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Discussion Paper

Granting "Non-Discriminatory Market Access" (NDMA) to India: Issues and Challenges

Pakistan's Perspective

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PILDAT
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PREFACE

Granting "Non-Discriminatory Market Access" (NDMA) to India: Issues and Challenges: Pakistan's Perspective has been commissioned by PILDAT to serve as a discussion paper for a fact-based discourse on the issue.

The paper has been authored by Mr. Sakib Sherani. At the time of writing, Mr. Sherani was also a consultant to the World Bank on Regional Economic Cooperation.

Disclaimer

This paper reflects the views of the author and not those of PILDAT.

Islamabad
February 2014

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Executive Summary

South Asia is amongst the most populated, least developed and least integrated regions of the world. A long standing major impediment to its economic development has been the history of conflict and distrust amongst its two largest component countries – India and Pakistan. This history has hampered the freer flow across borders of goods and services, investment and financial capital, technology, technical expertise, development ideas, scientific collaboration, management best practices and people.

Promotion of freer trade between countries and regions is considered (in economic literature), and shown (via most historical experience), to be an important catalyst for growth and investment. However, a necessary condition under which this occurs is the operation of a rules-based trade regime which is applied in an uninterrupted, transparent, consistent and predictable manner.

Better trade relations can also lead to an environment of regional stability and peace – though they are not a guarantor of the same. Over the past two decades, many countries with historic territorial disputes have established substantial – and growing – bilateral economic ties. Within Asia, an example includes China's trade and investment ties with Taiwan, Japan and India – each of which China has had a long running territorial dispute with.

A recent thawing of the bilateral relationship between Pakistan and India, leading to some noticeable progress on the liberalisation of trade relations, could pave the way for the eventual unlocking of the huge economic potential of entire South Asia.

More open external trade has potential effects on a number of macroeconomic variables. These include:

i. Employment
ii. Investment
iii. The balance of payments
iv. Prices
v. Government revenue

On the positive side, the potential benefits to both Pakistan and India of freer trade include:

i. Lower prices generally for consumers
ii. Cheaper inputs for manufacturers/producers
iii. A larger market for producers
iv. Higher government revenue
v. Dealing with unexpected supply shortages, especially in the case of agri-produce
vi. Greater intra-industry trade, leading to eventual development of regional value chains
vii. Fulfilling the growing energy requirements of either country via cooperation in this field

In addition, more open trade between Pakistan and India can lead to reduction of tensions in South Asia, and generate a substantial "peace dividend." Equally importantly, a normalisation of relations between Pakistan and India will pave the way for greater economic cooperation in the entire SAARC region. The markets of Bangladesh and Nepal could open up to Pakistani exporters, while Pakistan could provide a shorter land route to Indian products into West and Central Asia. This is likely to have substantial benefits for the economies of the whole region. Currently, the lack of full normalisation of trade ties between Pakistan and India is holding up the coming into full effect of the South Asia Free Trade Area (SAFTA).

However, the *net* effects of more open trade with a larger, more internationally-competitive economy such as India are not unambiguous. Beyond specific industries and segments of the population which stand to benefit, more open trade will have wider implications, both positive as well as not-so-positive. While consumers, exporters with market access and importers of raw materials and intermediate inputs will generally benefit, some sectors are likely to experience a loss of jobs.

The vulnerability of some parts of Pakistan's industry will also increase because trade liberalisation with India will trigger the move to further tariff reductions under SAFTA rules, which will reduce the "sensitive list" Pakistan can maintain to a bare minimum, while allowing even lower tariff protection to Pakistani producers. (It needs to be noted, however, that Pakistan has opened up to Chinese goods via a Preferential Trade Agreement (PTA) since 2007, and most sectors of the economy are already exposed to competition from China.)

