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Strengthening National and Provincial Legislative Governance

PROCEEDINGS

BRIEFING SESSION
FOR PARLIAMENTARIANS

THE SOUTH ASIAN FREE TRADE AREA: SAFTA

Advantages and Challenges for Pakistan

February 23, 2004
Hotel Marriott, Islamabad

PILDAT
Pakistan Institute of Legislative Development And Transparency

Prepared By

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As a Part of
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PLSC
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ABBREVIATIONS AND ACRONYMS

SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
KCCI	Karachi Chamber of Commerce and Industry
TLP	Trade Liberalisation Programme
COE	Committee of Experts
De Minimus	Minimal Risk
MFN	Most Favoured Nation
GATT	General Agreement on Tariffs and Trade
WTO	World Trade Organization
WB	World Bank
SAPTA	South Asian Preferential Trading Arrangement
BIMSTEC	Bangladesh, India, Maldives, Sri Lanka, Thailand Economic Cooperation
BJP	Bharatya Janata Party
LDCs	Least Developed Countries

Acknowledgments

Pakistan Institute of Legislative Development and Transparency -PILDAT wishes to acknowledge the invaluable contribution of all its participants at this briefing session.

PILDAT would especially like to thank all the resource persons for the commitment of time and effort they invested to participate in our briefing session. Key speakers include Mr. Zafar Iqbal Qadir, Joint Secretary, Ministry of Commerce; Mr. Richard Newfarmer, Economic Advisor, International Trade Development, The World Bank; Senator Professor Khurshid Ahmed, Chairman, Institute of Policy Studies; Mr. Amjad Rafi, Executive Committee Member, SAARC Chamber of Commerce and Industry, Former President KCCI and Mr. Kunwar Khalid Yunus, Member of National Assembly.

We would also like to thank the session chairs Mr. Zubair Ahmed Malik, President Islamabad Chamber of Commerce and Industry and Senator Ilyas Bilour for presiding over their respective sessions and actively participating in the discourse.

Finally, PILDAT would like to express its great appreciation for the PILDAT team responsible for coordinating the event successfully and compilation of this report to ensure comprehensive documentation of the discourse conducted.

PILDAT would like to thank USAID for its invaluable support and contribution in arranging this briefing session. This Briefing Session was organized by PILDAT on behalf of the Pakistan Legislative Strengthening Consortium - PLSC.

Executive Summary

The Briefing Session on *South Asian Free Trade Area (SAFTA): Advantage and Challenges for Pakistan* was organized to provide parliamentarians with a comprehensive assessment of SAFTA that will raise awareness about its political and economic ramifications for Pakistan as a trading partner and help in constructive legislative action to promote economic development through protection of national and regional trade interests.

The briefing session held on February 23, 2004 at Marriott Hotel, Islamabad, was attended by 30 Parliamentarians belonging to 7 political parties including - PPPP, PML(Q), PML(N), PML(F), MQM, NA and MMAP. The briefing session was also attended by eight other participants. These were members of the National Assembly Secretariat, Senate Secretariat, Foreign Ministry and Ministry of Commerce.

A number of key speakers addressed the audience during a one-day Briefing Session divided into 2 sessions. Session 1 included an overview of the *Agreement on South Asian Free Trade Area (SAFTA) and a presentation on Taking Advantage of Regional Trade: South Asia in Comparative Perspective*. Session 2 followed with a panel discussion on *The economic and political impact of SAFTA on Pakistan* conducted by 5 discussants.

The Briefing Session enjoyed lively debate and active interaction between speakers and the audience. The general consensus arrived at by most participants was that SAFTA held great economic promise and that the Government of Pakistan needed to be fully aware of its challenges in order to benefit from this initiative. Several participants expressed the view that Pakistan's economy was not robust enough to cope with the impact of free trade, particularly in terms of coping with the volume of trade with India.

A number of participants held the opinion that our industrial capacity was underdeveloped and that Pakistan's industrial growth had taken place under protective economic policies. The majority of participants agreed upon the need for the Government of Pakistan to consider the potential challenges of trade diversion before economic gains through trade creation could be realised, particularly during the initial phases of SAFTA's implementation.

In conclusion, most participants expressed their appreciation of the Briefing Session as a learning experience and forum for debate on the imminent issue of SAFTA that would figure prominently in Pakistan's policies on forging political and economic relations in South Asia.

Background

PILDAT Legislative Capability-building Programme

The Briefing Session was arranged under the Strengthening National and Provincial Legislative Governance Programme. Strengthening National and Provincial Legislative Governance in Pakistan is a 3-year project aimed at building the capacity of the members and staff of the National Assembly, Senate and the four Provincial Assemblies of Pakistan.

SAFTA: Opportunities and Challenges for Pakistan

The SAFTA agreement marks an important turning point in the future of South Asian regional trade and is recognized as a measure that will help in drastically reducing trade barriers and promoting intra-regional trade in South Asia. As Pakistan is the second largest trading partner in South Asia after India, the agreement has significant economic and political implications for Pakistan.

In light of SAFTA'S strategic importance, PILDAT arranged this Briefing Session to create a better understanding of its country-specific implications for Pakistan and induce more proactive debate on SAFTA-related issues at a parliamentary level.

Structure of the Briefing Session:

The Briefing Session was organized as a one-day event and divided into 2 sessions. Appendix A carries the detailed programme of the event.

Briefing Session Dossiers were prepared by PILDAT containing relevant information for the benefit of participating parliamentarians. Among other documents, the dossiers contained a briefing paper prepared by PILDAT on the topic of SAFTA: Opportunities and Challenges for Pakistan.

30 Parliamentarians, including 28 MNAs and 2 Senators, belonging to 7 political parties participated in this Briefing Session. Appendix B contains a list of participants as well as party, province and gender profiles.

Profiles of Speakers

Mr. Zafar Iqbal Qadir

Zafar Iqbal Qadir is currently Joint Secretary in the Foreign Trade Wing in the Ministry of Commerce. During his career, he has served as Deputy Secretary of the Economics Affairs Division, Deputy Secretary in the Ministry of Education and remained Deputy Commissioner and Commissioner in the Provincial Government of Baluchistan. Zafar Iqbal Qadir's educational background includes a Masters degree in Economics, an MBA in Information Technology and a PhD in Development Studies.

Mr. Richard Newfarmer

Mr. Richard Newfarmer is Economic Advisor in the International Trade Department and Prospects Group of the World Bank. Prior to joining the World Bank, Mr. Newfarmer was a Senior Fellow at the Overseas Development Council, and served on the economics faculty at the University of Notre Dame. Besides authoring numerous country studies at the World Bank on macroeconomic and public finance issues, Mr. Newfarmer has written extensively on foreign direct investment with publications in the Cambridge Journal of Economics, Journal of Development Economics and Foreign Policy.

Senator Prof. Khurshid Ahmad

Professor Khurshid Ahmad is Chairman and Founder of the Institute of Policy Studies in Islamabad and the Islamic Foundation in Leicestershire, UK. He is also Vice President (Naib Ameer) of Jama'at-e-Islami Pakistan. Elected as Member of the Senate in February 2003, he previously served as Member of the Senate of Pakistan from March 1985 to March 1997. During that tenure he was also Chairman of the Senate Standing Committee on Finance and Economic Affairs from 1991 to March 1997. A renowned research scholar, educationist and versatile writer, Professor Khurshid Ahmed has written extensively for magazines and periodicals.

Mr. Amjad Rafi

Mr. Amjad Rafi is currently a Member of the Executive Committee of SAARC Chamber of Commerce and Industry and has served as President of the Chamber of Commerce and Industry (1999-2000). During his career, Mr. Amjad has served on advisory committees of Ministry of Commerce, Ministry of Finance, Pakistan Railways and Advisory Board on Federal Labour. He has also been a Board member of several prominent educational institutions in Pakistan including Institute of Business Administration, Sir Syed University of Engineering & Technology, Ziauddin Medical University and Baqai Medical College Hospital Karachi.

Senator Ilyas Ahmed Bilour

Senator Ilyas Ahmed Bilour has a 30 year long association with trade, commerce and industry in the capacity of President, RCCI Rawalpindi, President of the Pakistan Chamber of Commerce and Industry, Karachi and the Sarhad Chamber of Commerce and Industry, Peshawar. Senator Ilyas Bilour has also served as Chairman of the ECO Chamber of Commerce & Industry, Vice President of the Islamic Chamber of Commerce & Industry and was elected President of Indo-Pak Chamber of Commerce & Industry. Among positions held Senator Ilyas Bilour has held office as Chairman Pak-ASEAN Business Council and member of several standing committees of FPCCI for 1990-91 on Credit & Economic Affairs, Energy, Petroleum and Natural Resources & Research and Development.

Mr. M. Ziauddin

M. Ziauddin is currently Resident Editor of The Dawn in Islamabad. After completing a Masters Degree in Journalism from Karachi University in 1966, his career as a Journalist spanned over a period of 40 years with several different newspapers of which 20 have been spent with Dawn. M. Ziauddin's areas of specialization in the field of journalism are Economics and Politics and writes prolifically on both subjects.

Mr. Kunwar Khalid Yunus

Kunwar Khalid Yunus has been elected MNA for his fourth term and is politically affiliated with MQM. He has previously served as MNA for the terms of 1998-1990, 1990-1992 and 1997-1999. He graduated from the University of Sindh, followed by a B.Sc. degree from Minnesota State University, U.S.A in 1976. Kunwar Khalid Yunus is also a member of the Finance Committee of the National Assembly and Standing Committee on Rules of Procedure and Privileges.

Session 1

Introduction

Mr. Ahmed Bilal Mehboob
Executive Director PILDAT

Mr. Ahmed Bilal Mehboob welcomed all participants, guests and speakers at the inaugural session and invited Dr. Farid Ahmad Piracha to begin the session with recitation from the Holy Quran. During Session 1, Mr. Mehboob introduced the audience to PILDAT as an organization and highlighted the importance and relevance of SAFTA as the topic of the Briefing Session. Through a PowerPoint presentation, Mr. Mehboob emphasized that this particular briefing session was not intended as a seminar or a political forum but more as a collective learning session for relevant stakeholders. The purpose was to empower legislators through knowledge by providing a forum for informed dialogue and interactive discourse on a critical issue such as SAFTA that merits legislative action but has not been a focus of parliamentary debate. He added that this briefing session echoed the theme of all PILDAT events including other briefing sessions and workshops that have been organized to realise PILDAT's mission of strengthening democratic institutions in Pakistan.

(Please see appendix C for the complete Presentation)

Comments by Session Chair

Mr. Zubair Ahmed Malik

President, Islamabad Chamber of Commerce and Industry

Mr. Zubair Ahmed Malik presided as Session Chair over the first session of *SAFTA: Advantages and Challenges for Pakistan.* He commenced the Session proceedings by welcoming all participating parliamentarians and commending PILDAT's policy to neither support nor advocate any single viewpoint on SAFTA-related issues. He further added, that as a representative of the Islamabad Chamber of Commerce and Industry however he would have to share a more partisan view on the implications of SAFTA for Pakistan.

Mr. Malik asked parliamentarians in the audience to recall that SAPTA (South Asian Preferential Trading Agreement) was signed in 1993 but was not a very successful initiative to promote free intra-regional trade in South Asia. He emphasized that India and Pakistan are two of the largest regional trading partners in SAARC and that SAARC countries contained 1/5th of the world's total population. By presenting comparative macroeconomic indicators, Mr. Malik highlighted that Pakistan showed dismal performance in terms of per capita income, mortality rates and that intra-SAARC trade only accounted for 3.6% in comparison with 49% among other regional trading groups.

According to Mr. Malik, Pakistan has not followed a free trade policy with any country in the world and local industries have been over-protected. He urged parliamentarians to take decisive legislative action in light of these poor indicators of economic performance and unsuccessful trade policies to move towards economic development through SAFTA's potential of free trade and liberalization. After presenting these opening remarks, Mr. Malik invited Mr. Zafar Iqbal Qadir to begin his speech.

Overview of the Agreement on South Asian Free Trade Area (SAFTA)

Mr. Zafar Iqbal Qadir
Joint Secretary, Ministry of Commerce

Mr. Zafar Iqbal Qadir began his speech by congratulating PILDAT on arranging a forum to discuss a critical issue of national importance. Mr. Qadir presented an overview of the Agreement on South Asian Free Trade Area (SAFTA) by providing a brief background of how SAFTA came into existence and highlighting its significant features, implications for Pakistan and issues in implementation.

In presenting background information about SAFTA, Mr. Qadir stated that SAARC member countries had decided to introduce trade preferences to promote intra-regional trade with the aim of diversifying trade patterns and supporting each other's local industries. By 1999, only 4 rounds of negotiations had been held and out of 10,000 items listed for trade, SAARC member countries had decided to exchange preferences on only 6000 resulting in virtually no growth of trade during that period of time. According to Mr. Qadir, the volume of Intra-SAARC trade in 1996 was $ 5 million and only grew to $ 6 million in 1999. Moreover, Pakistan's trade with SAARC countries only comprised 3% of its total trade with the rest of the world.

He added that SAARC leaders had envisioned a South Asian Free Trade Area in 1997 and a committee was formed to draft the SAFTA Agreement, which was signed on January 6th 2004. Moving on to discuss the prominent features of the agreement, Mr. Qadir added that SAARC countries, having signed the agreement to facilitate free trade through concessions in South Asia, needed to define specific measures to protect and promote our economic interests.

Pointing to a handout distributed at the start of his presentation, he stated that SAARC member states had decided to adopt a 2-phase approach to implement a Trade Liberalisation Programme (TLP). In the first phase of 2 years after coming into force of this Agreement, tariffs shall be reduced to 20% by the developing countries and 30% by the LDCs. In the second phase, tariffs shall be reduced to 0-5% by India and Pakistan in 5 years, Sri Lanka in 6 years and LDCs in 8 years.

Mr. Qadir went on to elaborate on trade-restrictive measures that involved para-tariff and non-tariff measures that need to be identified by the member states, negotiated at the level of Committee of Experts (COE) notified by the SAARC Secretariat and eliminated accordingly. He added that each member state shall maintain 2 sensitive lists, one for the developing countries and other for the LDCs. The lists shall be negotiated and finalized by the Committee of Experts by way of consultation.

Further important features of the SAFTA Agreement discussed by Mr. Qadir included the agreement that each SAARC member country will offer transit trade facility for movement of goods within the SAARC region. India will offer Pakistan transit trade facilities in this context as Pakistan's trade with SAARC member states will travel through India. He discussed the agreement to provide Special and Differential Treatment for the LDCs that mainly involved a longer phased out period for tariff reduction, early market access, larger sensitive list and *de minimus* for the application of safeguard measure. Mr. Qadir added that a provision of Revenue Loss Compensation mechanism for the LDCs has also been adopted with a view to compensate the loss of revenue, if accrued by the LDCs as a result of tariff reduction.

