2nd Regional Chambers of Commerce Roundtable Karachi

November 26, 2013
Summary of Proceedings

The Indian Council for Research on International Economic Relations (ICRIER) organised the Second Regional Chambers of Commerce Roundtable on November 26, 2013 at Karachi in collaboration with the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and the Institute of Business Administration (IBA). These roundtable discussions were held as part of ICRIER's project on "Strengthening Research and Promoting Multi-level Dialogue for Trade Normalisation between India and Pakistan". It involved all stakeholders from the government and the private sector in a more participatory policy debate through an objective thinking and problem solving approach. ICRIER initiated the Regional Chambers Roundtable in Lahore on January 10, 2013, in collaboration with the Lahore Chamber of Commerce & Industry (LCCI) and the Lahore University of Management Sciences (LUMS). The second roundtable was an extension of the first with more participation from Karachi – the trade city of Pakistan. It evaluated challenges to Indo-Pak trade and economic co-operation with detailed sector specific information related to banking, textile and agriculture, and non-tariff barriers.

The discussions at the roundtable were managed in four parallel sessions:

- Panel 1: Banking
- Panel 2: Non-Tariff Barriers to trade
- Panel 3: Trade in Textiles
- Panel 4: Trade in Agriculture

The inaugural session outlined the core objective of enhancing trade between India and Pakistan and its impact on poverty alleviation on both sides of the border. The distinguished speakers included Mr Zubair Ahmed Malik (President, Federation of Pakistan Chambers of Commerce and Industry), Dr Ishrat Husain (Dean and Director Institute of Business Administration, Karachi, and a former Governor State Bank of Pakistan), Dr Rajat Kathuria (Director, ICRIER), Dr Nisha Taneja (Professor, ICRIER), Mr Mujeeb Ahmed Khan (Head WTO Cell, Trade Development Authority of Pakistan), Syed Yawar Ali (Chairman, Nestle Paksitan), and Mr S. M. Muneer (President, India-Pakistan Chamber of Commerce and Industry). There was unanimity of opinion on the need to normalise trade between India and Pakistan as a first step towards prosperity in the South Asian region.

The speakers highlighted the trade potential of about $10 billion between India and Pakistan, provided that the SAFTA is implemented in letter and spirit and non-tariff barriers are removed[1]. To realise that potential, there is need for serious effort from both sides of the border to normalise trade. Both governments must undertake bold policies to facilitate trade and encourage trade bodies and chambers of commerce and industries to guide businessmen on viable business options. Unnecessary delays in issuing visas remain the major hurdle in people-to-people contacts despite several MoUs signed by both governments.

Participants also urged academicians to concentrate on sectoral research in collaboration with industry experts and make specific recommendations for government policies. It was pointed out that trade between India and Pakistan suffered due to the information asymmetry among business partners in the neighbouring countries. Consequently, traders needed to rely on third countries (like Dubai) to conduct what is essentially bilateral trade. Increasingly the level of interaction amongst businessmen and with policymakers could help bridge information gaps and encourage bilateral trade.

The roundtable conference drew attention to the importance of trade in global developments; it was mentioned that global trade grew twice as much as world GDP during the last two decades. More importantly, countries with

[1] South Asian Free Trade Agreement (SAFTA) postulate that the tariff to be lowered to 0-5 per cent by 2016.

a high trade to GDP ratio are, in general, more prosperous. China is the role model as its economic dominance is primarily driven by an export-oriented economic policy that led to a quadrupling of the country's per capita income in a very short time. Currently, China is the single largest exporting nation in the world. It has reduced poverty from 50 per cent to less than 10 per cent through aggressive trade policies. Unlike the success story of China, South Asia failed to progress and the South Asian region can learn lessons from China.

Although WTO and GATT have contributed in promoting global trade, it is difficult to achieve total consensus with 200 countries represented on the forum. Therefore, countries characterised by geographical proximity have opted to form regional blocs to exploit their mutually beneficial trade potential. These regional blocs have more flexibility to address individual country's viewpoint on issues like agriculture, trade facilitation, trade in services, and public procurement etc. For example, NAFTA (North American Free Trade Agreement) shows how regional blocs bring in economic prosperity to member countries. It provides employment opportunities to Mexican workers in Mexico, thus reducing illegal migration to the USA; simultaneously, it enables American consumers to buy goods and services at competitive rates. Similarly, ASEAN (Association of South East Asian Nations) countries benefitted through economic integration and regional trade. Unfortunately, SAARC (South Asian Association for Regional Cooperation) failed to achieve its trade potential because of the strained relationship between its two major economies - India and Pakistan.

