

**SOUTH ASIAN FREE TRADE AGREEMENT
(SAFTA) AND IMPLICATIONS FOR
PAKISTAN**

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INTRODUCTION

Trade linkages within the geographical expanse of South Asia are not a new phenomenon for the region. These linkages have their own history which dates back to our recorded history. In Pakistan's context the famous silk route to China inform us of traders' activity for long time. After 1947 and emergence of new states, the region have observed significant changes in the trade relations of the countries. South Asia, once being a collection of highly protected economies till early 90s, showed keen interest in embracing globalization and lowering the trade barriers during the last one decade, partly because of structural adjustment agendas. The trading relations have gained importance for the region in 1980s and thus South Asian Association for Regional Cooperation (SAARC) was established. Under the umbrella of SAARC, the ideas of SAARC preferential trading agreement (SAPTA) and SAFTA were developed and now SAFTA is in the process of implementation. The process of implementation of SAFTA is, unfortunately, not as smooth as envisaged earlier, and Pakistan-India political relations does stall the process of implementation.

South Asian region constitutes around 22 percent of world's population, potential market for the world due to its huge population and it has its own importance due to its geo-strategic location and due to abundance of natural resources that it has.

During 1990s, South Asian countries embarked upon trade liberalization as part of structural adjustment initiatives and also as response to changing international scenario. According to some analysts, some countries had become confident that their economies can quickly adjust with the forces of globalization and pursue sustainable growth with increased integration into the world markets. Foundation of SAARC in 1985 was an important step in intra-South Asia Cooperation. Mainly all the parties have envisaged the need for economic corporation among the member states.

Prior to 1990s not much intention was given towards the economic integration; the idea was to pursue technical cooperation for economic development. Efforts to organize regional economic integration started in early 1990s. The 6th summit of SAARC, which was held in Sri Lanka, in 1991, passed the establishment of Inter-governmental group (IGG) to lie down and pave the way to formulate the basis of an agreement for the establishment of SAARC Preferential Trade Agreement by 1997. IGG held many meetings and worked intensively to prepare the acceptable agreement for all the regional countries, thus it gave way to an agreement on SAPTA in 1993. The member states of the region desired to promote regional trade and attain sustainable growth of economies through the exchange of concession among each other.

SAARC's Islamabad declaration in 2004, promised SAFTA which was enacted on 1st July, 2006. SAFTA was designed initially to be fully implemented by 2015. SAFTA improvised the work for reduced tariffs, safeguards, rule of origin, different institutional structures and dispute resolution through the help of different committees such as the committee of experts. This agreement calls for elimination of all kinds of quantitative restrictions and allows merely sensitive list of products. These lists are to be reviewed after every four years with an aim to reduce the list and expansion of free trade coverage of the agreement and its implementation in letter and spirit.

OBJECTIVES OF THE STUDY

In trade theory, liberalizing trade regimes is not a neutral process, but it influences the economic, social and production systems with major beneficiaries being the consumers. The county case study in hand is primarily designed to investigate the implications of SAFTA for Pakistan with the main objectives of the paper to come up with a trend analysis of the country's trade and investment links with other South Asian countries. The study will also try to assess the role of Pakistan in making SAFTA a success especially in the context of multilateralism and emerging regionalism. The key question would be whether SAFTA is beneficial or not in the context of multilateral trade negotiations. This paper will also give policy recommendations based on research as how SAFTA can be an effective tool for trade-led growth in Pakistan and the South Asian region.

REVIEW OF STUDIES ON SAFTA WITH REFERENCE TO PAKISTAN

While there is a dearth of research literature on studies related to SAFTA especially in the context of micro and meso specific analysis, most of the work available within the public domain is theoretical or at best macro level. In most of the studies, the researchers point out the unavailability of data as main concern. However, some organizations have recently started generating separate databank for SAFTA trade. SAFTA didn't get on the fast track due to slow economic reforms by the member states and they are unable to create an environment within for trade promotion (Ahmed, Kalagama and Ghani, 2010).

A study by Shaikh and Rahpoto (2009) using CGE model shows that Pakistan will gain from Pak-India trade under SAFTA in terms of net exports of the country. Same study also used global trade analysis model to check the impact of SAFTA on Pakistan, it shows that the current demand for Pakistani dates, leather and cotton made garments will expand under Free Trade Agreement (FTA) and consumer surplus will raise more. World Bank study (n.d) also estimates the potential gains for Pakistan and India by entering SAFTA, in its basic form of gravity model the study shows that trade between these two countries is directly related to their size and inversely related to geographical distance between them. Under SAFTA, Pakistan has also reduced tariff to 5% for all Afghan products not in its sensitive list, SAFTA also paves the way for Afghan transit agreement between India and Pakistan (USAID).