In conclusion, Mr. Qadir mentioned remaining points under the SAFTA agreement including Additional Trade Measures, Dispute Settlement Mechanism and National Treatment. Additional Trade Measures, included harmonisation of standards, removal of barriers to Intra-SAARC investments, simplification of procedure for business visas and harmonisation of customs clearance procedures. Mr. Qadir stated that a “Dispute Settlement Body” under the “SAFTA Ministerial Council” has been accepted by member states as a mechanism to resolve trade disputes

(Please see appendix D for the complete paper)

Taking Advantages of Regional Trade: South Asia in Comparative Perspective

Mr. Richard Newfarmer
Economic Advisor, International Trade Department, The World Bank

Mr. Richard Newfarmer began by thanking PILDAT for organizing the event and introduced his colleague, Ms. Miria Pigato as Country Programme Coordinator and Lead Economist of the Pakistan Country Management Unit at the World Bank. Mr. Newfarmer presented a power point presentation on the subject of Taking Advantages of Regional Trade: South Asia in Comparative Perspective.

With the aid of graphs of Intra-regional trade statistics in his presentation, Mr. Newfarmer highlighted that in comparison with other regional trading groups in East Asia and Argentina, South Asia has lagged behind and identified several factors that have contributed to this lag. The reasons he identified included tariff structures as protection was much higher in South Asia during the 1980s than East Asia and Latin America. Several other forms of protection such as specific custom duties resulted in more trade restriction in South Asia. Mr. Newfarmer commented on the trends of FDI (Foreign Direct Investment) for South Asia as being low. He added that more dynamic parts of FDI have been in services and retail industries therefore trends for South Asian countries to become Foreign Direct Investors themselves have been less visible than in East Asian countries.

Mr. Newfarmer stated that the potential gains from trade are estimated at $ 1 3 billion should SAFTA succeed and that SAFTA marks a decision of SAARC countries to forge ties of deeper integration. He highlighted that World Bank research studies have indicated that a positive correlation exists between increases of trade and customs efficiency and that 7 lessons have been learned as a result of the research findings. They include:

First, the benefits of Regional Trade Integration are not automatic and may take time before they are realised. Second, if countries adopt a policy to liberalise at the same pace as the rest of the world, they have a better chance to succeed. Third, countries should allow trade creation to replace trade diversion by lowering MFN barriers. Fourth, Regional Trade Areas that consist of North-South partners are more conducive to trade creation than South-South partners as there are greater opportunities for technology transfer. Fifth, successful agreements lower domestic prices, widen the scope for competition and consequently promote technology transfer. Sixth, agreements promote new competition in services and finally, trade partners can streamline border transactions through trade facilitation.

At this stage, Mr. Newfarmer posed 3 questions for consideration How does South Asia's integration compare with other regions? Can SAFTA spur trade and growth? and What are the key elements for moving forward? In response to his first question, he presented a 3 + 3 strategy of 3 policy domains of trade. Unilateral trade that involved replacing tariff restrictions with ad valorem duties to introduce transparency, Multilateral trade that formulates positive proposals for the WTO Doha Agenda and a 3 track policy for South Asia to seize the moment by implementing early MFN liberalisation based on existing tariffs, Trade facilitation and SAFTA.

Mr. Newfarmer argued that moving forward on MFN liberalisation through the key elements of negotiating early to end trade restrictions on bilateral trade between India and Pakistan, Permitting cross-border investment without discrimination as to the origin of investment and ending discriminatory impediment to visas. He added that these key elements would promote trade resulting in a fall in smuggling and reduction in direct shipment costs and that these were also the first steps towards SAFTA.

In response to his third question, Mr. Newfarmer stated that to move towards trade facilitation, unilateral and joint actions would improve impediments due to customs clearance, transport and transit charges and mobility of people in terms of visa regulations for businessmen and traders.

In conclusion, Mr. Newfarmer advocated that SAFTA can be a success in promotion of trade if members continue to open their economies on an MFN basis by embedding regional policies in unilateral and multilateral trade strategies. He emphasised that if SAFTA is used to increase competition and lower domestic prices, member countries will resist the temptation to exempt large numbers of items on the Sensitive List, harmonise rules of origin, include services, particularly for MFN access and proactively facilitate trade.

(Please see appendix E for the complete presentation)

Q&A / Comments Session

Question
Dr. Farid Ahmad Piracha
(Lahore-IV, MMAP)

I have 3 questions for Zafar Iqbal Qadir and 1 for Mr. Richard Newfarmer

1. Has the commerce industry conducted any study that gives comparative statistics on the difference between costs of production in terms of costs of electricity and raw materials between the Indian economy and ours and given the discrepancy , is it feasible for us to compete with Indian producers?

2. Has the Chamber of Commerce prepared any list that specifies the number of finished goods that we can trade with India and vice-versa and I am not referring to agro-based products or raw materials but specifically to finished goods?

3. Has a cell been created that can resolve trade disputes between member countries?

For Mr. Richard Newfarmer

1. As you have mentioned, technology transfer is one of the advantages of free trade, so my question is does that include nuclear technology?

Answer
Mr. Richard Newfarmer

In answer to your question, I think that this is a political decision for the government. What we have seen is technology transfer can be speeded through imports with tremendous potential gain for total factor productivity. Several studies show technology transfer is a component of trade that can impact productivity growth independent of other factors. As far as nuclear technology is concerned, I would not want to express a view.

Answer
Mr. Zafar Iqbal Qadir

We have a very detailed study by Ijaz Nabi on the implications of trade liberalisation with India. Our main trading partners are India and Bangladesh as levels of investment are higher in India and similarly Bangladesh has an edge over Pakistan in terms of textile processing. In this context, Pakistan is in a good position to compete.

In response to your comment about India being offered a larger market, Pakistan will also have access to a larger market. This decision was not exclusively made by the Ministry of Commerce but was made by all relevant stakeholders including the public and private sector. The Ministry of Commerce did play the role of being one of the leading stakeholders however.

Trade Integration is an important priority for Pakistan, we have always been very proactive with regard to GATT/WTO policies. Regarding the list of finished goods, we will create a list known as Sensitive List of goods, it is difficult for us to specify the goods at this stage as manufacturers need the time to adjust to market trends. Therefore we have the next four years to identify goods that will need to be placed on the Sensitive List based on industry trends.

Question
Ms. Zeb Gohar Ayub
(Women NWFP-I,PML(Q))

Thank you Mr. Chairman and I would like to thank PILDAT for arranging an informative and capacity-building briefing session for us. I would like to pose 2 questions to the panel,

1. If there is an increase in Pakistan's exports, what is the projected increase in total employed labour force in Pakistan and the decrease in unemployment?

2. Do other SAARC member countries impose custom duties on value-added machinery, if no duties are imposed by them how will Pakistan compete with these countries given its high energy costs, low productivity and higher depreciation charges because of the 5% customs duty levied by Pakistan?

Answer
Mr. Zafar Iqbal Qadir

I can not answer the part of your question that relates to employment rates, as employment does not fall under the Ministry of Commerce. If you look at our trade trends in the SAARC region, they have remained relatively constant. If you look at the trends of Pakistan's share of trade with SAARC countries, from 2.3% in 1994-1995, it fell to 2.0% in 1995-1996. Trade picked up from 2.5% in 1996-97 to 2.8 % in 1997-1998 and 3.5% in 1998-1999. In 1999-2000, it declined to 2.5% and remained at 2.9% in 2000-2001, 2.4% in 2001-02, 2.2% in 2002-03 and 3.0% in 2003-04. As you can see our trade is minimal and Intra-SAARC trade is 4.7 % of world trade therefore increasing Intra-saarc trade is definitely a priority for us.

In response to your second question, in Pakistan a duty of 5% is excised on inputs for machinery and the customs duty levied on value-added machinery is indeed higher, up to 25 % in certain cases and industries such as the automobile industry. All other SAARC countries however do impose tariffs on value-added machinery as well, India charges higher duties than Pakistan and Sri Lanka charges less. I think that when trade is opened however, both India and Pakistan will lower custom duties on value-added machinery to facilitate trade.

Question
Ms. Sayyeda Farhana Khalida Banoori
(Women NWFP-II, MMAP)

1. According to my knowledge, India has 2927 items listed whereas Pakistan had 736 items listed as tradable goods under the SAFTA agreement. What are the criteria of selection for these items?

2. I think that the SAFTA agreement is not just an issue of economic agreement but is fairly dependent on negotiations between India and Pakistan? If these negotiations were to fail, would Pakistan be able to cement ties with other SAARC member countries and continue to facilitate a policy of free trade?

3. If pharmaceutical products are included in the items of free trade, since Indian products are cheaper, what will happen to our indigenous products? Our market is already flooded with Chinese products? How will our pharmaceutical industry compete?

Answer
Mr. Zafar Iqbal Qadir

In response to the 550 tariff lines that Pakistan has opened and 2927 that India has opened, you are referring to the SAPTA Agreement this was the positive list approach. Each country indicated those items that they were willing to cut duties for. As I had mentioned earlier during the first four rounds of negotiations, Pakistan did not identify enough items for the positive list therefore this initiative was not successful. Due to this failure, SAARC member countries decided to pursue SAFTA.

As far as negotiations between India and Pakistan are concerned, all SAARC decisions are made by consensus and if India and Pakistan cannot resolve trade issues then we need to develop parallel agreements.

Answer
Mr. Zubair Ahmed Malik

We need to clarify that regarding the pharmaceutical industry, Pakistan does not manufacture, we only formulate.

Question
Mr. Asadullah Bhutto
(Karachi-XV ,MMAP)

I would like to thank PILDAT for arranging this event. I have three questions for Mr. Richard Newfarmer:

1. The World Bank is working under the patronisation of the US government's Policy. Before 9/11 WB policies were much harsher than they are now. Why?

2. In your presentation, I noticed that you did not compare South Asia's performance with Central Asian countries. Why do you discriminate against Central Asia?

Answer
Mr. Richard Newfarmer

The U.S is just one of the many stakeholders in the World Bank, however it is the largest. Personally I would be delighted to see more trade between Central Asia and South Asia. Central Asia was not included in this presentation but we have done extensive work with Central Asian countries to integrate them more effectively into the global economy.

Question
Ms. Fauzia Wahab
(Women Sindh-IV, PPPP)

1. Has the government conducted any detailed study about Indian goods that are manufactured with the help of hidden subsidies? I was told during my trip to India that the Indian government provides subsidies for electricity whereas we don't.

2. Also, in clause 4 of the SAFTA agreement that speaks of dispute settlement, how are we going to resolve a dispute?

3. Can you suggest a remedy for the cumbersome procedures of customs clearance?

Answer
Mr. Zafar Iqbal Qadir

Yes, India does provide subsidies and we see this as a restrictive measure.

Concluding Remarks by the Session Chair

Mr. Zubair Ahmed Malik
President, Islamabad Chamber of Commerce & Industry

In conclusion of the session, I would like to thank PILDAT and all the participants and I hope that we can answer the remaining questions in the next session. I have observed however that not all the questions are in reference to SAFTA but personal political questions.

Session 2

Panel Discussion

The economic and political impact of SAFTA on Pakistan

Senator Professor Khurshid Ahmed
Chairman Institute of Policy Studies

Professor Khurshid Ahmed began by stating that he believed SAFTA was undoubtedly a landmark in the political and economic history of South Asia. Prof. Ahmed remarked that he was not very optimistic about SAFTA's potential but as a social scientist, he thought that such an institutional arrangement to facilitate trade at a regional and global level was a promising development for the future.

Secondly, he thought that 3 key elements that need to be addressed in the context of regional cooperation are political ideology, security including political security, economic security and civic security and national interest. Prof. Ahmed emphasised that any agreement that seeks to facilitate regional economic cooperation must take these 3 elements into consideration. He added that the 2 influential variables of economics and politics cannot be divorced. For any effort to promote regional cooperation, political imperatives and political irritants must be taken into account.

Prof. Ahmed continued to say that the vision of creating the European Union could not be realised until political conflicts such as those between France, Germany, England and Ireland were resolved. He identified that the main reason SAARC initiatives had not seen any visible results of success was because SAARC concentrated on formalities and establishing conciliatory relations rather than resolving political conflicts that hinder regional cooperation.

Prof. Ahmed elaborated that the change in U.S foreign policy was an example of this phenomenon. He described political relations between the U.S and Pakistan as being strained and a "marriage of convenience"

He stated that India and the U.S have maintained a sensitive relationship over the years against the backdrop of the Indo-China conflict and India 's role as a Russian ally. Prof. Ahmed, added that the visible change in U.S foreign relations was that since 9/11, Indo-US ties were even stronger as they were cementing a strategic partnership despite the tenuous relations they have maintained in the past. He added that, given these developments of strategic partnerships, countries such as India and China are strategically important players in the regional forums of economic development.

Prof. Ahmed emphasised that South Asia's dynamics of regional integration are not similar to other regional trade areas as ASEAN or NAFTA as India is the only country in SAARC that exceeds all other members in terms of economic, military and political might.

He added, that the basic principle of regional trade is that economies that complement each other can trade successfully. In the case of India and Pakistan, however, Prof. Khurshid Ahmed views both economies as competitive and he emphasized that in light of this we should not have unrealistic expectations regarding the potential economic gains through SAFTA.

In conclusion, Prof. Khurshid Ahmed emphasised that the biggest problem he could identify with Pakistan's policies was a decision-making crisis. He stressed the importance of including all relevant stakeholders in the decision-making process in order to facilitate the making of an informed decision on critical issues such as SAFTA. He added that we should view SAFTA with a cautious sense of optimism and enter this phase of regional integration with consideration of the influential political, economic and social circumstances.

Panel Discussion (contd..)

Mr. Amjad Rafi

Executive Committee Member
SAARC Chamber of Commerce and Industry
Former President KCCI

Mr. Amjad Rafi began his speech with the observation that even after decades, SAARC's share in world trade is hardly 1% and Intra-SAARC trade is only 4-5 %. Against this backdrop, he added, SAFTA's trade agreement is a landmark decision and will come into implementation on January 1st, 2006 to promote the free movement of goods and elimination of tariffs, para tariffs and non-tariff restriction on the movement of goods.