A regional bloc consisting of China, India and Pakistan has considerable potential for growth in trade because of their geographical proximity. China is soon going to be the largest economy and together with India, can create opportunities for neighbouring countries. For example, the Western provinces of China are closer to Pakistan than Shanghai. China is investing in these provinces, so Pakistan could benefit. Similarly, a friendly Indo-Pak relationship would not only benefit the two countries but also create opportunities for other SAARC economies, including Afghanistan.

One of the recommendations to improve India-Pakistan ties is to let the economic agenda take priority over the political agenda in Indo-Pak relations without making any compromise on their political stance and let people to people interaction create goodwill so that political differences can be sorted out amicably in future. The economic agenda should not be restricted only to the removal of tariff and non-tariff barriers in trade but should include result-oriented trade facilitation. It was pointed out that Indian states have enormous powers of taxation that is used against trade. There are several agreements on trade facilitation among the two countries that need implementation in letter and spirit. In essence, an enabling environment is required that encourages entrepreneurs to take risks and explore opportunities for joint ventures. A political consensus in India is needed to normalise trade with Pakistan in a post-election government setup.

A summary of the discussions at the Roundtable in the four thematic sessions are presented below:

1. Banking Issues in Trade Financing:

Some of the issues discussed are the following:

It was pointed out that the State Bank of Pakistan rules prohibit Pakistani importers from remitting payment in advance for intended imports. However, exporters can receive advance payment receipts, which is a payment mode preferred by Pakistani exporters, especially those exporting by the land route. On the Indian side, Reserve Bank of

India allows importers to remit payments in advance for intended imports from Pakistan. Similarly, exporters are allowed to receive advance payment receipts.

The letter of credit is used globally for trade related settlements as the banks take on the gurantee of payments to the seller. The success of the letter of credit (L/C) mechanism is largely dependent upon the efficiency and coverage of banking systems across trading partners. In the case of India-Pakistan trade, domestic banks do not have presence in the neighbouring country, thus limiting the scope of using L/Cs. Banks from either side rely on correspondent banks of a third country for trade related payments, resulting in loss of time and higher transaction cost.

Trade financing also suffers because of problems regarding confirmation of L/Cs and delays. Although there is no discrimination in stated policies regarding the opening of L/Cs related to India-Pakistan trade in either country, the ground reality is that there is enormous scepticism and mistrust. Banks from either side adopt an extremely cautious approach resulting in unnecessary delays and added rounds of bureaucratic scrutiny. These procedural issues lead to loss of interest among traders and consequently, both countries lose out on the advantages of their geographical proximity.

Settlements through the Asian Clearing Union add another bureaucratic layer to the existing mechanism. Traders have to wait for five to seven days to receive payments after delivery of consignments. In the absence of branches across the border, Indian and Pakistani banks need to maintain nostro and vostro accounts in third country banks in foreign currencies which makes it difficult to have real time trade settlements.

There is lack of information exchange between banks in the two countries on trade transactions. Custom officers and businesses on both sides are also not aware of the banking processes between the two countries. Unfortunately, lack of trust between the two countries has left little room for a credible credit rating/scoring mechanism in the context of Indo-Pak trade.

Recommendations:

- ***Training of bank managers:*** Front line managers in the banking system on both sides of the border need to be trained and made aware of policies relevant to India-Pakistan trade.
- ***Use of information technology to ensure timely settlement of trade related payments:*** 24/7 online banking solutions could be explored in the long run, but the system of E-forms being available and their verification enabled 24/7 must be put into practice without any delay.
- ***Increased transparency:*** It was also recommended that the banking system needed to be more transparent in its operations and more efficient.
- ***Representative offices of commercial banks:*** Although India and Pakistan both agreed to allow their banks to open branches in each other's countries on a reciprocal basis, there has been little progress on the ground. It was, therefore, proposed that instead of opening full-fledged bank branches, the two countries should allow their banks to open representative offices across the border. Representative offices do not engage in the business of banking but act only as liaisons and marketing offices and can be set up at minimal cost without street-level presence with no more than two or three professional staff members. The offices may carry out the following functions:
  - Develop contacts with the business community in the host country and persuade them to expand their businesses across the border.

- Perform due diligence on importers/exporters in the host country and put them in contact with counterparties in the home country to promote trade. They could also provide credible credit scoring services on demand.
- Facilitating Letters of Credit (L/Cs) across the border.
- Serve as an information hub about economic conditions in the host as well as home countries, create awareness about the banking processes related to trade between the two countries, provide information on the business environment, and tap investment opportunities with interested counterparties across the border.

- ***Trade in local currencies:*** It was also recommended that trade in local currencies, apart from allowing currency swaps, should be encouraged for exponential growth in trade.

