MFN: an opportunity not to be squandered

EDITORIAL (January 05, 2013) : The Federal Cabinet met after three weeks on Thursday and gave a go-ahead to the Ministry of Commerce to grant India Most Favoured Nation (MFN) status. This could not be done last month because the Cabinet could not meet. Therefore, the December 31st commitment was not met on plausible grounds; it was no reneging on commitment. All this historic development in Indo-Pak bilateral trade relations entails is abolish the negative list of those items which presently cannot be imported from India but are importable from elsewhere. Once Pakistan accords India the MFN status, New Delhi's exporters will have to compete with others as there will be no India-specific restrictions on tradable items. Going forward, both Pakistan and India will need to phase out all tariffs on traded goods by 2016 under the South Asia Preferential Trade Agreement (SAPTA). Progress on MFN status for India has been slow and arduous. As a result, despite tremendous growth in the economies of both neighbours - intra-regional trade is a mere five percent, says a study by PILDAT. Signing of a Free Trade Agreement (FTA) with China has been a catalyst in normalisation of trade relations between South Asian neighbours. The fear of Indian products flooding Pakistani markets and displacing domestic industry has ebbed because China is much larger manufacturer than India. Pakistani textile magnets are now confident that they could cash in on the opportunities to expand their exports of home textile, bedwear and fashion-wear. Even Pakistani cement producers anticipating a larger volume of demand which could improve their profitability. However, all this is greatly dependent on India removing its non-tariff barriers - which are not Pakistan-specific - as well as substantial improvement in the movement of goods and people between the two countries. The two governments hope that trade volumes could jump from two to six billion dollars a year. Most studies calculate that the trade could rise to eight to ten billion a year if dismantling of tariff and non-tariff barriers is successfully undertaken. Businesses could benefit with lower locked up funds in inventory as well as significantly reduced cost of transportation. The full potential of trade, however, will take time to realise and need to be deftly insulated against 'over ambitious' political and security imperatives. India needs to realise that Pakistan is extremely over-dependent on its textile sector. Textile's share in India's GDP is hardly 20 percent while in Pakistan this sector makes the single-largest contribution - 66 percent of GDP. Pakistani textile exports to India at present attract a higher tariff compared to those from Sri Lanka and Bangladesh, which are at zero tariff. It is critically essential for India to be sensitive to Pakistan's vulnerability on this score - if meaningful progress in trade relations is to be made. Historically, India has over-protected its handloom sector. An even playing field is now required. Unidirectional flow of Indian textile products to flood the Pakistani market could result in a backlash. Hence, the need for working towards creating a situation that is fair to both the countries; a situation where India and Pakistan have the same opportunity. Pakistan could indeed benefit from raw material (iron ore and coal) from India. It could also benefit from import of iron sponge and other steel products from India. Local pharmaceutical industry has 53 percent market share and is opposed to giving India MFN status while the 43 multinational pharma are all for it. Since India's chemical industry is well-established - it can be a major supplier of raw material to pharmaceuticals. Moreover, Pakistani consumers can benefit from low cost medicines. But quality standards need not be compromised. Both countries can get a big boost from co-operation and joint venture investments provided the visa regimes are completely relaxed and telecommunication connectivity is considerably enhanced. The agriculture lobby in Pakistan is well represented in the corridors of power and is worried that the Indian farmer is a recipient of subsidies on fertiliser, electricity and diesel. Major crops plus livestock constitute 87 percent of agri output and will not be affected with trade enhancement. But both sides can gain from co-operation in seeds and exchange of experience in extension services. Pakistan as well as India already benefit from trade in minor crops such as vegetables and lentils. One need not fear as giving MFN status does not mean that anti-dumping or counter-valuing duties as tools to protect local industry will henceforth be unavoidable. Growth in trade is largely dependent on putting in place a sensible system not prone to sudden disruptions and abrupt retaliations. Private sectors on both sides have to guide their governments to take the advantage of this historic trade development because it provides them with a highly valuable avenue to expand their business by widening markets for the locally produced and manufactured products and removing impediments towards deeper penetration of the regional market.