

Barriers on Trade in Pakistan and India

by

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Introduction

- Tariff Barriers
- Non Tariff Barriers (NTBs) Imposed by India and Pakistan
- Views of Exporters Regarding NTBs
- Quantification of the Impact of Tariff and Non-Tariff Barriers on Trade Restrictiveness
- Policy Recommendations



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Tariff Barriers

Tariff Barriers

- High Tariff and Non-Tariff Barriers, in part, have limited Indo-Pak Trade
- Recent progress in Liberalizing Trade :
 - Substitution of the Positive List by a shorter Negative List by Pakistan. 27 % to 82 % jump in tariff lines importable from India.
 - Pakistan originally committed to giving MFN Status to India by 31st December 2012
 - A 30 % reduction in the list of items on Sensitive List by India.
 - At 8-digit level, Pakistan has 1577 items in the Sensitive List as compared to 1753 in India's list

Why Pakistan did not Grant MFN Status to India at the Last Minute?

1. Fears of Agriculturists of Competition from India due to the high level of subsidies to Agriculture. In effect, lobbying for higher subsidies in Pakistan as a countervailing measure.
2. Lobbying activities by Industries like Automobiles, Iron and Steel, Textiles, Pharmaceuticals and Chemicals which are in the Negative List.
3. Perception that Pakistan's exports will not grow significantly due to Indian NTBs and high tariffs on potential Pakistani exports to India.

Remaining Barriers to Trade

- Tariff structures in South Asia are still restrictive and high
- Tariff rates* are generally higher in India than Pakistan on agricultural products and textiles
- Tariffs on Manufactured Goods (excluding textiles) are more restrictive in Pakistan.

Some Examples of High Tariffs

	Duty Range
In India	
Wheat	100 %
Vegetables, Fruits and Livestock	30-70 %
In Pakistan	
Automobiles	65%

* Composite tariffs in India

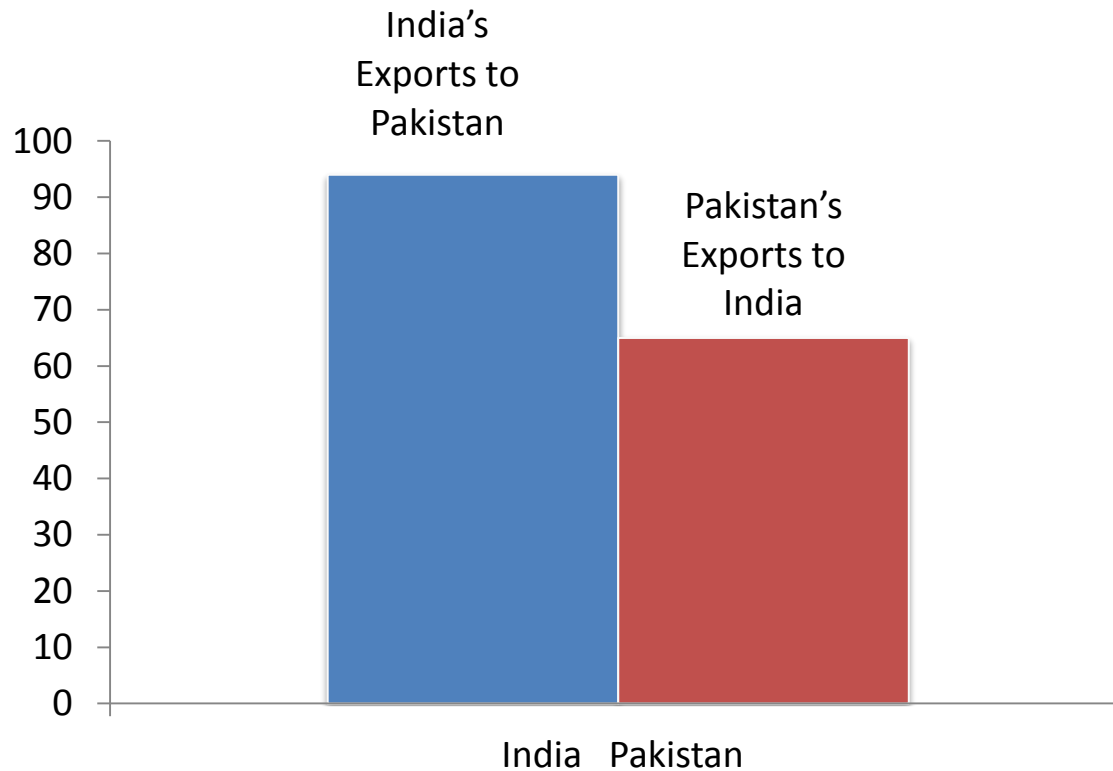
Distribution of Effective* Ad Valorem Tariffs on Textiles in India

