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Normalizing India Pakistan Trade

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Abstract

With the trade normalization process between India and Pakistan gathering momentum since November 2011, new opportunities for enhancing bilateral trade have opened between the two countries. This study estimates the trade potential between India and Pakistan, and examines how this potential can be realized. Using the Trade Possibility Approach for all items traded, followed by selecting only those items in which the countries have a Revealed Comparative Advantage (RCA) to export, the trade potential between India and Pakistan is estimated to lie between US$10.9 billion and US$19.8 billion.

Of the US$10.9 billion trade potential, India's export potential accounts for US$7.9 billion and import potential US$3 billion. With a large number of items belonging to the negative or sensitive lists, the study estimates the trade potential accounted for by these items. Sector-wise analysis depicts that bilateral trade shall receive a boost if the textile sector is liberalized in both countries, with Pakistan liberalizing its automobile sector too. In the services sector, trade possibilities have been identified in Information Technology (IT), Business Process Outsourcing (BPO), health and entertainment services.

The study finds that this trade potential remains unrealized largely due to impediments in transport and transit facilities, restrictive visa regime, continuation of large informal trade flows, and presence of 'perceived' non-tariff barriers to trade between India and Pakistan. As the Foreign Direct Investment (FDI) regime between the two countries is liberalized, the study identifies sectors which hold potential for investments, and are likely to deepen the trade linkages between India and Pakistan.

JEL Classification: F10, F13, F50, F53

Keywords: India-Pakistan, bilateral trade, trade normalization, trade potential, MFN, regional integration

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1. Introduction[1]

Contiguous countries around the world share a congenial trading environment, with high values of bilateral trade being in line with the 'Gravity Model' theory of international trade, owing to lower inter-country distances[2]. However, trade between India and Pakistan has always been inextricably linked to the political relations the two countries share, than being merely governed by economic factors. Following the independence and partition in 1947, Indo-Pakistan trade fell drastically; and came to a standstill for almost nine years in the aftermath of the war in 1965. A protocol on resumption of trading relations was signed in 1974 on a list of mutually agreed items. In 1996, India accorded Most Favored Nation (MFN) status to Pakistan thereby offering Pakistan the same trading regime as it offers to any other country in the world. Pakistan, on the other hand, continued to allow imports of a limited number of items from India, collectively known as the positive list; although the number of items on the list has increased gradually. The grant of MFN was linked to the resolution on the Kashmir issue. Moreover, India stopped trade via the air and land routes between 2001 and 2004 following the attack on Indian parliament in December 2001. In 2013, for the first time since 2004, cross border trade was altogether stopped following the incidence of cross border firing; with trade resuming within a few days time. Restriction on trade had been on several other counts as well, with the major ones being: a) a restrictive maritime protocol until 2005 which allowed only Indian and Pakistani flagged vessels to carry cargo between the two countries, and not permitting the same vessels to carry consignments to a third country from the ports of either, b) presence of only one rail route for cargo movement between the two countries; and c) Absence of road-based trade route until 2005. This restrictive trading environment resulted in large informal trade flows between India and Pakistan, with most of the trade taking place via third country ports such as Dubai.

The process of trade normalization was set in motion in 2004 during the Commerce Secretary level talks on Commercial and Economic Co-operation between India and Pakistan. In this comprehensive dialogue, trade negotiations were to be discussed along with a dialogue on several other issues. This was the first step towards delinking trade negotiations from political issues. Since 2004, any major political event between India and Pakistan has neither met with any major impact on trading relations nor an

[1] We are grateful to our two anonymous referees; and Aradhna Aggarwal, Deb Kusum Das and Saikat Sinha Roy for their comments at the Annual Conference on Normalising India-Pakistan Trade held in March 2013.

[2] USA and Canada; EU27; South East Asian countries (ASEAN members)

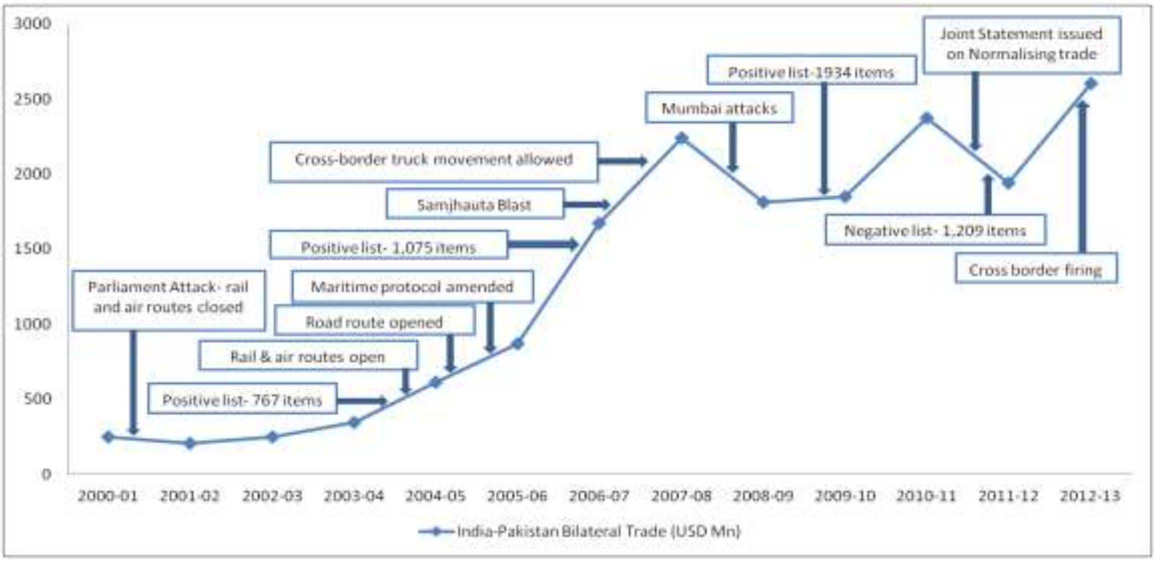
imposition of a ban on trade. Rather, bilateral trade has only been rising over the years (Graph 1).

In 2004, as members of the South Asian Association for Regional Cooperation (SAARC), India and Pakistan signed the South Asian Free Trade Agreement (SAFTA). The members of SAFTA include four least developed countries (LDCs) –Nepal, Bhutan, the Maldives, and Bangladesh; and three non-least developed countries (NLDCs) –India, Pakistan and Sri Lanka. SAFTA, as all other regional agreements under the WTO, required members to offer MFN treatment to each other. However, even after SAFTA was ratified in 2006, Pakistan did not accord MFN status to India and continued to trade on the positive list, allowing import of only 137 items from India via road, thereby making the route more restrictive. Thus with the two largest SAARC countries not trading under MFN rules, SAFTA has failed at helping normalize trade relations between India and Pakistan.

The bilateral trade dialogue that had started in 2004 continued for four more rounds of talks until 2007 and resulted in three major outcomes- expansion of the positive list, opening of the road route in 2005, and amendment of the restrictive maritime protocol. As part of the Confidence Building Measures, in October 2008 the two governments permitted trade and travel across the Line of Control along Jammu and Kashmir.

Following the Mumbai attacks in November 2008, the composite dialogue was stalled. It resumed after a hiatus of three years. During these three years, however, no pro-active measures were taken to block trade such as those initiated in response to the Parliament attack in 2001.

Graph 1: India-Pakistan Bilateral Trade (US $ Million)



Source: Author's compilation from Ministry of Commerce DGFT Export-Import Databank; Taneja et al.(2011a)

The fifth round of talks in April 2011 laid down the blueprint for normalizing trade between India and Pakistan. Perhaps what set the tone for the talks was the recognition of the necessity to promote bilateral trade to "build confidence, dispel misunderstandings and allay misapprehensions". While the agenda was very detailed (covering inter alia the MFN issue, addressing non-tariff barriers, improving border infrastructure, customs liaison, harmonization of customs procedures, trade in electricity and petroleum products, co-operation in information technology, visas, bilateral investments, and opening of bank branches) the two negotiating points revolved around Pakistan granting MFN status to India and the latter addressing non-tariff barriers faced by Pakistan in accessing India's market.

The Joint Statement issued in November 2011 laid down the sequencing and timelines for full phasing in of MFN status for India. In the first phase, Pakistan would graduate from the positive list to a small negative list specifying banned rather than permitted items. In the second stage, the negative list would be phased out; overall as well as for the road route on which trade takes place for only a fraction of the items on the positive list. These changes would usher in the full phasing in of MFN that forms an essential part of the trade normalization process.

Adhering to the Joint Statement, in March 2012 Pakistan made a transition from the positive list approach to a small negative list of 1,209 items. However, it continued to restrict road-based trade by allowing only 137 items to be imported from India via road; while India took a number of steps to address Non Tariff Barriers (NTB's). Since then, trade negotiations on MFN changed stance one more time. During the 7th Round of talks held in September 2012, India and Pakistan agreed to further deepen the preferential arrangements under SAFTA with India offering concessions to Pakistan in exchange for Pakistan granting MFN status to India. In a major step, India pruned its sensitive list to 614 items. The current status as of July 2013 is that India would bring down its SAFTA Sensitive List to 100 tariff lines (from the existing 614 items); with Pakistan simultaneously granting MFN status to India, including the phasing out of negative lists and removal of restrictions on items traded by road.

2. Context of the Study

Even though positive measures have been taken in the past, the series of credible steps taken since November 2011 are likely to lead to a quantum jump in trade between India and Pakistan. As the two countries move towards normalizing their bilateral trading regimes, there will be new trading opportunities for both of them. It is important to quantify the trade potential and identify sectors with the largest potential. The negative and sensitive lists operational in Pakistan against India and the sensitive lists maintained by India for Pakistan are indicative of the sectors in which the two countries want to offer protection to domestic industries from each other's imports; indicating the corresponding gains to the protected exporters of both countries. The trade potential for these sensitive items would indicate the extent to which possible losers and gainers in different industries are being affected. While trade negotiations have focused largely on the goods sector, there are trade possibilities in the service sector as well. Assessing these possibilities would help to equip businessmen in India and Pakistan with relevant information on service trade.

The extent to which trade potential can be realized between India and Pakistan would depend on a number of factors. Identifying impediments to trade can help policymakers take relevant measures. Cross border transportation at low costs can provide large gains to traders on both sides. Identification of non-tariff barriers can also help improve market access for both countries. To determine the extent to which trade potential can be realized, it is also important to assess the impact of trade normalization process on informal trade flows. Foreign Direct investments can help in deepening trade linkages and in sustaining trade gains. India and Pakistan have for several years followed a very strict visa regime restricting the movement of people across the border. It is important to understand the nature of these restrictions, assess the steps taken so far and suggest further improvements. More importantly, greater people-to-people contact will erase misconceptions and help them engage fearlessly with each other. The success of trade normalization process will also be determined by the role of institutions involved in this process at the centre, state and border level, business and trade associations, non government organizations and the media.

Against this backdrop our study focuses on the following key questions:

(I) What is the trade potential between India and Pakistan?

- What is the total bilateral trade potential and the items having the largest potential?
- What is the trade potential of items on negative and sensitive lists and which are the sectors with largest trade potential in these categories?
- What are the items prone to competition on the negative and sensitive lists?
- What are the trade possibilities in the services sector?

(II) How can the trade potential between India and Pakistan be realized?

- What are the transport and transit impediments, and how can the transaction costs of trading be reduced?
- What are the non-tariff barriers and how can these be addressed?
- What is the magnitude of informal trade and how can it be shifted to formal channels?
- What are the impediments related to visas?
- How can investment flows deepen trade linkages?
- What is the role of institutions in enhancing trade?

3. Methodology

The study makes use of "mixed methods", based on secondary sources and primary information collected through field surveys. Secondary sources include published papers, data and government policies, agreements, regulations and protocols. Secondary data on India's trade with Pakistan has been collected from the Directorate General of Foreign Trade (DGFT), Ministry of Commerce and the United Nations International Trade Centre's (UN ITC) World Integrated Trade Systems (WITS) Database published by the World Bank. The data is used to examine trade trends and assess trade potential between India and Pakistan which is the difference between the minimum of the supplier's global exports and receiver's global imports minus the existing trade between the supplier and receiver. Products having trade potential were identified as those with (a) adequate demand in the receiving country, and (b) adequate supply capabilities in the source country. Untapped trade potential for any commodity is given by Min (SE, MI) - ET where SE, MI and ET are supplier's global exports, receiver's global imports and existing trade between the supplier and the receiver.