Economic reforms and import substitution reforms have placed the country well in line with the conditions of SAFTA, now it can really gain from trade liberalization in the country (Naqvi&Schular, 2007). Pakistan and India both are going to gain from SAFTA if their bilateral political differences are solved, this will result in South Asian integration and market of ASEAN will be quite achievable for all the member counties (Kulegman & Hathaway, 2013).A study by Kemal (2005) elaborates an in depth analysis of regional cooperation mechanism in trade and potential that regional cooperation could provide. However he is also skeptical of the attitude of the member countries towards regional cooperation in South Asia. His study shows that SAFTA would be dependent on the number of products and kind of products that are included in the sensitive list of the countries.

Burki (2005) shows the similar results in this study on SAFTA- Opportunities and Challenges. Pakistan will certainly gain a lot more than the other economies in the region through the implementation of SAFTA. The share of trade in GDP will rise and FDI will increase, the structure of economy will also change and poverty in the country will decline over the years.

A back ground paper by Baysan, Panagariya and Pitigala (2006) on the merits of SAFTA agreement reveals very interesting findings of the South Asian region. It says that when compared with the rest of the world this region is small in terms of GDP and per capita income and also in its share in the world trade.

Krueger, Pinto, and Tristan (2004), analyzed the impacts of SAFTA declaring it as the only path towards trade liberalization in the region for a greater welfare gains and overall economic growth of the countries. Bandara and Yu (2001), have addressed the question of desirability of SAFTA and put forward an economic argument. While evaluating the preferential trade outcomes under SAPTA, the authors quote Mukherji (2000) who had estimated that the region's total preferential imports amounted to about US \$ 479.8 million, nearly half of which went to Pakistan.

PAKISTAN'S TRADE LINKS IN SOUTH ASIA: A TREND ANALYSIS

Looking at the direction of exports and imports over last six years (1999-2006), it appears that Pakistan has had more trade with countries outside South Asia than within South Asia.

The Table 1 given below shows the major export markets. This shows that United States of America, United Kingdom, Germany, Hong Kong and United Arab Emirates (UAE) are the major trading partners and their share of exports constitutes 35.3 percent in 2011-12 which though have decreased from 2007-08 figures. USA is the largest export destination of Pakistan with its share of 14.7 percent in 2011-12.

Table 1 Major Exports Markets (Percentage Share)

Country	2007-08	2008-09	2009-10	2010-11	Jul- Mar	
					2010-11	2011-12*
USA	19.5	18.9	17.4	16	15.9	14.7
Germany	4.3	4.2	4.1	5.1	5	4.8
UK	5.4	4.9	5.3	4.9	5	5.1
U.A.E.	10.9	8.2	8.9	7.3	7.3	9
Honk Kong	2.7	2.1	2.2	2	2.2	1.6
Sub-Total	42.8	38.3	37.9	35.3	35.4	35.2
Other Countries	57.2	61.7	62.1	64.7	64.6	64.8

Source: Economic Survey of Pakistan, 2011-12

*Provisional

Table 2 below shows the Pakistan's major exports from 2007 to 2012. Cotton manufactures top the list with 50.1 percent share in 2011-12, rice stands at 2nd with a share of 8.7 percent and leather and leather manufactured items being 3rd with 2.2 percent share. All other items constitute only 30 percent.

Table 1: Pakistan's major Exports (percentage share)

Commodity	2007-08	2008-09	2009-10	2010-11	Jul-Mar*	
					2010-11	2011-12*
Cotton Manufacturers	51.9	52.6	50.6	52.9	53.7	50.1
Rice	9.8	11.2	11.3	8.7	9	8.7
Leather**	5.8	5.4	4.5	4.4	4.5	2.2
Sub Total	67.5	69.2	66.4	66	67.2	61
Other Items	32.5	30.8	33.6	34	32.8	39

Source: Economic Survey of Pakistan, 2011-12

*Provisional **Leather and Leather Manufactured

Table 2 shows the major imports of commodities for Pakistan from 2007 to 2012 (Nov). Machinery and transports equipment had always been on top. In 2011-12 figures it was 19.18 percent of the total imports of the country. 2nd comes the minerals, fuels, lubricants and other related items with a share of 38.92 percent and then comes the chemical imports with 17.48 percent share.