Range (%)	Number	%
0 to 10	35	15.7
Above 10 to 25	83	37.2
Above 25 to 50	61	27.4
Above 50 to 100	31	13.9
Above 100	13	5.8
	223	100.0

* derived from the composite rates

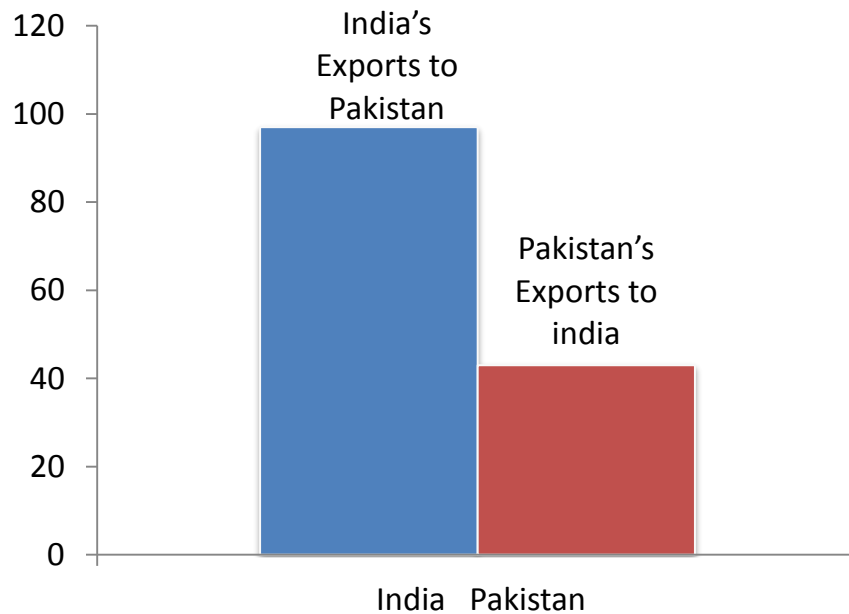
Extent of Preferential Access to Exports (following MFN status and SAFTA)

Percentage of Total Exports

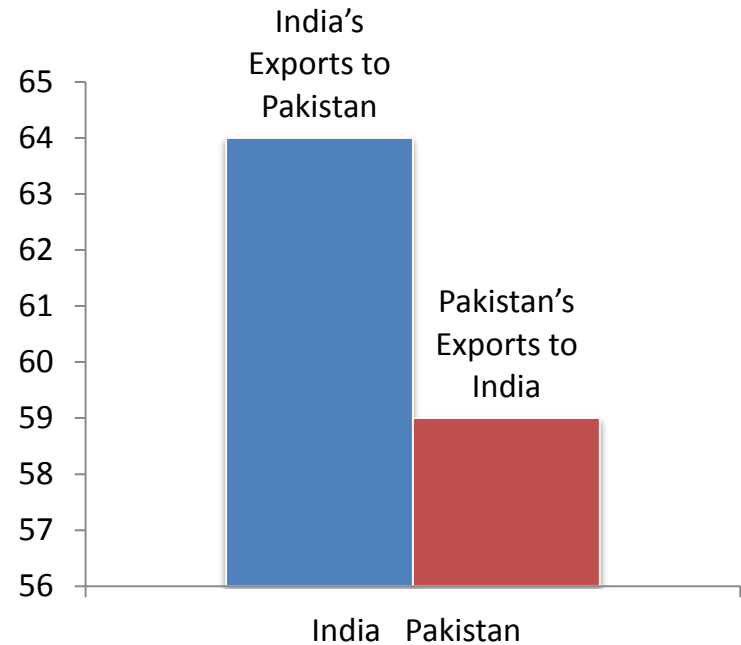


Extent of Preferential Access to Exports

Percentage of Agricultural Exports



Percentage of Textiles Exports





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Non Tariff Barriers

What are Non-Tariff Barriers(NTBs)?

Defined as measures imposed or sponsored by the Government to protect a domestic activity (industry) besides tariffs.

