Regional Chambers of Commerce Roundtable
Lahore

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Summary of Proceedings

The Indian Council for Research on International Economic Relations (ICRIER) has recently launched a project "***Strengthening Research and Promoting Multi- level Dialogue for Trade Normalization between India and Pakistan***." The objective of this project is to inform a more participatory policy debate through targeted research and dialogue platforms.

As part of the project activities, a Regional Chambers of Commerce Roundtable was organized by ICRIER in Lahore on 10th January 2013 in collaboration with the Lahore Chamber of Commerce & Industry (LCCI) and the Lahore University of Management Sciences (LUMS). The theme of the roundtable was "***Challenges in Indo-Pak Trade and Economic Cooperation***".

The discussion at the roundtable was divided into three parallel sessions:
- Panel A - Importers and Exporters Perspective on Trade Normalization
- Panel B - Non-Tariff Barriers
- Panel C - Prospects for Foreign Direct investment

This policy brief summarizes the panel discussions and presents policy proposals highlighted by the participants.

A. Perspectives on Trade Normalization

Trade normalization between India and Pakistan has gained considerable momentum since 2011. The Pakistan cabinet's approval to grant India MFN status in February 2012 and a switch from a positive list trading regime to a negative list in Pakistan vis-à-vis India has been a major breakthrough. The process will undoubtedly lead to considerable trade opportunities, however, realizing this potential will remain an uphill task unless the impediments are identified and addressed speedily.

An important aspect that was brought out by the deliberations was that the level of awareness on the policy changes that have already been implemented in a short period of time is very low, particularly among the business community. For example, few seemed aware of the fact that even though Pakistan permits only 137 items to be imported from India by road, there is no restriction on the number of commodities that can be exported from Pakistan to India by the road route. It is important for businesses on both sides to realize that this presents an opportunity to increase exports from Pakistan to India with low transaction cost and help reduce the trade imbalance between the two countries.

Similarly, there is little awareness that businesses on both sides can avail tariff concessions under SAFTA. The misperception remains that SAFTA concessions are not applicable in case of trade between India and Pakistan.

Further, as agriculture is becoming a point of contention in the ongoing trade talks, it needs to be noted that both countries have relied on each other to overcome short-term shortages and maintaining domestic price stability in agricultural products. Prior to 1996, when trade between the two countries was limited to a handful of items on the positive list, agriculture was part of this positive list. The number of items in Pakistan's positive list at its maximum level, before March 2012, included 1934 items and out of this 156 were agricultural commodities.

The often repeated concern in Pakistan is that due to high subsidies to the agricultural sector, the prices of agricultural commodities are lower in India. Therefore, opening up of trade would have a negative impact on the domestic producers in Pakistan. However, it was pointed out in discussions that for two major commodities –

onions and tomatoes – India's export price have almost always been higher than the domestic price of these items in Pakistan. Moreover, while it is correct that India offers subsidies, non-product specific subsidies are below the 10 per cent of the value of agricultural output. And, this is within the WTO rules.

The participants agreed that even where there was possibility of adverse impact on Pakistan's agriculture the way forward should be to seek safeguards within the WTO system and under SAFTA rather than impose a total ban on agricultural commodities from India.

B. Non-Tariff Barriers

During the discussions, the most significant non-tariff barriers identified included those related to infrastructure, compliance of standards and quality, banking, visas and lack of information.

The panel discussions were extremely fruitful in identifying some of the ground impediments and the measures to circumvent them. It was pointed out that the policies in place were appropriate, but the problems arose due to a lack of information on the policies. For instance, at the 'Made in Pakistan' exhibition held in Mumbai, the exhibitors faced problems due to a lack of information on rules and regulations regarding the holding of exhibitions in India. This cannot be classified as a policy constraint, but simply a lack of awareness and preparation. Further, small and medium sized businesses are disproportionately affected by lack of information and have to rely on clearing agents, who seek abnormal rents cashing in on information. This further exacerbates the hesitation to India-Pakistan trade in the business communities.