Table 2: Pakistan's Imports by Commodities (percentage share)

Commodities	07-08	08-09	09-10	10-11	Nov 11- Nov 12*
Machinery and Transport Equipment	27.19	25.95	24.19	21.12	19.18
Chemicals	16.43	16.99	19.31	17.48	17.48
Minerals, Fuels Lubricants, and other related material	34.9	33.05	34.66	35.84	38.92
Subtotal	78.52	75.99	78.16	74.44	75.58
Animal or Vegetable Oils and Fats	5.21	5.15	4.74	6.28	6.27

Manufactured goods classified mainly by material	10.78	11.26	11.57	12.2	13.22
Food and Live Animals	5.5	7.6	5.53	7.07	4.92
Total	100	100	100	100	100

Source: FBS, 2012.

*Provisional

For Pakistan, U.S.A., U.K., Germany, Japan, Kuwait and Saudi Arabia remain important suppliers. Pakistan's imports are highly concentrated in a few countries and over 30 percent continue to originate from only six countries. It may be noted that Saudi Arabia (10.6%) is emerging as major supplier to Pakistan followed by Kuwait (8.4%) and Japan (4.2%). It is worth noting that imports share of USA have reduced from 6.1 percent in 2007-08 to 3.3 percent in 2011-12. The Table 3 given below explains trend from 2007 to 2012.

Table 3: Major Sources of Imports (percentage share)

Country	2007-08	2008-09	2009-10	2010-11	Jul-Mar*	
					2010-11	2011-12*
U.S.A.	6.1	5.4	4.6	4.5	4.3	3.3
Saudi Arabia	13.4	12.3	9.7	11.3	11.7	10.6
Germany	3.2	3.8	3.4	2.3	2.3	2.5
Japan	4.6	3.6	4.4	4.1	4.2	4.2
Kuwait	7.5	6.6	6.9	8.2	6.8	8.4
U.K.	1.9	2.6	1.7	1.6	1.6	1.2
Sub Total	36.7	34.3	30.7	32	30.9	30.2
Other Countries	63.3	65.7	69.3	68	69.1	69.8

Source: Economic Survey of Pakistan, 2011-12

*Provisional

Pakistan and South Asian Countries

From the above analysis it is clear that major trading partner countries don't have any of the South Asian countries in the list. Let us have a look at the trade related statistics of South Asia in this context. It appears that the percentage share of exports of Pakistan in the intra-regional export is minimal of the total. The Table 4 below illustrates the situation and shows that Pakistan's percentage share of exports to South and Central Asia is

merely 15.047 percent of the total exports in 2011-12. Afghanistan leads this group with 9.522 percent of the exports. If we exclude Afghanistan from this list than the total exports to the other countries are only 5.525 percent of the exports goes to Central and South Asia. As a percentage of total, exports to India is merely 1.433 percent, Sri Lanka 1.292 percent, Nepal 0.006 percent and Bangladesh 2.683 percent.

Table 4: Exports of Pakistan to Central and South Asia

	July-June 2011-12	July-June 2010-11	Percentage Change
SOUTH CENTRAL ASIA	15.047	16.054	-10.75
Afghanistan	9.522	9.418	-3.73
Bangladesh	2.683	4.093	-37.59
Bhutan	0.000	0.000	0.00
India	1.433	1.065	28.07
Maldives	0.023	0.018	18.93
Nepal	0.006	0.002	130.30
Sri Lanka	1.292	1.338	-8.00

Source: Extracted from TDAP data set.

It must be noted that under the British Rule, the region now comprising of India, Pakistan, and Bangladesh was under the direct rule of the British while Bhutan and Nepal were controlled with numerous types of treatise yet remaining semi-autonomous. The trading activity was on large scale between the regions in the era of British rule, after the partition of India, the trade even continued among the countries. For example in the late 1940s, Pakistan exports to India were 40 percent of the total exports to India and imported 20 percent of the total imports (Burki, 2005).

For a detailed analysis about Pakistan's trade linkages with South Asian countries, let us have a look at country specific trade linkages:

Trade between Pakistan and India

Pakistan and India share a long border and almost same socio-economic behaviors, yet the trade between these two countries has remained extremely low, due to changing political situation between them.

According to data obtained from the Federal Bureau of Statistics (FBS), Pakistan, Pakistan's total exports to India from the period of July, 2012 to November, 2012 is Rs. 12,360.59 Million which is 1.31 percent of the total exports of the countries, As compared to imports in the same period it amount to Rs 56,016.56 million which is 3.23 percent of the total share of imports in the country. This shows slight decline over the years. There is a hope that trade will continue to grow.