UNCTAD classifies NTBs into 15 categories, including the following:

Sanitary and Phyto-sanitary Measures (SPS)

- SPS regulation for standards for plant and animal products
- SPS conformity assessment

Technical Barriers to Trade (TBT)

- TBT regulation
- Conformity Assessment
- Pre-shipment Inspection

Finance Measures

- Terms of payment
- Multiple exchange rates

Export Related Investments

- Local Content Requirements
- Trade Balancing Requirements

Price control

- Anti-dumping
- Countervailing duty
- Administrative Pricing

Quantity Control

- Non-automatic licensing
- Quotas

Para tariffs

- Customs surcharges
- Internal taxes

Others

- Subsidies, IPR, Rules of Origin
- Distribution Restrictions
- Anti-competitive measures

NTBs on Goods Applied by India

India is an active user of NTBs and varies application of NTBs selectively on products.

- **Rules of origin:** Product specific rules of origin on 180 products under SAFTA
- **Pre-Shipment Inspection:** metallic waste and some textiles and clothing items
- **Para-Tariffs:** On all goods (17 percent) in some cases exceeding 30 percent
- **Import-Prohibitions:** On 51 items including livestock products
- **Reference Prices:** for calculation of custom duty on e.g. palm oil
- **Import Licensing:** 442 tariff lines, primarily live animals, vegetable and mineral products
- **Minimum Import Price:** 24 tariff lines including tyres, cement bricks
- **Transportation Restrictions:** motor vehicles and second hand cars.
- **State Trading:** 33 tariff lines including wheat
- **Anti-dumping measures:** 207 anti-dumping measures in force
- **Import Quotas:** On marble and monitoring of 415 sensitive items
- **Standards:** 18623 Indian standards and 84 percent harmonized with international standards
- **Packaging and Labelling:** for all food items etc.
- **Sanitary and Phytosanitary measures:** 71 notifications on food items
- **Special Quarantine Requirements:** animal and animal products, plants

NTBs Applied by India on Pakistani Potential Exports

Out of the 15 types of NTBs, five types are more relevant to Pakistan :

1. Trade Facilitation and Customs Procedures
2. SPS and TBT measures
3. Financial Measures
4. Para-Tariff Measures
5. Visa Regulations
6. Transport Restrictions

NTBs Applied by Pakistan on Indian Imports

1. Positive and now Negative list (Embargo)
2. Restrictions on Land Movement across Wagah border
3. Customs Procedures
4. Financial Measures
5. Visa Regime

Comparison of Agricultural Subsidies in India and Pakistan

Agricultural subsidies are almost three times higher in India than Pakistan.

Subsidies	India (Million \$) 2008-09	Pakistan (Million \$) 2010-2011
Fertilizer	35000.0	1014
Electricity	6000.0	944
Irrigation	5000.2	711
Other ^a	7000.2	7
TOTAL SUBSIDIES	53000.4	2676
Subsidies as % of value Added in Agriculture	23%	6.2%
Subsidies as % of GNP	5.2%	1.2%
Subsidy per hectare (\$)	\$ 297	\$ 118
Subsidy as % of Value Of Production	15.3 %	4.9%

Source: WTO Trade Policy Review



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Views of Exporters Regarding NTBs

Primary Survey Conducted for the USAID Trade Project yielded the following Ranking of NTBs by Pakistani Exporters

Ranking	NTB
1	TBT and SPS measures
2	Visa Regime
3	Transportation, infrastructural constraints and Customs
4	Financial Measures
5	“Mind-set” – NTBs are not specific to Pakistan but they are applied more rigorously on Pakistani exports.

Major NTBs Reported by Indian Exporters

Major NTBs faced in Exporting to Pakistan:

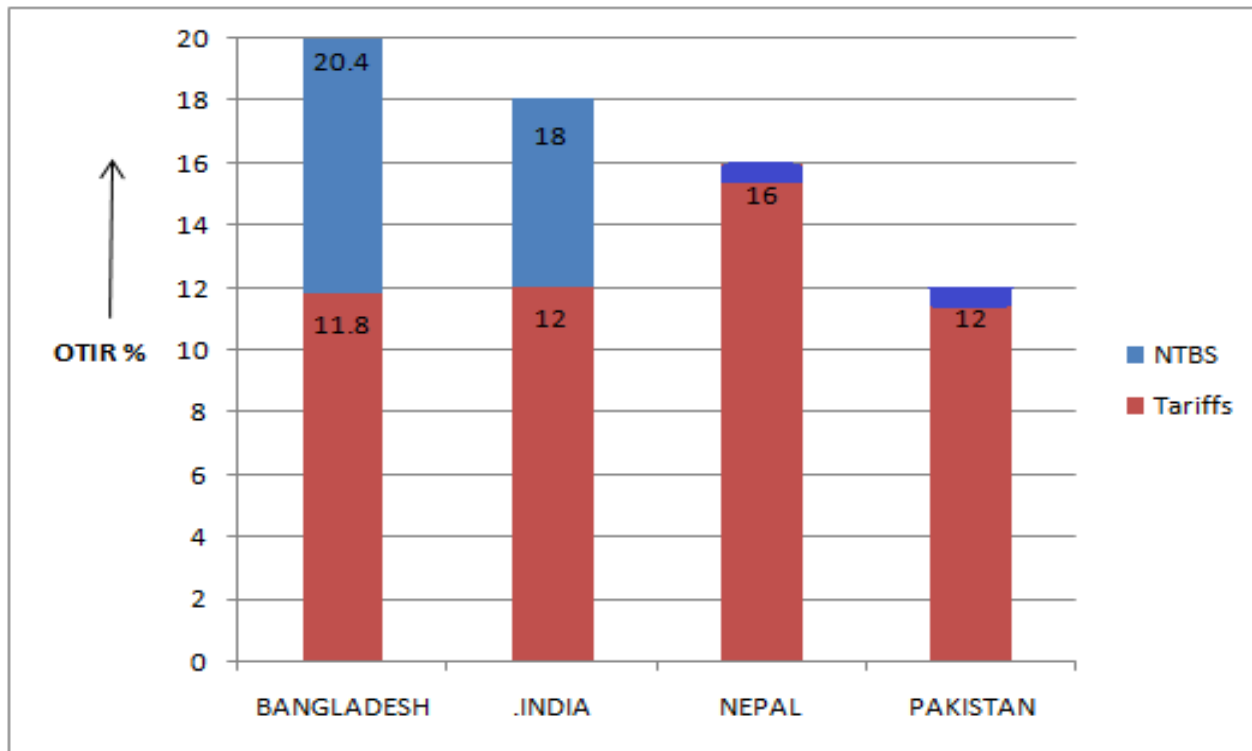
1. **Restricted list of Exports through Wagah:** Only 137 products are allowed through land routes
2. **Product Classification:** Though both countries follow standardized international coding system, often codes do not match
3. **Transport Infrastructure and Logistics:** Inadequate land routes and weak transport infrastructure
4. **Banking:** Non-acceptance of L/Cs issued by each others' banks
5. **Business Visas:** Documentation, delays, city/time specific
6. **Transit Facility:** Not allowed access to Afghanistan

Recommendations based on Case Studies of Indian Exporters

- Remove limitation through land route
- Facilitate more volume of cargo movement through land route
- Ease visa restrictions
- Harmonize product classification

Quantification of Impact of Tariff and Non-Tariff Barriers

Overall Trade Restrictiveness Index of South Asian Countries*



*Data on Sri Lanka is not available, but it is generally recognized that Sri Lanka has a liberal trading regime

Source: World Bank

Logistic Performance Index (LPI)

India performs better. Pakistan needs to enhance the efficiency level of customs and other border procedures. Overall, the quality of logistic services is at an intermediate level in both countries, implying significant scope for improvement.

Indicator ^a	%	Pakistan ^a	India ^a	Average for ^a South Asia
Logistic Performance Index (LPI)				
LPI – Overall	No	2.53	3.12	2.49
LPI - Customs Efficiency and other border procedures	No	2.05	2.70	2.22
LPI – International Transport Costs	No	2.80	2.91	2.13
LPI – Logistics Competence	No	2.28	3.16	2.33
LPI – Track ability of Consignments	No	2.64	3.14	2.53
LPI – Domestic Transport Cost	No	2.86	3.08	3.12
LPI – Timeliness of Shipments	No	3.08	3.61	3.04

Source: World Bank, World Trade Indicators.