Mr. Rafi identified that among SAARC countries, Pakistan's greatest buyer is Bangladesh. He added that the negative sentiment about SAFTA is based on the fear of India's strong industrial base in cutting edge industries such as capital goods and engineering. However, the silver lining is that under SAFTA our engineering mills can acquire steel from India at cheaper rates and also enable Pakistan Steel to produce steel at a lower cost by importing its basic raw material import from India.

Mr. Rafi commented on the lack of a high-technology textile machinery industry in Pakistan and described that some of the textile machinery that Pakistan imports from Switzerland and Germany is made under license in India therefore if we could acquire this machinery directly from India under the SAFTA agreement, costs would be much lower.

He stated that the current production capacity of the chemical industry in Pakistan only meets 10% of its requirements and we can greatly benefit from the import of dyestuffs, chemicals and plastic raw material from India at lower prices. There are definitely certain industries that will be adversely affected such as auto parts and pharmaceuticals however, in light of this, a primary goal for our government is to negotiate a list of sensitive goods that contains items from domestic industries that could be adversely affected due to preferential imports.

In conclusion, Mr. Rafi emphasized that Pakistan does have great potential to exploit a large export market of the SAARC region and Bangladesh is one example of a country that has a great potential to absorb Pakistan's fabrics and yarn. He remarked that Pakistan also offers great untapped potential for development of tourism in its Northern and Coastal areas. Other SAARC countries have highly developed tourism industries and tourism is an area where Pakistan can greatly benefit from their expertise and seek collaboration for developing our tourism industry.

One of the major impediments, Mr. Rafi identified to industrial growth was the lack of adequate physical infrastructure, due to which, the costs of doing business in Pakistan was relatively high. This impediment underscored the need for improving infrastructures so that costs could be reduced and competition induced within the region and world at large. He argued that Pakistan and India are spending large portions of total expenditure on their defence budgets respectively and perhaps both governments need to revisit their investment priorities.

(Please see appendix F for the complete paper)

Panel Discussion (contd..)

Mr. M. Ziauddin

Resident Editor, The Dawn

Mr. Ziauddin began by thanking the hosts for inviting him to a high-quality discussion on a very important subject.

He spoke of how it had taken SAARC countries almost 8 years to sign the South Asian Preferential Trade Agreement (SAPTA) and another two years to implement the agreement. In light of the political impact of SAFTA, Mr. Ziauddin described that when the British colonists left the subcontinent in 1947, all seven countries became sovereign states and all in search of their separate identities and their own brands of nationalism. In doing so, they not only swept under the carpet their potential commonalities, but also invented new points of conflicts.

He went on to describe that between India and Pakistan, there had already existed very serious differences from the very first day. Nepal, Bhutan and Sri Lanka were trying very hard to protect themselves from what they perceived as the hegemonic tendencies of an India that had started to throw its weight around soon after Independence.

Mr. Ziauddin commented on the irony that Bangladesh, which was separated from Pakistan after the 1971 war, actually took the initiative to bring South Asian regional countries on a cooperative platform. According to him, the last SAARC Summit had raised some hopes that the member countries have started making efforts to grapple with their respective political differences. He assessed that once the process of political reconciliation starts among SAARC countries and the barriers against free flow of populations and goods across the region are broken down without of course obliterating the physical borders, it will not be long before the entire region is integrated into one socio-economic unit.

He elaborated on how British colonialists, before they left, had developed a region in such a way that by 1947 it had become almost a single market. They had linked the entire length of the sub-continent with roads, railway networks and waterways and the entire region was practicing common legal, educational, health and administrative systems. While leaving, the colonialists had also bequeathed a parliamentary system of government to meet the needs of most of the newly independent countries in the region.

Mr. Ziauddin was of the view that, in this context, peace between India and Pakistan, the subsequent creation of a Free Trade Zone Area and economic integration of SAARC countries were essential prerequisites. In addition to these, the development of transnational roads and rail networks, could enable South Asia to build on its past commonalities and transform into a large economic zone and regional market second only to China in its size. This economic integration would further translate itself into the process of political reconciliation in the region.

He added that the political forces in Pakistan which have thrived on the "Hate India" syndrome would gradually disappear paving way for a more tolerant political environment which in turn would reduce militancy in the society and military take-overs would become unpopular and totally unjustifiable.

Mr. Ziauddin identified that currently, several restrictions on official trade compel SAARC member countries to import certain goods from distant sources and free regional trade would ensure cheaper raw materials and low transportation and insurance costs which would translate into good quality goods at economical prices for the population of member countries.

While consumers will benefit from cheaper imports, manufacturers will have access to wider markets in the region, governments will earn significant revenues that are lost due to unofficial trade and trade transit rights will enable countries to exploit geographically closer markets such as Central and Southeast Asia.

At present, joint ventures between SAARC countries are non-existent. There are several areas of enterprise, in which these countries can complement each other's needs and produce cost-effective, quality goods. Potential areas for joint ventures include agricultural products, tyres, auto spare parts, minerals, chemicals, pharmaceuticals, leather, textile and telecommunications.

He predicted that technology transfer and exchange of skills among neighbours will enhance the quality of their goods at comparatively cheaper prices. Telecommunication networking and joint services to provide IT-related services for world markets would be an attractive proposition for global companies and free intra-country tourism will ensure people to people contact and facilitate expansion of domestic tourism industries. Similarly, cooperation in water management and hydropower projects can help increase irrigation benefits, decrease risks of floods and establish a common electric-grid system for intra-country transmission of electricity.

According to Mr. Ziauddin, regional countries, that require large volumes of natural gas imports to meet their future domestic needs, can tap the major deposits of Persian Gulf and Central Asia. At a conservative estimate, Pakistan alone can earn approximately $500 million per pipeline per year in transit rights.

In conclusion, Mr. Ziauddin emphasized that although all this will promote regionalism and advance the ideas of economic union and a common currency, one should not expect this to happen in one or two decades. While SAFTA will promote regionalism, it will nevertheless not be enough for the formation of an economic union. The essential pre-requisite for the establishment, in his view, of such a union is the achievement of macro-economic stability at the domestic level in each of the member countries. For achieving the dream of common currency, Mr. Ziauddin believes, we would first have to achieve purchasing parity for the currencies of members within the SAARC market.

(Please see appendix G for the complete paper)

Panel Discussion (contd..)

Mr. Kunwar Khalid Yunus
(Karachi-VII ,MNA)

Mr. Kunwar Khalid Yunus began his presentation by greeting PILDAT and PLSC, Members of the Media, Mr. Ziauddin in particular and his fellow Parliamentarians.

Mr. Yunus stated that the day the SAFTA Agreement was being signed, the Pakistani business community displayed mixed signals and he categorized them as pessimists and optimists. According to him, pessimists were fearful of their local market being wiped away by an onslaught of a trade monopoly. Moreover, they were fearful of being the victims of export dumping from a powerful economic engine such as India.

He added that several small South Asian countries shared this fear however a sizeable number of optimists felt that entry in the vast market of 1.2 billion people was crucial and that a large segment of the South Asian business community shared this view as they expressed fear of being marginalized by the global economy.

Mr. Yunus addressed stated that in the ruthless competition of global economy, South Asia was already being marginalised and SAFTA would bring new hope as it was in Pakistan's backyard.

He added that we should feel more fearful of our local economy being wiped out by China rather than India, be it in silk, textile, machinery, shoes, motorcycles or motors and fans. Mr. Yunus expressed his surprise at the absence of any ordinance or bill being enacted in the Parliament to protect our economy against being used as a dumping market.

He suggested that Pakistan and India may hold negotiations over certain safeguarding measures similar to the way NAFTA, ASEAN and other countries negotiated with powerful European, American and East Asian economies before entering the pact.

He admitted that in the early phases, some smaller countries would definitely incur some short-term losses and that we needed to transcend the limitation of thinking in the short-term and visualise a situation 10 years from today.

Drawing a comparison between Luxembourg and Pakistan, he explained that Luxembourg stands among giants in the EU including Germany, France, United Kingdom and Italy and Pakistan would not be a small country. Mr.Yunus added that he was in India for the World Social Forum Program and while visiting Amritsar, he met several people who said that if their borders were opened, both segments of Punjab would boost their trade, industries and agriculture.

In conclusion, Mr. Yunus emphasized that the lesson for us to learn is to take SAFTA seriously and if Pakistan chooses to deliberately miss this bus as it has in the past, most SAFTA countries of the South Asian region with the addition of some South East Asian countries may avail another option, excluding Pakistan, known as BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka and Thailand -- Economic Cooperation). He advised that Pakistan should address this potential consequence with serious consideration.

(Please see appendix H for the complete paper)

Q&A / Comments Session

Question
Mr. Kazi Abdul Qudoos Rajar
(Sanghar-II,MNA)

Are our industries capable of meeting WTO standards? We don't manufacture, how are we going to compete with trade given that we pay very high prices for electricity, water and other services?

Answer
Senator Ilyas Bilour

You have made a valid point, however WTO standards are independent of SAFTA requirements. There are no investments in the social sector in Pakistan, goods are cheaper to produce in India, however we do not rely solely on imports, we do manufacture to a certain extent in Pakistan.

Question
Professor Khalid Wahab
(Hyderabad-II, MQM)

If 2 countries have political conflicts, economic cooperation is not very easy to achieve, can we reduce political tension through economic cooperation?

Answer
Senator Ilyas Bilour

Well, look at China and the US, economy and religion are independent of each other. Economy has no religion. When India opened trade with China, the business community protested, yet now the Balance of Payments for China and India are equal as a result of trade. So yes, economic cooperation through trade may actually reduce political tension.

Comment
Ms. Fauzia Wahab
(Women Sindh-IV, PPPP)

Mr. Amjad Rafi mentioned that we produce textile goods but we don't have the technology. We actually do not have the indigenous technology, nor are we encouraging it. So we need to examine the fact that we need to encourage consumer responsibility and promote development of indigenous intellectual capital.

Question
Mr. Muhammad Husain Mehanti
(Karachi-XIV, MMAP)

We have observed that we do have economic deprivation in our country. What kind of protection are Pakistan's industrial units going to receive after SAFTA comes into place?

Answer
Senator Ilyas Bilour

There will be adequate safeguards to protect Pakistani industrial units.

Question
Ms. Afsar Begum
(Women Sindh-XI, MQM)

Are our industries capable of competing, particularly our textile and automobile industries?

Answer
Senator Ilyas Bilour

Yes we can definitely compete and both our textile and automobile industry are capable of competing in trade.

Question
Ms. Shakeela Khanam Rashid
(Women Punjab - XXII, PPPP)

We have faced all of these problems not because we have not had an efficient democratic process but because the feudal system still exists in Pakistan. How can we eliminate this feudal system?

Answer
Senator Ilyas Bilour

I agree with your observation completely. There have been 3 different sets of land reforms in Pakistan and only one in India with the result that no one can own more than 25 acres of agrjcultural land in India. The difference between feudalism in India and Pakistan is that absentee landlordism is not prevalent in India whereas it is in Pakistan.

Question:
Mr. Muhammad Usman Advocate
(Swabi-I, MMAP)

How are we going to change the mindset of Indians and Pakistanis to make them more tolerant? Can you promise that there will be free trade with adequate protection and is there anyway we can ensure continuity of economic policies despite political instability & change of government?

Answer
Senator Ilyas Bilour

There is no doubt that there is a great resentment on religious grounds however it is heartening that a Hindu-nationalist BJP government has taken the initiative to facilitate economic cooperation.

Concluding Remarks by the Session Chair

Senator Ilyas Ahmad Bilour

Senator Ilyas Bilour thanked PILDAT and all participants for inviting him to preside as Session Chair at this briefing session. Senator Bilour described himself as a very optimistic man, who was confident that India and Pakistan would move towards economic cooperation. Inspired by this sentiment of political cooperation, Senator Ilyas Bilour had arranged for a delegation of over 100 Pakistani businessmen to travel across the Wagah border and he was extremely pleased with the warm reception extended by Indian counterparts.

According to Senator Ilyas Bilour, economy has no religion nor does trade. He added that our local industry has suffered due to protectionism and our economic policies are inconsistent as they are vulnerable to political instability. Senator Ilyas Bilour emphasized that it was imperative for Pakistan to cement economic and political ties with its neighbours to eliminate terrorism and fundamentalism from this region. In conclusion, he asserted that he was optimistic that implementation of the SAFTA agreement would induce economic development for the region and the SAFTA Secretariat needed to be strengthened as an institutional mechanism to achieve this objective.

APPENDIX A

PROGRAMME

Programme

Monday, February 23, 2004

ITEM	Subject/ Topic/Activity	TIME	SPEAKER
1	Registration of Participants	09:30 to 10:00 am	
2	Inaugural Session (Session 1) Session Chair: Mr. Zubair Ahmed Malik President, Islamabad Chamber of Commerce and Industry		
	Welcome Remarks and Introduction	10:00 to 10:15 am	Mr. Ahmed Bilal Mehboob Executive Director PILDAT
	Overview of the Agreement on South Asian Free Trade Area (SAFTA) - Brief introduction and background - Overview of the SAARC Economies - Main points of the agreement - Implications for Pakistan - Issues in Implementation	10:15 to 10:45 am	Mr. Zafar Iqbal Qadir Joint Secretary, Ministry of Commerce
	Taking Advantage of Regional Trade: South Asia in Comparative Perspective	10:45 to 11:15 am	Mr. Richard Newfarmer Economic Advisor, International Trade Department, The World Bank
	Q & A/Discussion	11:15 to 12:15 pm	
	Remarks by Session Chair	12:15 to 12:30 pm	
3	Lunch & Prayer Break	12:30 to 1:30 pm	
4	Session 2: Session Chair: Senator Ilyas Ahmed Bilour Panel Discussion		
	The economic and political impact of SAFTA on Pakistan	01:30 to 03:30 pm	Panelists: Professor Khurshid Ahmed Member of Senate, Chairman, Institute of Policy Studies

Programme

ITEM	Subject/ Topic/Activity	TIME	SPEAKER
	Panel Discussion continued		Mr. Amjad Rafi Executive Committee Member, SAARC Chamber of Commerce and Industry, Former President KCCI Mr. M. Ziauddin Resident Editor, The Dawn Mr. Kunwar Khalid Yunus Member National Assembly Senator Ilyas Bilour
	Q & A/Discussion	03:30 to 04:45 pm	
	Remarks by Session Chair	04:45 to 05:00 pm	
5	Tea & End of the Session	05:00 pm	