While Pakistan's exports stand to gain under a more liberal trade regime with India, most studies conducted so far indicate that India's exports to Pakistan will increase more than Pakistan's exports to India. This could be because of a combination of the following factors:

i. India's exclusion of Pakistan's exports in *agriculture* and *textiles* – considered our more competitive product categories – from the ambit of trade liberalisation;
ii. The maintenance of a more trade-distortive and trade-restrictive regime by India, including the use of Non-Tariff Barriers (NTBs), higher subsidies to its agriculture sector, and higher applied tariffs under MFN in most product categories relative to Pakistan;
iii. The fact that India imports less of the types of goods that Pakistan exports, while Pakistan tends to import more of the type of goods that India exports.

Despite projections of India's exports to Pakistan exceeding Pakistan's exports to India under an NDMA/MFN regime, however, Pakistan's *overall* trade balance is not expected to worsen substantially. This is so since many of Pakistan's imports from India will be replacing higher-cost imports from third countries currently.

To fully realise the benefits of freer trade between the two countries, however, both India and Pakistan need to tackle challenges, and resolve outstanding issues, pertaining to trade-distorting as well as trade-restrictive practices by both sides.

Some of the more substantive issues relate to the following:

1. The relatively more restricted access granted by India to Pakistan's exports than vice versa, as evidenced by the higher proportion of tariff lines pertaining to *Agriculture* and *Textiles*, considered Pakistan's competitive product categories, retained by India on its Sensitive List;

2. The operation of a relatively more trade-restrictive regime by India, including the more pervasive use of Non-Tariff Barriers (NTBs) and Non-Tariff Measures (NTMs) than Pakistan, and

3. The provision of liberal subsidies to its Agriculture sector. Subsidies to agriculture in India amounted to over US$ 53 billion, or 5.2% of GDP in 2008-09, according to Beaconhouse IPP (September 2012)[1]. By comparison, Pakistan provided its agriculture sector with subsidies totalling approximately US$ 2.7 billion (approx. 1.2% of GDP) in 2010-11, according to the same report.

4. The potential undermining of greater market access to Pakistani textile exports in India by the latter's preferential trade agreements with Bangladesh and Sri Lanka, which specifically grant preferences to textile and clothing products from the two nations into India.

5. The lack of adequate preparation by Pakistan to deal with issues arising out of the grant of the Most Favoured Nation (MFN) status to India, which has been re-named Non-Discriminatory Market Access, or NDMA.

1. According to a report of the United States International Trade Commission (USITC), "(India's policy on input subsidies) result in effective subsidies to the farmer of 40 to 75 percent for fertilizer and 70 to 90 percent for irrigation and electricity" (USITC, 2011).

The areas requiring greater preparation on Pakistan's part include:

i. Conducting substantive research on the impact of liberalised trade with India. (Note: A number of sectoral impact assessment studies are being commissioned under the auspices of the India-Pakistan Joint Business Forum (IPJBF) to evaluate the effect of open trade with India on key sectors of Pakistan's economy.)
ii. A number of studies already completed have pointed out that Pakistan needs to strengthen its remedial and safeguards mechanisms by enhancing its ability to determine potential material injury to its industry and enforcing necessary safeguard action.
iii. Trade facilitation at border crossings needs to be stepped up, in terms of simplifying procedures, reducing involvement of multiple agencies and better coordination. In addition, requisite physical infrastructure needs to be put in place.

While freer trade between countries is beneficial in overall terms, in the interim it can produce "winners" as well as "losers." Certain sectors in Pakistan are thought to be vulnerable to competition from India, due to lower economies of scale, higher input costs, lower efficiency, or because of subsidies in India. Most notably, the vulnerable segments of Pakistan's economy include:

i. Agriculture
ii. Autos
iii. Steel
iv. Man-Made Filaments (such as Polyester Fibre and Viscose Yarn)
v. Electrical Appliances
vi. Light Engineering (machinery and mechanical appliances) and
vii. Pharmaceuticals

In addition, the fact that Pakistan's grant of MFN status to India will trigger the near-simultaneous application of the Tariff Liberalisation Program under SAFTA rules, which will almost entirely eliminate tariff protection to Pakistani industry other than 100 items it will be allowed to maintain on its Sensitive List, will increase the vulnerability of these and some other sectors.