^a on a scale of 1 to 5, with 5 the best

NTBs on Services

- The coverage of General Agreement of Trade in Services (GATS) covers all measures by members affecting trade in services
- Defines four modes - distinction rests on territorial presence of supplier and user at the time when service is provided

Mode 1:	Cross-border supply	Supply from the territory of one member into the territory of another member
Mode 2:	Consumption abroad	Involves the movement abroad of a service user into the supplier's territory
Mode 3:	Commercial Presence	Covers supplier's right to establish and maintain a commercial presence in the relevant member's territory
Mode 4:	Presence of natural persons	Related to foreigners supplying services in the territory

Proportion			
Mode 1	Mode 2	Mode 3	Mode 4
30 %	15 %	50 %	4 %

GATS Commitment Restrictiveness Indicators, 2006-09

GATS Commitments Restrictiveness Index measures the extent of GATS commitments for all 155 services sub-sectors as classified by the GATS and in the four modes of the GATS. The value of these indices ranging from 0 (unbound or no commitments) to 100 (completely liberalized).

Indicators	Pakistan	India	South Asia	East Asia-Pacific
GATS commitments restrictiveness index - all service sectors	8.97	6.69	10.06	22.08
GATS commitments restrictiveness index - market access	8.90	5.46	8.78	20.28
GATS commitments restrictiveness index - national treatment	9.05	7.91	11.33	23.84
GATS commitments restrictiveness index - business services	7.32	2.52	8.03	16.35
GATS commitments restrictiveness index - communication services	16.42	12.08	12.84	27.77
GATS commitments restrictiveness index - construction/engineering services	4.02	4.02	3.80	31.18
GATS commitments restrictiveness index - distribution services	0.00	0.00	9.08	16.35
GATS commitments restrictiveness index - educational services	0.00	0.00	6.79	15.32

GATS Commitment Restrictiveness Indicators, 2006-09

Indicators	Pakistan	India	South Asia	East Asia-Pacific
GATS commitments restrictiveness index - environmental services	0.00	0.00	11.46	24.52
GATS commitments restrictiveness index - financial services	6.57	6.19	12.88	43.57
GATS commitments restrictiveness index - health/social services	14.89	6.38	7.80	9.95
GATS commitments restrictiveness index - tourism/travel services	24.26	18.20	30.15	68.12
GATS commitments restrictiveness index - recreational/cultural services	0.00	0.00	4.78	8.81
GATS commitments restrictiveness index - transport services	0.00	0.00	2.21	16.10
GATS commitments restrictiveness index - other services	0.00	0.00	0.00	5.77
Source: World Trade Indicators, World Bank				

Pakistan is much less restrictive in all the 14 classification of GATs NTBs. However both countries are substantially more restrictive than South Asia and East Asia and pacific region

Policy Recommendations

- **Areas where Sensitive List of India needs to be reduced**
- **Areas where NTBs have to be further relaxed**
- **Improvements in Trade-Related Infrastructure**
- **Strengthening the Legal Framework**
- **Strengthening the Institutional Framework**

Reduction of Sensitive List of India

As suggested by IPP [2012] in the study sponsored by USAID and by Taneja [2013] the following items in which Pakistan has export potential need to be taken out of the Sensitive List of India:

- Wheat, rice
- Mangoes
- Textile fabrics and made up textiles

Areas where NTBs have to be Further Relaxed

- Harmonization of HC Code
- Reduction in delays in clearance of consignments
- More efficient and less documentation-intensive process by customs including e-filing
- Some head way made; monitor the implementation of Simplification of the SPS and TBT requirements by accepting certification by PSQCA and pre-shipment agencies
- Continuation/Implementation of strengthening and simplification of the visa regime for business men

Improvement in Trade Related Infrastructure

- Opening of more routes, like Khokrapar
- More facilities at Wagah-Atari (W-A) Integrated Checkpost
- Increase in Capacity to handle trucks at W-A
- Increase in Railway Wagons by Pakistan
- More flights to facilitate tourism

Strengthening the Legal Framework

- Operationalization of SATIS (SAARC Agreement Trade in Services; Need for negotiation on bilateral commitments)
- Delete the phrase 'only under the Government Route' in the new investment policy of India. Need for 'level playing field'
- Sign a Bilateral Avoidance of Double Taxation Agreement

Strengthening the Institutional Framework

- Establishment of a Joint Business Forum for private sector dialogue
- Establishment of Committee of Experts (COE) under Article 10 of SAFTA to monitor, review and facilitate implementation of the provisions of the Agreement. One Senior Economic Official from each country.

Thank You