APPENDIX B

List and Profile of Participants

List Of Participating MNAs

1	Afsar Begum	MQM
2	Akram Masih Gill	PML(Q)
3	Asadullah Bhutto	MMAP
4	Dev Das	MQM
5	Farid Ahmad Piracha, Dr.,	MMAP
6	Fauzia Wahab	PPPP
7	Gul-e-Farkhanda	NA
8	Iqbal M. Ali Khan	MQM
9	Israr-ul-Ebad Khan	MQM
10	Kazi Abdul Qudoos Rajar	PML(F)
11	Khalid Iqbal Memon	PPPP
12	Khalid Wahab, Prof.	MQM
13	Krishan Bheel	PML(N)
14	Kunwar Khalid Yunus	MQM
15	Mohammad Anwar Bhutto	PPPP
16	Muhammad Hanif Abbasi	MMAP
17	Muhammad Husain Mehanti	MMAP
18	Muhammad Laeeque Khan	MMAP
19	Muhammad Usman, Advocate	MMAP
20	Qari Fayaz-ur-Rehman Alvi	MMAP
21	Riffat Javaid Kahlon	PML(Q)
22	Sayyeda Farhana Khalid Banoori	MMAP
23	Shahid Hussain Bhutto	PPPP
24	Shakeela Khanam Rashid	PPPP
25	Tasneem Ahmed Qureshi	PPPP
26	Tehmina Dasti	PML(Q)
27	Yasmeen Rehman	PPPP
28	Zeb Gohar Ayub	PML(Q)

List Of Participating Senators

1	Ilyas Bilour	ANP
2	Prof. Khurshid Ahmed	MMAP

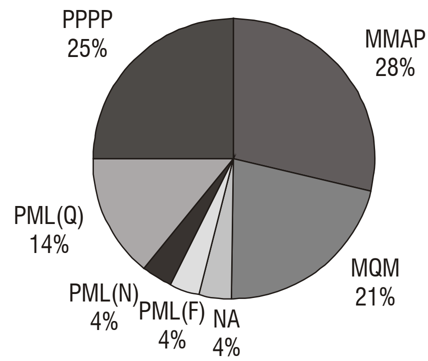
List Of Other Particaparts

1	Abdul Majeed Sandhu	National Assembly Secretariat
2	Ahmed Hussain	National Assembly Secretariat
3	Iqbal Ghouri	National Assembly Secretariat
4	Iftikhar Ullah Babar	Senate Secretariat
5	Raza Khokhar	National Assembly Secretariat
6	Sultan Ahmad	National Assembly Secretariat
7	Naeem Anwar	National Tariff Commission
8	Syed Abrar Hussain	Foreign Office
9	Joel R. Reifman	Deputy Chief, Economics Section, US Embassy

Profile of Participating MNAs

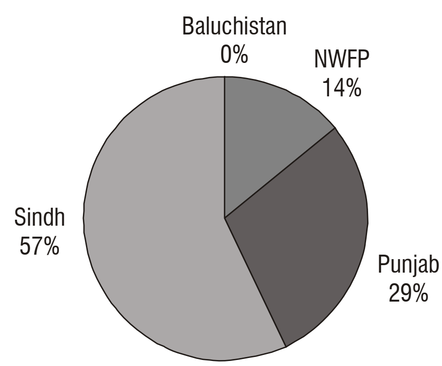
Party Wise Representation

Party	Attendance in Briefing Session		Percentage in Assembly
	Number	Percentage	
MMAP	8	28	18
MQM	6	21	5
NA	1	4	4
PML(F)	1	4	2
PML(N)	1	4	5
PML(Q)	4	14	36
PPPP	7	25	17
Total	28	100	



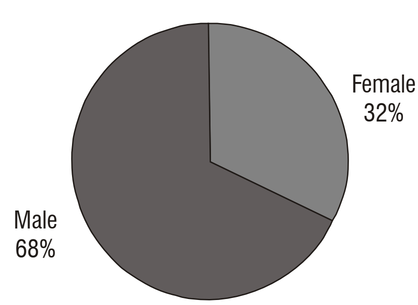
Province Wise Representation

Province	Attendance in Briefing Session		Percentage in Assembly
	Number	Percentage	
NWFP	4	14	13
Punjab	8	29	45
Sindh	16	57	23
Baluchistan	0	0	5
Total	28	100	



Gender Wise Representation

Gender	Attendance in Briefing Session		Percentage in Assembly
	Number	Percentage	
Female	9	32	22
Male	19	68	78
Total	28	100	100



APPENDIX C

Presentation by
Mr. Ahmed Bilal Mehboob

Executive Director, PILDAT


The South Asian Free Trade Area (SAFTA):
Advantages and Challenges for Pakistan
PLSC-PILDAT Briefing Session for Parliamentarians
Welcome Remarks & Introduction


Briefing Session on SAFTA
Welcome!
We extend a warm Welcome to Session Chairs, all Participants, Speakers & Guests. Thank you for joining us.
We have included a Briefing Paper in the Dossier among other documents.
Please fill Feedback Form/Data Form.


Briefing Session on SAFTA
Programme Overview
This is not a seminar or a Jalsa; It is a serious effort to learn from each other.
Overview of Agreement on SAFTA
Regional Trade: South Asia in Comparative Perspective
The impact of SAFTA on Pakistan's Economy
The political impact of SAFTA on Pakistan
Q & A/ Discussion Sessions

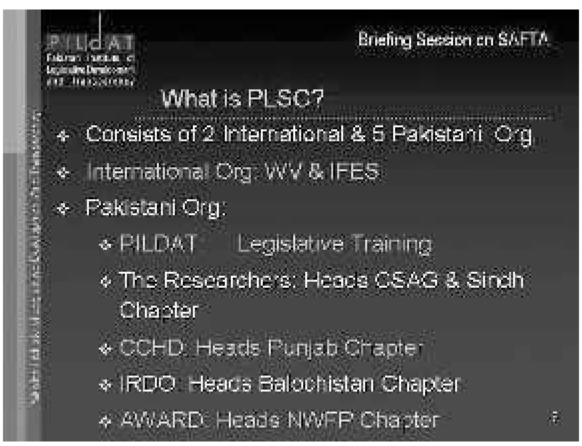

Briefing Session on SAFTA
Objectives
Enhance awareness about responsibilities and limitations of each tier of Pakistan's government in context of SAFTA.
Promote a greater understanding of SAFTA related issues among Parliamentarians.
Facilitate Dialogue among stake-holders.
Guide thought process for resolution of SAFTA related legislative issues.

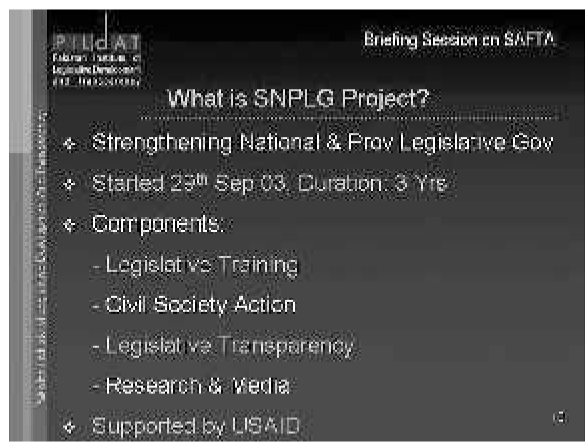

Briefing Session on SAFTA
Why is SAFTA an important subject?
Important for us to understand how SAFTA will impact our economy, polity and society
Absence of meaningful discourse in our Parliament on SAFTA-related issues
A better understanding for Parliamentarians will promote more proactive Assembly debates & effective legislation


Briefing Session on SAFTA
Why do we hold Briefing Sessions for Legislators?
To empower legislators through knowledge
To see Assembly Members participating in policy-making (Supremacy of Legislature)
To see Democracy and Democratic Institutions strengthened in Pakistan


Briefing Session on SAFTA
Who Funds PILDAT?
Seed money by Overseas Pakistanis
Pilot project funded by UNDP
Seek and accept support from all sources without any covert or overt strings (Pure PILDAT Agenda)
So far events are supported by UNDP, FNS, FES, DFID, The World Bank, IRI etc.
Now several PILDAT events supported by USAID as a part of the PLSC


Briefing Session on SAFTA
What is PILDAT?
Independent, Non-profit, Research & Study institute
Indigenous entity well-versed in local conditions
Strictly Non-partisan: Values trust of all parties
Dedicated to Parliamentary Strengthening
Mission: Strengthening Democracy & Democratic Institutions for a better Pakistan
PILDAT has also joined PLSC recently for SNPLG


Briefing Session on SAFTA
What is PLSC?
Consists of 2 International & 5 Pakistani Org
International Org: WV & IFES
Pakistani Org:
PILDAT: Legislative Training
The Researchers: Heads CSAG & Sindh Chapter
CCHD: Heads Punjab Chapter
IRDO: Heads Balochistan Chapter
AWARD: Heads NWFP Chapter


Briefing Session on SAFTA
What is SNPLG Project?
Strengthening National & Prov Legislative Gov
Started 29th Sep 03, Duration: 3 Yrs
Components:
- Legislative Training
- Civil Society Action
- Legislative Transparency
- Research & Media
Supported by USAID


Briefing Session on SAFTA
Some Recent Activities of PILDAT
Workshop on Devolution of Power
Inauguration & Dialogue: First Year of Increased Women Representation in the Parliament
State of Democracy Report
Workshop for Sindh MPAs
Briefing Session on Issues of Water Resources


Briefing Session on SAFTA
Near-future Activities
Workshop on Public Policy Analysis
Briefing Session on Pak-India Relations
Workshop on effective committee system
Orientation Workshops
Budget Process Workshops
Parliamentary Internship Programme
Parliamentary Study Tours

APPENDIX D

Paper by
Mr. Zafar Iqbal Qadir

Joint Secretary, Ministry of Commerce

Salient Features of SAFTA

Entry into force:

The Agreement shall come into force on 1st January 2006 Upon completion of procedural formalities, I.e., negotiation and finalization of sensitive lists; rules of origin; technical assistance and revenue loss compensation mechanism for the LDCs; and ratification by the member states.

Trade liberalization program (TLP):

a. The member states shall reduce their tariffs through "trade liberalization program" that would be implemented in two phases. In the first phase of two years after coming into force of this agreement, the tariffs shall be reduced to 20% by the developing countries and 30% by the LDCs.
b. In the second phase, after completion of first phase, the tariffs shall be reduced to 0-5 % by India and Pakistan in 5 years, Sir Lanka in 6 years and LDCs in 8 years.
c. India, Pakistan and Sri Lanka shall reduce their tariffs to 0-5% for the LDCs in 3 years after coming into force of this agreement.

Trade Restrictive Measures:

a. Para-tariff and non-tariff measures to trade are to be identified by the member states, negotiated at the level of committee of experts (COE), notified by the SAARC Secretariat and eliminated accordingly.
b. Each member state shall maintain two sensitive lists, one for the developing countries and other for the LDCs. The lists shall be negotiated and finalized by the committee of experts by way of consultation.

Transit Trade:

The SAARC member states shall provide transit trade facility for movement of goods within the SAARC region.

Special & differential treatment for the LDCs:

a. Special and Differential treatment to the LDCs, where possible and practical, has been agreed in principle. These mainly include longer phase out period for tariff reduction, early market access, larger sensitive list and de minimus for application of safeguard measures.
b. A provision of Revenue Loss Compensation mechanism for the LDCs has also been adopted with a view to compensate the loss of revenue, if accrued by the LDCs as a result of tariff reduction

Additional Trade Measures:

The Agreement also provides following additional trade measures:

a. Harmonization of standards, reciprocal recognition of tests and accredit ion of testing laboratories;

b. Harmonization of national customs classification based on HS coding system; and simplification and harmonization of customs clearance procedures;
c. Simplification of banking procedures for import financing;
d. Removal of barriers to intra-SAARC investments;
e. Rules for fair competition and promotion of venture capital'
f. Development of communication systems and transport infrastructure;
g. Simplification of procedure for business visas.

Dispute Settlement Mechanism:

a. Member states are encouraged to settle the disputes through mutual negotiations, failing which the agreement provides for a mechanism of dispute settlement.
b. The Committee of Experts shall act as "Dispute Settlement Body" and the "SAFTA Ministerial Council" as the appellate body.

National Treatment:

Each member state shall accord national treatment to the products of other member states in accordance with the provisions of article III of GATT 1994.

Institutional Arrangements:

a. The SMC (SAFTA Ministerial Council, comprising the Ministers of Commerce / Trade of the member states shall be the highest decision-making body for the purpose of this agreement.
b. The COE (Committee of Experts), comprising senior economic / trade officials shall assist the SCM in implementation of the Agreement.

WTO Compatibility:

All substantial provisions in the Agreement, inter-alia, National Treatment to the products of all the member states, anti-dumping / countervailing duty and safeguard measures have been made compatible to the WTO principles.

Concessions under SAPTA:

Upon entry into force, the SAFTA shall supercede SAPTA (South Asian Preferential Trading Arrangement), but the concessions available to the member states under SAPTA would continue to remain applicable till the "Trade Liberalization Program" is fully implemented.

PAKSTAN'S TRADE WITH SAARC COUNTRIES

COUNTRIES	BANGLADESH			BHUTAN			INDIA			MALDIVES			NEPAL			SRI LANKA			SAARC			PAK TOTAL EXP/IMP			SAARC
Years	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	
1994-95	169.5	31.2	200.7	1.1	2.4	3.5	41.6	63.9	105.5	1.0	0.1	1.1	3.1	0.4	3.5	60.6	49.5	110.1	276.1	147.6	423.7	8137.2	10394.4	18531.6	2.3
1995-96	116.9	35.5	152.3	0.7	0.2	0.9	40.6	94.2	134.8	2.6	0.2	2.8	4.2	0.4	4.6	65.7	45.4	111.1	230.3	176.0	406.2	8707.3	11804.5	20511.8	2.0
% growth over last year	-31.1	13.6	-24.1	-36.4	-91.7	-74.3	-2.4	47.4	27.8	160.0	100.0	154.5	35.5	0.0	31.4	8.4	-8.4	0.9	-16.6	19.2	-4.1	7.0	13.6	10.7	
1996-97	87.3	38.4	125.7	0.7	0.3	1.0	36.1	204.2	240.3	1.9	1.0	2.9	4.5	0.4	4.9	82.4	41.7	124.1	212.9	285.9	498.8	8322.2	11895.7	20217.8	2.5
% growth over last year	-25.3	-17.5	0.0	11.1	-11.1	116.8	78.3	-26.9	400.0	3.6	7.1	0.0	6.5	25.4	-8.1	11.7	-7.5	62.5	22.8	-4.4	0.8	-1.4	0.8	-1.4	
1997-98	98.4	38.3	136.8	0.0	0.1	0.1	90.5	154.8	245.3	1.8	0.2	2.0	5.7	0.8	6.5	101.4	38.0	139.4	297.8	232.2	530.0	2628.0	10118.0	218746	2.8
% growth over last year	12.7	-0.2	8.8	-98.6	-66.7	-89.0	150.7	-42.2	2.1	-5.3	-80.0	-31.0	26.7	100.0	32.7	23.1	-8.9	12.3	39.9	-18.8	6.3	3.7	-14.9	-7.3	
1998-99	119.6	32.2	151.8	0.3	0.2	0.5	173.7	145.8	319.5	1.3	0.1	1.4	5.0	1.4	6.4	91.8	32.2	124.0	391.6	212.0	603.7	7779.3	9431.7	17210.9	3.5
% growth over last year	21.5	15.9	11.0	2900.0	100.0	354.5	91.9	-5.8	30.2	-27.8	-50.0	-30.0	-12.3	75.0	-1.5	-9.5	-15.3	-11.0	31.5	-8.7	13.9	-9.8	-6.8	-8.2	

Source: FBS
Compiled by Assistant Chief (FT Wing) Ministry of Commerce.