The estimates of trade potential have to be treated with caution as they are merely indicative of the untapped trade possibilities. The estimate of trade potential is the maximum possible trade that two countries can have if they sourced from each other all items which they sourced from the rest of the world. Though this can never be the case as relative prices would play an important role, this exercise gives ballpark figures on trade possibilities at a disaggregated level. The estimates also vary depending on the year of reference. In this exercise, the calculations are based on trade data for 2011.

The methodology for calculating trade potential is then extended by computing Revealed Comparative Advantage (RCA) for all items traded, such that India's export potential to Pakistan includes only those items in which India has a comparative advantage to export to the world. Similarly, for estimating India's import potential from Pakistan, the products for which Pakistan does not have a revealed comparative advantage vis-à-vis the world are eliminated. The RCA index is a ratio of the share of a given product in a country's exports relative to the product's share in world exports (Balassa, 1965). RCA is computed using the following formula:

$$RCA_{ij} = (X_{ij} / X_I) / (X_{wj} / X_w)$$

Where, X_{ij} represents country i's export of commodity j, X_{wj} represents world exports of commodity j, X_I represents the total exports of country I, and X_W represents total world exports. RCA index has been computed by averaging item-wise RCA for the years 2010 and 2011. An RCA index value of greater than unity implies that the country is competitive in exporting the product.

The logic of using this approach is that countries are more likely to export only those commodities in which they are globally competitive rather than items in which the partner countries have demand and supply capabilities. The major problem highlighted with such a measure of RCA is that its theoretical concept is based upon pre-trade relative prices, in a world where markets function without distortions. It has to be noted that there will always be a gap between a country's comparative advantage inferred from post trade observable data and its actual comparative advantage. However as Balassa argues, comparative advantage can be revealed through examination of country/commodity trade patterns, because actual exchanges reflect relative costs as well as difference in non price factors (Balassa 1965). The results of both approaches are reported, but the analysis on total trade potential, and potential in the negative and sensitive lists is undertaken using the RCA approach.

To examine the sensitive and negative lists, the concept of RCA is extended to a 'paired RCA approach'. This concept is used to identify 'vulnerable items' defined as those items in which a country is not globally competitive (RCA<1) but the partner country is (RCA>1). These are termed 'vulnerable' as they are most likely to face competition from exports of the competitive partner country. Countries may consider protecting such items.

The secondary data analysis was supplemented with primary surveys conducted at different points in time during 2005-2008 and in 2012 in India, Pakistan and Dubai. Face to face interviews, focus group discussions, and stakeholder consultations were held formally and informally using semi-structured open ended questionnaires with importers, exporters, manufacturer- exporters, freight forwarders, clearing agents, government officials at the state and centre levels, and academicians on various trade related issues raised in this study.

4. Trade Potential and Possibilities

In this section we examine the current trade trends, assess trade potential for India and Pakistan, examine the composition of the negative and sensitive lists, and assess the extent of trade potential accounted for by these items. The protected sectors having the highest trade potential are identified and implications of opening up these sectors have been discussed. The sectors that are likely to face competition from imports once the negative and sensitive lists are further liberalized have also been identified. Trade possibilities and potential in the important service sectors have been examined as well.

4.1 Trends in Bilateral Trade

Bilateral trade between India and Pakistan increased by more than 9 times between the years 2000 and 2011.[3] Total trade between the two countries was US$ 1.97 billion in 2011, of which India's exports to Pakistan were US$ 1.66 billion and imports US$ 313 million. Despite exporting only on the positive list, India has always had a trade surplus

[3] Excluding mineral fuels

with Pakistan; with the trade balance as a proportion of its total trade with Pakistan increasing from 55 to 68 percent between 2000 and 2011 (See Table 1a). However from 2009-12, the average annual rate of growth of imports from Pakistan has been 23 percent while that of exports has been just 9 percent, signaling some reversals in the trend.

Table 1a: India's Trade with Pakistan (US$ million) 2000 and 2011

Trade	US $ Million (Excluding Mineral Fuels) (1)		US $ Million (Mineral Fuels) (2)		US $ Million (Including Mineral Fuels) (3)=(1)+(2)	
	2000	**2011**	**2000**	**2011**	**2000**	**2011**
Export	162	1,659	0	19	162	1,678
Import	47	313	22	39	69	352
Total Trade	209	1,972	22	58	231	2,030

Source: UN ITC-WITS database

In 2011, India's top 3 exports to Pakistan at the HS-21 classification of items included chemicals, textiles and vegetable products accounting for 68 percent of total exports to Pakistan.[4] India's top 3 imports included mineral products, vegetable products and textiles accounting for 59 percent of total imports (Table A1).

At a disaggregated level, (HS-6 digit classification) top commodities exported from India to Pakistan that year included, cotton, oil-cake, xylene, tomatoes, woven fabrics, chickpeas, polypropylene, rubber tyres, tea, fruits, and iron and steel containers. Cotton alone accounted for 16 percent of exports (Table A2). Dates were the most important item being imported from Pakistan, accounting for 19.8 percent of total imports in 2011. Other items included cement, gold, light petroleum, lead, copper, petroleum oil, cotton yarn, disodium carbonate, gypsum, terephthalic salts and vinyl chloride (Table A3).

4.2 Trade Potential in Goods

Several estimates have been made to predict the trade potential between India and Pakistan. The most popular econometric method is the use of gravity models in which bilateral trade is explained as being directly proportional to the product of GNP of the trading partners and inversely related to the distance between them. Various gravity model estimates range between 0.5 times and 27 times of actual trade (Batra 2004; Rahman, Shadat and Das 2006). While these estimates are useful, the model has some weaknesses, particularly in the context of geographically contiguous countries such as

[4] HS refers to Harmonized System of classification

India and Pakistan, where despite lower inter-country distances, transport and other transaction costs of trading are very high. Moreover, any econometric model would be limited in its use when existing bilateral trade is limited to the positive list.

The Trade Possibility Approach is a simple, yet intuitive method which yields more realistic results. Trade possibilities exist in items that two countries can import from each other instead of importing from elsewhere in the world.

The results of this exercise show the existence of an estimated untapped bilateral trade potential of US$ 19.8 billion in 2011, which is 10 times larger than the current US$ 1.97 billion trade. Of this export potential accounts for US$ 16 billion, and import potential US$ 3.8 billion (Table 1b). The potential in mineral fuels is another US$ 10.7 billion of which export potential accounts for US$ 9.4 billion and import potential US$1.3 billion (Table 1b).

When the analysis is extended by computing Revealed Comparative Advantage (RCA) for all the items in which trade possibilities exist, lower estimates of trade potential are obtained. This analysis includes only those items in the trade potential exercise in which the partner country is globally competitive. The intuition behind this is that items with a revealed comparative advantage to export to the rest of the world are most likely to be traded between India and Pakistan if there are trade possibilities.

Using the RCA approach, the total trade potential excluding mineral fuels falls to US$10.9 billion with the export potential accounting for US$7.9 billion and import potential accounting for US$3 billion. The trade potential from mineral fuels remains almost the same at US$ 10.4 billion (Table 1c).

Table 1b: India's Trade Potential with Pakistan (Trade Possibility Approach) 2011

Trade Potential	**US $ Million (Excluding Mineral Fuels) (1)**	**US $ Million (Mineral Fuels) (2)**	**US $ Million (Including Mineral Fuels) (3)=(1)+(2)**
Export Potential	15,966	9,392	25,358
Import Potential	3,846	1,290	5,136
Trade Potential	19,812	10,682	30,494

Source: UN ITC-WITS database

Table 1c- India's Trade potential with Pakistan (RCA approach) 2011

Trade Potential	**US $ Million (Excluding Mineral Fuels) (1)**	**US $ Million (Mineral Fuels) (2)**	**US $ Million (Including Mineral Fuels) (3)=(1)+(2)**
Export Potential	7,874	9,062	16,936
Import Potential	3,019	1,289	4,308
Trade Potential	10,893	10,351	21,244

Source: UN ITC-WITS database

These two approaches give a range of untapped bilateral trade potential. For India and Pakistan this untapped potential lies between US$ 10.9 billion (Table 1c Column 1) and US$ 19.8 billion (Table 1b Column 1), excluding mineral fuels. Mineral fuels account for an additional export potential of US$10.4 billion to US$10.7 billion.

When we compare trade potentials obtained using the two approaches above, after excluding mineral fuels, we find that the difference is mainly due to lower estimates in India's export potential to Pakistan. India's export potential to Pakistan for products with comparative advantage is much lower at US$ 7.9 billion which is almost half of the total export potential of US$ 16 billion obtained using the Trade Possibility Approach. This implies that India has a comparative advantage in about half of the commodities it can potentially export to Pakistan.

On the other hand, the import potential does not differ much in the two approaches, indicating that Pakistan has a revealed comparative advantage in most of the products which can potentially be exported to India.

The export and import potential for Pakistan's negative and sensitive list; and for India's sensitive list is also calculated using the RCA approach. India's export potential for Pakistan's negative list items accounts for 43 percent of its total export potential; and items on Pakistan's sensitive list under SAFTA account for 33 percent of India's total export potential (Table A4a). Export potential of items that are either on Pakistan's negative list or on the SAFTA sensitive list account for 56 percent of India's total export potential (Table A4a).

India's import potential from Pakistan for items on its sensitive list under SAFTA account for 22 percent of India's total import potential (Table A4b). Thus, a substantial proportion of India's export potential is in products that are either on Pakistan's negative list for India or on the sensitive list under SAFTA. Similarly, a significant proportion of India's import potential is in items on the sensitive list for non-LDCs under SAFTA. Thus, even if trade is normalized, the two countries are likely to have limited preferential access to each other's markets.

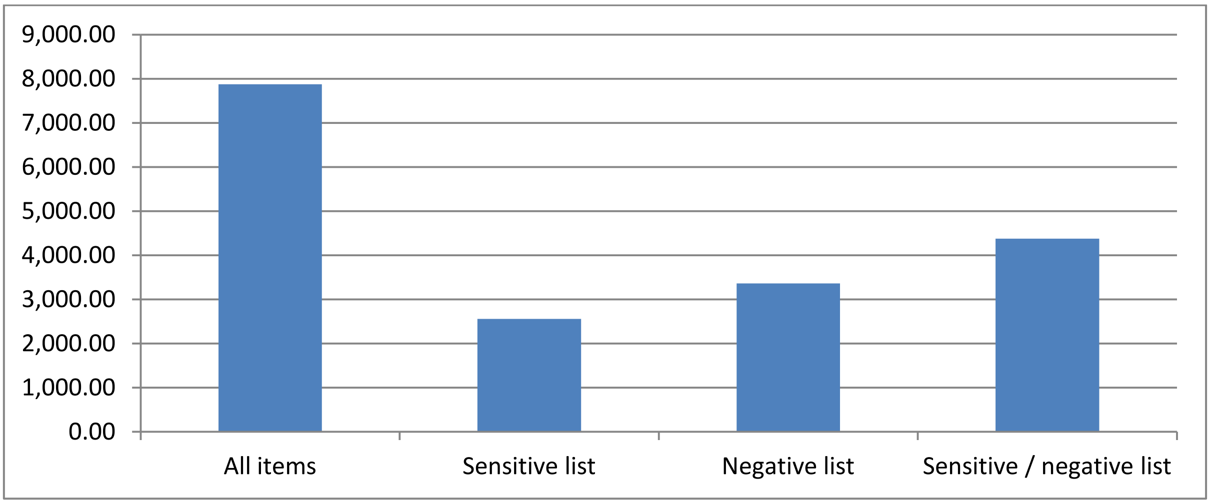
However, what is interesting is that when we calculate the export potential after including only those items for which India has a comparative advantage to export to the world, 60 percent of the difference in estimates of export potential obtained in the two approaches is on account of items on Pakistan's negative/sensitive lists (Table 1d). The inference that can be drawn is that India is not competitive in a significant proportion of items on Pakistan's negative/ sensitive lists, hence negating any rationale for these items to remain on Pakistan's negative/sensitive lists. Similarly, 68 percent of the difference in import potential that is observed after including only those items where Pakistan has a comparative advantage to export to the world, is accounted by items on India's sensitive list for non-LDCs. In the rest of the paper we report results obtained from the RCA approach.