Table 5: Exports and Import to India (Rs in million)

	Exports				Imports			
	July, 2012 to Nov 2012		July 2011 to Nov 2011		July, 2012 to Nov 2012		July 2011 to Nov 2011	
	Value	% Share	Value	Percentage Share	Value	% Share	Value	Percentage Share
India	12360.59	1.31	13303.20	1.60	56016.56	3.23	50468.44	3.16

Source: FBS, Pakistan 2012.

Table 6: below shows the figures from 2007 to 2011 for Imports and Exports between India and Pakistan. Though the trade between the two countries has significantly increased over the decade, yet Pakistan has to explore the potential of the trade. Pakistan's Exports to India have shown a slight increase over the decade i.e. from 2001 to 2010.

Table 6: Pakistan's Exports and Imports to India (US \$ Million)

	Exports	Imports
2007-08	254.858	1701.445
2008-09	319.619	1194.605
2009-10	268.332	1225.567
2010-11 (July to Dec)	137.384	828.819

Source: Rawalpindi Chamber of Commerce, Pakistan.

In the year 2010, India's top ten Imports from Pakistan were (PILDAT 2012):

- Edible Fruits nuts, peel of citrus
- Mineral Fuels, distillation products and oils
- Organic Chemicals
- Cement, salt, sulphur, stone, plasterylime
- Cotton
- Lead
- Raw hides and leather
- Plastics and articles
- Precious metal compounds, Inorganic Chemicals and isotopes
- Wool and animal hair.

India's top ten exports to Pakistan are (PILDAT 2012):

- Sugars and Sugar confectionary
- Cotton
- Manmade filaments
- Organic Chemicals

- Residues, waste of food industry, animal fodder
- Edible Vegetables
- Coffee, tea and spices
- Rubber
- Oil seed, fruits, grain and seeds
- Miscellaneous Chemicals

It is also being observed that the huge volume of trade between India and Pakistan is informal trade. Sustainable Development Policy Institute (SDPI), Islamabad has estimated informal trade US \$ 545 million in 2005. Total informal exports from Pakistan to India are around \$10.5 million. Recent study by Ahmed and Wahab (2013) for SDPI shows that informal trade between India and Pakistan is around US \$4.2 billion.

Trade between Pakistan and Bangladesh

Before partition in 1947, the region called South Asia had domestic trade links amongst its parts which became sovereign states later. However, owing to changes in industrial and agricultural development strategies, the composition of trade kept on changing more quickly after the partition. Bangladesh also had dependence on agriculture with progressively trying to infuse industrial development orientation in its economy specially after becoming independent in 1971.

According to data presented by Federation of Pakistan's Chambers of Commerce and Industry, from the year 1997-98 to 2001-02, the balance of trade between Pakistan and Bangladesh have been in favor of Pakistan with imports declining and exports increasing but erratically.

The below given Table 7, is based on data from the State Bank of Pakistan (SBP). This data shows consistent increase in trade between Pakistan and Bangladesh and almost 50 percent of trade increased between 2006 and 2011. Pakistan's share of exports to Bangladesh has also increased from 1.48 percent in the year 2006 to 3.41 percent in the year 2011.

Table 7: Trade between Pakistan and Bangladesh (in US\$ million)

Year	Total Export of Pakistan	% Share	Total Imports of Pakistan	% Share
2007	18,188.66	1.42	28,776.06	0.20
2008	21,214.54	1.86	28,216.19	0.21
2009	18,345.56	2.22	28,616.06	0.22
2010	21,463.02	2.72	32,878.85	0.21
2011	26,367.91	3.41	38,688.74	0.20
2012 (Jan-June)	12,604.06	2.67	20,089.66	0.15

Source: SBP, 2012.

Main items of exports from Pakistan have been Cotton, Cereals, Machinery, Nuclear Reactors, boilers etc, plastic and articles, raw hides & skins and leather. While main item of imports from Bangladesh have been vegetable and textile fiber, paper yarn, woven fabric, tobacco and manufactured tobacco, Coffee, tea, mate and spices, sets, warm clothing etc. (International Trade Statistics 2011).

Trade between Pakistan and Sri Lanka

Sri Lanka is the second largest trading partner for Pakistan in the SAARC region. Though the trade balance is in favor of Pakistan over many years, yet Pakistan has not explored the full potential of the Sri Lankan market.

The following Table 8 illustrates the trade related statistics from 2007 to 2011. This shows that the trade between Sri Lanka and Pakistan has increased over the years after PLFTA and trade balance had always been in Pakistan's favor.