However, in the longer run, if done with the right amount of preparation and with a level playing field, both Pakistan and India should stand to benefit from a more open flow of goods and services, investment as well as people.

Introduction

Since the inception of a rules-based multilateral trade regime under GATT in 1948 (the precursor to the World Trade Organisation), the rise in global trade has outstripped the increase in the size of the global economy. Global trade between nations has increased from US$ 59 billion to US$ 17,930 billion (or 304 times) from 1948 to 2012. International trade has been an important driver of the shared –albeit uneven – prosperity the world has seen since a multilateral trading system was adopted.

Over the past three decades, many developing countries have emerged on the world stage as rising economic powers almost entirely on the back of export-led growth. Most of these countries have, however, enjoyed the benefits of export-led growth by maintaining fairly "open" economies and relatively free import regimes as well. While China has been a pre-eminent example of a developing country transforming its economy based on exports, India too has capitalised on the opening up of global trade. Pakistan's exports, however, have risen at a far slower pace than for most of its peers.

Unlike for countries such as China, where the expansion in external trade has been regional as well as global, the growth in Pakistan and India's external trade has occurred more outside the South Asian region than within it. Hence, the share of intra-regional trade within the SAARC region is amongst the lowest for any region in the world.

In addition, the South Asian region, and Pakistan in particular, has been slow to take advantage of the wider shift in the economic centre of gravity to Asia. Hence, Pakistan has failed to capitalise on its location next to two of the world's most-populated countries, and the global economy's "growth poles" – China and India.

Better trade ties with India have been hampered by the mutual history of mistrust, conflict and hostility. Halting efforts towards peace have been dogged by differences between the two countries on how to take the peace process forward – whether to pursue a "composite dialogue" on all issues simultaneously (favoured by Pakistan) or to follow different strands (such as trade liberalisation) simultaneously (favoured by India).

There are numerous examples of thriving bilateral trade between nations with border disputes and conflicts. Table 2 carries some of the more prominent ones:

Table 1: Share of Intra-Regional trade

	Exports Value (US$bn)	Share of world (%)	Intra-regional trade:	
			Value (US$bn)	Share (%)
EU	6,039	34	3,906	65
NAFTA	2,282	13	1,102	48
ASEAN	1,242	7	315	25
Mercosur	353	2	54	15
Andean	134	1	9	7
SAARC	363	2	19	5

Source: International Trade Statistics, WTO;World Development Indicators, World Bank

Table 2: Trade between Neighbours with Strained Ties

Two-way trade US$ bn	As % total trade of		
Countries	Bilateral trade	both countries	Territorial dispute over:
China-Japan	$332.6	6.0%	Diaoyu/Senkaku islands
China-Taiwan	$169.0	3.8%	Taiwan (status of)
China-India	$65.5	1.4%	Aksai Chin
Memo:			
Pakistan-India	$2.1	0.2%	Kashmir, Siachin, Sir Creek

Source: Respective national trade statistics agency

Impact of Free Trade

More open external trade has potential effects on a number of macroeconomic variables. These include:

1. Employment
2. Investment
3. Prices
4. Balance of payments
5. Government revenue

The potential impact on some of these is briefly discussed below.

1. Employment

The channels via which freer external trade can impact domestic employment can be listed as follows:

i. *Improved competitiveness of domestic firms*: Sourcing of raw materials/intermediate inputs by Pakistani firms from lower-cost Indian suppliers can potentially lower their manufacturing cost and make them more internationally competitive;
ii. *Economies of scale*: The availability of a larger potential export market for Pakistani firms can give them advantages of scale economies. A net benefit will only accrue, however, if the potential export opportunities made available in the Indian market are *in addition to* existing export markets. If the new opportunities in the Indian market are supplied by diverting from exports to other locations, the net benefit for Pakistani suppliers on this front will be zero. (i*.e., a necessary condition for positive benefit is trade creation > trade diversion*).
iii. *Increased competition*: A potential negative impact on employment will come from the effects of increased competition for Pakistani goods in certain industries from potentially lower-cost Indian products. The industries that are thought to be more vulnerable to competition from India include the auto industry (cars, motorcycles, auto parts manufacturers), steel, pharmaceuticals, textile spinning, and some parts of the engineering sector.
iv. *Re-location by MNCs*: Given that almost all multi-national corporations (MNCs) that operate in Pakistan also have operations in India, some of them may find it feasible to eventually re-locate their operations/manufacturing facilities from Pakistan to India to better avail regional economies of scale.

2. Prices

Consumer prices of traded products should be lower as a consequence of freer trade, due to the following:

i. Import of lower-priced *finished goods*
ii. Cheaper *intermediate goods* & *raw materials* used in domestic productionshould make the final product cheaper

3. Government Revenue

The net impact on government revenue will depend on the following factors:

i. *Trade creation:* Any net expansion in bilateral trade will lead to higher government revenue collection on account of customs duties and sales tax.
ii. *Diversion of informal trade to formal channels:* A reduction in import tariffs should encourage the expansion of formal bilateral trade. The resulting growth in imports via the formal channel is likely to translate into higher government revenue.
iii. *On the flip side*, any adverse impact on domestic industries or on foreign investment will contribute to a possible decline in tax revenue.

Broadly, however, if done under internationally accepted principles and with a level playing field, more open trade between countries can prove to be an important catalyst for investment and economic growth. This is shown to be the case not just in economic literature but also by international experience.

In addition to the ones listed above, two other important potential benefits that can accrue to Pakistan by more open trade with India are:

a. The ability to deal with domestic supply shortages, especially in the case of agri-produce which can be imported relatively quickly from across the border
b. Meeting Pakistan's growing electricity requirement through enhanced bilateral and regional cooperation in this field

Opening Pakistan and India to more intra-regional trade, cross-border investment and movement of people can also generate a substantial "peace dividend" which can transform the entire South Asia region. The markets of

Bangladesh and Nepal could open up to Pakistani exporters, while Pakistan could provide a shorter land route to Indian products into West and Central Asia. Economic linkages of the entire SAARC region will deepen, which should result in more investment, economic growth and jobs in aggregate.

However, despite the benefits of greater external trade, more open trade between countries can also lead to substantial trade friction and strains in bilateral ties. This has occurred repeatedly since the 1980s, with rapid increase in exports of one country to another leading to a loss of jobs and calls for protectionism. Typically, it has occurred in trade relations between a more internationally competitive and export-oriented economy (usually with a lower-wage level), and a higher-wage, less efficient economy.

Examples of strained bilateral trade ties between countries due to a surge in exports from one country to another after opening of trade between them include the United States and Japan through the 1970s, 1980s and 1990s, and the US and China since the early 2000s. More recently, a rapid increase in China's exports to India since 2011 has led to a sharp deterioration of India's bilateral trade balance, leading to reported unease in India's policy circles as well as media.

The materialisation of the substantial benefits of freer trade will largely depend, therefore, on the level of openness in market access granted by India and Pakistan to each other's exports.

Principles of WTO-consistent Free Trade

The fundamental principles on which the multilateral trading system is based are as follows:

I. Trade without Discrimination

Most-favoured nation (MFN): Treating other countries equally

The most fundamental pillar of the multilateral trading regime agreed to by most countries of the world, so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), is the concept of "non-discrimination" between a country's trading partners.

This is the concept of "Most Favoured Nation" (or, MFN) treatment, which has caused considerable debate in Pakistan.

Hence, as a signatory to GATT, a country cannot apply, under normal circumstances, different import tariffs and customs duties to similar products coming from different countries. Or, it cannot block the import of a particular product from one country, while allowing the same product type to be imported from another (unless it is on the grounds of protecting the environment or public health and safety).