Table 1d) India's Trade Potential with Pakistan: Comparison of Trade Possibility Approach and RCA Approach (US$ million)

	Total Potential Trade			**Potential Trade in Negative/Sensitive Lists**			
	All items	**Items for which RCA>1**	**Difference**	**Negative / sensitive list items**	**Negative / sensitive list items for which RCA>1**	**Difference**	**Share (%)**
	(1)	**(2)**	**(3)=(1)-(2)**	**(4)**	**(5)**	**(6)=(4)-(5)**	**(6)/(3)**
Export Potential	15966	7874	**8092**	9254.2*	4375.7*	**4878.5**	**60.28%**
Import Potential	3,846	3,019	**827**	1242**	676**	**566**	**68.44%**

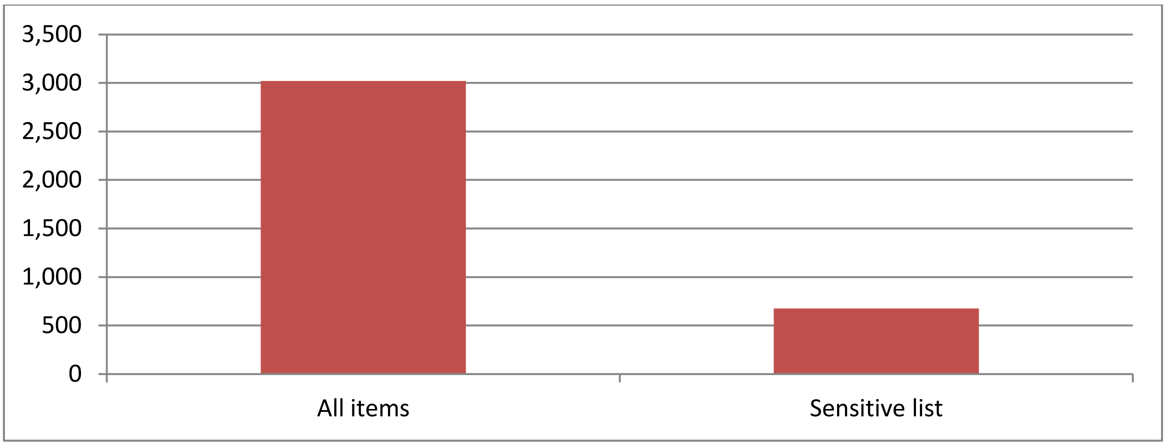
Source: UN ITC-WITS database
***** Pakistan's negative/sensitive list items for India
****** India's sensitive list items for Pakistan

Graph 2: India's Export Potential to Pakistan using RCA approach (US$ million)



Source: UN ITC-WITS database

Graph 3: India's Import Potential from Pakistan using RCA approach (US$ million)



Source: UN ITC-WITS database

The three categories (HS-21 sectors) with the largest export potential from India to Pakistan are, textiles, chemicals, and machinery, mechanical appliances and electrical equipment accounting for 55 percent of total export potential (Table A5 Columns 3 and 4). At a disaggregated level, largest potential items include petroleum oils, light petroleum oils, cellular phones, cotton, vehicle components, polypropylene, xylene, tea, textured yarn, synthetic fibre and medicaments (Table A6). However, 13 of the top 25 products with the highest potential are currently on Pakistan's negative or sensitive lists or on both, making it difficult to realize the potential from these items.

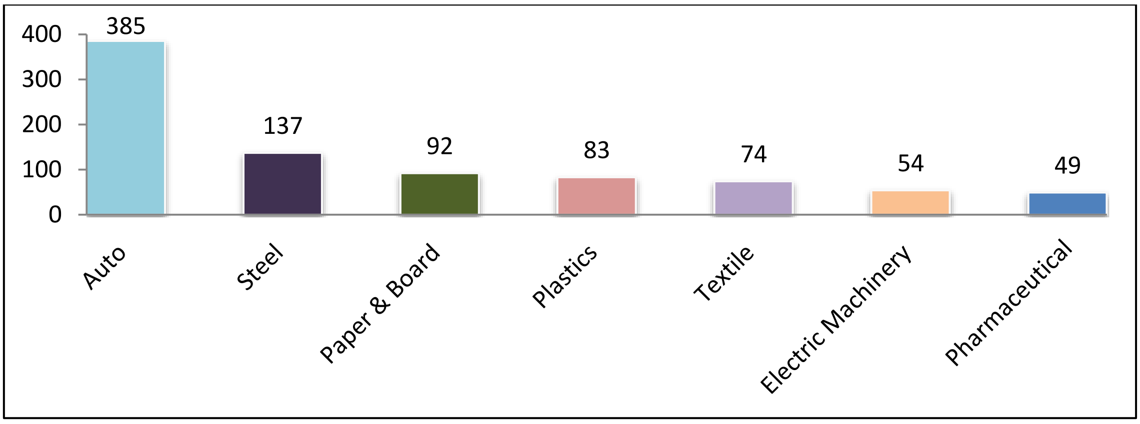
The three categories with the largest import potential include textiles, jewelry and precious metals, and base metals accounting for 52 percent of total import potential (Table A7 Columns 3 and 4). At a disaggregated level the items with largest import potential include petroleum oils, jewelry, medical instruments and appliances, cotton, tubes and pipes of iron and steel, polyethylene , copper waste and scrap, structures and parts of structures, terephthalic acid and its salts, and sports equipment (Table A8). Again 6 out of 25 products with the highest import potential are on India's sensitive list for non-LDCs under SAFTA.

India has a huge export potential in mineral fuels largely accounted for by petroleum oil and light petroleum oil. The potential for the former is US$ 7.7 billion and the latter is US$ 1.3 billion (Table A6). India's import potential from Pakistan in petroleum oils is US$ 1.3 billion (Table A8). Although both countries have export potential in petroleum oils, analysis at a more disaggregated 8 digit level reveals that Pakistan's major petroleum oil export is base oil while India's comparative advantage is in high speed diesel, aviation turbine fuel, fuel oil and lubricating oil.

4.3 Negative and Sensitive Sectors

Pakistan's negative list of 1209 items is specified at the 8-digit level of classification followed by Pakistan Custom's Office. This classification differs from the Indian classification at the same level of disaggregation. Analysis of the 1209 items indicates that auto components account for 32 percent of the items, followed by steel and paper products accounting for 11 percent and 8 percent respectively (Graph 4).

Graph 4: Number of Commodities on Pakistan's Negative List (Based on Pakistan Customs Classification-8 Digit)



Source: Ministry of Commerce, Pakistan

In order to assess the potential in these items, the codes were collapsed to the HS-6 digit level and then re-classified according to Pakistan's customs classification. However, it needs to be mentioned that in the process of aggregation, some products which were not on the negative list at the 8 digit level, got included as well. Hence, at the HS-6 digit level, there were 788 items on Pakistan's negative list. Five categories, namely auto, electrical machinery, textiles, steel and pharmaceuticals accounted for almost 90 percent of the export potential on the negative list (Table A9 Column 2);

within which, auto alone accounted for around 30 percent of the export potential on the negative list. In addition, India's export potential in items that are included in Pakistan's negative list is largest in automobiles (included largely in the category vehicles, aircraft, vessels and transport) accounting for 12 percent of India's total export potential to Pakistan (Table A5 Column 6).

To identify specific commodities on Pakistan's negative list that are 'vulnerable' to competition from imports, paired RCA's were computed for every item traded between India and Pakistan. Vulnerable items identified through this exercise were those in which India had RCA>1 but Pakistan had RCA<1 (Taneja et al. 2011). Thus in the automobile sector which accounted for the highest export potential on the negative list, out of a total of 167 items, only 35 were vulnerable as these were items in which India is globally competitive but Pakistan is not (Table A9 Columns 3 and 5; Table A12). Similarly in textiles, out of 74 items on the negative list, Pakistan is vulnerable only in 25, or 34 percent of the items (Table A9 Columns 3, 5 and 6).

India's export potential in items that are included in Pakistan's sensitive list under SAFTA is largest in automobiles (included largely in the category vehicles, aircraft, vessels and transport) accounting for 37 percent of export potential of sensitive list items (Table A10 Column 2) and 12 percent of India's total export potential (Table A5 Column 8). However, out of 70 items on the sensitive list in this category, Pakistan is vulnerable in only 19 items (Table A10 Columns 3 and 5). In terms of number of items, textiles sector was the largest accounting for 24 percent of total number of items on the sensitive list (Table A10 Column 4). But these accounted for only 4 percent of India's export potential for items on Pakistan's sensitive list under SAFTA (Table A10 Column 2). Moreover, of the total 224 textile items on the sensitive list, Pakistan is likely to face competition in only 41, or 18 percent of the items (Table A10 Columns 3, 5, 6; Table A13).

India's sensitive list under SAFTA has the largest number of items in the textiles sector which accounted for 30 percent of the total number of items on the sensitive list (Table A11 Column 4); while accounting for 62 percent of India's import potential for items on the sensitive list (Table A11 Column 2 and 4), and 14 percent of India's total import potential from Pakistan (Table A7 Column 6). Further, out of a total of 182 textile items on the sensitive list, India is vulnerable in only 45, or 25 percent of the items (Table A11 Columns 3, 5 and 6; Table A14).

It can hence be inferred that while Pakistan considers its automobile sector most susceptible to competition, India fears competition in the textile sector. However, the tendency for both countries has been to protect several tariff lines in which neither partner is competitive.

In Pakistan the automobile sector is highly protected. The automotive industry was set up initially by Japanese, European and Korean manufacturers. These assemblers are supported by the auto component manufacturers or vendors. Some of the assemblers have joint ventures with the component manufacturers while others are independent. During 1985-2006 the industry adopted a ‘Deletion Program’ which mandated a compulsory localization of components over a period of time to provide protection to the local vendor industry (USAID and Government of Pakistan 2007). In order to comply with WTO on Trade and Investment, the Deletion Program was abandoned but the sector continued to be protected by high tariffs. Pakistan currently imports completely-knocked down-kits (CKDs) and semi-knocked down kits (SKDs) from Japan, and parts from Thailand at higher prices than those from India. Opening of trade with India will make cheaper parts available to the industry (Trade Development Authority of Pakistan 2012). India’s automobile vendor industry had a similar protected regime including an equivalent of Pakistan’s Deletion Program for the automobile manufacturers. With continuous liberalization India has become a global R&D and small-car manufacturing hub (India Brand Equity Fund (IBEF) 2012). Indian auto component manufacturers on the other hand are moving up the value chain and delivering complex products though largely for the domestic market (IBEF). The Government’s Automotive Mission Plan (AMP) 2006-2016 visualizes India moving up the value chain and entering into R&D, design and manufacture of automobiles and auto components (National Manufacturing Competitiveness Council 2011). Pakistan can learn from India’s experience of opening up the automobile and auto component industry. Moreover, one of the major factors for the significant performance improvement in Pakistan’s motor cycle industry is attributed to the opening up of Pakistan’s market to imported Chinese components (Pursell et al. 2011). Thus there is a case for Pakistan to further liberalize its auto sector. Currently, there is hardly any direct trade in auto components between India and Pakistan and most of the trade is routed via Dubai, according to the Automotive Component Manufacturers Association of India.