Value in US$ Million

PAKSTANS TRADE WITH SAARC COUNTRIES

COUNTRIES	BANGLADESH			BHUTAN			INDIA			MALDIVES			NEPAL			SRI LANKA			SAARC			PAK TOTAL EXP/IMP			SAARC
Years	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	Exp	Imp	Total	
1999-2000	120.4	29.5	149.9	0.2	0.6	0.8	53.6	127.4	181.0	1.2	0.2	1.4	2.1	2.4	4.5	96.6	34.6	131.2	27.4.2	194.6	468.7	872.6	10330.1	19056.8	2.5
% growth over last year	0.7	-8.5	-1.2	-33.3	200.0	60.0	-69.1	-12.6	-43.3	-5.8	52.0	-1.7	-58.0	71.4	-29.7	5.2	7.5	5.8	-30.0	-8.2	-22.4	12.2	9.5	10.7	
2000-01	133.4	33.2	166.6	0.3	0.3	0.6	55.4	235.1	290.5	1.8	0.2	2.0	2.3	1.0	3.3	75.3	35.4	110.7	268.4	3.5.1	573.5	9207.0	10708.8	19915.8	2.9
% growth over last year	10.8	12.6	11.1	50.0	-50.0	-25.0	3.4	84.5	60.5	47.1	31.6	45.3	9.5	-58.3	-26.7	-22.0	2.3	-15.6	-2.1	56.8	22.3	5.5	3.7	4.5	
2000-02	101.1	27.7	128.8	0.3	0.4	0.7	49.2	186.5	235.7	1.5	0.2	1.7	2.4	0.8	3.2	72.1	28.5	100.6	226.7	243.3	469.9	9134.6	10339.5	1947.1	2.4
% growth over last year	-24.2	- 16.6	-22.7	0.0	33.3	16.7	-11.2	-20.7	-18.9	-16.7	0.0	-15.0	4.3	-20.0	-3.0	-4.2	-19.5	-9.1	-15.6	-20.3	-18.1	-0.8	-3.5	-2.2	
2002-03	114.4	32.7	147.0	0.1	0.7	0.8	70.7	166.5	237.2	3.3	0.1	3.4	3.1	1.4	4.4	76.1	38.3	114.4	267.6	239.6	507.2	11160.2	12220.3	23380.5	2.2
% growth over last year	13.1	17.9	14.1	-64.3	77.8	16.9	43.6	-10.7	0.6	120.3	-64.0	98.6	28.2	70.5	38.8	5.5	34.2	13.7	18.1	-1.5	7.9	22.2	18.2	20.1	
2003-04 Jul-Nov	76.2	19.8	96.0	0.1	0.1	0.2	39.4	115.2	154.6	0.8	0.1	1.0	1.5	0.9	2.4	33.5	18.1	51.6	144.6	154.2	298.8	4835.9	5280.5	10116.4	3.0
% growth over last year	103.8	69.0	95.5	-	-82.7	-84.6	60.5	72.6	69.3	-45.7	-	-36.5	81.2	118.8	93.3	51.7	26.7	41.9	55.9	64.9	60.4	39.0	39.2	39.1	

Source:FBS
Compiled by Assistant Chief (FT Wing) Ministry of Commerce.

Value in US$Million

PAKISTAN'S TRADE WITH INDIA

(Value in Million U.S.$)

Sr. No.	Major Export Items	2002-03 Exports	Major Import Items	2002-03 Imports
1	Fruits & Vegetables	21.343	Chemical elements & Compounds	59.529
2	Crude vegetable materials	3.864	Tyres & Tubes of rubber	18.439
3	Cotton fabrics (woven)	3.701	Ores & concentrates of iron & steel	18.267
4	Cotton yarn	1.431	Chemical materials & products	16.444
5	Wool	1.282	Dyeing, tanning & colouring materials	10.556
6	Made up articles of textile materials.	1.083	Crude vegetable materials	6.190
7	All crude minerals	0.644	Tea & mate	4.763
8	Articles of plastics	0.619	Machinery & parts	4.059
9	Synthetic fabrics, silk woollen & flax	0.439	Manufactures of non ferrous metals	3.070
10	Apparel & clothing of textile	0.222	Coal, cake & briquettes	2.645
11	Medical/surgical instruments	0.222	Spices	2.372
12	Pearls & other precious stones	0.175	Ores & content of non ferrous metals	2.068
13	Oil seeds & oleaginous fruits	0.054	Feeding stuff for animals	1.068
14	Rice	0.046	Medicinal & pharmaceutical products	0.313
15	Leather	0.019	Yarn & thread of synthetic fibres	0.083
16	Other	35.520	Others	16.643
	Total	70.664	Total	166.509
	% share in Pak. Global Exports	0.6	% share in Pak. Global Exports	1.4

Source: FBS
Compiled by: Assistant Chief (FT Wing) Ministry)

Source : FBS
Compiled by: Assistant Chief (FT Wing) Ministry of Commerce.

ITEMS EXPECTED TO BE TRADED BETWEEN INDIA AND PAKISTAN IN NEAR FUTURE

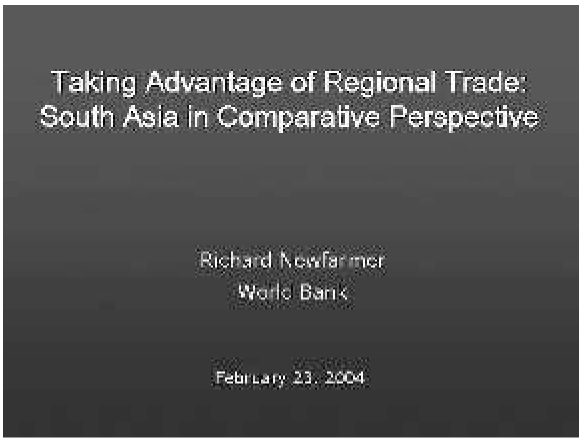
IMPORTS*	EXPORTS
TEA	FERTILIZERS
COFFEE	GLASS & GLASS WARE INCL. BANGLES
OIL MEALS	SANITARY WARE
PAPER & PAPER BOARD	PHARMACEUTICALS
PESTICIDES	AUTO PARTS
PHARMACEUTICAL	SPORTS GOODS
TYRES & TUBES	SURGICAL GOODS
BICYCLES	CARPETS
AUTO PARTS	HOME TEXTILE
IRON ORE	ELECTRIC FAN
BASIC CHEMICALS & COSMETICS	SALT
RUBBER & GLASS PRODUCTS	HANDICRAFTS
IRON & STEEL PRODUCTS	FURNITURE
ELECTRONICS	SYRUP & SQUASHES
JUTE MANUFACTURES	HEAVY MACHINERY (SUGAR, CEMENT PLANTS)
HANDICRAFTS	TRANSFORMERS
TEXTILE MACHINERY	CARBON BLACK
SPICES	CARBON BLACK
SPICES	COOKING OIL & VEGETABLE GHEE
BETEL LEAVES & NUTS	
BOOKS, MAGAZINES, NEWSPAPERS	

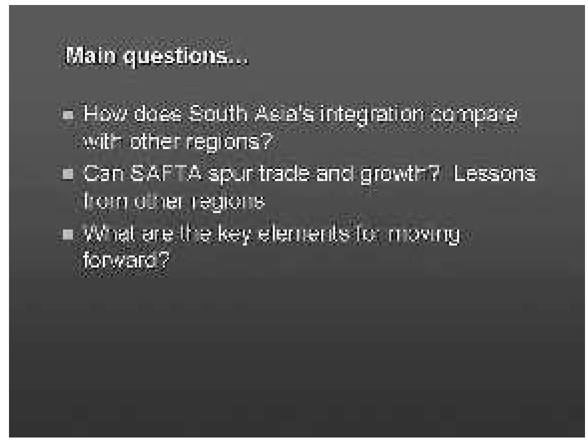
*Subject to the decision regarding importability from India.

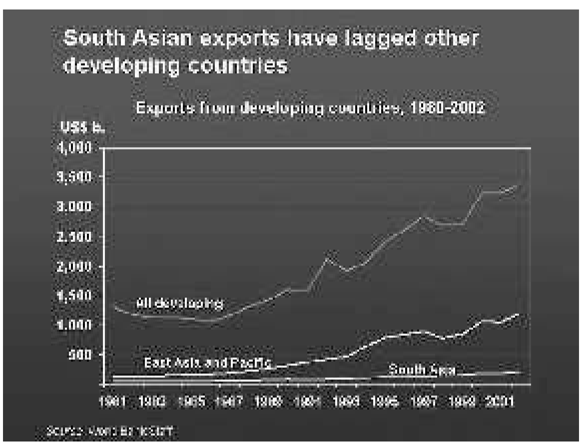
APPENDIX E

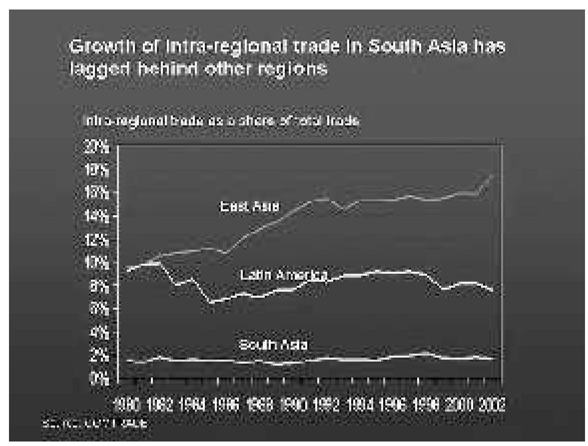
Presentation by Mr. Richard Newfarmer

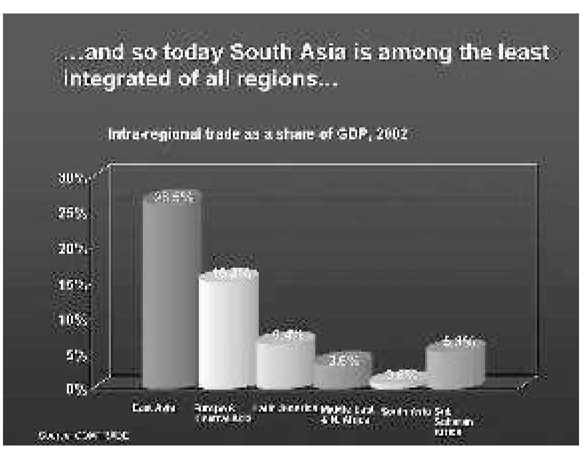
Economic Advisor, International Trade Department
The World Bank

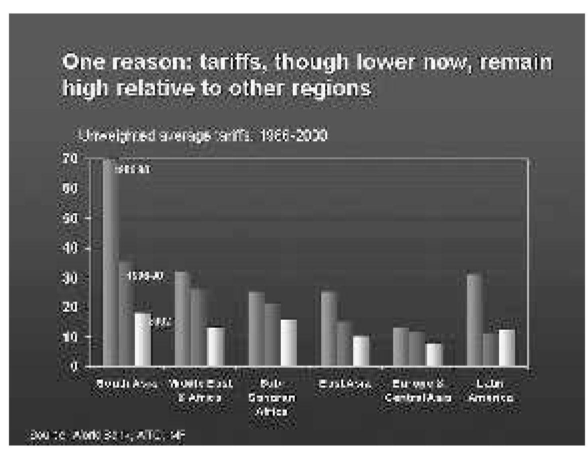

Taking Advantage of Regional Trade:
South Asia in Comparative Perspective
Richard Newfarmer
World Bank
February 23, 2004

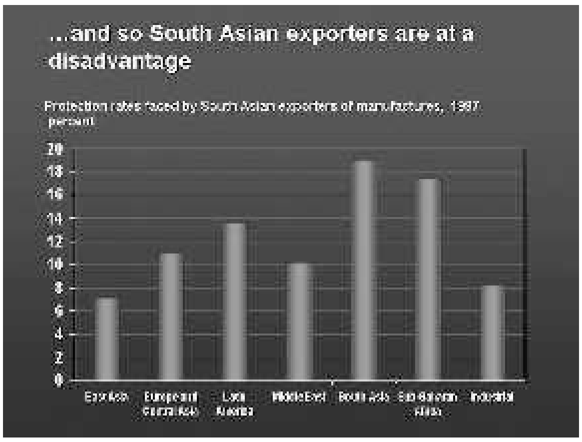

Main questions...
How does South Asia's integration compare with other regions?
Can SAFTA spur trade and growth? Lessons from other regions
What are the key elements for moving forward?