Table 8: Pakistan Sri Lanka Trade (In US \$ million)

Year	Exports (Rs Million)	% Share	Imports (Rs Million)	% Share
2007	6,133	0.7	19,696	1.6
2008	7,729	0.9	20,847	1.4
2009	6,374	0.8	22,592	1.9
2010	7,123	0.7	31,857	2.1
2011*	8,324	0.7	36,911	1.6

Source: Economic and Social Statistics of Sri Lanka, 2012: Central Bank of Sri Lanka.

The items which Pakistan exports to Sri Lanka include Textile yarn & fabrics , Articles of apparel/cloth accessories, Cotton American (staple), Fish, Dried Salted, Rice, Spices, Cement, Pharmaceutical Products, Footwear, Leather and leather manufactures, Sugar-cane refined, Vegetables & fruits, PVC unmixed subsets. Imports from Sri Lanka include Tea, Copra desiccated, Crape rubber sheet, Natural rubber, Smoked sheets of rubber, Betel leaves, Broom articles, Vegetables & fruits, Pepper black (FPCCI, 2007).

Pakistan has signed Free Trade Agreement (FTA) with Sri Lanka in June 2005 since then, according to Pakistan's Ministry of Commerce, the bilateral trade has increased tremendously and will increase if business community was made aware of the opportunities available in both countries. Under this agreement, Sri Lanka's negative list covered 697 products, and Pakistan's negative list covered 540 products (Abeyratne, 2012).

Trade between Pakistan and Afghanistan

Pakistan shares its western border with Afghanistan which is a landlocked country. Table 9 below shows the Exports, Imports and trade balance for Pakistan with Afghanistan. The Table 9 below shows that exports to Afghanistan have increased from

2006 to 2011, in 2006-07 it was only US \$753 million which increased to US \$2336.7 million in 2010-11. Imports from Afghanistan have also increased over the decade but this increase is very small as compared to exports. It is worth noting that trade balance with Afghanistan has also been positive and in favor of Pakistan i.e. in 2010-11 trade balance was US \$2164.7 million.

Table 9: Pakistan Afghanistan Trade (In US \$ million)

Year	Exports	Imports	Total	Balance
2007-08	1143.6	91.3	1235	1052.3
2008-09	1398	93	1491	1305
2009-10	1572	139	1711	1433
2010-11	2336.7	172	2508.7	2164.7

Source: PILDAT, 2012.

Likewise, recent figures from FBS, Pakistan shows that Afghanistan is among the top trading partners of Pakistan. In 2012-13, Exports to Afghanistan was Rs 166,480 million, which is 8.58 % of the total exports of Pakistan and now Afghanistan is at number 4, behind USA, China and UAE. However, the trade between Pakistan and Afghanistan is increasing with peace returning back to Afghanistan.

The items of exports from Pakistan include Rice, vegetables and fruits, Sugar, Tea and coffee, Leather, Textile yarn and fabrics, Pharmaceutical products, Iron and steel, Transport vehicles, Articles of apparel/cloth accessories, Vegetables fats, Hydrogenated, Plastic sheets, Handicraft, etc. While the items of import from Afghanistan include Vegetables and fruits, skins and fur skins raw, Mulathi, Coal, Crude animal/vegetable material, Cork and wood, Inorganic chemicals, Cotton, and Others.

Trade between Pakistan and Rest of the South Asian countries

Looking at Pakistan's trade performance within and without South Asia, it seems that the country is gradually making some attempts to broaden its export and import destinations as well as products and trying to diversify trade links with a number of other countries in the region.

Trade balance has been in favor of Pakistan throughout the year that is 2007-11. The below given Table 10 illustrates the import export situation between the years 2007-08 and 2010-11.

Table 10: Million US \$

Year	Bhutan		Maldives		Nepal	
	Exports	Imports	Exports	Imports	Exports	Imports
2007-08	0.0	0.1	4.5	0.0	0.8	1.2
2008-09	0.0	0.2	5.6	0.0	0.7	1.1

2009-10	0.0	0.0	4.3	0.2	0.7	1
2010-11	0.0	0.0	4.5	0.0	0.6	1.9

Source: MoC, Government of Pakistan.

It seems that the trade potential between these countries and Pakistan needs to be explored further and conditions need to be created in which more trade could place especially the conditions for trade facilitation need to be improved. India can play an important role in this regards, by allowing Pakistan the land routes to Bhutan and Nepal.