On the other hand India’s textile and clothing sector has been one of the most protected sectors in India. Until 2005, readymade garments were reserved for exclusive manufacture by small scale firms; large firms were not permitted to manufacture these items. To protect the domestic industry, textiles and readymade garments were also subjected to high import duties and specific duties which were applied in quantitative terms and not on ad-valorem basis. In fact some of the ad-valorem rates exceeded 300 percent (USTR 2012). In 2005, the readymade garment items were removed from the reserved list thereby allowing large firms to enter into manufacturing. However, these items continued to be on the sensitive lists of India’s free trade agreements even thought the rationale for protecting the industry was no longer there (Taneja et al. 2011). It was only in 2008 that India removed 164 textile items from the sensitive list for LDCs under SAFTA and offered duty free access. In 2011, all textile items were allowed duty free access from LDCs. Sri Lanka was offered duty free access to 215 textile items under the India-Sri Lanka Free Trade Agreement in 2008. Similarly, a complex system of subsidies and taxes oriented the mill sector (spinning and yarn) powerfully towards the small-scale power-loom based weaving sector, which in turn was oriented primarily towards domestic consumption (Tewari 2005). In 2011-12, the mill sector accounted for only 5percent of the total cloth produced by the mill and power loom sectors (Economic Survey, Government of India 2011-12). However, there is a distinct difference in the fabric produced by the two sectors. While the mill sector produces high quality and high-value fabric, the fabric produced by the power looms is of low quality and commands a lower price (US International Trade Commission 2001). Pakistan on the other hand has a strong yarn and fabric manufacturing industry with India fearing is that imports from Pakistan would hurt its small and medium scale sector. Fabric imports from Pakistan are more likely to compete with the mill sector in India rather than the power loom sector thus providing no justification for India to protect the large firms from imports. Also, as noted above, India does not face much threat by opening up the Indian market to Pakistan's textile sector as only 25 percent of the textile items on India's sensitive list fall in the 'vulnerable' category.

However it is agriculture that is the main point of contention in the ongoing trade talks. Even though farmers in Pakistan are raising concerns over unfair competition from Indian imports of agricultural products while they enjoy various subsidies, the negative list has very few agriculture items. India's export potential in tobacco items which are on negative list is less than 1 percent of the total import potential of items on the negative list (Table A9 Column 2). All the remaining agricultural items have been removed from the negative list. However, farmers fear that if the land route is opened to agricultural imports, then they would not be able to compete with Indian products (Bhutta 2012).

Pakistan has always been concerned that due to high subsidies, the prices of agricultural commodities are lower in India and therefore opening up of trade would have a negative impact on the domestic producers. While India does offer subsidies, its non-product specific subsidies are below 10 percent of the value of agricultural output, abiding by the WTO rules (Hoda and Gulati 2013).

Further, it needs to be noted that prior to 1996 even when trade between the two countries was limited to a handful of items on the positive list, agriculture was part of this positive list, as it was not only an important means of overcoming short-term fluctuations but was also important for maintaining domestic price stability. At the time when Pakistan's positive list expanded to 1963 items, 156 agricultural commodities formed a part of this list.

While Pakistan may have genuine concerns regarding any adverse impact on its agriculture sector due to a surge in agricultural imports from India, the solution should be to seek safeguards within the WTO system and under SAFTA, rather than imposing a total ban on agricultural commodities from India.

4.4 Trade Possibilities in Services

There are additional trade possibilities in services sector which is becoming increasingly important in the economies of India and Pakistan. In 2011-12, this sector accounted for 59 percent of India's GDP and 54 percent of Pakistan's GDP. Three sectors, where there is potential include information technology and Business Process Outsourcing (BPO), health services, and entertainment services.

India's IT and BPO sector revenues were US$ 87.6 billion in 2011-12. Software exports in 2011-12 were US$69 billion compared to US$59 billion in 2010-11. Exports dominate the industry and constitute about 78.4 percent of total industry revenue. Indian IT service offerings have evolved from application development and maintenance to emerge as full service players providing testing and infrastructure services, consulting, and system integration (Economic Survey, Government of India 2011-12). The BPO sector which initially offered only low value services is now characterized by greater breadth and depth of services. Although the IT industry in Pakistan is in its infancy, it is growing at a fast pace. IT exports in 2011 were US$ 440 million, up from US$ 432 million in the previous year (Balance of Payment Statistics, IMF). This is one of the potential areas which could be exploited as both countries are competing in information and information services. India and Pakistan can establish joint ventures. While Pakistan could provide professionals at lower wages, Indian companies could help in procurement of international contracts (Husain 2011). Pakistan is emerging as an exporter of specialized software services such as gaming and animation, financial services and healthcare, which Indian companies could import. The two countries could also gain if India sets training institutes in Pakistan, or if professionals from Pakistan come to India to get professional training. The BPO segment in Pakistan is also growing. Government incentives to the international outsourcing community include 100 percent equity ownership, 100 percent repatriation of capital and dividends, and income tax exemption for IT companies till 2016 (Pakistan Software Export Board). India could collaborate with the BPO firms in Pakistan to offer more value added services in this segment.

Healthcare service is another area in which there are opportunities for both countries. India has emerged as an important destination for provision of medical services due to affordable cost of treatment and advancement in the field of medicines. Several Pakistani patients have been visiting India for medical treatment like liver transplant, open heart surgery and kidney transplant (Ahmad 2012). Other specialty treatment is also being offered to Pakistani patients. For instance, the Mumbai Obstetric and Gynecological Society is providing treatment for infertility to Pakistani couples (Mid-Day 2012). Despite a relatively tight visa regime, the number of patients coming from Pakistan to India is on the rise. According to a report, the Indian High Commission in Islamabad issued 1,992 medical visas to Pakistani citizens during 2008-2010. In addition, 2,917 visas were issued to medical attendants during the same period**.** There is a vast scope for cooperation in the health sector. In February 2012, a group of Indian and Pakistani doctors jointly performed a complicated liver transplant procedure in a Lahore hospital for the first time thereby opening new avenues for co-operation in the area of healthcare services (Times of India 2011).

There are trade possibilities in the entertainment industry as well. India and Pakistan share a common language and culture, thus providing scope for trade and co-operation in the film industry. India is the second largest producer of movies in the world, while Pakistan produces very few movies. Pakistan had imposed a ban on screening of Indian films in 1965 following the Indo-Pak war (Chi *undated*). The purpose of the ban was largely to protect the domestic film industry. However, despite the ban the Pakistani film industry has not done well (The Express Tribune 2012). The ban was lifted in 2008, but since then there has been uncertainty in the policy as several ad-hoc steps have been taken to ban Indian movies on a case by case basis. Through the years, the ban has been practically ineffective as the demand for Indian movies in Pakistan is met through pirated DVDs and satellite cable broadcasts of Indian films.

There is an interest in India and Pakistan for each other's music- both audio and visual. There is also an interest in Pakistan to watch Indian television serials and in India to watch Pakistani plays. However, Pakistani entertainment channels are not broadcasted on Indian channels whereas several Indian channels are broadcasted in Pakistan.

The trade potential in the entertainment industry particularly in films, television and music can be tapped by encouraging joint productions. Removing the ban on screening movies would benefit both the countries. Exchanging broadcasting rights to telecast each other's programmes on television is yet another trade opportunity for India and Pakistan.

5. Realizing Trade Potential

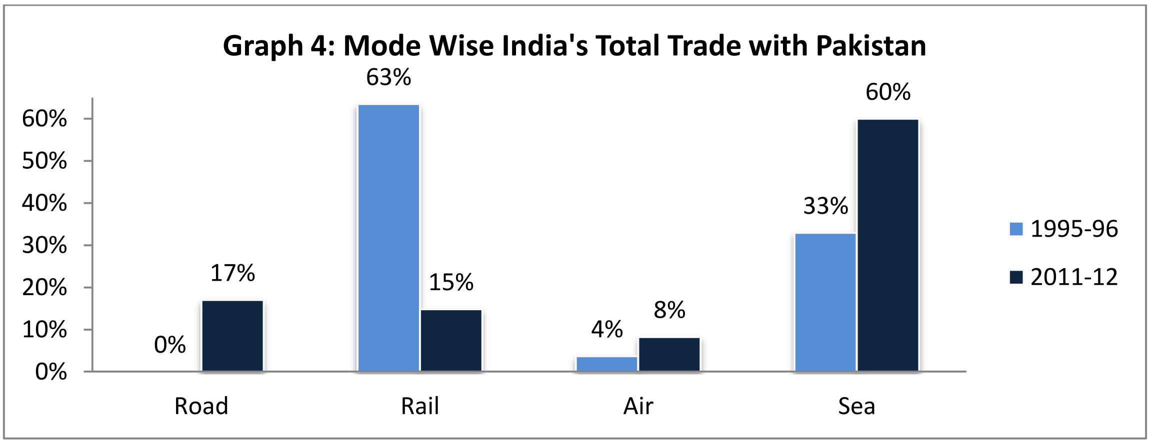
For trade potential to be realized, the two countries would have to undertake several measures in a number of areas. It is important to examine the regulatory regimes related to transport, non-tariff barriers, and visas; and assess how these regimes operate in practice. Effectiveness of these policies will also determine the extent to which informal trade flows will steer towards formal channels. The policies related to liberalization of foreign direct investment also need to be examined as realization of cross-border investment will lead to deeper trade linkages. It is also important to assess the visa regime and the extent to which it is likely to get liberalized. The role of institutions in supporting the trade liberalization process also needs to be assessed as they would play a key role in helping realize the untapped trade potential between India and Pakistan.

5.1 Transport and Transit

Most discussions and studies on the transport issue have focussed on the impediments related to the land route. While the sea route has always been operational, it went unnoticed due to the restrictive maritime protocol. This protocol allowed only Indian and Pakistani flagships to carry cargo between India and Pakistan. This arrangement restricted competition from foreign vessels, and therefore resulted in high sea freight rates being charged by Indian and Pakistani vessels. The amendment of this protocol in 2005 brought sea trade between the two countries under global maritime arrangements, leading to greater competition, and therefore, to a considerable reduction in costs for sea-based trade between Mumbai and Karachi.

It is not surprising that in 1995-96 when the road route was closed, trade by rail accounted for 63 percent while that by sea accounted for 33 percent of the total trade between India and Pakistan (Graph 5). By 2011-12 the share of different modes in total trade between the two countries changed substantially due to the opening of the road route and the liberalization of the sea trade. The share of trade by rail fell to 15 percent, while that by sea increased to 60 percent. Share of trade by road increased from zero percent in 1995-96 to 17 percent in 2011-12. Moreover, what is striking is that for both exports and imports, apart from a few commodities like dry dates and cements, most of the top commodities are traded via a single mode of transport, either road, rail, sea or air.

Graph 5: Mode Wise India's Total Trade with Pakistan



Source: Directorate General of Foreign Trade: Ministry of Commerce, India

The opening of the road route between India and Pakistan after 58 years was a historic move. India and Pakistan share a 2912 kilometer long border. The significance of this move can be better understood when compared with cross-border transport protocols that India has with Nepal. India and Nepal have the most liberal transport protocol which permits trucks from the two countries to move into each other's territories. However, in practice, goods from trucks of one country are offloaded and loaded on to the other country's trucks at the border. This is because when trucks move from one country to the other, the local mafia extorts money from the foreign trucks. Thus, transshipment continues to occur because these informal payments are higher than the cost of transshipment. Hence there is a need to strengthen institutions at the border for effective implementation of policies. On the other hand, the opening up of the road route between India and Pakistan has met with relatively little opposition. Indeed, the institutional framework supporting trade between the two countries is strong enough to counter lobbyists and interest groups that may have resisted such a change. This raises immense hopes for successful implementation of further trade-facilitating measures at the land border between India and Pakistan.

Amritsar and Lahore are the two major cities on either side of the border separated by a distance of only 54 kilometers. Hence, the transport costs for goods moved via land route between northern India and northern Pakistan could be substantially lower than the sea route. Recognizing the importance of the land route, India opened an Integrated Check Post (ICP) at Attari in April 2012, with new facilities including a trade gate that would house all trade activities under one unit including warehousing and other facilities. Timings for trade were increased to 12 hours every day for all days of the week. While the ICP is operational, the two most important facilities that are underway include automated systems for electronic filing of customs documents through the Electronic Data Interchange (EDI) facility and installation of truck scanners. This is a marked change from the past, when there was only one gate for trade and for passengers, trade timings were limited to only 7 hours daily, and no warehousing facilities were offered.[5]

In a short span of just six months – between April and October 2012, the warehouse has reached full capacity.[6] This in turn limits the entry of trucks from across the border. The question is whether these facilities will be able to bear additional cargo load which is likely to occur for two reasons- Pakistan's move to normalize trade on the road route by allowing all items to be imported from India via road, instead of the existing list of only 137 items; and a likely shift in trade from the sea to road route due to lower transaction costs in the latter. The ICP, when conceived by the Indian government clearly did not envisage such a paradigm change in trade between the two countries. The trade would increase further if the two governments agreed to move containerized cargo by road. Allowing these trucks to move in each other's territory is yet another measure that would reduce transaction costs further. The two governments are also considering opening up of new road routes. The option of opening the Munabhao-Khokhrapar road route was discussed in the seventh round of talks between the two governments.