If Pakistan grants a trading partner a special favour, such as a lower customs duty rate for one of their products, then it will be bound to do the same for all the other WTO members.

WTO rules allow for exceptions, however, under its "safeguards" and "standards" mechanisms. In addition, countries can set up regional preferential trading blocs or free trade areas (FTAs), where the benefits given to members of that sub-group are not applied to all other WTO members.

An example would be Pakistan's Preferential Trade Agreement (PTA) with China, or India's preferential trading arrangement with Bangladesh and Sri Lanka.

National treatment: Treating foreigners and locals equally

The second principle under "non-discrimination" in global rules-based trade, is that imported and locally-produced goods should be treated equally once the foreign goods have entered the domestic market.

National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of "national treatment."

I. Free Trade

The WTO lists a second fundamental principle of the multilateral trading regime as the lowering of trade barriers – both tariff as well as non-tariff in nature – as a means of encouraging greater trade.

Box 1: Why the term 'Most-Favoured'?

The term *Most Favoured Nation*, or MFN, sounds like a contradiction. It suggests 'special treatment', but in the WTO it actually means 'non-discrimination' – treating virtually everyone equally.

This is what happens. Each WTO member treats <u>all</u> the other members equally as "most-favoured" trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same "best" treatment to all the other WTO members so that they *all* remain "most-favoured."

The MFN principle ensures that each country treats its over 140 fellow-members equally.

Source: World Trade Organisation

II. Predictability

In the WTO, countries have agreed to open their markets for goods and services through "binding" commitments. In the case of goods, these bindings amount to ceilings on customs tariff rates.

III. Promoting Fair Competition

While most countries have acceded to more open trade

under WTO-rules, many continue to provide "unfair advantage" or protection to domestic producers through the use of Non-Tariff Barriers (NTBs) against imports from other countries and providing trade-distortive subsidies, or other forms of protection.
This is against the spirit of "free trade."

IV. Encouraging Development and Economic Reform

The move to more open borders for goods and services invariably requires trade-enabling reform in countries, while being a catalyst for enhanced international competitiveness.

History

For much of their shared history since independence from Britain in 1947, bilateral trade between Pakistan and India has continued uninterrupted, though at fairly constrained levels, with periods in between when it has thrived.

Thus, "at the time of independence, Pakistan and India were heavily dependent on each other" (Beaconhouse IPP, 2012). In 1948-49, Pakistan's exports to India amounted to 23.6 percent of its total global exports, while Indian exports constituted 50.6 percent of Pakistan's overall imports (ibid).

Official bilateral trade between Pakistan and India in 1952 amounted to US$ 126 million, with Pakistan's exports to India totalling US$ 114 million, and imports from India totalling US$ 12 million.

However, "Pakistan's economic and trade relations with India were fraught with challenges (....). As the disputes began to intensify in the 1950s, trade between Pakistan and India began to become more restricted. The two countries faced a nine year hiatus from 1965, when Pakistan and India fought a war, to 1974 when the two countries signed a protocol to resume trade" (ibid).

In 1996, India granted Most Favoured Nation (MFN) status to Pakistan. Since then, Pakistan's exports have risen from US$ 41 million in 1996 to US$ 328 million in 2013, or eight-fold. Over this 17-year period, India's exports to Pakistan have increased from US$ 95 million to US$ 1,810 million, a nearly twenty-fold increase. Possible reasons for the imbalance in two-way trade are examined in the next section.

In addition to formal (official) trade, substantial informal trade via unofficial channels takes place between the two countries. While a number of routes are used for the conduct of informal trade between the two neighbouring nations, including cross-border smuggling, trade via third countries accounts for the bulk of informal trade. Dubai is thought to be the largest conduit for unofficial trade between India and Pakistan.

Even though both countries became signatories to the GATT regime in 1948, bilateral trade between Pakistan and India has been conducted for a long period under an "exception" to the multilateral trade system. (See next section).