Current Status of SAFTA and Pakistan

Under SAFTA the member countries will have to implement the Trade liberalization programme and reduce tariff on trade among the member states on a schedule that would allow the less developed counties of the region for making adjustments. Of all the South Asian countries, Pakistan is the only country to whom the SAFTA Non-Least Developed Contracting State (NLDC) sensitive list consisting of 868 items is applied (Taneja et al. 2011).

The Table 11 shows the product wise classification of SAFTA sensitive list for Pakistan.

Table 11 Product wise classification of SAFTA sensitive list for Pakistan (number of tariff lines in sensitive list)

		Number of tariff lines in sensitive list	
A	Agriculture	55	5.9%
	1-15: Unprocessed agriculture	40	4.3%
	16-24: Processed food	15	1.6%
B	Minerals	3	0.3%
	25-26: Minerals	0	0%
	27: Fuel and Energy	3	0.3%
C	Industry (28-97)	878	93.8%
	28-38: Chemicals	65	6.9%
	50-63: Textiles	224	23.9%
	72-80: Iron and Steel and Metal Products	100	10.7%
	84-85: Machinery and Appliances	179	19.1%
	86-89: Transport Equipment	70	7.5%
	Others	240	25.6%
D	Total	936	100%

Overall, Pakistan has a positive trade balance with the South Asian countries except India. Even at the time when the SAFTA was signed there was not much to anticipate in terms of improved trade ties between India and Pakistan. This prediction was proved true at the second SAFTA ministerial meeting in Feb, 2007, where both Pakistani and Indian counter parts blamed each other for not implementing SAFTA in its true spirit.

India had granted Most Favored Nation status to Pakistan in 1996, Pakistan was supposed to grant the same to India in the latter half of 2012 but the matter is still lingering with the authorities concerned. Pakistan is continuously complaining about the excessive use of non-tariff trade barriers¹ (NTBs) by India and feels that reduction in tariffs through MFN status is meaningless till NTBs prevail on the Indian side. Indian side, on the other hand, feels that Pakistan is also working against the spirit of SAFTA by limiting Indian imports to a positive list and by not granting it MFN status. Till July, 2013, there is some improvement in the SAFTA agreement. India has promised to bring down the sensitive list to 100 tariff lines (currently 614 items) and Pakistan granting MFN to India, which would also include phasing out of negative list and removal of restrictions on items traded by road (Teneja et al, 2013).

Non-tariff barriers are major cause of low export volume in region. All member countries at the time of ratification promised to promote trade through easy access to their markets for all member countries. Every member also assured the other member that she would gradually decrease the number of non-tariff and para-tariff and eventually will eliminate all types of barriers except special products. However, after one year of ratification trade is not able to get desired momentum. Most member countries still maintain a high level of non-tariff barriers.

Pakistan and India are major countries of region and their role is very critical in the matter. Both have to lead from the front to set example for other countries of the region. Unfortunately at the moment role of both the countries is not very encouraging. Both India and Pakistan are maintaining a high level of non-tariff barriers in form of subsidizes, policy barriers, regulation complications and so on. Current status of NTBs is discussed below:

Pakistan's NTBs

Pakistan started trade liberalization in 1980s by gradually decreasing tariff and non-tariff barriers. According to ranking of International Monetary Fund Pakistan is ranked at number 6, while India on the other hand stands at 8. Ranking varies from 1-10 and country with rank 1 is considered the most open economy. Major NTBs can be classified as:

¹ For the understanding of non-tariff barriers we will use here classification World Trade Organization (WTO), WTO considers all tools as non-tariff barriers except tariffs, which are used to protect domestic industry or market.

- Subsidies to domestic industries especially to agriculture and textile and clothing, which Pakistan has increased in its recent budget.
- Lack of adequate banking relations.
- Standard Issues
- Visa issues
- Custom clearance
- Regulatory problems
- Weak infrastructure that does not support international trade
- Governance issues
- Instable political situation
- Segregated markets

Pakistan Specific NTBs of India

India is the biggest trading partner of Pakistan in South Asian region. So it is important to look at the NTBs that Pakistan face in terms of its exports to India. Teneja (2007) focuses on the NTBs based on the survey of Pakistani exporters to India:

- I. Trade facilitation and Customs Procedures
- II. Sanitary and Phyto-sanitary Measures (SPS) and Technical Barriers to Trade (TBT).
- III. Financial Measures
- IV. Para-tariff Measures
- V. Visas