2. Non-tariff Barriers to Trade

The participants drew attention to technical barriers relating to standards, permits, visas and customs inspections, and infrastructure issues that impede trade and the trade facilitation measures needed to streamline India-Pakistan trade.

a. Technical standards

Automobiles and Auto Engineering

India follows standards in auto engineering based on road conditions, life of the vehicle and safety that are based on an international process known as the homologation test. Any firm/manufacturer, whether domestic or foreign, that sell automobiles in India needs to follow the same standards. Even though details on standards are available in the public domain most industry players in Pakistan find it difficult to meet them. For example, Bentley failed to comply with these standards in India and Ferrari has also failed in this process for the simple reason that the minimum ground clearance required by any vehicle has to be more than 100 mm due to the bad road conditions. Similarly, the torque vis-à-vis engine capacity is looked at not only from the sports angle but also from the safety perspective.

Textile, Cement, Food etc.

The sanitary standards in agriculture & food industries in India are perceived as being very strict and ambiguous by Pakistani traders. It was recognized that while Indian standards relating to these sectors are necessary to ensure the safety of users and have to be met in the case of imports from all countries including Pakistan-specific; discretionary powers amongst the implementers of rules have been used against trade instead of facilitating it.

There is also an information gap that makes it even more difficult to comply with these standards. Lack of timely access to relevant information by exporters/importers has impeded trade in these sectors.

It was recommended that a cell be set up under the Indo-Pak Chamber of Commerce and Industry to provide necessary information about these standards to all stakeholders and to facilitate compliance. The Indian delegates took keen interest in this initiative and promised that steps would be taken to implement the recommendation.

b. Cost of compliance

Another issue related to technical standards is the cost of complying with standards. Meeting the technical standards laid down requires large investments. Moreover, the non-availability of experts has led to a knowledge and capacity gap. Legal experts on international trade are also not easily available to resolve issues related to Indo-Pakistan trade.

Participants agreed that a special unit within the Indo-Pak Chambers of Commerce and industry will provide help to members and the cost of compliance would be distributed among all members as it creates business opportunities across the border. It was pointed that traders in both India and Pakistan would come forward to bear the cost of compliance if they had confidence in the testing procedures.

c. Visas

It was mentioned that the ministry of Home Affairs in India has announced a new type of visa called the MICE (meetings, incentives, conferences and events) VISA for PRC (prior reference category) countries. PRC countries include Afghanistan, China, Iran, Pakistan, Iraq, Sudan, foreigners of Pakistani origin and stateless persons. Applications are available online where the IVFRT (immigration, visa and foreigner's registration tracking) system has already been introduced.

More specifically, visas for conferences organised by public institutions, public sector undertakings, educational institutions, Reserve Bank of India, United Nations and affiliated organisations can be approved by Indian missions and posts and do not have to be referred to the home ministry for security clearance. The move is expected to give a much needed boost to MICE tourism.

The new rules will not apply if visitors are travelling to restricted or protected areas in India or to areas affected by terrorism, militancy and extremism. In such cases, the applications should be made at least 30 days before travel.

d. Logistics and infrastructure at the border and hinterland connectivity

Although the Lahore dry port is very well connected with the hinterland, infrastructure at the border needs improvement. It was, therefore, recommended that government agencies on both sides should work towards improving the existing infrastructure or allow the private sector to do so. The up-gradation would significantly reduce transactions costs and time delays.

Moreover, alternate routes including the sea route (Mumbai-Karachi) and train routes like (Khokharapar-Monabau) may be developed for trade between the southern parts of India and Pakistan. A fully functional and technologically advanced rail terminal is needed at the border to improve the connectivity with the hinterland. Besides, it would also be necessary to introduce a new ICP (integrated check post) at the border to enable 24 X 7 operations.

e. Banking and insurance

The proposal regarding bank branches across the border has suffered because of bureaucratic red tapism that needs to be addressed at the earliest. Foreign banks with branches in India and Pakistan can bridge the gap in the mean time.

Insurance across the border has very limited coverage that hinders trade prospects. It is handled by Export Credit Guarantee Corporation of India Ltd. (ECGC) in India and international insurance brokers who cover transactions, though the premia tend to be higher because of the political uncertainty surrounding the relations between the two countries.

f. Attitude of customs, customs valuation, handling etc.

The attitude of customs officers and their handling and valuation of trade goods is based on scepticism and mistrust in general. There are several complaints about brusque behaviour by officials dealing with traders across the border. It was proposed that the Federation of Freight Forwarders Association of India (the apex body of the Custom Brokers in India) should handle all such complaints.