A majority of the problems exist at the micro level and comprise process-related, and infrastructural impediments, lack of information and, in some cases, abrasive treatment due to the prevailing biases in the bureaucracy, traders and civil society in both countries. A more detailed analysis of these is provided below.

i. Infrastructure and Logistics

All participants agreed that the inadequacy of infrastructure and logistics was a key impediment to trade, which severely limits the realization of the trade potential. It was pointed out that rail services had deteriorated even though trade volumes had increased. Indian wagons have not been plying between the two countries since 2009. Only Pakistani wagons have been carrying rail cargo, which places undue pressure on rail cargo movement.

The standard operating procedures (SOP) of the railways signed between the two countries has recently been amended to allow for 3 interchanges per day, but this has not been implemented yet. Further, poor wagon conditions, improper handling of cargo, high pilferage, no containerized cargo provision and no fixed train schedules lead to inefficient and high costs to cargo movement. A first in first out (FIFO) system is not in place, which results in arbitrary movement of cargo. Some participants were critical of the recent decision by the Indian side to stop cement imports abruptly from Pakistan after heroine was detected in one of the consignments. It was emphasized that it would be more useful to strengthen screening procedures rather than take stringent steps that could block trade and lead to uncertainties.

Regarding transportation by road through Attari-Wagah, participants highlighted the fact that upgrading infrastructure was urgently needed to keep pace with the expanding road-based trade. The pressure on road has also multiplied due to a shift from rail to road because of the deteriorating rail services. Even though the new Integrated Check Post (ICP) has been setup recently on the Indian side, it is already running at full capacity.

When the existing permissible list of goods allowed to be imported to Pakistan via the road route expands, the facility will not be able to handle the increased volumes of trade. The land customs station is operational only 12 hours a day, and loading and unloading of trucks is still manual. The effective hours of operation are less than 12 hours due to the opening and closing time taken by officials. There is still no provision for processing documents through Electronic Data Interchange (EDI) services and processing continues to be done manually on both sides. In addition, there is a lack of warehousing facility on both sides and no testing laboratories are present at the land port on both sides.

ii. Quality and Standards Compliance

Several participants cited quality and standards barriers related to different industries particularly with regard to exports to India. The sectors that were represented included:

Pharmaceutical traders in Pakistan said that the Indian regulations are restrictive, which makes the market very inaccessible. Participants suggested that the two countries should enter into a mutual recognition agreement to overcome these problems. According to ***textile*** traders, fabric imported into India is subjected to testing for presence of azo dyes, even though these are banned in Pakistan. This results in delays ranging from 15-20 days as the testing laboratories are located far away. ***Sugar*** traders complained that they suffered losses on their shipments to India due to delays caused by permissions, clearances and laboratory tests at Delhi's food department. Apart from demurrage charges incurred because of the delays, Pakistani exporters faced problems of valuation as the price of sugar changes significantly in a few days. For ***chemical*** products such as Ground Calcium Carbonate (GCC) and talcum (hydrated magnesium silicate) no test facilities were available on the land port on the Indian side. Pakistani exporters are therefore unable to export these items.

iii. Banking

Participants raised a concern over delays in remittances. It was pointed out by some participants that if Indian and Pakistani banks were to have nostro and vostro accounts, payments could be made within a day. In the absence of these arrangements between banks, payments took much longer as they had to be routed through the USA. Participants suggested that opening bank branches of Indian and Pakistani banks would ease these problems considerably.

iv. Visas

While it was recognized that liberalizing the visa regime was a step in the right direction, there seemed to be uncertainty regarding its date of implementation. While certain measures including expansion in number of cities for grant of visas, exemption of police reporting and multiple entry visas are some of the new initiatives, it is not very clear yet how the implementation of this policy will be rolled out.

v. Weak Implementation of Policies

Participants expressed that even though the policies in place were correct and conducive to trade, the execution of these policies was weak. This is because the interpretation of these policies by concerned officials is often incorrect, subjecting traders to unnecessary hassles. Officials also sometimes lack information on the relevant policies.

vi. Customs

There is often a mismatch between the Indian HS classification codes and the Pakistani classification, giving customs officials discretionary powers to assess duties. Code matching needs to be conducted to prevent confusion and provide policy predictability. The customs authorities often do not recognize the rules of origin certificates issued by designated authorities in either country.

vii. Perceived Barriers

There are other barriers that are perceived by Indian and Pakistani traders in accessing each other's markets. It was felt by Pakistani participants that even though there are no Pakistan specific NTBs in place in India, many barriers are only enforced against Pakistani exports because of the prevailing biases that lead to unacceptability of Pakistani products in India. In response, traders suggested that exporters must work to build a 'Made in Pakistan' or 'Made in India' brand, which would make Pakistani and Indian products acceptable in each other's markets. Such efforts would go a long way in changing the 'mindsets' of people and reduce the prevailing biases that come in the way of trade expansion between the two countries.