Type	Description of Barriers	Remarks
Trade Facilitation and Customs Procedures	<p>Limited land routes</p> <p>Custom clearance is not available through e-filing.</p> <p>No transit facility to Bangladesh, Nepal and Bhutan.</p> <p>Valuation of imports of new items.</p> <p>Excessive Checks and Security Clearance.</p>	<p>Only operational route is Wahgah-Atari border in Lahore.</p> <p>Not available through land route.</p> <p>Time and cost wastage due to long route that Pakistna has to follow to trade with Bangladesh, Nepal and Bhutan.</p> <p>Under valuation of traditional items.</p> <p>Goods are held for long period.</p>
SPS and TBT	<p>24 standard setting agencies in India.</p> <p>Leather items are sent for laboratory testing.</p> <p>Pre-shipment certificate for textile exporters, certificate from an accredited laboratory on the use of hazardous dyes. And in case of labeling.</p> <p>Agricultural items by Pakistan obtaining the SPS certificate and testing requirements.</p> <p>In the case of processed foods, products must have 60% of the shelf life at the time of import.</p> <p>Pre-packaged products traders are</p>	<p>Due to muticiplicity in standards limited information is available with the Pakistani exporters.</p> <p>Samples are sent to laboratories that are located in far away from the port</p> <p>Time wastage.</p> <p>Plant quarantine facilities aren't available in Amritsar railway station. Testing requirements are available only in Mumbai and Dehli.</p> <p>This life is often determined arbitrarily and without transparency.</p> <p>This requires time and increases</p>

	required to give information on the retail sales prices (including cost breakup) in India. ²	transaction costs.
Financial Measures	<p>Indian banks don't recognize L/Cs from Pakistan banks.</p> <p>Traders complain about the efficiency of Asian clearing union (ACU).</p> <p>Pakistan's banks are not allowed to operate in India.</p>	<p>There are significant delays and also no formal mechanisms for trade dispute settlement.</p> <p>Inefficiency of ACU mechanisms and good amount of time is required to settle transactions.</p> <p>It is turning out to be major impediment to bilateral trade.</p>
Para Tariffs	India imposes a countervailing duty of 10 % on most items.	Pakistani exporters need to mention the minimum retail price (MRP) on packaged foods, without proper knowledge of distribution costs in India.
Visas	Businessmen from Pakistan are granted visas on the basis of an invitation from a recognized Chambers/Federations/Associations. The problems are that visas are issued for a period of 15 days. This greatly restricts market development activity. Further, police reporting is required on arrival/departure.	SAARC business visas are available on a selective basis. Recently the period of validity has been curtailed from one year to three months.

Prospect for Pakistan of Multilateralism and Emergence of Regionalism

Debate is on whether regional agreements would be building or stumbling blocks in the way of multilateralism. There are two schools of thoughts, which strongly advocate their respective ideas. In this section we will discuss the history of regionalism and multilateralism, growth, impact on each other and compatibility and how does Pakistan can gain from increased multilateralism and regionalism.

South Asian region is least integrated in terms of trade. All the major economies in the region are looking forward to other countries than working on opening their borders for the neighbors. As explained earlier SAFTA and SAPTA paved the way for regional integration. Unfortunately, both organizations could not deliver as was envisaged.

Over the years SAARC did expanded its outreach to work collectively on issues of agriculture and rural development, women, youth and children, environment, human resource development in South Asia, biotechnology, energy, health and education (Ahmed and Bhatnager, 2008). Another study by Amjad and Khan (n.d) shows that exports to both ASEAN and SAARC countries is positively related to economic growth in Pakistan, this can't be achieved without regional integration and stance of Pakistan over different issues in the region. Though Pakistan is one of the founding members of GATT and WTO, yet it failed to gain full advantage of this agreement.

² This is required in the case of infant milk substitutes, infant foods, bottled mineral water and milk products

Deadlock in multilateral trading regime (WTO) pushed countries to move towards bilateral trading regime and countries tend to rely on free/preferential trade agreements with each other. The same holds true when things get stuck in regional trading agreements such as SAFTA. Pakistan and India separately have signed free trade agreements with other countries in the region but they are still not ready to sign the same with each other. Pakistan has also signed a free trade agreement with China. An Early Harvest Programme with Mauritius has also been vetted (Suleri, 2007).

Trade patterns of Pakistan are not much different than most of the other nations in the region, so it has to face competition and other geo-political factors also contribute to its slow growth in exports. The narrow export basket as well as limited trading partners, as described in section one of this paper reveals that Pakistan banks a lot on trade with USA and EU. Its economy that was stumbling after the 1998's nuclear proliferation got revived during post-September 11 period. Being front line state and an important ally of west in war on terrorism, Pakistan did receive some economic benefits but have lost more than its gains.

