that trust deficit within Pakistan is ten times more than previously prevailed. They suggest that a full fledged campaign must be launched soon to abreast local industries of the challenges and opportunities in the post MFN trade regime with India.

Pakistani traders have suggested ministry of commerce to probe the issue of state subsidy to Indian exporters. They are afraid that this could hurt the interest of local industries. They also pointed out that cost of production in Pakistan is much higher than in India.

It is also anticipated that giving MFN status to India would result in flooding of local markets with Indian goods. But the supporters of MFN say that trade and economic activities with the neighboring country would benefit public by providing them with cheaper Indian products. They are positive that it would create a competitive environment for the industry and cheaper Indian products would be a relief for people.

The industrialists, concerned about the dismal situation of power, fuel and poor infrastructure of industrial sector in the country, feared that giving incentives to India under the MFN would further damage economy of the country. They see it from another angle, taking it as a disadvantage. They argue

that Pakistan needs to protect its industry as international forces are facilitating India to capture the market of Afghanistan.

Although giving MFN status to India has prohibited discrimination in trade, but still Pakistan needs to be careful as India may try to transit items to Afghanistan.

On the other hand, ordinary consumers think that the opponents are inefficient businessmen; lacking drive to compete and would resist MFN status to India. They plead that MFN status would take the country towards liberalisation and hoped that both countries would get benefits from it.

Agriculture, pharmaceuticals and auto sectors are likely to bear the burnt of MFN because Indian products in these sectors are much cheaper than Pakistan. But the plus point is that it will definitely benefit consumers and give them a choice and a sense of relief. They think that there must be a holistic approach to study the cons of MFN.

There are only two quarters who are opposing the promotion of trade with India. Firstly, the traders who are worried of losing their profits and secondly the hawks who never tolerate any sort of reconciliation with India.

If we look at the statistics of volume of trade with Iran, India, China, Japan, EU countries, USA and Japan, it is evident that the balance of trade is in favour of all these countries except, America. Therefore, it will not be surprising if India gains in the deal. All is needed that Pakistani authorities have to strike a balance while finalising the positive and negative lists. However, it is true that Pakistani traders must be protected from the giant companies of India, but it is equally true that Pakistani consumers also need protection against monopoly like situation in the domestic market.

India's dreams of attaining double digit economic growth within the next few years are fading, undermined by high inflation, slow progress on reforms and an uncertain global outlook.

The ruling Congress party has long wanted to make history as the administration, which ushered in growth of 10 percent - touted by successive governments as vital to significantly reduce crushing poverty.

But India's main economic planning body looks set to row back on the goal of double digit expansion when it fixes the country's five year economic, social and other goals to 2017.

Setting a target of 10 percent average growth for the next five years is not feasible. Planning Commission deputy chairman, Montek Singh Ahluwalia said, citing inflation, a need to jump start reforms and an international situation full of uncertainty.

China and Taiwan, two hostile neighbours, who gradually became economically integrated by virtue of shared supply chains thus, limiting the likelihood of territorial wars why Pakistan and India could not enhance their economic relations. MFN will prove to be a charter of peace between the two countries who have had disharmonious relationship in the past.

The Chairman of the Institute of Public Policy, former Federal Finance Minister and ex-VP of World Bank, Shahid Javed Burki said, "MFN status to India would bring greater benefits to Pakistan, a smaller economy compared with India, as Pakistan would emerge as the greatest beneficiary out of MFN status to India." He said that the trade between the two countries could double from current level of \$2.7 billion a year, simply by rerouting of goods currently sent via Dubai or through some other channels. He, however, cautioned that roadblocks such as stringent visa rules, nontariff barriers and other likes still need to be dismantled for full benefits to be realised.

### **Pakistan, India Discuss LoC Arms, other CBMs**

Pakistan and India opened their two day talks on conventional and nuclear CBMs with discussions on vital proposals, including removal of weapons along the Line of Control (LoC) in the disputed Himalayan region of Kashmir and increase in the cross LoC trade and travel, return of citizens who

inadvertently cross the border and betterment in advance notification mechanism of military exercises.

Senior officials from the rival nuclear neighbours discussed important nuclear CBMs such as inclusion of "cruise missile tests in the advance notification pact on missile tests", which currently encompasses ballistic missile tests. The other nuclear CBM that is likely to be taken up for discussion is cooperative arrangement between the two countries for dealing with Fukushima-like crisis, which occurred in Japan a few months ago. India is also expected to urge Pakistan again for 'no-first-nuclear-use pledge', but it is unlikely to be accepted by Islamabad, said a Pakistani diplomat.

He said a 10 member Indian delegation was taking part in the talks as part of the bilateral dialogue process. "Joint Secretary in charge of Pakistan desk in the India's External Affairs Ministry, YK Sinha will lead the Indian side at the talks on conventional CBMs.

This was the first meeting of the Joint Working Group on nuclear and conventional CBMs in over four years, though other officials, including the two foreign secretaries, have discussed these issues in recent meetings held in the two capitals.

The diplomat said that the officials from two sides had candid discussions on vital conventional CBMs, like a pact on removal of weapons from the LoC and steps to increase the cross Line of Control trade and travel.

Moreover, there were talks on proposals such as return of citizens of the two states, who cross the border inadvertently and betterment of advance notification mechanism of military exercises by the two sides, the diplomat said. Pakistan and India are holding these vital talks on conventional and nuclear CBMs a few days ahead of an exchange of lists of their nuclear installations and facilities on January 1 under "Agreement on the Prohibition of Attack Against Nuclear Installations and Facilities". The nuclear neighbours signed this agreement on December 31, and both the countries exchange their lists every year on January 1.