Inefficiency on the part of customs officials are papered over by attributing delays to Indo-Pak sensitivity. Also many a times, the importer / exporter shies away from his own issues and blames it easily on the volatile Indo-Pak relations. Thus, the federation and Indo-Pak Chamber of commerce need to work on this jointly to remove feelings of mistrust.

g. Exchange of customs officers and agents across the borders

The need to facilitate exchange of customs officers and agents across the border was emphasised during the roundtable. It was suggested that the federations and ICRIER could approach the Central Board of Excise and Customs (CBEC) to facilitate such visits. It was also felt that greater exchange would result in an increase in revenue by diverting trade through informal channels to formal channels.

Recommendations:

- Investment in technology
- Exchange of experts particularly in the automobile and the pharmaceutical sector
- Cross-border investments as joint ventures will synchronise standards and information gap will be curtailed
- Lawyers to be trained in international trade issues
- Visa regime – further relaxation and implementation of stated policies on ground
- Custom officers exchange training programmes and more frequent operation contact via telephone or hotlines
- Banking and insurance facilities to improve, i.e. banks to open branches across border and insurance companies offer protection beyond borders
- Business-to-business contacts at the sectoral level to improve understanding of requirements and procedures
- Improved telecommunication
- Investment in port infrastructure, i.e. implementation of electronic data transfer mechanism, integrated check posts at all possible land and sea routes
- Sector specific analysis to identify specific problem areas

3. Trade in Textiles

In the textiles sector, there exists untapped trade potential in technical, medical and geo textiles that needs to be exploited. There are opportunities for joint ventures in textiles without the permanent physical presence of businessmen across the border. These joint ventures could also prove helpful in resolving trade related issues on both sides of the border.

Guaranteed payments through banks would provide the necessary impetus to increase trade in textiles. Similarly, visa facilitation by federations of chambers of commerce and industry in both countries was strongly recommended. It was also observed that there are several decisions agreed upon by India and Pakistan regarding trade in textiles that await implementation. All participants emphasised the speedy implementation of these decisions.

The textile sector also suffers from informal and circular trade issues that need to be addressed on a priority basis. Further, it was felt that more B2B contacts were required to increase trade flows. In order to facilitate trade queries on related issues, information portals like www.indiapakistantrade.org should be further enriched and advertised.

A joint working group was formed consisting of stakeholders in the textile community to make periodic reviews and institutionalise the recommendations made. The members of this joint working group include leading industrialists from both countries like Ikhtiar Baig, Bashir Ali Mohammad, Shabbir Diwan, Khatri Bhai, Kamlesh Yagnik, Riyaz Padela, Nabarun Kar and Devkishan Manghani.

Recommendations:

- Businesses on both sides should be made aware that the National Accreditation Board for Certification Bodies (NABCB), India and Pakistan National Accreditation Council (PNAC) are signatories to the International Laboratories Accreditation Co-operation (ILAC) mutual recognition arrangement. This facilitates acceptance of test results between countries which are members of ILAC MRA. Hence, in such cases, laboratory testing of textile items is not required at the border.
- Full automation of business processes so that customs notifications are generated in real time for regulatory compliance
- Reduction in custom duties on imported raw material and textile machinery
- Organising more expos and outreach events for investments in both countries on a regular basis, through business system modernisation
- Establishing a "Textile Dispute Resolution Cell" for speedy solutions to trade-related issues
- Introduction of trains with high capacity wagons (HCW) to promote trade through rail

4. Trade in Agriculture Sector

Barriers to trade in the agriculture sector can be analysed from two perspectives due to the differences in the characteristics of traded goods, i.e. perishable and non-perishable. Trade in perishable goods is only possible if there is a streamlined mechanism through which goods can be delivered from growers to ultimate users in the shortest possible time. It was pointed out that existing rules make trade of perishable items difficult. For example, tomatoes can cross the border only from 8: 00 AM to 2: 00 PM, which makes timely delivery of tomatoes to markets across the border very cumbersome.

There is also an information gap among exporters and importers that results in limiting the scope of trade. Product standards, which are not uniform in the two countries, need to be harmonised. There is also a need for a uniform tariff structure. Proper safeguards to meet food security standards should be implemented for sustainable trade in agriculture.

Recommendations:

- Dedicated routes and priority timing for trade in perishable agriculture products
- Easy access to information regarding protocols on imports/exports, custom duties, trade websites etc.
- Alternate land routes, such as Khokharapar-Monabau and others, must be developed for trade in agriculture, especially for trade in perishable items
- Proper containers should be used for trade in fresh vegetables and fruits
- Trade infrastructure should be developed further
- 24/7 border opening with full technological support and trade facilitation

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