Legal Position

Despite being signatories to the General Agreement on Tariffs and Trade (GATT) since 1948, both Pakistan and India have used the "special arrangement" language of GATT Article XXIV to deny Most Favoured Nation (MFN) status to each other.

The relevant clause of Article XXIV.11 of the GATT states:

> *[t]aking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognising the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.*
> [Note: emphasis has been added].

While India granted MFN status to Pakistan in 1996, Pakistan has taken recourse to the "special arrangement" clause to avoid reciprocity to India's grant of MFN. This recourse had provided legal cover to the maintenance of a Positive List by Pakistan. However, both the Positive List as well as its successor arrangement, the Negative List, are inconsistent with Pakistan's obligations under the WTO, especially after according MFN status to India, according to one study (Adam Smith International, 2012).

'Sensitive lists', on the other hand, are not only consistent with WTO rules but are common in Free Trade Areas (FTAs) or under Regional Trade Agreements (RTAs). However, maintaining sensitive lists bilaterally by India and Pakistan would violate the SAFTA Agreement (ibid).

While it may not be desirable politically, or feasible economically, in the longer run, from a legal perspective at least, it appears *prima facie* that Pakistan can continue to take recourse to the "special arrangement" clause of GATT and deny MFN status to India. This appears to be the principal reason why India has not referred Pakistan to the WTO since 1996, for not reciprocating the grant of MFN status.

Table 3: Volume of Bilateral Trade and Trade Balance (selected years)

US$ mn	**Vol. of trade** (Two-way)	**Trade balance** (Pakistan)
1952	126	102
1965	73	19
1996	180	-53
2005	806	-489
2013	2,137	-1,482

Source: Pakistan Bureau of Statistics; UN comtrade database; SBP

Table 4: Pakistan's Major Exports to / Imports from India)

Pakistan's Top 5 Exports to / Imports from India (2010-11)

Pakistan's exports	US$ mn
Dates	46
Cement	43
Chemicals	20
Woven fabric	20
Leather	12
Pakistan's imports	US$ mn
Raw cotton	372
Chemicals	237
Hydrcarbons	168
Soybean oilcake	141
Vegetables	100

Source: Pakistan Bureau of Statistics; UN comtrade database; SBP

Recent Developments

Since India's grant of 'Most Favoured Nation' (MFN) status to Pakistan in 1996, there was a hiatus of nearly fifteen years when more open bilateral trade was held hostage to the up-and-down relations between the two neighbours.

Beginning 2011, however, there have been positive developments in the liberalisation of the bilateral external trade regime between Pakistan and India, starting with the breakthrough in the form of Pakistan's in-principle decision to grant Most Favoured Nation (MFN, now referred to as Non-Discriminatory Market Access, or NDMA) status to India, and moving from a highly restrictive *Positive List* of items that could be imported from India to a *Negative List*.

As a result, out of over 10,000 tariff lines, 1,209 (or approx. 18 percent of the total) are placed on the *Negative List*, while the remaining items can now be imported. This compares to the 2,000 items allowed under the previous *Positive List*.

The move to a *Negative List* represents a significant change, with 82 percent of tradable goods being allowed to be imported from India compared to 27 percent previously. It is important to note that Pakistan has almost completely opened up its agriculture sector to imports from India, while retaining a degree of protection to certain industrial sectors.[2]

The formal grant of MFN status to India by Pakistan is expected to also trigger the Trade Liberalisation Program (TLP) under SAFTA rules, whereby Pakistan and India will be required to maintain reduced Sensitive Lists, while lowering import tariffs on all other goods to 0-5% for SAFTA members. In addition, all tariffs on traded goods are intended to be phased out by 2016 under the South Asian Preferential Trade Agreement (SAPTA) .

Despite the grant of MFN to Pakistan, India's market opening to Pakistani goods is seen as relatively more restrictive , as evidenced by:

i. The higher proportion of tariff lines pertaining to *Agriculture* and *Textiles*, considered Pakistan's competitive product categories, retained by India on its Sensitive List as compared to Pakistan (see following table);
ii. The potential undermining of greater market access to Pakistani textile exports in India by the latter's preferential trade agreements with Bangladesh and Sri Lanka, which specifically grant preferences to textile and clothing products from the two nations into India.

