India-Pakistan Trade Newsletter

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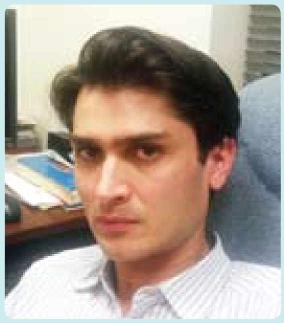
Trade in Agriculture with India: View from Pakistan



Dr Syed Turab Hussain

Trade in agriculture is arguably one of the most contentious and debated issues in global trade that is contextualized more often in the trade relations between the industrialized economies of the west and the developing world. However, seldom one hears about agriculture being a stumbling block to increased bilateral trade between developing countries. When it comes to the topic of trade between India and Pakistan, the general perception is that politics trumps economics–any effort to normalize trade and economic relations between the two countries is susceptible to an unpredictable and fragile political relationship. The Mumbai attacks, for example, undid whatever little was achieved to improve economic linkages in the years prior to it. More recently, the decision by the Pakistan government to grant Most Favored Nation status (MFN) to India by December 2012 has been delayed because of clashes at the border. However, this time political tensions were not the only reason–the agricultural lobby in Pakistan also played a significant role in delaying the decision to grant MFN to India. Various farmer associations across the country led demonstrations in Islamabad claiming that subsidized and cheap agricultural products from India would flood markets in Pakistan at the cost of farmers and the rural population. Pakistan's Senate took notice of their concerns, which subsequently led to the postponement in the implementation of the MFN status. Given that agriculture is likely to become the Achilles heel of Pakistan-India trade relations, this short article is an attempt to analyze the issue, and identify the challenges and opportunities of trading in this sector.

The importance of agriculture to the economies of both India and Pakistan cannot be overstated. The sector contributes a significant amount to the GDP and employment in both countries.[1] In terms of size, India's agricultural production is more than five times that of Pakistan, yet Pakistan's per capita production across major crops is substantially higher than in India. Although there are similarities in the structure of agricultural production across geographically contiguous regions of the two countries, there are major differences as well. While Pakistan has grown substantially in livestock over the past couple of years, Indian agriculture has been dominated by the rise of cotton production that trebled in the last 10 years, since its adoption of bio-genetic varieties (Pasha et al., 2012). Moreover, the geographical and climatic diversity across the two countries is a major factor behind differences in the variety and pattern of agriculture produce, creating considerable opportunities for trade.

[1] Agriculture contributes to 21 per cent of GDP and constitutes 45 per cent of labor force Pakistan (Economic Survey of Pakistan 2012-13). In India it contributes 14 per cent to GDP and constitutes 58 per cent of labor force (Economic Survey of India 2012-13).

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But perhaps the most important difference between the agriculture sectors of the two countries is their contrasting policy regimes. Post- independence India, driven primarily by the objective of achieving food security, adopted and maintained an interventionist regime in agriculture. India continues to subsidize agricultural inputs, provides price support for 24 crops, and maintains a high average applied tariff rate on agricultural products. By contrast, Pakistan over the years has liberalized its agricultural sector with minimal state intervention. Market liberalization reforms have meant a gradual phasing out of subsidies and price supports, and a reduction in agricultural tariff rates. The only crop procured by the government at a fixed pre-announced price is wheat; the rest are freely traded at market prices. From the standpoint of the agricultural sector in Pakistan, this difference in policy regime creates an uneven playing field–subsidies reduce costs of cultivation, distort prices, and affect the direction and volume of trade.[2]

The other contentious issue is that of market access. High average tariffs on agriculture goods and Non-Tariff Barriers (NTBs) on the Indian side such as health and quality standards (SPS and quarantine standards) are cited as major reasons for the relatively low Pakistani agricultural exports to India, despite India giving MFN to Pakistan in 1996. The non-issuance of visa for Indian Punjab is also highlighted as a major obstacle to trade in agricultural goods. In fact, according to the World Bank, the Overall Trade Restrictiveness Index (OTRI) in agriculture in India was 69.5 per cent compared to Pakistan's 5.8 per cent in 2009 (World Bank-Trade and International Integration data).