[5]Interviews with traders and officials in Amritsar in 2012
[6]Ibid

The rail route was the dominant land-transport mode for India-Pakistan trade for several years. The rail route's relative importance over the sea and road route has declined as it continues to be limited in its reach. Goods transported by the goods train, often referred to as "interchange train", or by parcel wagons; are attached to the Samjhauta Express passenger train which runs on a biweekly basis carrying 6 to 10 parcel wagons. Since the capacity of Samjhauta Express is limited, most of the rail cargo is carried by the interchange train. Earlier studies have pointed out that the existence of only one rail route through the Attari/Wagah border, poor quality of rolling stock and restriction on the type of wagons are some of the problems that traders faced (Taneja 2006). Also, traders in Kolkata, located in eastern India, find it difficult to trade through the Attari/Wagah land border because of lack of information on how to trade by the rail route. Therefore, they send consignments by sea to Colombo, which are then transshipped to Karachi (Taneja 2007).

Since 2007, there has been a deterioration in interchange train services. Goods by the interchange train move only between Amritsar and Lahore through the Attari rail station, with just the Pakistani wagons plying on this route, unlike earlier when Indian wagons also plied on the rail route. Cargo for export either comes in Indian wagons upto Amritsar where it is unloaded and then loaded onto Pakistani wagons; or it is loaded on trucks to be sent through Wagah. Transshipment of cargo from Indian to Pakistani wagons or onto trucks adds considerable time and cost to transporting goods.

Even though infrastructure has improved with the ICP, these facilities do not extend to rail cargo movement. The railway line is about three kilometers away from the ICP. The agenda for improving rail transport remains largely unaddressed. While the 7th round of talks agreed to increasing the number of interchanges to 3-4 in a day and allowing high capacity wagons to ply, the discussions so far have only covered the immediate needs of facilitating rail transport.

The ongoing bilateral dialogue between India and Pakistan has so far not addressed the issue of transit. India has not allowed Pakistan to access Nepal, Bangladesh, and Bhutan through its territory. Similarly, Pakistan has not given any transit rights to India to access Afghanistan for its exports. However, Pakistan offered transit rights to Afghanistan's exports through its territory to reach the Indian market in 1948. In July 2010, Afghanistan and Pakistan signed an amended transit trade agreement, the Afghanistan-Pakistan Transit-Trade Agreement (APTTA), which provides for an increased number of transport routes available to trucks from Afghanistan and Pakistan. However, the APTTA does not allow India's exports to Afghanistan through Pakistan via the land route. In order to increase their gains from the trade normalization process, India and Pakistan must put this transit issue on their dialogue agenda. This would also have huge implications for reviving the Afghan economy. Afghanistan can gain little through trade given its limited export capability but it can take advantage of its geographical location by converting into a logistic hub and offering a whole range of logistic services that could help transport goods between South and Central Asia. It follows that India should also allow transit facility to Pakistani goods for accessing the Nepal and Bangladesh markets.

There is need to develop a long term vision and plan for road and rail cargo movement by the land route. Limiting the opening of the land route to just the land border is not enough. Freight costs are often determined by the freight trade balance between two countries. Since India has a trade surplus with Pakistan, India's cargo trucks/wagons moving back from Pakistan will not be fully loaded, with empty wagons adding considerably to transaction costs. However, if the trucks/wagons are allowed cross-border movement and multimodal-transportation is permitted, cargo balancing could be achieved by linking the sea ports of Mumbai and Karachi through the land route, with the sea ports largely connecting the rest of the world. Similarly transit through Pakistan can link Indian sea ports with Afghanistan and to rest of Central Asia through Pakistan.

5.2 Non-Tariff Barriers

For many years Pakistani government has expressed that their businessmen face non-tariff barriers in accessing the Indian market (Taneja 2007, Taneja et al. 2008 and 2011a). On this issue, it was recognized by both countries during the talks that there were no Pakistan-specific barriers but a general lack of awareness amongst Pakistani businessmen on the regulatory regimes in India. In a study conducted in 2008 for the Task Force on Non Tariff Measures (NTMs) it was found that while these NTMs were not discriminatory, the procedures relating to product standards were cumbersome, some regulations lacked transparency, and there were problems related to recognition of standards. The two governments however felt that it was important to address the perceived barriers as well. In September 2011, the Indian government arranged interactive sessions between the Indian regulators and Pakistani businessmen in New Delhi to help increase awareness amongst the latter on India's regulatory policies. Such a session was subsequently held in Pakistan in January 2012.

This government-to-business interaction is an innovative and effective method of addressing information gaps on the regulatory environment of India and Pakistan. Recently, the Trade Development Authority of Pakistan supported experts to undertake a study that identified potential products for exports to India, including tariff and non-tariff barriers that Pakistani businessmen faced. The findings of the study were subsequently disseminated across ten cities in Pakistan to inform the businesses on India's regulatory regimes. Some of the reported barriers included over valuation of goods, tedious packaging and labeling requirements, access to limited number of ports for some products, lack of testing facilities at ports, inadequate infrastructure, mishandling of goods, and theft of cargo at ports. Businesses were also educated on the use of WTO compliant trade defense instruments and how they could be used to restrict imports which could hurt the domestic industry. Such a government supported awareness initiative, if done on a sustained basis every few years, could have a long term impact on dispelling notions and misconceptions of perceived barriers amongst businessmen willing to access the Indian market. It shall also help in raising awareness on genuine non-tariff barriers, and equipping businesses to deal with expanded imports if they hurt their domestic industry.

In another initiative to address non-tariff barriers, Governments of India and Pakistan signed three agreements in September 2012; including a customs cooperation agreement to help avoid arbitrary stoppage of goods at each other's ports, a bilateral cooperation agreement on mutual recognition between ‘Pakistan Standard and Quality Control Authority (PSQCA)’ and ‘Bureau of Indian Standards (BIS)’; and an agreement on redressal of trade grievances between Pakistan and India. Non-tariff barriers of a different nature were identified in some studies (Taneja 2006, 2007). It was found that Pakistani consignments were subjected to excessive checks- usually due to security concerns causing harassment to genuine traders. Marketing and labeling issues relating to the perceived ‘image’ of Pakistani goods was also pointed out in recent studies. For instance, the label on Pakistani bed linen was changed to European and Indian labels for sale in the Indian market (Trade Development Authority of Pakistan 2012). Holding exhibitions, such as the Pakistan Mega Lifestyle Exhibition held in Delhi in April 2012 and the Made in Pakistan Expo held in August 2012 in Mumbai, could aid acceptance of Pakistani goods in India. In September 2012, the Pakistan Fashion Design Council[7] opened an outlet in an up-market shopping complex in New Delhi. Such steps will certainly raise awareness among Indian consumers about Pakistani products.

Indian products too face a labeling issue, with their Pakistani counterparts advising on dropping the ‘Made in India’ label to accentuate sales in Pakistan.[8] However, newer products such as sweets and snacks, manufactured by a large Indian firm, have made a successful entry in the Pakistani market under the Indian label.[9]

Though measures to mitigate NTB’s have been undertaken, addressing them is not a one-time effort. India and Pakistan need to identify, deal with, and address new NTB’s on a continuous basis, as and when they are raised.

5.3 Informal Trade

The restrictive trade environment, has led to large informal trade flows between India and Pakistan, estimated to range from US$ 250 million to US$ 3 billion. The most detailed study on Indo-Pakistan informal trade estimated its value at around US$ 545 million in 2005 (Khan et al. 2007). Of this, Pakistan’s imports from India are estimated to be around US$ 535 million and exports to India US$ 10.4 million. The main import items from India, via informal channels, are cloth, tires, pharmaceuticals, textile

[7] A leading design store which brings together more than 60 designers from all over Pakistan
[8] Interviews with manufacturers who are trying to enter the Pakistani market after their products were included in the positive list.
[9] Interview with an exporter of packaged sweets and snacks to Pakistan under the Indian label.

machinery, cosmetics, livestock and medicines; accounting for roughly 80 percent of total informal import value. Pakistan's informal exports mainly consist of textiles; accounting for approximately 90 percent of the total informal trade.

It is interesting to note the modalities of India-Pakistan informal trade, with most of the trade flowing via third country. Khan estimates trade via Mumbai-Dubai- Karachi route to be around 88 percent of total informal trade, and the remaining as cross border informal trade through the Amritsar-Lahore and Sind-Rajasthan border routes. However, almost 51 percent of informal trade taking place via Dubai does not reach Karachi directly as goods are transshipped from India to Dubai from where they are shipped to Bandar Abbas in Iran and then moved further via land across Afghanistan, to finally reach Pakistan. Only about 18 percent of informal trade takes place through the sea route from India to Karachi via Dubai.

While these estimates are dated, they provide useful insights into the functioning of informal trade markets. It is reasonable to assume that individuals trading through the informal channels have devised parallel institutional mechanisms for contract enforcement and dispute settlement. Also, the smooth functioning of such markets shows that traders have developed efficient mechanisms for obtaining information on quantities and commodities to be traded and mitigating risks that might arise in the unofficial transacting environment (Taneja 2004).

The move towards trade normalization and a parallel reduction in tariffs and non-tariff barriers would certainly lower informal trade flows between India and Pakistan.[10] Trade through Dubai is likely to decrease sooner if there are active channels of information that would bring buyers and suppliers on either side together in order to conduct trade directly with each other rather than through third parties. Elimination of the negative list would also allow export of many items that had to be routed via Dubai and other informal channels of trade. Until all such measures are fully implemented, informal and formal trade between India and Pakistan are likely to co-exist.

5.4 Visas

A lot needs to be done in simplifying the visa regime between India and Pakistan. Grant of city-specific visa, the requirement of police reporting on arrival and before departure, the restriction on going beyond the port of entry, and delays in getting a visa have limited market access for aspiring traders (Taneja et al. 2011a).

Consulates in both countries have exercised tremendous discretionary power in granting visas and waiving visa requirements along with allowing some traders to be exempted from scrutiny by the Ministry of Home Affairs in India and Ministry of Interior Affairs in Pakistan. They have also allowed extended period of stay, exempted

[10]Interviews with traders in Dubai in 2012

traders from police reporting, and removed restrictions on the number of cities that can be visited. Selected traders who are beneficiaries of such largesse can make repeated visits and enhance their Pakistan specific trade information; which remains inaccessible for other aspiring traders due to restricted market access, lack of transparency, market imperfections, and information asymmetries. However, Indian officials argue that, for the sake of security, rigorous screening of visas is essential. While it is true that no compromise can be made on national security issues, it needs to be recognized that genuine traders often become victims of a strict visa regime.

The new visa agreement was signed between India and Pakistan in September 2012. The agreement introduces measures to ease travel of tourists, pilgrims, elderly and children to facilitate people-to-people contact between the two countries. The business visa has also been made more liberal, allowing one year multiple entry visas for upto 10 places with exemption from police reporting for those reporting a turnover of at least Rs. 30 million or equivalent in Pakistani Currency.[11]

The new visa regime is a step forward towards easing the channel for information exchange on trade-related matters between India and Pakistan. As a next step the countries could consider the use of electronic systems that would assist in having adequate and effective security systems in place while at the same time allowing genuine traders to trade across borders.

5.5 Foreign Direct Investment

Investment flows play an important role in deepening trade linkages, and raising market access between the countries involved. For several years India did not permit FDI inflows from Pakistan. In a move to normalize economic ties between the two countries, in August 2012 the Department of Industrial Policy and Promotion (DIPP) India announced changes in the Consolidated FDI Policy to allow investment from Pakistani firms and individuals in all sectors- except defense, space and atomic energy- through government route. Following this, India recently removed Pakistan from the negative list under the Foreign Exchange Management Act (FEMA), paving the way for investment from Pakistan. The FEMA regulations have also been amended to allow Indians to invest in Pakistan.

In 2011, Pakistan’s total outward FDI flows were only US $62 million. While country and sector-wise break-up of FDI outflows from Pakistan is not available, data from Board of Investment in Bangladesh indicates that Pakistan has invested in textile firms there. Pakistan has also invested in Sri Lanka in the food processing and construction sectors (Vaqar 2012). In the Indian context, the possible sectors attracting FDI could be textiles and cement (Mishra 2012). A bilateral investment treaty between India and

[11] For those businessmen whose turnover is Pakistani Rs. 3 million or equivalent, a one year visa allowing visit to five places, for upto four entries, will be permitted.