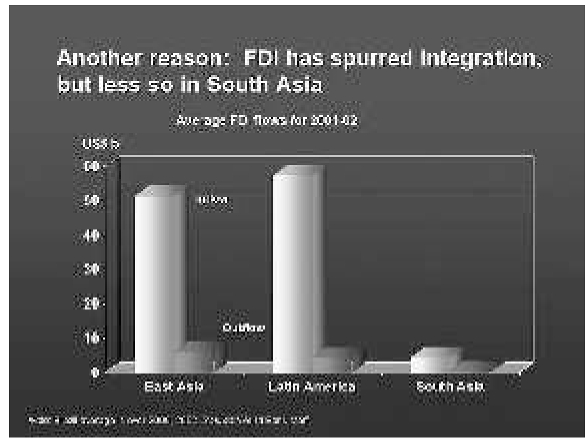

South Asian exports have lagged other developing countries
Exports from developing countries, 1980-2002
US$ B.
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
All developing
East Asia and Pacific
South Asia

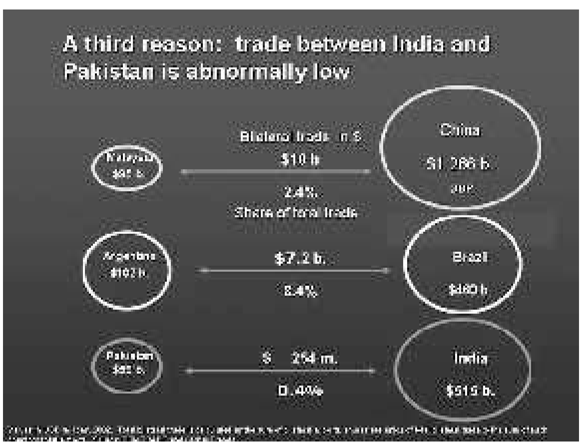

Growth of intra-regional trade in South Asia has lagged behind other regions
East Asia
Latin America
South Asia
1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002

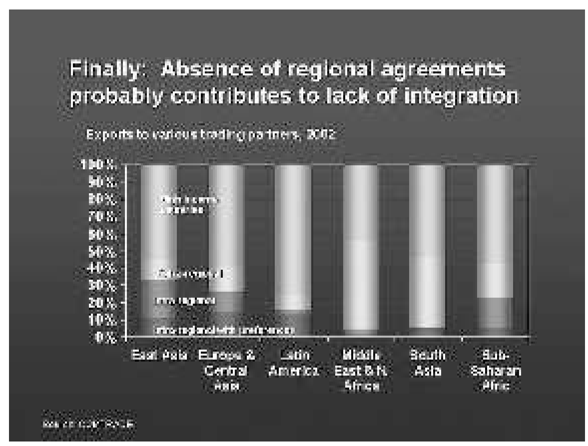

...and so today South Asia is among the least integrated of all regions...
Intra-regional trade as a share of GDP, 2002
30%
25%
20%
15%
10%
5%
0%

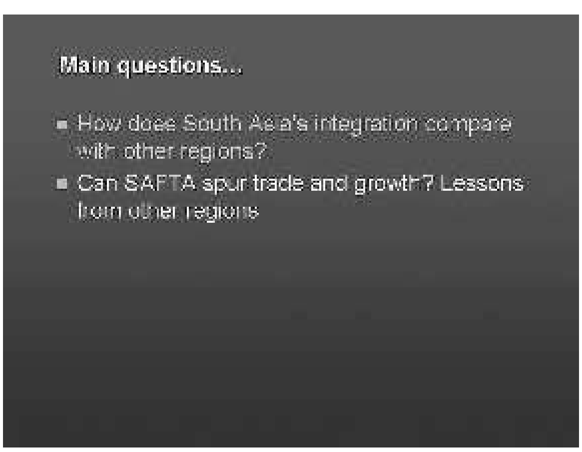

One reason: tariffs, though lower now, remain high relative to other regions
Unweighted average tariffs 1986-2000
70
60
50
40
30
20
10
0
South Asia
Middle East & Africa
East Asia
Europe & Central Asia
Latin America


...and so South Asian exporters are at a disadvantage
percent
20
18
16
14
12
10
8
6
4
2
0
Industrial

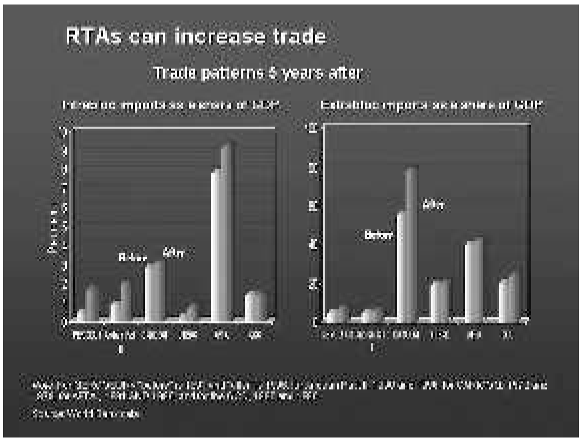

Another reason: FDI has spurred integration, but less so in South Asia
Outflow
50
40
30
20
10
0
East Asia
Latin America
South Asia

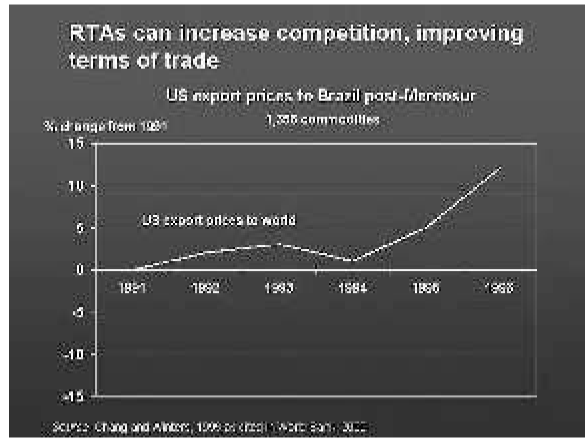

A third reason: trade between India and Pakistan is abnormally low
China
$10 b.
2.4%
Share of total trade
$7.2 b.
Brazil
8.4%
India
$515 b.
0.4%

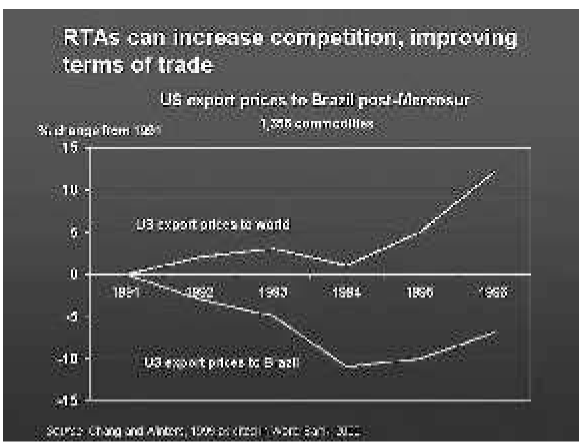

Finally: Absence of regional agreements probably contributes to lack of integration
Exports to various trading partners, 2002
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
East Asia
Europe & Central Asia
Latin America
Middle East & N. Africa
South Asia
Sub-Saharan Afric

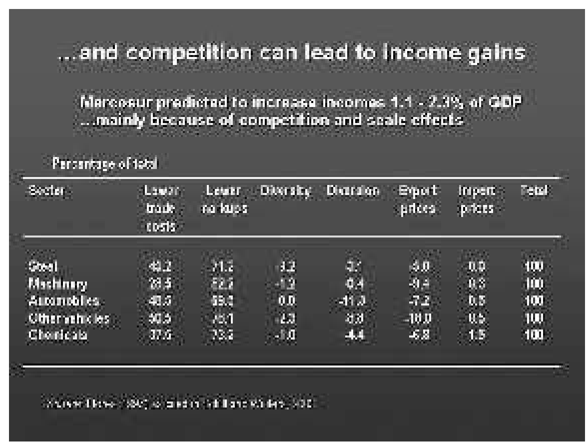

Main questions...
How does South Asia's integration compare with other regions?
Can SAFTA spur trade and growth? Lessons from other regions

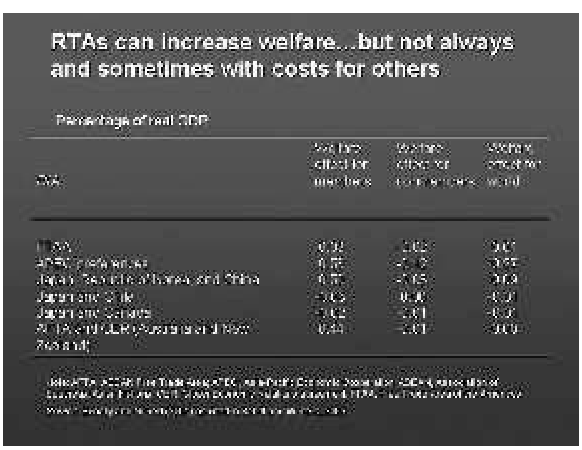

SAFTA, like other recent RTAs, seeks "deeper integration" ...
"shallow" to "deep" integration → complex outcomes
Political objectives
Reductions in border barriers
Trade facilitation and harmonization of standards and regulations
Investment provisions
Movement of labor
Trade creation or diversion?
Terms of trade
Increased competition
Technology transfer
Productivity effects

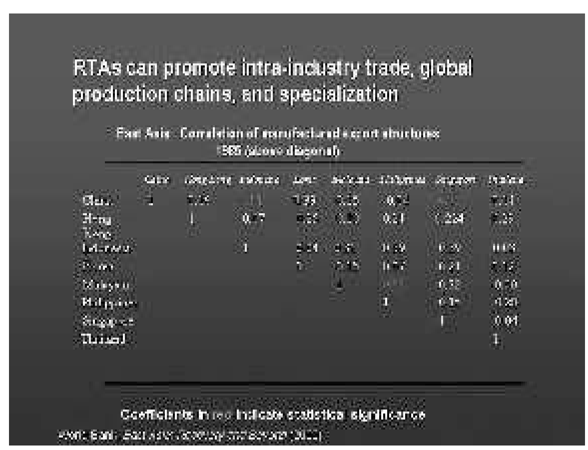

RTAs can increase trade
Trade patterns 5 years after
Before
After

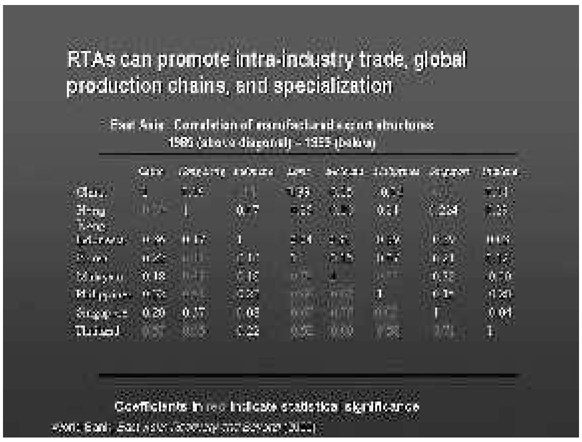

RTAs can increase competition, improving terms of trade
US export prices to Brazil post-Mercosur
1,355 commodities
% change from 1991
15
10
5
0
-5
-10
-15
1991
1992
1993
1994
1995
1996
US export prices to world


RTAs can increase competition, improving terms of trade
US export prices to Brazil post-Mercosur
1,355 commodities
% change from 1991
15
10
5
0
-5
-10
-15
1991
1992
1993
1994
1995
1996
US export prices to world
US export prices to Brazil


...and competition can lead to income gains
Mercosur predicted to increase incomes 1.1 - 2.3% of GDP
...mainly because of competition and scale effects
Percentage of total
Sector
Lower trade costs
Lower markups
Diversity
Diversion
Export prices
Import prices
Total
Steel
Machinery
Automobiles
Other vehicles
Chemicals


RTAs can increase welfare...but not always and sometimes with costs for others
Percentage of real GDP


RTAs can promote intra-industry trade, global production chains, and specialization
East Asia: Correlation of manufactured export structures
Coefficients in red indicate statistical significance


RTAs can promote intra-industry trade, global production chains, and specialization
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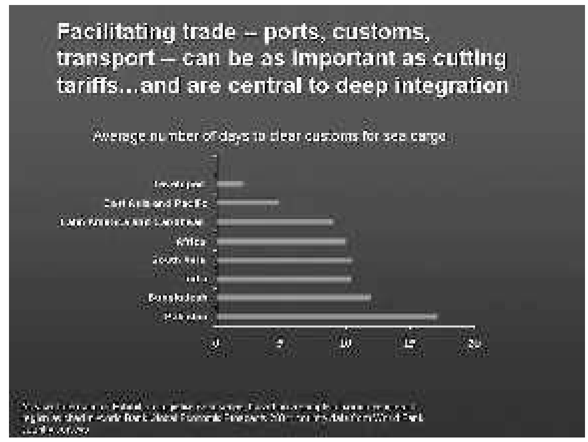
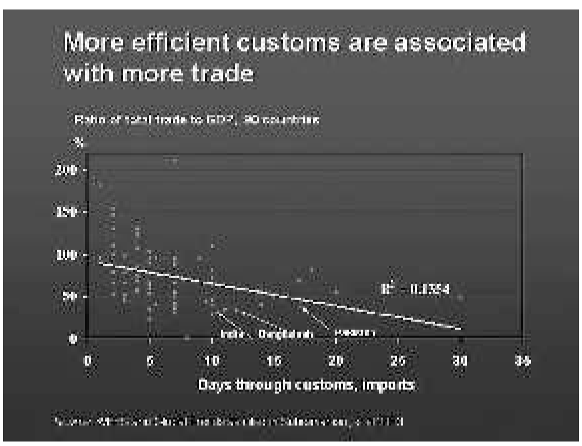
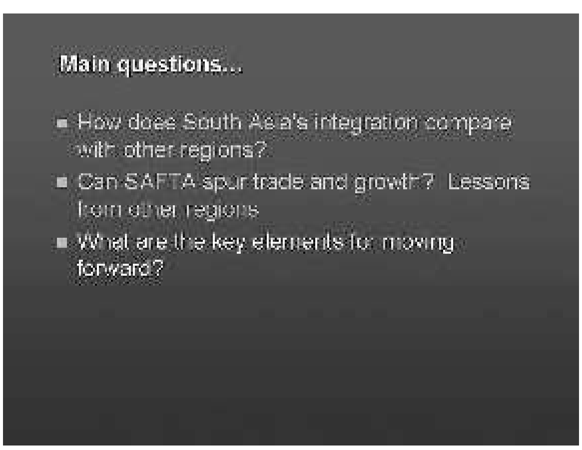

Facilitating trade – ports, customs, transport – can be as important as cutting tariffs...and are central to deep integration
Average number of days to clear customs for sea cargo
East Asia and Pacific
Africa
South Asia
Bangladesh
0
5
10
15
20

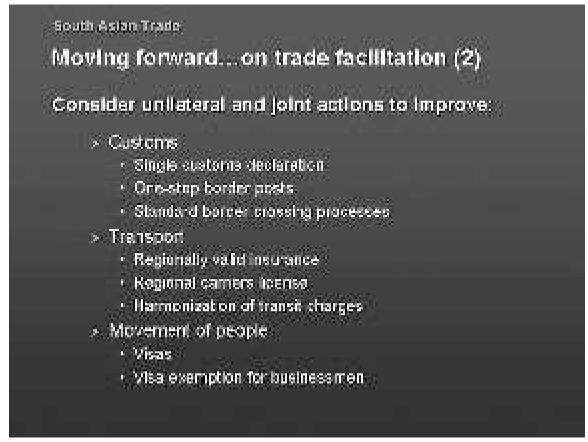

More efficient customs are associated with more trade
Ratio of total trade to GDP, 80 countries
%
200
150
100
50
0
0
5
10
15
20
25
30
35
India
Bangladesh
Days through customs, imports

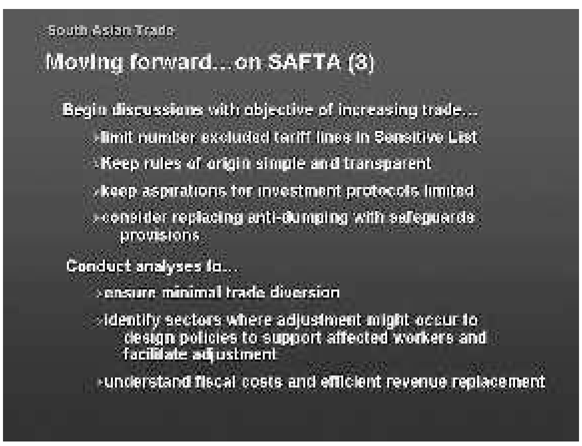

7 Lessons for SAFTA: Results are not automatic. Integration is most likely to be successful when...
1. members are also liberalizing unilaterally on MFN basis and when they keep pace with liberalization in the world
2. members have low MFN external barriers, so trade creation usually dominates diversion
3. RTAs involve North South partners
4. RTAs do not raise barriers
5. resulting trade lowers domestic prices, widens competition, involves technological transfer
6. agreements permit new competition in services
7. partners streamline border transactions through trade facilitation


Main questions...
How does South Asia's integration compare with other regions?
Can SAFTA spur trade and growth? Lessons from other regions
What are the key elements for moving forward?