Given the current policy regimes in the two countries, the recent trends in agriculture trade are quite instructive. Despite the fact that Pakistan has not extended MFN and maintains a negative list with India, both the overall and agricultural trade balance is still heavily tilted in India's favour.[3] The major agriculture imports from India have been cotton, refined sugar and more recently, fresh vegetables.[4] On the other hand, Pakistan's main agricultural export to India over the past two years has been dried dates (US$ 47.2 million in 2011). Exports of onions, shallots, shrimps and apricots have recently picked up, but are still very small in terms of volume and value (TDAP, 2012). Interestingly, trade in major crops (wheat and rice) between the two countries is non-existent, perhaps because of the relatively high applied tariffs.

Analysis of relative competitiveness in agricultural products indicates that Pakistan has considerable potential to export to India. Various studies that have carried out Revealed Comparative Advantage (RCA) analysis show that Pakistan is competitive in citrus fruit, mangoes, apricots, peaches, olives, fish and fish products. These products have the potential to attract significant demand in Indian markets. Furthermore, India with its large population (a middle class of more than 300 million people) offers a lot of opportunities for export of value-added agricultural processed fresh and preserved food, dairy products, juices and vegetable food supplements. Niche export market opportunities also exist for vegetarian, *halal*, kosher and organic products (TDAP, 2012).

For the agricultural sector of Pakistan to realise the potential of trade with India, it is imperative that the issue of market access be addressed in the bilateral trade negotiations between the two countries. The WTO compliant agricultural subsidies and price support given by the Indian government to its farmers are domestic issues. Given the political economy of subsidy provision in India, it is highly unlikely that India would reduce these in the near future. Therefore, in the short term, Pakistan needs to negotiate for Indian reductions in both its applied MFN tariffs on agricultural goods and the specific agriculture-related NTBs that hinder Pakistan's potential exports. Opening of the Indian market to Pakistan would go a long way in pacifying the agriculture lobby.

Over the medium to long run, there are considerable opportunities for cross-border investments in agriculture and processed foods, given the fact that there have been significant efforts to liberalize the investment regime in both countries. Likewise,

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2 Input costs are much lower in India. DAP and Urea (fertilizers) are cheaper in India by 36 per cent and 70 per cent respectively; while diesel and electricity tariff rates for agriculture 20 per cent and 133 per cent cheaper respectively. (Sources: NEPRA, State Bank of Pakistan, Ministry of Chemicals and Fertilizers, India and Central Electricity Authority, India).

3 The top 10 agricultural related exports from Pakistan amounted to US$ 50 million, while its top 10 imports of agricultural related products from India were over US$ 500 million.

4 The decision by the Pakistan government to allow duty-free import of vegetables from India via Wagha was taken to control rising food prices in the country. Though benefitting the urban consumer, it caused considerable chagrin amongst the farmers and drew criticism from various agricultural associations across the country.

there is tremendous scope in trade and joint ventures/investments in inputs such as seeds and agricultural equipment. Moreover, with increased water scarcity and changing weather patterns, there is a dire need for the two countries to resolve their outstanding water issues and treat water as a common resource. Finally, both India and Pakistan should institutionalise research linkages to facilitate transfer of technology for more sustainable agricultural practices in the region.

References

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Allaying Agricultural Sector's Concerns: Normalizing India-Pakistan Trade

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One of the key reasons for delay in Pakistan granting MFN status to India has been the fear from agricultural lobbies in Pakistan that increased imports of agricultural products due to trade normalization with India might harm Pakistan's domestic agricultural sector. In this context, an examination of four key issues might help allay Pakistan's fears of opening up trade with India - Are Indian subsidies for agriculture prohibitively large? Did Pakistan follow a pro-import policy for agriculture items prior to the commencement of the trade normalization process in November 2011? Does trade in agriculture help Pakistan? What can Pakistan do to protect its domestic sector if there is a surge in imports?

While it is true that India offers subsidies to its agriculture sector in terms of access to cheaper inputs, such as fertilizers and electricity, non-product specific subsidies in India are less than 10 percent of the value of agricultural produce. This is well within the limits prescribed by the WTO. Thus, Pakistan does not have any ground to complain about the level of subsidy being offered to Indian agriculture.

In fact, a closer inspection of Pakistan's policies on agriculture imports from India reveals that they have been quite favourable to imports from India. In 2000, when Pakistan allowed only 600 items to be imported from India, 68 were agriculture items. The maximum level Pakistan's positive list expanded to was 1963 items of which 179 items were agricultural commodities. The logic on the part of Pakistani government was clear: such imports would stabilize domestic prices and take care of seasonal shortages and food security in Pakistan. As trade normalization process was set in motion, Pakistan moved to a negative list of 1,209 items in February 2012, further liberalizing its agriculture sector. Curiously, agricultural exports from India to Pakistan in the year after Pakistan moved to a negative list have declined 15.3 per cent over the previous year, standing at US $0.3 billion for 2012-13.