In addition, India operates a relatively more trade-restrictive trade regime overall, as mentioned in various studies, including the Trade Policy Reviews conducted by the World Trade Organisation. India's more pervasive use of Non-Tariff Barriers (NTBs) and Non-Tariff Measures (NTMs) , and the use of a liberal subsidy regime for its Agriculture sector, are factors that can potentially undermine the benefits of free trade between the two countries.

Impediments / outstanding issues

A number of impediments to more open trade between Pakistan and India exist. Without addressing these issues, which are acting as important constraints, the move towards freer trade cannot be fully materialised.

Box 2: India's Non-Tariff Barriers (NTBs)

-
- Sanitary and phytosanitary (SPS) measures
- Complex import licensing and permit regimes
- Large number of sampling and testing requirements
- Mandatory pre-shipment inspection for some goods
- Some goods can only be imported through specified ports and/or by particular agencies
- Active use of anti-dumping & countervailing measures

Source: WTO Trade policy Review of India 2011, World Trade Organisation and Beaconhouse IPP (September 2012).

2. It is important to note that while Pakistan has almost completely liberalized its agriculture sector, the restriction on the number of items that can be imported via the border crossing at Wagah-Attari serves as a policy tool for protecting the sector. Hence, so far, farmers in Pakistan have not agitated against the grant of NDMA/MFN to India. However, the issue of free movement of all agriculture goods between Pakistan and India from Wagah-Attari has been drawn up as a "red line" by the farming community in the country.

These impediments and issues include:

i. Outstanding bilateral political issues that are awaiting resolution, including the de-militarisation of Siachin, demarcation of Sir Creek, the trial of Mumbai terror attack suspects etc.
ii. The use of Non-tariff measures (NTMs) and barriers (NTBs) that restrict or distort free trade
iii. Lack of proper trade facilitation, especially regarding:
   a. Business visas
   b. Ease of travel between the two countries (lack of direct flights, e.g.)
   c. Lack of direct communications (connectivity of mobile phone service/roaming, e.g.)
iv. Inadequate infrastructure at trade borders regarding:
   a. Railways and road freight infrastructure
   b. Customs inspection facilities
   c. Warehousing/storage
   d. Involvement of multiple agencies
v. Lack of capacity of trade-facilitating institutions on Pakistan side, including:
   a. Pakistan Standards and Quality Assessment (PSQA) agency
   b. National Tariff Commission (NTC)

Table 5: Composition of respective *Sensitive Lists* by Product Category

	Number of Tariff Lines in Sensitive List:			
	Pakistan	**%**	**India**	**%**
Agriculture	55	5.9%	207	23.8%
Minerals	3	0.3%	8	0.9%
Industry (28-97)	878	93.8%	653	75.2%
Total	**936**	100%	**868**	100%

Source: *A Primer: Trade Relations between Pakistan & India (1947-2012)*, Beaconhouse IPP, May 2012

Conclusion

More open trade between countries, in particular neighbours, is an important potential driver of economic growth, cross-border investment and consumer welfare. Particularly in the case of Pakistan and India, greater bilateral economic ties can also be an important channel for reducing mistrust and hostility, and bringing peace and stability to South Asia – which will unlock the economic potential of the entire SAARC region.

To achieve these ends, however, it is important that a number of issues and challenges are addressed. Among these, the most important ones include trade-restrictive and trade-distortive practices such as the use of Non-Tariff Barriers (NTBs) by India, maintaining a liberal subsidy regime for its Agriculture sector, and the exclusion of Pakistan's competitive product categories from the ambit of trade liberalisation.

On its part, Pakistan needs to improve the trade facilitation infrastructure at its border crossings, and build its institutional capacity to effectively operationalise a more open trade regime.

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