Pakistan in near future will help boost both the safety of investments and investor confidence (Taneja and Bimal 2012). Considering that due to inhibitions the business interest may not be forthcoming immediately, an interesting solution offered by businessmen has been to set up joint ventures between India and Pakistan without physically locating in each other's countries. Investment ventures set up in this manner could pave the way for raising investor confidence in the future. During the course of our industry consultations, sectors with potential for investment were identified to be agriculture, fertilizer, drip irrigation, tissue culture, seeds, herbal extracts, biotechnology, mining and mining equipment, dairy and livestock, tourism and tourism infrastructure, textile machinery, heavy engineering and earthmoving machinery, and entertainment[12].

5.6 Institutions Engaged in Trade Normalization

Trade normalization efforts have been driven at multiple levels on sides of India and Pakistan. All bilateral talks are spearheaded by the Ministry of External Affairs. Other important government departments involved are the Ministry of Commerce and the Ministry of Home Affairs. The former is leading the trade negotiating agenda while the latter has the primary responsibility of maintaining security. In India, two key functions performed by the Home Ministry in the context of trade include issuance of visas and border management. As part of its border management functions, Land Ports Authority of India (LPAI) was set up in April 2012 to provide cohesive management of cross-border movement of people and goods. On the side of Pakistan, the road port is managed by the National Logistics Cell, which falls under the purview of the Ministry of Defence.

With respect to their bilateral visa regime, the Ministry of Home Affairs in India and Pakistan have taken progressive steps. The bureaucracy in India, arranged in vertical and hierarchical levels, seems to have accepted the pace of change set in motion by the trade normalization process. Even though, the issue of cross border terrorism often appears in bilateral talks, so far there has been no attempt to link it to the trade agenda. The Indian and Pakistani military forces are also not seen as adversaries in the trade normalisation process. The involvement of NGO's too is quite limited.

The business communities in both countries have been actively engaged in pursuing the trade liberalization agenda through the Chambers of Commerce for several years. In India, the Federation of Indian Chambers of Commerce and Industry (FICCI), the Confederation of Indian Industry (CII), the Associate Chambers of Commerce (ASSOCHAM), and the Punjab, Haryana and Delhi Chambers of Commerce and Industry (PHDCCI) have taken the initiative to facilitate cross border interactions between business delegations and communities to assess trade possibilities. Since the

[12] Summary Of Proceedings, Regional Chambers of Commerce Roundtable, Lahore January 10, 2013

initiation of the trade normalization process, such cross-border interactions have increased manifolds.

Academic discourse in India has largely focused on the political issues between India and Pakistan to have implications on trade normalization between the two countries. Until recently, the print and visual media too were engaged largely in ‘negative’ reporting as there was a tendency to report conflict rather than any peace initiatives undertaken by the two sides. Even the proposed grant of MFN status did not make headlines in any of the major news dailies. There is however, an evident shift towards positive reporting in the media on peace initiatives and trade co-operation which can have a huge impact on the perceptions of civil society towards relations shared by India and Pakistan.

6. Conclusion

The trade normalization process will unleash trade opportunities for both India and Pakistan. Even though the automobile sector in Pakistan and the textile sector in India have resisted trade liberalization, there is no rationale for holding back the process which shall inevitably benefit both the countries.

India and Pakistan need to work together in several areas to be able to realize the untapped trade potential. So far only incremental steps are being considered by the two governments to improve cross-border movement of goods. A comprehensive and integrated international land transport policy needs to be put in place not only to provide rail and road services connecting the two countries but also linking sea ports through land borders to enable connectivity with the rest of the world as well.

India should continue to lower its non-tariff barriers as part of its ongoing reform process. In addition, a more concerted effort needs to be made to facilitate businessmen in overcoming their apprehensions about entering each other’s markets and selling their products along with their country labels across the border fearlessly. The unprecedented number of exhibitions and fairs held in India and Pakistan, displaying each other’s products, has been met by an overwhelming response from consumers; providing support for such efforts to continue.

While the removal of restrictions on FDI flows has opened up new investment opportunities, businessmen from India and Pakistan are reluctant to invest due to fear of a possible disruptive political event. Investors also fear becoming easy targets for those who oppose their presence. Businessmen willing to invest could enter into joint ventures without physically locating in each other’s territory, as the first step to entry, till legal systems safeguard investments and there is improvement in investors’ confidence.

For a liberal visa regime to be in place, electronic 'smart systems' should be used to screen visa applications and track physical movement of people, while avoiding undue harassment to genuine traders. Telecommunication channels also need to be opened up to foster people-to-people contact and reduce business costs. The existing communication system between India and Pakistan does not permit travelers to use their mobile phones in the other's country. Buying local SIM (Subscriber Identity Module) cards too is not an easy option, involving a lot of paper work for those travelling. As a result, visitors and businessmen have developed informal mechanisms of procuring local SIM-cards through friends and relatives. The issue of improving telecommunication between the two countries was raised in the 7th round of talks and is expected to be a part of the trade normalization process.

India and Pakistan need to constantly engage with one another to understand each other's regulatory regimes. As new businessmen enter into trading relations, it is important to have forums that bring buyers and sellers together. Guaranteed payments are essential for building new and lasting business partnerships, for which banking channels would need to be improved. An innovative dispute resolution system should also be put in place. For many years, Dubai has provided as a facilitator for trade and guaranteed payments between India and Pakistan. Thus, a third country wherein India and Pakistan share mutual trust could provide for an effective dispute resolution mechanism. Moreover, it is important for the business communities to create multilevel channels of communication which can reduce misconceptions, bridge information gaps, and generate a significant change in the business environment of the two countries. All such holistic measures could help in realizing the untapped trade potential between India and Pakistan.

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APPENDIX

Table A1: India's Exports to and Imports from Pakistan (2011)				
Product Description	**Exports (US$ Million)**	**Share of Sector in Exports (%)**	**Imports (US$ Million)**	**Share of Sector in Imports (%)**
Animal or vegetable oils and fats	0.6	0.0	2.2	0.6
Arms and ammunition	-	-	-	-
Stone, plaster cement, glass, ceramic etc.	7.1	0.4	1.1	0.3
Base metals and articles	89.4	5.3	33.4	9.5
Footwear headgear, umbrellas, walking sticks etc	0.5	0.0	0.3	0.1
Live animals and animal products	15.9	0.9	1.3	0.4
Machinery and mechanical appliances, electrical equipment, electronics and parts	27.4	1.6	10.4	3.0
Mineral Products	23.0	1.4	85	24.2
Miscellaneous manufactured articles	8.2	0.5	0.9	0.3
Pearls, precious stones and metals, imitation jewelry	0.1	0.0	32.7	9.3
Optical, measuring, precision, medical or surgical instruments etc.	2.0	0.1	5.5	1.6
Plastics and rubber	140.1	8.4	12.2	3.5
Prepared food stuffs beverage and tobacco products	213.8	12.7	2.1	0.6
Chemical and allied products	419.3	25.0	30.1	8.6
Pulp of wood and paper products	5.2	0.3	1.0	0.3
Raw hides and skins and leather products	0.5	0.0	10.3	2.9
Textile and textile products	393.8	23.5	39.1	11.1
Vegetable products	330.5	19.7	82.1	23.3
Vehicles, aircraft, vessels and associated transport equipment	0.2	0.0	1.3	0.4
Wood and wood products	0.2	0.0	0.5	0.1
Works of art	0.0	0.0	0.0	0.0
Total	**1,678**	100.0	**352**	100.0

Table A2: India's Top 25 Exports to Pakistan at HS-6 (2011)				
Code	**Product Description**	**Exports (US $ Million)**	**Share of the product in Exports (%)**	**On Pakistan's Sensitive List**
520100	Cotton, not carded/combed	272.8	16.3	
230400	Oil-cake and other solid residues	168.3	10.0	
290243	p-Xylene	120.1	7.2	
070200	Tomatoes, fresh/chilled	65.2	3.9	
540710	Woven fabrics	50.8	3.0	
071320	Chickpeas (garbanzos)	41.8	2.5	
390210	Polypropylene	41.8	2.5	
290242	m-Xylene	41.3	2.5	
401120	New pneumatic tyres, of rubber	40.3	2.4	yes
090240	Tea, black (fermented)	35.1	2.1	yes
090420	Fruits of the genera Capsicum	34.0	2.0	yes
731100	Containers for compressed/liquefied gas	32.4	1.9	
170199	Cane/beet sugar and chemically pure sucrose	27.4	1.6	yes
294200	Organic comps. n.e.s. in Ch.29	26.2	1.6	
550410	Artificial staple fibres	21.0	1.3	
381700	Mixed alkylbenzenes and mixed alkylnaphthalenes	19.4	1.2	
290241	o-Xylene	19.0	1.1	
121190	Plants and parts of plants	16.5	1.0	
320416	Reactive dyes and preparations based thereon	16.2	1.0	yes
100190	Wheat other than durum wheat; meslin	14.1	0.8	yes
270400	Coke and semi-coke of coal/lignite/peat	13.8	0.8	
080119	Coconuts, other than desiccated	13.6	0.8	
720230	Ferro-silico-manganese	13.2	0.8	
070310	Onions and shallots, fresh/chilled	12.5	0.7	
120991	Vegetable seeds, of a kind used for sowing	11.9	0.7	

Table A3: India's Top 25 Imports from Pakistan at HS-6 (2011)				
Code	**Product Description**	**Imports (US $ Million)**	**Share of the product in Imports (%)**	**On India's Sensitive list**
080410	Dates, fresh/dried	69.6	19.8	
252329	Portland cement (excl. white cement)	36.8	10.4	
710812	Gold (incl. gold plated with platinum)	32.5	9.2	
271011	Light petroleum oils and preparations	29.6	8.4	
780199	Unwrought lead other than refined	13.7	3.9	
740400	Copper waste and scrap	10.0	2.8	
271019	Petroleum oils	9.0	2.6	
520531	Cotton yarn, mult./cab. (excl. sewing thread)	7.1	2.0	
283620	Disodium carbonate	6.9	2.0	
252010	Gypsum; anhydrite	6.5	1.8	
291736	Terephthalic acid and its salts	6.0	1.7	
390421	Poly(vinyl chloride)	4.6	1.3	
290315	1,2-Dichloroethane (ethylene dichloride)	4.1	1.2	
510129	Wool, not carded/combed	3.9	1.1	
851712	Telephones for cellular networks/other wireless networks	3.5	1.0	
720421	Waste and scrap of stainless steel	2.9	0.8	
392321	Sacks and bags (incl. cones), of polymers of ethylene	2.8	0.8	yes
901890	Instruments and appliances used in medical/surgical/veterinary sciences	2.8	0.8	
520932	Woven fabrics of cotton	2.7	0.8	
121190	Plants and parts of plants, incl. seeds and fruits	2.7	0.8	
281410	Anhydrous ammonia	2.6	0.7	
410449	Tanned/crust hides and skins of bovine	2.6	0.7	
520511	Cotton yarn, single (excl. sewing thread), of uncombed fibres	2.4	0.7	yes
520622	Cotton yarn, single (excl. sewing thread), of combed fibres	2.3	0.7	
284700	Hydrogen peroxide	2.2	0.6	

Table A4a: India's Exports and Export Potential with Pakistan (2011)		
Export	**US$ Million**	**Share in Total Export Potential (%)**
India’s Exports to Pakistan	1,678.1	
Total export potential of Pakistan Sensitive list items	2,556.4	32.5
Export potential of Negative list items	3,362.5	42.7
Export Potential of Sensitive/Negative list items	4,375.7	55.6
Export potential	7,874.1	

Table A4b: India's Imports and Import Potential with Pakistan (2011)		
Import	**US$ Million**	**Share in Total Import Potential (%)**
India's Imports from Pakistan	352.0	-
Import Potential of Sensitive list items	676	22.4
Import potential	3,019	