However, 12 years down the road, things are changing quite rapidly. USA has shown its discomfort with Pakistan's role in curbing al Qaeda and other jihadi groups in the country. Afghanistan is also increasing pressure on Pakistan for its inability to check the terrorist insurgence through its borders. Most recent phenomenon of suicide attacks, and religious fundamentalism within country have put Pakistan in an extremely awkward situation and caused serious setback to its exports. Any wrong move on the part of the government could result in situation where USA and EU would conclude their honeymoon with Pakistan. Hence Pakistan should diversify its export destinations and instead of depending on bilateral trading partners should focus on pluri-lateral and multilateral trade agreements in the region and with the ASEAN region.

However, a major challenge for this move is Pakistan's limited export basket. Two commodities, cotton manufactured goods and leather goods comprise more than 67% of Pakistan's exports. The best markets for both of these commodities are EU and USA. Hence it is in Pakistan's interest to diversify its export goods and try to strengthen regional trading block.

SAFTA: Realizing an Opportunity for Economic Growth in Pakistan

Are there any potential benefits in staying connected through SAFTA for Pakistan in South Asia?

As mentioned earlier, Pakistan is trying to be a globalizer increasing international trade and reducing both the tariffs and tariff slabs. The most significant potential benefit, under these policy choices, from implementation of SAFTA will increase in international trade to GDP ratio. According to Medium Term Development Framework with Pakistan's GDP increase of around 7% per annum, the growth per annum in imports and exports will be around 10% and 12% respectively.

Greater openness of Pakistan through SAFTA will have positive impact on trade with two countries – one on the eastern border with India and on the western border with Afghanistan. Conservative estimates (Burki 2005) also claim that Pakistan's trade

(formal and informal) with these two countries can reach from around US \$ 3.9 billion to more than US \$ 28 billion during the next ten years.

The structure of Pakistan's economy needed to be revisited to gain the full potential of SAFTA. It is being envisaged that SAFTA will put pressure on the demand for agro-based commodities and businessmen in Pakistan will prepare themselves for high value-added products. Since, demand for agricultural products will increase; it is likely that rural poverty will tend to decline in Pakistan. While income levels in India are increasing fast so is the demand for fashion garments. Pakistan having an extensive textile and garments industry will also gain substantially which will help this labor-intensive sector growth and generate more employment.

Other than the economic benefits, most of the gains from successful implementation of SAFTA will come to Pakistan and the region. On this account, it is envisaged that increase in trade will provide enough opportunities to Pakistan and India to 'soften' their borders for transit trade and infrastructure utilization and up-gradation. A similar socio-economic benefit for Pakistan will be in the shape of attracting tourists from India especially the Sikh pilgrims.

Amongst the possible forward linkages beyond trade in goods is the area of services sector. Pakistan can look forward to getting into the banking sector market in India while India can penetrate the information communication technology market in Pakistan. Having seen the huge potential for trade, economic, and socio-political gains for Pakistan, the question arises that how would it be possible to actually realize these potentials for Pakistan. The question is as follows:

How can Pakistan use SAFTA as an opportunity and achieve welfare gain?

For the purpose of gaining from SAFTA, Pakistan has two important challenges to cope with. Firstly, it should develop itself to face more competition and build competitiveness as well as increase economic freedom. With the current security situation in the country it is difficult for business to operate in different parts of the country. Pakistan need to work on improving Business competitive index as it is currently ranked quite lower on the table.

Apart from domestic reforms, Pakistan needed to grant MFN status to India as Indian needed to eliminate non-tariff barriers that keep out its markets the many items of interest to Pakistani exporters. For Pakistan to gain economically and operationalize SAFTA for growth and development, an open trading system would (also) mean the use of short sensitive lists to regulate trade initially and dispensed with over time (Burki 2005).

Pakistan has signed free trade agreement (FTA) with Sri Lanka in 2002. Both the countries have provided concessions to each other. The trade didn't gather pace after this agreement, rather it declined after its implementation in 2005. So there is a need to extract benefits from this agreement. Pakistan has also signed APTTA (Afghanistan-Pakistan Transit Trade Agreement) with Afghanistan, but there is no bilateral trade agreement between Afghanistan and Pakistan, so Pakistan needed to tap the potential that Afghanistan markets offers.

However, it must be noted that growth of countries of South Asia which includes Pakistan is not possible without accepting inter-dependencies (in products) that trade inevitably creates. The only way to harness the potentials of SAFTA is to prepare domestic environment for increased trade and help develop inter-dependencies and Pakistan is no exception to it.

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