Trade liberalization process is likely to have a balanced impact on the agriculture sector as there are tremendous trade complementarities between the two countries. India and Pakistan are net exporters and net importers in the same product. For example, for the period 2007-09, data shows us that India is a large net exporter and Pakistan is a net importer of vegetables. This is in contrast to trade in fruits, which shows Pakistan as a net exporter and India as a net importer in the same period.

Trade liberalization in agriculture is a sensitive issue, so Pakistan must safeguard itself against any surge in imports. The WTO and SAFTA, trade agreements that both India and Pakistan are signatories to, include safeguard provisions that countries can utilize in case of a surge in imports that could harm the domestic sector, and affect the livelihoods of people dependent on the sector. Pakistan can take recourse to these safeguard measures to protect its domestic agriculture sector. The SAFTA agreement has a provision for safeguard measures that permits the importing state to temporarily suspend concessions granted if a surge in imports causes or threatens to cause injury to domestic industry. All investigation procedures for resorting to safeguard measures under SAFTA are consistent with the WTO Agreement on Safeguards. Additionally, there are special safeguards for agriculture that countries can apply under the WTO, in case of serious difficulties faced by an importing country experiencing a sudden import surge. For these special safeguards, it is not necessary for countries to demonstrate that serious injury is caused to domestic industry. These measures allow countries to strike a balance between progressive trade liberalization, and economic and political interests of domestic agricultural sector.

Under SAFTA, Pakistan currently has 27 agriculture items on its sensitive list of 936 items. Pakistan has announced it will reduce its sensitive list under SAFTA to 100 items by 2017; it can continue to protect its agriculture sector by retaining the agriculture items in the revised list.

Another concern in Pakistan is that it is not well-equipped to apply safeguard measures. One measure that Pakistan can use quite easily is to put in place an "Automatic Import Licensing" system. This would require all importers to seek a license to import; while the license would be automatic, this mechanism will ensure that the government has access to advance information on likely imports. This information can then be used to assess a possible surge in imports of agriculture items and could serve as an "early warning" mechanism. This measure is WTO compliant, provided it is not administered in a trade restrictive manner. Further, when Pakistan builds its capability to apply safeguard measures, it can shift to using them instead.

Any trade liberalization process generates winners and losers, but economic co-operation between India and Pakistan at this stage would be a win-win situation for both countries. Even though there are sectors resisting this process, granting MFN to India can bring about a huge change in India-Pakistan relations.

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India-Pakistan Trade in Agriculture

	India's exports to Pakistan	India's imports from Pakistan
	(Values in US$ million)	
2008-2009	209.26	45.15
2009-2010	156.34	65.16
2010-2011	248.67	77.31
2011-2012	377.30	89.78
2012-2013	352.36	105.11

India-Pakistan Trade in Agriculture

Source: Directorate General of Foreign Trade, Ministry of Commerce & Industry, Government of India

India-Pakistan Trade: Top Agricultural Commodities (2012-13)

India-Pakistan Trade: Top Agricultural Commodities (2012-13)			
Export		Import	
Commodity	**Value (US$ Million)**	**Commodity**	**Value (US$ Million)**
Tomatoes Fresh or Chilled	75.10	Dates Fresh or Dried	85.67
Chickpeas (Garbanzos) Dried and Shld	54.07	Seasamum Seeds W/N Broken	4.10
Other Black Tea (Fermented) and Other Partly Fermented Tea	47.36	Figs Fresh or Dried	3.01
Other Seeds	18.90	Other Beans Dried and Shld	2.77
Other Coconuts	18.48	Other Seeds	1.71

Source: Directorate General of Foreign Trade, Ministry of Commerce & Industry, Government of India

Forthcoming Events

The 2nd Lecture in the "Distinguished Lecture Series" will be jointly delivered by Mr. Zafar Mehmood (former Commerce Secretary, Pakistan) and Dr. Rahul Khullar (former Commerce Secretary, India) on 7th November 2013 at India Habitat Centre, New Delhi

The project web portal for India-Pakistan trade information is now functional:

www.indiapakistantrade.org

The website provides regular updates on current policy developments, macroeconomic data and project's research activities.

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