Table A5: India's Export Potential with Pakistan (2011)								
	1	2	3	4	5	6	7	8
Product Description	**Exports (US$ Mn)**	**Share of Sector in total Exports (%)**	**Export Potential (US$ Mn)**	**Share of Sector in total Export Potential (%)**	**Export potential of items in Negative list (US$ Mn)**	**Share of Negative list items in total export potential (%)**	**Export potential of items in Sensitive list (US$ Mn)**	**Share of Sensitive list items in total export potential (%)**
Textile and textile products	393.8	23.7	1,745.3	22.2	631.0	8.0	102.8	1.3
Chemical and allied products	419.3	25.3	1,329.9	16.9	367.8	4.7	447.1	5.7
Machinery and mechanical appliances, electrical equipment, electronics and parts	27.4	1.7	1,277.0	16.2	757.6	9.6	294.6	3.7
Vehicles, aircraft, vessels and associated transport equipment	0.2	0.0	1,122.8	14.3	942.6	12.0	942.8	12.0
Base metals and articles	89.4	5.4	734.6	9.3	373.4	4.7	58.1	0.7
Plastics and rubber	140.1	8.4	673.9	8.6	108.4	1.4	271.3	3.4
Vegetable products	330.5	19.9	615.3	7.8	-	0.0	338.4	4.3
Pearls, precious stones and metals, imitation jewelry	0.1	0.0	90.3	1.1	71.8	0.9	-	0.0
Prepared foodstuffs beverage and tobacco products	213.8	12.9	59.8	0.8	17.3	0.2	32.5	0.4
Mineral Products	3.7	0.2	48.9	0.6	-	0.0	2.2	0.0
Articles of stone. Plaster, cement etc	7.1	0.4	35.5	0.5	10.5	0.1	12.7	0.2
Miscellaneous manufactured articles	8.2	0.5	30.6	0.4	30.3	0.4	1.5	0.0
Raw hides and skins and leather products	0.5	0.0	30.2	0.4	13.2	0.2	2.3	0.0
Optical, measuring, precision, medical or surgical instruments etc.	2.0	0.1	26.6	0.3	22.8	0.3	21.7	0.3
Pulp of wood and paper products	5.2	0.3	16.9	0.2	15.8	0.2	12.5	0.2
Wood and wood products	0.2	0.0	16.1	0.2		0.0	0.1	0.0
Footwear headgear, umbrellas, walking sticks etc	0.5	0.0	16.1	0.2	0.1	0.0	15.3	0.2
Live animals and animal products	15.9	1.0	3.4	0.0	-	0.0	-	0.0
Animal or vegetable oils and fats	0.6	0.0	0.6	0.0	-	0.0	0.4	0.0
Works of art	0.0	0.0	0.08	0.0	-	0.0	-	0.0
Total	**1,658.7**	**100.0**	**7,874.1**	**100.0**	**3,362.5**	**42.7**	**2,556.4**	**32.5**

Table A6: India's Export Potential with Pakistan at H6-6, top 25 items (2011)					
Product Code	**Product Description**	**Export Potential (US$ Mn)**	**India's exports to Pakistan (US$ Mn)**	**On Pakistan's Negative List**	**On Pakistan's Sensitive List**
271019	Petroleum oils	7718.4	1.7		
271011	Light petroleum oils and preparations	1253.2	0.0		
851712	Telephones for cellular networks/other wireless networks	629.6	0.0	yes	
520100	Cotton, not carded/combed	532.8	272.8		
870322	Vehicles (excl. of 87.02 and 8703.10)	361.9	0.0	yes	yes
390210	Polypropylene, in primary forms	356.7	41.8		
290243	p-Xylene	308.0	120.1		
90240	Tea, black (fermented)	304.2	35.1		yes
540233	Textured yarn other than sewing thread	277.0	0.5	yes	
870321	Vehicles (excl. of 87.02 and 8703.10)	263.0	0.0	yes	yes
550320	Synthetic staple fibres	255.1	0.0	yes	
300490	Medicaments	213.4	10.9	yes	yes
721049	Flat-rolled products of iron/non-alloy steel	193.1	0.1	yes	
401120	New pneumatic tyres, of rubber	157.7	40.3		yes
550410	Artificial staple fibres	154.6	21.0		
071320	Chickpeas (garbanzos)	138.5	41.8		
871120	Motorcycles (incl. mopeds) and cycles	84.8	0.0	yes	yes
890510	Dredgers	81.9	0.0		
871419	Parts and accessories of motorcycles	79.1	0.0	yes	yes
740311	Cathodes and sections of cathodes	75.4	0.0		
630900	Worn clothing and other worn articles	71.8	0.4		
711319	Articles of jewellery and parts thereof	69.1	0.1	yes	
380891	Insecticides	68.2	10.1		
294190	Antibiotics and their derivatives	63.8	5.4	yes	yes
780110	Unwrought lead, refined	63.3	0.2		

Table A7: India's Import Potential with Pakistan (2011)						
	1	2	3	4	5	6
Product Description	**Imports (US$ Mn)**	**Share of Sector in total Imports (%)**	**Import Potential (US$ Mn)**	**Share of Sector in total Import Potential (%)**	**Import Potential of items in Sensitive List (US$ Mn)**	**Share of Sensitive List items in total import potential (%)**
Textile and textile products	39	12	757	25	416.1	13.8
Pearls, precious stones and metals, imitation jewelry	33	10	447.2	15		-
Base metals and articles	33	11	367.3	12	12.5	0.4
Optical, measuring, precision, medical or surgical instruments etc.	6	2	290.1	10	1.1	0.0
Plastics and rubber	12	4	228.0	8	96.8	3.2
Machinery and mechanical appliances, electrical equipment, electronics and parts	10	3	188.2	6	45.8	1.5
Chemical and allied products	30	10	149.8	5	12.9	0.4
Prepared foodstuffs beverage and tobacco products	2	1	121.5	4	13.3	0.4
Mineral Products	46.5	15	101.4	3	35.0	1.2
Raw hides and skins and leather products	10	3	83.2	3		-
Miscellaneous manufactured articles	1	0	80.7	3	0.2	0.0
Vegetable products	82	26	52.2	2	6.7	0.2
Footwear headgear, umbrellas, walking sticks etc	0	0	47.3	2	29.5	1.0
Stone, plaster cement, glass, ceramic etc.	1	0	29.9	1	3.4	0.1
Vehicles, aircraft, vessels and associated transport equipment	1	0	17.7	1		-
Live animals and animal products	1	0	15.0	0	1.9	0.1
Animal or vegetable oils and fats	2	1	12.3	0		-
Works of art	0	0	11.5	0		-
Wood and wood products	0	0	9.5	0		-
Pulp of wood and paper products	1	0	7.9	0	1.2	0.0
Arms and ammunition	-	-	1.3	0		-
Total	**313**	**100**	**3,019**	**100**	**676**	**22.4**

Table A8: India's Import Potential with Pakistan at HS-6, top 25 items (2011)				
Product Code	**Product Description**	**Import Potential (US$ Mn)**	**India's imports from Pakistan (US $ Mn)**	**On India's sensitive List**
271019	Petroleum oils	1288.5	9.0	
711319	Articles of jewellery and parts thereof	440.9	0.0	
901890	Instruments and appliances used in medical/surgical/veterinary sciences	268.9	2.8	
520100	Cotton, not carded/combed	180.8	0.2	yes
730690	Tubes, pipes and hollow profiles of iron/steel	105.3	0.0	
390760	Poly(ethylene terephthalate)	81.4	0.0	
740400	Copper waste and scrap	75.5	10.0	
730890	Structures and parts of structures	60.0	0.0	
291736	Terephthalic acid and its salts	57.6	6.0	
950699	Articles and equip. for sports, n.e.s	44.8	0.4	
391590	Waste, parings and scrap, of plastics	41.2	0.0	yes
220720	Ethyl alcohol and other spirits, denatured	38.5	0.3	
840710	Spark-ignition reciprocating/rotary internal combustion piston engines for aircraft	36.4	0.0	
841451	Fan with a self-contained electric motor	35.6	0.0	yes
620342	Men's/boys' trousers, bib and brace overalls, of cotton	35.3	0.1	yes
251512	Marble and travertine	34.6	0.2	yes
520832	Woven fabrics of cotton, dyed, plain weave	34.3	0.4	
261000	Chromium ores and concentrates	31.6	0.0	
520942	Woven fabrics of cotton, denim	29.4	2.1	
630419	Bedspreads other than knitted/crocheted	29.2	0.0	yes
410719	Leather further prepared after tanning/crusting	28.8	1.4	
761519	household articles and parts thereof	27.6	0.0	
390799	Polyesters (excl. of 3907.10-3907.91), in primary forms	26.5	0.1	
252329	Portland cement (excl. white cement)	21.8	36.8	
390319	Polystyrene other than expansible	21.0	0.0	

Table A9: Pakistan's Negative List (Aggregated to HS-6 from Pakistan's custom classification)* (2011)						
	1	**2**	**3**	**4**	**5**	**6**
Sector	**Export potential of Negative List Items-RCA Approach (US$ Mn)**	**Share of sector in total export potential of Negative List (%)**	**Total number of items on Negative List**	**Share of total items in Negative List (%)**	**Number of vulnerable items in Negative List**	**Sector-wise Share of vulnerable items in total items on Negative List (%)**
Auto	1008.1	30.0	167	21.2	35	21.0
Elect. Machinery	667.9	19.9	43	5.5	9	20.9
Textile	625.7	18.6	74	9.4	25	33.8
Steel	368.1	10.9	90	11.4	33	36.7
Pharmaceutical	338.8	10.1	30	3.8	15	50.0
Plastics	93.4	2.8	67	8.5	9	13.4
Jems and Jewelry	71.8	2.1	3	0.4	1	33.3
Machinery	46.2	1.4	20	2.5	5	25.0
Chemical	29.0	0.9	25	3.2	8	32.0
Misc. Manfd. Articles	25.0	0.7	19	2.4	7	36.8
Meters	20.8	0.6	6	0.8	3	50.0
Agri (mainly tobacco)	17.3	0.5	15	1.9	2	13.3
Paper and Board	15.8	0.5	80	10.2	11	13.8
Leather	13.2	0.4	14	1.8	3	21.4
Ceramics	7.2	0.2	16	2.0	4	25.0
Rubber	5.2	0.2	10	1.3	3	30.0
Furniture	3.5	0.1	14	1.8	2	14.3
Optical Fiber	2.0	0.1	2	0.3	1	50.0
Sports	1.8	0.1	8	1.0	0	0.0
Cutlery	1.3	0.0	19	2.4	6	31.6
Glass	0.4	0.0	21	2.7	2	9.5
Stone and Marble	0.2	0.0	5	0.6	2	40.0
Metal Products	0.1	0.0	5	0.6	1	20.0
Footwear	0.1	0.0	7	0.9	1	14.3
Aluminum	0.0	0.0	10	1.3	0	0.0
Elect. Appliances	0.0	0.0	3	0.4	0	0.0
Prefabricated Buildings	0.0	0.0	1	0.1	0	0.0
Soap and Toiletries	0.0	0.0	5	0.6	0	0.0
Surgical	0.0	0.0	6	0.8	0	0.0
Wood	0.0	0.0	3	0.4	0	0.0
Total	**3362.5**	**100.0**	**788**	**100.0**	**188**	**23.9**

*Negative List of 1209 items provided by the Ministry of Commerce, Pakistan at the 8-digit level has been compressed to 788 items at the 6-digit level, with the associated classification of sectors.