C. Prospects for Foreign Direct Investment

Unlike trade policy, foreign investment regime between the two countries has only recently been liberalised. In September 2012, the Reserve Bank of India (RBI) removed the restriction on Indian nationals from investing in Pakistan, and for Pakistani nationals to invest in India. But while policy changes have been instituted, complementary policies required to usher in a liberal foreign investment regime, such as banking facilities, dispute resolution mechanism are still missing. To date, investors and bankers are still reconnoitring for opportunities across the border.

The third session of the roundtable focussed on identifying barriers to cross-border investment, and highlighting sectors that might be particularly lucrative for cross-border investment flows. The problems identified included lack of banking facilities and work visas to facilitate travel of key personnel as well as lack of a dispute settlement resolution for non-payment or non-delivery of goods.

Further, lack of awareness of lucrative sectors and policies was identified as one of the biggest non-regulatory impediment to investment flows between India and Pakistan.

Pakistan has been trying to make FDI more attractive by offering substantial incentives in key sectors where India has a comparative advantage, but this information has not been aggressively disseminated in India. For instance, the Pakistani government offers incentives to industries set up for energy production. These include customs and sales tax exemptions in Special Economic Zones. Further, there is zero per cent import duty on machinery required for energy plants.

One of the key recommendations of the panel was to assist Pakistani businessmen in conducting road shows focussing on key sectors that would benefit from Indian investment across India's major commercial centres such as New Delhi and Mumbai.

The Board of Investment, Pakistan and the chambers of commerce in both countries -- Lahore and Bombay Chambers of Commerce – should take the lead in organizing such events. Further, various investment boards at the federal and state levels should consider holding informational seminars during road shows in the principal cities such as Mumbai and New Delhi.

Table 1: Sectors suggested for Indian investment in Pakistan

1. Renewable and non-renewable energy	2. Agriculture
3. Fertilizers	4. Drip irrigation
5. Tissue culture and Seeds	6. Dairy and livestock
7. Herbal extracts	8. Biotechnology
9. Mining and mining equipment	10. Textile machinery
11. Heavy engineering and earth-moving machinery	12. Tourism and tourism infrastructure
13. Entertainment	14. Information Technology

D. Policy Recommendations

The deliberations concluded with the following policy recommendations:

1. The level of awareness amongst businessmen on the trading regime between the two countries needs to be raised through greater dissemination of policies related to Indo-Pak trade. Web portals are a good means for dissemination of these policies.

2. It is important to sensitize the agricultural lobbies about seeking protection through safeguards available under the WTO rules.

3. Infrastructure for land-based trade needs to be improved. Indian rail wagons should be allowed to ply between Amritsar and Lahore. The current facilities available for road-based trade need to be expanded on both sides of the border and electronic data interchange needs to be introduced on both sides. Since expanding trade requires more specialized logistic services large logistic service providers with the requisite expertise, particularly from the private sector, should be encouraged to provide these services.

4. Testing facilities should be made available at the border. There is lack of awareness on each other's regulatory regimes particularly in pharmaceutical products. Mutual recognition agreements should be signed.

5. To address perceived barriers, 'Made in India' and 'Made in Pakistan' labels need to be promoted through exhibitions so that there is greater acceptability of each other's products.

6. Officers need to be better sensitised on the trading regimes between the two countries to reduce arbitrariness and poor implementation of polices that impairs trade environment.

7. Implementation of new visa policy should be done at the earliest and further liberalization of visas should be undertaken by both countries to improve business to business contact and people to people contact.

8. For FDI flows to take place, banks should be opened in each other's territory at the earliest. Road shows should be conducted to draw attention to potential sectors for FDI.

9. The sectors identified for FDI into Pakistan include: renewable and non-renewable energy, 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, entertainment and information technology.

10. Indian investors need to be made more aware of the incentives offered by Pakistan for foreign investors.

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