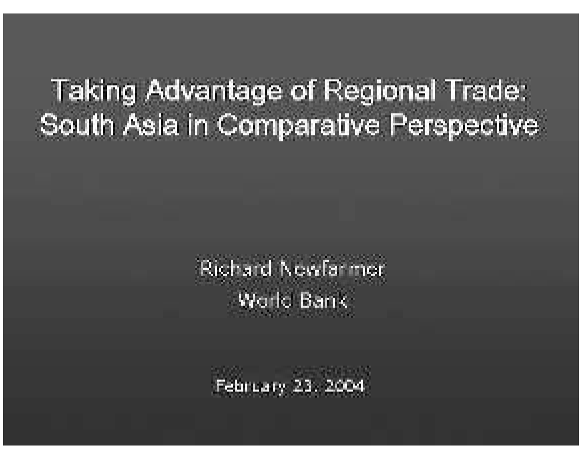

Conclusion for Trade Policy
Moving forward... a 3 + 3 Strategy
Three policy domains of trade
Unilaterally
bring down tariff peaks
replace non-tariff restrictions with ad valorem duties and rationalize excise taxes
phased reforms of border barriers
create competition in services
Multilaterally... formulate positive proposals for Doha Agenda in G-20 and NAMA... big pay-off
South Asia Trade... 3 track policy to seize the moment
Early MFN liberalization with India
Trade facilitation
SAFTA


South Asian Trade: A 3 Track Program
Moving forward…on MFN liberalization (1)
Negotiate early end to restrictions on India-Pakistan bilateral trade (see Nabi, 2003)
trade would rise, smuggling would fall, and direct shipment would reduce costs
economies could begin to adjust to new sources of supply
Permit cross-border investment w/o discrimination as to origin
End discriminatory impediment to visas
…These steps would reinforce political momentum and spur SAFTA


South Asian Trade
Moving forward…on trade facilitation (2)
Consider unilateral and joint actions to improve:
Customs
Single customs declaration
One-stop border posts
Standard border crossing processes
Transport
Regionally valid insurance
Regional carriers license
Harmonization of transit charges
Movement of people
Visas
Visa exemption for businessmen


South Asian Trade
Moving forward…on SAFTA (3)
Begin discussions with objective of increasing trade…
limit number excluded tariff lines in Sensitive List
Keep rules of origin simple and transparent
keep aspirations for investment protocols limited
consider replacing anti-dumping with safeguards provisions
Conduct analyses to…
ensure minimal trade diversion
identify sectors where adjustment might occur to design policies to support affected workers and facilitate adjustment
understand fiscal costs and efficient revenue replacement


Conclusion for Trade Policy
SAFTA can promote trade…if
Members continue to open their economies on an MFN basis → embedding regional policies in unilateral and multilateral trade strategy
SAFTA is used to increase competition and lower domestic prices
Members resist the temptation to exempt large numbers of sectors through Sensitive List and add restrictions through rules of origin
Services are included – particularly MFN access
Members work together on facilitating trade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February 23, 2004

APPENDIX F

Paper by
Mr. Amjad Rafi

Executive Committee Member,
SAARC Chamber of Commerce and Industry,
Former President KCCI

Impact of SAFTA on Pakistan's Economy
by
Mr. Amjad Rafi

It is a hard reality that regional integration has become an economic imperative for developing countries in view of emerging trend of trade blocs capturing substantial intra regional trade. It is also a fact that despite almost two decades of its signing, SAARC failed to even search the surface. It was agreed to transform the region into SAFTA by the year 2000 or 2005 at the latest. But the twice-extended agreed deadline for finalization of Draft Treaty Framework was also missed.

Today, the share of SAARC in world trade is hardly I percent, while the share of intra SAARC trade is only 4-5 percent of its global trade. This speaks volumes on vast scope for trade expansion and co-operation. SAARC's performance so far, in comparison with other regional blocs (e.g. 51.7% in NAFTA, 55% in EU and 26% in ASEAN) has been dismal. While SAARC limps along, organizations like the European Union and ASEAN, have galloped ahead.

The SAPTA agreement signed in 1993, contemplated exchanges of concessions on tariffs, para-tariffs and non-tariff measures in phases. However, despite a decade of existence of SAPTA, during which four rounds of negotiations had taken place, there was insignificant progress in intra-SAARC trade, which rose form 3 percent to only 4-5 percent. Admittedly, SAARC has not been able to make much of a headway due, inter alia, to worsening bilateral relations between member countries.

Against this backdrop, SAFTA agreement is indeed a landmark decision taken during to SAARC Summit at Islamabad. SAFTA shall come into operation w.e. 1st January 2006. SAFTA shall involve the free movement of goods, the elimination of tariffs, Para tariffs and non-tariff restrictions on the movement of goods. In brief, developed countries of SAARC- Pakistan, India and Sri Lanka and LDCs Maldives, Bangladesh, Nepal and Bhutan would bring down their tariff to 20 percent and 30 percent respectively in the first phase by January 2008. In the second phase, they would further lower down their tariff to 0.5 percent by 2013 and 2015 respectively. SAFTA Ministerial Co uncial (SMC) established as highest decision making body to administer and implement the agreement shall meet at least once every year. SMC will be supported by Committee of Experts (COE) to monitor, review and facilitate implementation and shall submit report to SMC every six months. COE shall act as Dispute Settlement Body as will.

If we look at current direction of trade of Pakistan only limited volume of trade is directed at SAARC region. The only country that figures amongst Pakistan's top 20 buyers is Bangladesh, which accounted for mere 1.05% of Pakistan exports during the years 2001-03, while Sri Lanka and India bought 0.73% and 0.58% respectively. Again, only India figures in the list with 1.56% of our imports during 2001-03. Please refer to Annex 1 for trade statistics. This may, in part, be due to similarity in product profile, and existence of non-tariff barriers. But interestingly, most concessions offered by Pakistan, for instance, are not admissible to the positive list of items that India is allowed to export to Pakistan and similarly the potential exportable of Pakistan have not been included in the confessional tariff lines of India.

It may be pertinent to mention here that due to non-tariff barriers clamped by India and Pakistan, business circles estimate that US$ 1.5 billion worth trade is being conducted through informal channels. Trade is taking place through third countries e.g. Dubai, Singapore as well. Currently, Indian medicines, tyres and tubes, spices, octal leaves, toiletries, machinery parts, etc. are finding their way into Pakistan markets through informal trading. It can thus be safely stated that with the elimination of non tariff barriers and reduction in custom tariff there will be immediate manifold increase in legal trade with enhanced customs revenue for the Government.

Apprehensions have been expressed in some circles that trade prospects under SAFTA are limited due to similarities in the structure of production in SAARC countries. This is a rather myopic approach, as Customs Union Theory simply demonstrates that in cases where the economies are competitive, individual members, by specializing in the products/ product categories, in which they can produce at comparatively lower cost can enhance the total welfare of the region by trade creation. In case where economies are complementary. The productive activity can be accelerated through subcontracting and induction of technology made feasible by extension of the market.

NEGATIVE SENTIMENTS ABOUT IMPORTS

The negative sentiment on SAFTA especially on freer trade with India is driven by fears of India's strong industrial base and is cutting edge in industries like capital goods and engineering. India has definite advantage in engineering industry, due to availability of raw materials like pig iron steel billets etc., at substantially lower cost. However, the silver lining is that under SAFTA, our engineering units can acquire steel from India at cheaper rates and also enable Pakistan Steel to produce steel at lower cost by importing its basic raw material i.e. iron ore at cheaper price from India rather than Australia, for instance. Besides, shipping distance being made shorter. The raw material import from India will result in the reduction of high inventory carrying cost of engineering industry.

Besides, there is no hi-tech textile machinery industry in Pakistan. Almost all the requirements for BMR expansion are met through import. Some of the textile machinery we import form Switzerland and Germany is made under licence in India at much lower cost. The putting of machinery, especially hi-tech textiles machinery industry in Pakistan, for which it will be advisable to enter into joint ventures with leading machinery manufacturers possibility under by back arrangements.

The current production capacity of the chemical industry in Pakistan can meet only 10% of its requirements. Import of chemicals has grown consistently and reached the level of US$ 2.2 billion during the year 2002-03 Pakistan can greatly benefit from import of dyestuffs and chemicals, plastics raw material form India at lower prices. Import of cheaper chemicals and dyes can particularly help to enhance competitiveness of our leading export sectors viz. textile and leather.

Having said that. There are definitely certain industrial sectors which will be adversely affected such as auto parts, pharmaceuticals, etc.. but under Article 6(3) there is provision of Sensitive Lists; which should be negotiated. The items included in the Sensitive list shall be subjected to maximum ceiling to be agreed among the contracting states. The products where preferential imports could case serious injury to domestic industry may fall in this list.

Besides, legal framework is available in shape of anti-dumping, countervailing and safeguard measures under WTO regime, which would be applied under SAFTA for protecting the local industry.

EXPORT POTENTIAL

Pakistan is well positioned to exploit big export market of SAARC region. Pakistan can export with advantage to vast SAFTA market, products such as cotton yarn, textile fabrics, leather products, surgical instruments, vegetables and fruits and other agricultural products to meet regional shortfalls.

The textile sector, which contributes 67 percent to our exports is expected to do well under SAFTA, withstand competition from India and make inroads in the regional markets. In the last four years, textile sector has invested $ 3 billion to bring their production at par with world quality. It is heartening to note that three more value added items namely bed wear, knitwear and readymade garments have joined the fabrics in the elite club of billion dollar in export of textile goods during 2002-03. our bed wear products have outclassed the Indian all over the world. Similar situation prevails in knitwear and certain cotton fabrics. Indians have an edge in georgette and some other silk products, but as far as cotton textiles are concerned, Pakistan is much more developed. But in the case of blended textile products, made from a combination of manmade and natural fabrics, which are preferred in clothing the world over, India has an advantage. Presently, Pakistan's blended clothing has ratio of 27.73 against international ratio of 52 per cent synthetic yarn in blended textiles, while in India and China the standard man made fiber content is 35 per cent in blended textiles.

Sri Lankan apparel manufacturers can source Pakistani fabrics. Pakistan is a top notch producer of denim and we can expect more orders from Sri Lankan garments manufacturers. Similarly, Bangladesh had a great potential to absorb Pakistan's fabrics and yarn, which they prefer due to prices. It may be noted that Bangladesh has increased its spinning capacity, but still 30% of its requirements can be met by Pakistan. At times due to problems of direct shipment, they purchase Indian goods from the warehouses set up by Indians in Kolkatta.

CROSS BORDER INVESTMENT & JOINT VENTURES

SAFTA accord does not explicitly envisage any measures for cross border investment, nor links the free trade measures with movement of people and items. But casing of visa regime especially with India, will open up opportunities for cross-border investment, joint ventures and for technology transfer and up gradation. All the countries in SAARC region attach great importance to inflow of FDI, but due to lack of political and economic stability and consequent negative perception of the region, it could not attract investment commensurate with its potential. The SAFTA accord will help to create conducive environment for investing in each other's country and other countries and multinationals will follow suit.

SAFTA accord may not have provision for collaboration in the service sector, but movement of people, frequent exchange of delegations and interactions will lend impetus to cross border collaboration in this sector. There are, for instance, bright prospects for collaboration in information Technology with India. In 2003. Indian exports of Software, IT Services and BPO (business process outsourcing) were $ 12 billion. Pakistan has considerable competence in IT sector but software exports and merely $ 50 million, which can be boosted through collaboration.

Recently, a 14-member delegation of Pakistan Software Houses Association (PASHA) returned after week long visit to India, on a special invitation to attend the annual premier event of India's National Association of Software Services Companies and India have agreed to collaborate with each other to help in boosting outsourcing revenue from developed nations aptly called a "phenomenon of global wealth creation" by Diana Farrell of the McKinsey Global Institute, which will help grow the sector in the sub-continent. The potential areas of collaboration are Call Centres, business process outsourcing, joint ventures, training in R & D etc.

Pakistan offers great untapped potential for development of tourism in its Northern and Coastal areas. Other countries in the region like Sri Lanka, Nepal, Maldives and India have highly developed tourist industry. This is an area in which we can benefit from their expertise and seek collaboration for developing tourism industry in Pakistan. Tourism has been give the status of industry in Pakistan and has been offered fiscal and tariff incentives.

SAARC countries must come together and evolve common export strategy for agricultural commodities, which are the mainstay of their economies. They can cooperate and share agricultural technologies for quantum jump in agricultural yield, production as well as agro-based processing.

CERTAIN LIMITING FACTORS

However, the availability of transport facilities poses a serious problem for intra-regional movement of goods. Shipment to India and Bangladesh can be made via Dubai. Only Sri Lanka is accessible directly through shipping lines. Nepal and Bhutan are landlocked. Presently, limited number of trains are available for transportation of goods to India. At some point of time, heavy duty trucks, which are quickest and most convenient mode of transport, have to be allowed for transportation of goods. Trucks can go as far as Bangladesh. Besides, we can look into feasibility of developing Port Qasim as SAARC's last port of call.