Table A10: Pakistan's Sensitive List (2011)						
	1	**2**	**3**	**4**	**5**	**6**
Sector	**Export Potential of Sensitive List Items-RCA Approach (US $ Mn)**	**Share of sector in total export potential of Sensitive List (%)**	**Total number of items on Sensitive List**	**Share of total items in Sensitive List (%)**	**Number of vulnerable items in Sensitive List**	**Sector-wise Share of vulnerable items in total items on Sensitive List (%)**
Textile and textile products	102.8	4.0	224	23.9	41	18.3
Machinery and mechanical appliances, electrical equipment, electronics and parts	294.6	11.5	179	19.1	38	21.2
Base metals and articles	58.1	2.3	116	12.4	25	21.6
Chemical and allied products	447.1	17.5	65	6.9	21	32.3
Plastics and rubber	271.3	10.6	105	11.2	21	20.0
Vehicles, aircraft, vessels and associated transport equipment	942.8	36.9	70	7.5	19	27.1
Pulp of wood and paper products	12.5	0.5	6	0.6	6	0.0
Stone, plaster cement, glass, ceramic etc.	12.7	0.5	27	2.9	6	22.2
Optical, measuring, precision, medical or surgical instruments etc.	21.7	0.8	7	0.7	3	42.9
Vegetable products	338.4	13.2	17	1.8	3	17.6
Footwear headgear, umbrellas, walking sticks etc	15.3	0.6	15	1.6	2	13.3
Prepared foodstuffs beverage and tobacco products	32.5	1.3	15	1.6	2	13.3
Animal or vegetable oils and fats	0.4	0.0	13	1.4	1	7.7
Mineral Products	2.2	0.1	3	0.3	1	33.3
Miscellaneous manufactured articles	1.5	0.1	11	1.2	1	9.1
Wood and wood products	0.1	0.0	13	1.4	1	7.7
Live animals and animal products	0.0	0.0	11	1.2	0	0.0
Pearls, precious stones and metals, imitation jewelry	0.0	0.0	0.0	0.0	0.0	0.0
Raw hides and skins and leather products	2.3	0.1	45	4.8	0	0.0
Total	**2556.4**	**100.0**	**936**	**100.0**	**198**	**21.2**

Table A11: India's Sensitive List (2011)						
	1	**2**	**3**	**4**	**5**	**6**
Sector	**Import Potential of Sensitive List Items- RCA Approach (US$ mn)**	**Share of sector in total import potential of Sensitive List (%)**	**Total number of items on Sensitive List**	**Share of total items in Sensitive List (%)**	**Number of vulnerable items in Sensitive List**	**Sector-wise Share of vulnerable items in total items on Sensitive List (%)**
Textile and textile products	416.1	61.5	182	29.6	45	24.7
Plastics and rubber	96.8	14.3	97	15.8	9	9.3
Base metals and articles	12.5	1.8	60	9.8	2	3.3
Prepared foodstuffs beverage and tobacco products	13.3	2.0	57	9.3	4	7.0
Vegetable products	6.7	1.0	38	6.2	4	10.5
Chemical and allied products	12.9	1.9	36	5.9	1	2.8
Live animals and animal products	1.9	0.3	28	4.6	2	7.1
Machinery and mechanical appliances, electrical equipment, electronics and parts	45.8	6.8	28	4.6	2	7.1
Animal or vegetable oils and fats	0	0.0	21	3.4	0	0
Footwear headgear, umbrellas, walking sticks etc	29.5	4.4	17	2.8	3	17.6
Pulp of wood and paper products	1.2	0.2	14	2.3	1	7.1
Wood and wood products	0.0	0.0	11	1.8	0	0.0
Stone, plaster cement, glass, ceramic etc.	3.4	0.5	10	1.6	0	0.0
Mineral Products	35.0	5.2	5	0.8	2	40.0
Miscellaneous manufactured articles	0.2	0.0	4	0.7	1	25.0
Vehicles, aircraft, vessels and associated transport equipment	0.0	0.0	4	0.7	0	0.0
Optical, measuring, precision, medical or surgical instruments etc.	1.1	0.2	2	0.3	0	0.0
Total	**676.2**	**100.0**	**614**	**100.0**	**76**	**12.4**

Table A12: Automobile items on Pakistan's Negative List for which Pakistan is vulnerable	
Code	**Product**
870600	Chassis
851120	Ignition magnetos; magneto-dynamos;
400821	Plates, sheets and strips, of rubber
871494	Brakes, and parts thereof
871110	Motorcycles and cycles
871495	Saddles for vehicles
730791	Flanges of iron/steel
851230	Sound signaling equipment for vehicles
871496	Pedals and crank-gear, and parts thereof
870322	Vehicles with cylinder capacity >1000cc but not >1500cc
681381	Material and articles thereof, not mounted for brakes, for clutches/the like
570330	Carpets and other floor coverings
871491	Frames and forks, and parts thereof, for vehicles
871499	Parts and accessories of the vehicles
848410	Gaskets
851190	Parts of the equip. of 8511
400829	Rods and profile shapes, of rubber
401290	Tyres, tyre treads, and tyre flaps
731822	Washers of iron/steel
870410	Dumpers
848360	Clutches and shaft couplings
848310	Transmission shafts
871420	Parts and accessories of carriages for disabled persons
870810	Bumpers and parts thereof
401032	transmission belts
870321	Vehicles with cylinder capacity not >1000cc
871419	Parts and accessories of motorcycles
871493	Hubs for vehicles of 8711-8713
870210	Motor vehicles for the transport of 10/more persons
870899	Other parts and accessories for the motor vehicles of 8701-8705, excluding 870891/92/93/ 94/95
681320	Friction material and articles thereof, not mounted for brakes, for clutches/the like
732010	Leaf-springs and leaves thereof, of iron/steel
870490	Motor vehicles for the transport of goods, n.e.s. in 8704
871492	Wheel rims and spokes, for vehicles 8711-8713 (excl. motorcycles and mopeds)
871120	Motorcycles (incl. mopeds) and cycles, cylinder capacity>50cc but not >250cc

Table A13: Textile items on Pakistan's Sensitive List for which Pakistan is vulnerable	
Code	**Product**
540752	Woven fabrics, dyed
540753	Woven fabrics, of yarns of different colours
540754	Woven fabrics, printed
540761	Woven fabrics, of non-textured polyester filaments
540792	Woven fabrics of synthetic filament yarn, dyed
540793	Woven fabrics of synthetic filament yarn, of yarns of different colours
540794	Woven fabrics of synthetic filament yarn, printed
551511	Woven fabrics of polyester staple fibres mixed mainly/solely with viscose rayon staple fibres
551512	Woven fabrics of polyester staple fibres mixed mainly/solely with man-made filaments
551513	Woven fabrics of polyester staple fibres mixed mainly/solely with wool/fine animal hair
570231	Carpets and other textile floor coverings, woven, of pile construction, not made up, of wool/fine hair
570241	Carpets and other textile floor coverings, woven, of pile construction, made up, of wool/fine hair
570250	Carpets and other textile floor coverings, not of pile construction & not made up, woven
570291	Carpets & other textile floor coverings, woven, not of pile construction, made up, of wool/fine hair
570310	Carpets & other textile floor coverings, tufted, whether/not made up, of wool/fine hair
570330	Carpets & other textile floor coverings, tufted, whether/not made up, of man-made textile materials
570390	Carpets & other textile floor coverings, tufted, whether/not made up, of textile materials
570490	Carpets & other textile floor coverings, of felt, not tufted/flocked, whether/not made up
570500	Carpets & other textile floor coverings, n.e.s. in Ch.57, whether/not made up
580134	Warp pile fabrics (excl. of 58.02/58.06), of man-made fibres
580136	Chenille fabrics (excl. of 58.02/58.06), of man-made fibres
580190	Woven pile fabrics & chenille fabrics (excl. of 58.02/58.06), of textile materials
611011	Jerseys, pullovers, cardigans, waist-coats & similar articles, knitted/crocheted, of wool
620411	Women's/girls' suits (excl. knitted/crocheted), of wool/fine animal hair
620442	Women's/girls' dresses (excl. knitted/crocheted), of cotton
620443	Women's/girls' dresses (excl. knitted/crocheted), of synthetic fibres
620444	Women's/girls' dresses (excl. knitted/crocheted), of artificial fibres
620449	Women's/girls' dresses (excl. knitted/crocheted), of textile materials
620453	Women's/girls' skirts & divided skirts (excl. knitted/crocheted), of synthetic fibres
620520	Men's/boys' shirts (excl. knitted/crocheted), of cotton
620530	Men's/boys' shirts (excl. knitted/crocheted), of man-made fibres
620610	Women's/girls' blouses, shirts & shirt-blouses (excl. knitted/crocheted), of silk/silk waste
620620	Women's/girls' blouses, shirts & shirt-blouses (excl. knitted/crocheted), of wool/fine animal hair
620630	Women's/girls' blouses, shirts & shirt-blouses (excl. knitted/crocheted), of cotton
620640	Women's/girls' blouses, shirts & shirt-blouses (excl. knitted/crocheted), of man-made fibres
620930	Babies' garments & clothing accessories (excl. knitted/crocheted), of synthetic fibres
621143	Track suits (excl. knitted/crocheted), women's/girls'; of man-made fibres
621410	Shawls, scarves, mufflers, mantillas, veils & the like (excl. knitted/crocheted), of silk/silk waste
621420	Shawls, scarves, mufflers, mantillas, veils & the like (excl. knitted/crocheted), of wool/fine animal hair
621440	Shawls, scarves, mufflers, mantillas, veils & the like (excl. knitted/crocheted), of artificial fibres
630493	Textile furnishing articles, not knitted/crocheted, of synthetic fibres

Table A14: Textile items on India's Sensitive List for which India is vulnerable	
Code	**Product**
621220	Girdles & panty-girdles & parts thereof
551341	Woven fabrics of polyester staple fibres, plain weave, printed
640590	Footwear other than with uppers of leather/composition leather/textile materials
611212	Track suits, knitted/crocheted, of synthetic fibres
620119	Men's/boys overcoats, raincoats, car coats, capes, cloaks
551311	Woven fabrics of polyester staple fibres, plain weave, unbleached/bleached
520300	Cotton, carded/combed
540771	Woven fabrics, unbleached/bleached
610333	Men's/boys' jackets & blazers, knitted/crocheted, of synthetic fibres
611530	Other women's full-length/knee-length hosiery
611610	Gloves, mittens & mitts
610432	Women's/girls' jackets & blazers, knitted/crocheted, of cotton
610343	Men's/boys' trousers, bib & brace overalls, of synthetic fibres
610290	Women's/girls' overcoats, car-coats, capes, cloaks
621111	Swimwear (excl. knitted/crocheted), men's/boys'
621139	Track suits (excl. knitted/crocheted), men's/boys'
551312	Woven fabrics of polyester staple fibres, incl. cross twill, bleached/unbleached
611020	Jerseys, pullovers, cardigans, waist-coats, of cotton
620199	Men's/boys', anoraks (incl. ski-jackets), wind-cheaters, wind jackets
611693	Gloves, mittens & mitts, knitted/crocheted, of synthetic fibres
611090	Jerseys, pullovers, cardigans, waist-coats, of cotton
620329	Men's/boys' ensembles, other than of synthetic fibres /cotton
611019	Jerseys, pullovers, cardigans, waist-coats, of fine animal hair other than Kashmir goats
611780	Other made up clothing accessories
611692	Gloves, mittens & mitts, knitted/crocheted, of cotton
610891	Women's/girls' bathrobes, dressing gowns, of cotton
620463	Women's/girls', trousers, bib & brace overalls, of synthetic fibres
620799	Men's/boys' singlet & other vests, bathrobes, dressing gowns, not of cotton
620219	Women's/girls' overcoats, raincoats, car-coats, capes, cloaks, of textile materials
610439	Women's/girls' jackets & blazers, knitted/crocheted, of textile materials
620439	Women's/girls' jackets & blazers (excl. knitted/crocheted)
551319	Woven fabrics of synthetic staple fibres, unbleached/bleached
611219	Track suits, knitted/crocheted, of textile materials other than of cotton/synthetic fibres
610469	Women's/girls' trousers, bib & brace overalls, of textile materials other than synthetic fibres
620341	Men's/boys' trousers, bib & brace overalls, of textile materials other than synthetic fibres
580790	Labels, badges & similar articles of textile materials
620469	Women's/girls', trousers, bib & brace overalls, of textile materials other than cotton/synthetic fibres
610829	Women's/girls' briefs & panties, knitted/crocheted, of textile materials other than cotton/man-made fibres
551211	Woven fabrics of synthetic staple fibres
611211	Track suits, knitted/crocheted, of cotton
610349	Men's/boys' trousers, bib & brace overalls, of other textile materials
610190	Men's/boys' overcoats, car-coats, capes, cloaks of other textile materials, other than of cotton/man-made fibres
610332	Men's/boys' jackets & blazers, knitted/crocheted, of cotton
520611	Cotton yarn, single (excl. sewing thread), of uncombed fibres
611710	Shawls, scarves, mufflers, mantillas, veils & the like, knitted/crocheted

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