I may also mention here that World Bank Country Update 2003 has described the cost of doing business in Pakistan as relatively high. The private sector has been clamouring against multiplicity of taxes and agencies. There is harassment perpetuated through business Inspectors. Utility tariffs (power, gas, telecommunication, water etc) are high. Rate of electricity tariff is highest in the region. T & D losses of KESC are about 41% and WAPDA 26% which should be drastically reduced instead of raising power tariff. Our physical infrastructure is inadequate, which is most important impediment to industrial growth. This underscores need for improving infrastructures and bringing down cost of doing business to be competitive in the region and world at large and to fully benefit from SAFTA accord.

ANNEXURE 1
PAKISTAN'S TRADE WITH SAARC COUNTRIES

(Value: Million US$)

	2001-02				2002-03			
COUNTRIES	EXPORTS	%AGE	IMPORTS	%AGE	EXPORTS	%AGE	IMPORTS	%AGE
BANGLADESH	101.139	1.10	27.525	0.26	114.356	1.02	32.638	0.26
INDIA	49.227	0.53	186.891	1.80	70.664	0.63	166.571	1.36
SRILANKA	72.113	0.78	28.524	0.27	76.100	0.68	38.243	0.31
NEPAL	2.382	0.02	0.832	0.008	3.077	0.02	1.363	0.01
BHUTAN	0.320	0.003	0.388	0.003	0.107	0.00	0.716	0.005
MALDIVES	1.499	0.01	0.158	0.001	3.307	0.02	0.072	0.00
TOTAL	226.680	2.48	244.318	2.16	267.611	2.39	239.603	1.96

APPENDIX G

Paper by
Mr. M. Ziauddin

Resident Editor, The Dawn

Political impact of SAFTA and its implications for Regionalism
M. Ziauddin

Mr. Chairman, my co-panelists, ladies and gentlemen.

Let me first thank the hosts, Pakistan Institute of Legislative Development And Transparency, PILDAT for inviting me to this high quality discussion on a very important subject.

I will begin with a short throw back on the SAARC process.

Even after the passage of almost 20 years since the South Asian Association for Regional Cooperation (SAARC) was launched, cooperation of any kind, political, economic or social among the regional countries has remained only a fond hope.

For obvious reasons the founding fathers had kept political cooperation a low priority for the regional organisation when they established it. They had in mind perhaps a gradual integration on the economic and social fronts to be followed in due course of time by political cooperation.

But politics remained a high priority in the relationship for the member countries all through these 20 years rendering it almost impossible for the organization to make any significant progress on the economic and social fronts.

Indeed, it took the SAARC countries almost right years to sign the South Asia Preferential Trade Agreement (SAPTA) and another two years to implement the agreement. And the teeming millions of the region had to wait for another ten years to see the emergence of South Asia Free Trade Agreement (SAFTA) in January 2004. The agreement will be implemented from January 2006.

Of the seven SAARC countries, two--Pakistan and Bangladesh were one, politically, socially and economically, until 1971. And until 1947, India Pakistan and Bangladesh were an integral part of British India. Even Nepal and Bhutan were loosely aligned to New Delhi during most of the 200 year long British colonial rule.

Sri Lanka and Maldives were physically removed by the waters of the Indian ocean from the sub-continental land mass, still they were located too close to this land mass to be dealt separately from London on vital matters.

Political Impact of SAFTA: When the British colonialists left the subcontinent in 1947, all these seven countries became sovereign states. And in order to be recognized as separate, independent entities and set themselves apart from their neighbors, it was but natural for these newly decolonised countries to highlight the real and imaginary differences in their political, economic and social beings. They were all in search of their separate identities and their own brands of nationalism, which would in the eyes of the world, make them look different from their immediate neighbors. And in doing so, they not only swept under the carpet their plentiful commonalties, but also invented new points of conflicts.

Between India and Pakistan, there had already existed very serious differences from the very first day. The bloodbath that proceeded the partition was too much of a harrowing experience for the two people to see each in any other light than red for a long time to come. Kashmir followed immediately to concretize the hostilities.

Nepal, Bhutan and Sri Lanka on the other hand were trying hard to protect themselves from what they perceived as the hegemonic tendencies of an India that had started throwing its weight around very soon after independence under the compulsion of what could only describe as the superiority complex of new bully on the block.

Later the bloodbath that followed the 1971 civil war in Pakistan alienated the majority from the minority with the former going its own independent way and then getting overly engaged in justifying its independence from Islamabad, which deepened the cleavage further between the two.

But then it was Bangladesh itself which actually took the initiative 14 years after achieving its independence, to bring the South Asian regional countries on one cooperative platform. This was like trying to put into reverse gear a car speeding in top gear down the hill. But the car has kept hurtling forward even as the driver changed gears to bring the car to the neutral before applying the reverse gear.

The last SAARC summit has raised some hopes that the member countries have at last started making efforts to grapple their respective political differences. And all the immediate political bundles in the way of a positive culmination of this summit were perhaps removed through back-channel diplomacy and with the help of a facilitator--USA.

And with the regional countries slowly and gradually regaining their respective political self confidence and both India and Pakistan responding in their own respective national interests, to the changing world realities, there is a possibility now that the region could move forward on the path to a regional free market in due course of time.

Once the process of political reconciliation starts among the SAARC countries and the barriers against a free flow of populations and goods across the region are broken down without of course obliterating the physical borders, it will not be long before the entire region is integrated into one socio-economic unit.

This optimism flows from the fact that unlike other regional unions which, had enjoyed no significant social, political and economic commonalties among themselves before they joined into single units, the South Asian regional countries had shared common political, social and economic system until 1974. and their present day political difference had emanated from mostly their post-independence rivalries rather than any inherent contradictions between their people.

British colonialists before they left had developed the region in such a way that by 1947 it had become almost a single market. They had linked the entire length and breadth of the region with roads, railroads and waterways. The entire region was practicing common legal educational, health and administrative etc. system. English was the common official language of the region. And Hindustani, a mixture of Urdu and Hindi had become over the years the most understood and spoken language of a region where more than a hundred languages are spoken. And while leaving, the colonialists had also bequeathed a parliamentary system of government to most of the newly independent countries of the region.

Therefore peace between India and Pakistan, the subsequent creation of a Free Trade Zone Area and economic integration of SAARC countries, along with development of transnational road and rail networks, could indeed enable South Asian region to build on its pass commonalties and turn sooner than later into one big economic zone and a regional market second only to China in size. And this, it further hoped, would give a further flip to the process of political reconciliation in the region.

All this will gradually change the political picture at least in Pakistan. The political forces in Pakistan which have thrived on hate India syndrome would disappear gradually giving way to a tolerant political environment which in turn would reduce militancy in the society with the military losing its pre-eminence in domestic polities and military take-overs would become unpopular and totally unjustifiable. In fact a vibrant SAARC would indirectly safeguard and protect the democratic process in the member countries.

Regionalism: Several restrictions on official trade compel the SAARC member countries to import certain goods from far off sources, which they can easily import form each other. Free regional trade would ensure cheaper raw materials and low transportation and insurance costs, which would translate into good quality goods at economical prices for the population of member countries.

Also, while the consumers would benefit form cheaper imports, manufacturers will have assess to wider markets in the neighborhood. Government in all the seven countries would earn significant revenues that are right now lost due to unofficial trade. The trade transit rights will enable the countries to exploit other geographically closer markets like the Central Asia and Southeast Asia.

At present, joint ventures among the SAARC countries are non-existent, and so is direct investment. While today the SAARC countries compete to sell their goods in the global markets, there are many areas of enterprise, in which these countries can complement each other's needs and hence produce cost-effective, quality goods. Potential sectors for joint ventures include agricultural products, tyres, auto spare parts, minerals, chemicals, pharmaceuticals, leather, textile and telecommunications.

The exchange of technology and skills among the neighbors will help enhance the quality of their goods at comparatively cheaper prices. Telecommunication networking among then will help closer interaction between the elite, as well as common people.

Also, joint projects to provide IT-related services for world markets would be an attractive proposition for global companies.

Free intra-country tourism will ensure people to people contact, which will help in reducing the prevailing real and imaginary hostilities amongst the population of the member countries. Also, joint tourism projects could provide a flip to the tourism industry in the member countries.

The member countries can establish joint ventures to harness and transmit the regions hydropower resources. Cooperation in water management and hydropower project can help in increasing irrigation benefits, decreasing risks of floods, and establishing a common electric grid system for intra-country transmission of electricity.

The regional countries which, require large volumes of natural gas imports to meet their future domestic needs, can tap the major gas deposits of Persian gulf and central Asia. Of the several options available for the import of natural gas through pipeline is the most cost-effective way. A single, joint natural gas pipeline extending overland from Pakistan to Burma and beyond would be economically more viable for the member countries than constructing their respective pipelines independently. At a conservative estimate, Pakistan alone can earn approximately $ 500 million per pipeline per year in transit rights, whereas importing gas through pipeline can serve as a cheaper option for other member countries including India than imports of LNG.

All this will promote regionalism and advance the idea of economic union and a common currency. However, one should not expect all this to happen in one or two decades. It will take time. While SAFTA will promote regionalism, it will nevertheless be not enough for the formation of an economic union. The essential pre-requisite for the establishment of such a union is the achievement of macro-economic stability at the domestic level in each of the member countries. And for achieving the dream of common currency we would first have to achieve purchasing parity for the currencies of members within the SAARC market. (Ends)

APPENDIX H

Paper by
Mr. Kunwar Khalid Yunus

Member National Assembly

SAFTA IMPACT ON PAKISTAN - A POLITICAL PERSPECTIVE

Mr Ahmed Bilal Mehboob Executive Director, Pakistan Institute of Legislative Development and Transparency.

Organizers of PLSC and PILDAT

Officials of World Bank

Member of Media community, including Ziauddin sahib

Mr. Amjad Rafi

Fellow Parliamentarians

Asa-salam-elakum

The day the agreement was being signed at Islamabad, business community of Pakistan were having a mixed thought. Let us divide them into two categories, the pessimists and the optimists.

The pessimists were fearing a wiping away of their local market, by an onslaught of a trade monopoly and its export dumping from a powerful economic engine---our neighbor India; if the status of *Most Favored Nation* is given to her.

Let me say over here that such fear is not only indicated by Pakistan. There are other smaller South Asian countries as well. They too are thinking in the same line and length.

Then there is also no shortage of our optimist business community which think of our entry in the vast market of about 1.2 billion people, is crucial. In this case also; we have a good number of South Asian business community which share this confident view. This community also feels that South Asia as a whole; is facing a great danger in marginalizing in the global economy.

However to my pessimist brothers and sisters, I wish to say that in the ruthless competition of global economies; we are already being marginalized. SAFTA is giving us a new hope; because it is in our back yard.

Here I wish to add that today, we have more worries from China in wiping out our local economy; be it our silk, textile, machinery, shoes even motor cycles, motors and fans; than we have with the Indians.

Dumping markets have already been allowed a vast room in Pakistan and I am surprised; why no ordinance or bill is enacted in the parliament, so far. Bottom line is that our fears should be Chinese specific than the Indians.

We hope that by the year-2006; when it would be fully operational, we in these two year period may accommodate and compromise the main irritants; we are fearing most.

Pakistan and India may hold special negotiations over the safeguarding certain measures in a similar way in which before the offing of EU, NAFTA and the ASEAN; the UK and other countries negotiated with the other powerful European, American and East Asian economies; before entering the pact.

The beginning would be definitely by the short term losses, in some smaller countries which almost occurred to every similar organisation; whether it was European union, or NAFTA or ASEAN; but let us come out from this short term syndrome and think of 10 years ahead from today.

Luxembourg is a very small member of European Union. It is perhaps smaller than Islamabad, as far as the area and the population are concerned. Yet it is not only standing amongst the giants like Germany, France, United Kingdom and Italy; but also ranks an important EU country.

In SAFTA, we would not be that small country. Amongst the seven, such nations we still stand second. It is like in EU, after the Germany, there is UK or France. So why we are afraid of giving MFN status to India; although they have already given such status to us.

Yet those who are afraid; one small section amongst them may have their personal reasons. With my apology to the business community, sitting here; I would have to identify the already identified class of businessmen who monopolized Pakistan's market in a cartel manner.

Those should be worried who have amassed unjustified billions with the help of equally unjustified SRO's; which is protecting and an instrument to their survival from a healthy competition those who do not pay taxes, are to be worried, also those should be reluctant who steal electricity and gas. Those should be worried who use substandard material in the process of an industrial product. Those should be afraid, who use child labor and don't pay proper wages to their employees.

For how long we keep this great nation of 145 million, aloof and hostage in our own country and keep them segregated from the rest of the world, even from the close neighbors.

For how long people of Pakistan, whether it is a small cycle of motor cycle, or a car; or a fan or a TV or a refrigerator or the medicine; would buy double to the cost, compared to our next door neighbor.

It should be in the massive interest of the people and not because of some self centred super rich community who feel that their days are numbered and soon there is bound to be a gate crash in their industrial *fiefdom*.

Last month, I was in India for world SOCIAL FORUM PROGRAM. Besides Mumbai, I visited Amritsar and New Delhi. When I was in Amritsar, I talked to people of different communities. They were media people, businessmen and the farmers. They talked about their Punjab.

They also talked about our Punjab. They said that if the borders are opened and restored; both Punjabs would boost their trade, industries and agriculture in a manner, beneficial to more than 100 million people. Standard of living would be much higher than any other region.

Similarly; Sindh and Rajhistan may benefit from each other. Imagine for a while; two of our provinces with Pakistan's 85% population would be out of poverty in a decade, if the honest and meaningful relations and mutual trade, which we artificially stopped since last 55 years, would start. Before I finish my paper, I would like to say a small story about a friend of mine who visited Bangladesh, last year. During his shopping in Dacca; he saw vendor selling candies and chocolates. When he purchased it for his kid and opened its wrapper, he saw *MADE IN INDIA* was written on it.

He asked the vendor why he cant buy such candies from Pakistan a brotherly Muslim country. The candy man shot back, “India is not far from here. Beside its candies are cheaper than in Pakistan.” So the lesson is; let us have SAFTA, seriously which is in our regional back yard and let us hope that all South Asian countries should benefit with their sizes and shares; since it is our future's survival, also

If we deliberately miss this bus like in the past; then the most of SAFTA countries of South Asian region with the addition of some South East Asian countries, have another option, minus Pakistan. It is BIMSTEC. We should give a serious consideration to it, now.