|  |  |  |
| --- | --- | --- |
|  | **Trading with India**The News ,December 3, 2012 |  |
|  |  |  |
|  | **By Dr Ishrat Husain** |  |
|  | The last one year has seen many positive developments vis-à-vis India. Pakistan earned huge goodwill by granting Most Favored Nation (MFN) status to India and replacing the positive list of imported goods by a negative list. This negative list is also to be phased out by December 2012, paving the way for the South Asia Free Trade Agreement (SAFTA) that has been hostage to India-Pakistan relations, which had – in turn – hurt intra-regional trade.The president of Pakistan ratified a liberalised visa agreement that will allow for ease in travel of businessmen between both nations. India and Pakistan have also recently signed agreements addressing the three key issues that Pakistan considered serious non-tariff barriers: standards and testing, customs clearance and dispute resolution. A few months ago, India removed the restrictions on Indians investing in Pakistan and vice versa. In April, an integrated border checkpost between Attari and Wagah was inaugurated with modern facilities that will allow many more trucks to cross the border daily. Meanwhile, India has reduced the number of items that are prohibited for import from Pakistan by 30 percent.It is highly fortunate that all the major political parties of Pakistan are publicly committed to trade liberalization with India – a rare consensus in a highly polarized polity. The federations, chambers and councils of businessmen in Pakistan have played a leading and constructive role in the journey that has led to this juncture in our relations.At various consultative meetings, Pakistani businessmen have frankly said that after the Free Trade Agreement with China, Pakistani markets and producers have already adjusted to imports from China that are much cheaper than Indian goods. The threat of Indian products flooding Pakistani markets and displacing domestic industries therefore is no longer real. Our businessmen are confident that in fashion apparel, bedwear, home textiles, and cement etc., Pakistan will gain access to a much larger market. After all, Indians do import the same through Dubai, at a higher cost. And manufacturers who have to procure raw materials, components and intermediate imports from far-off places are thrilled at the opportunity of sourcing from India and saving transport costs.Meanwhile, the fears and apprehensions of some manufacturers competing with Indian goods have been addressed by the government through negative and sensitive lists. And anti-dumping laws and countervailing duties can always be imposed against subsidized imports from India.Given the above, it is worrying that in the last few days, there have been some noises that can derail this process of liberalization and cause a major setback to this opportunity for revival of the Pakistani economy. Agriculturists comprise the majority of the membership of the provincial and national legislatures and their political power in reversing this process on the pretext that they will be hurt, poses a serious risk. Let us, therefore, examine the concerns of the agriculturists.Their main argument in opposing the import of Indian agriculture goods into Pakistan rests on the plea that the Indian producers get subsidies on fertilizers, electricity and diesel. Indian farmers are thus said to have an advantage in selling their products to Pakistan. Other groups, particularly those concerned with food security in Pakistan, have argued that lower prices of agricultural products imported from India will benefit our consumers, dampen food inflationary pressures and ease supply shortages. But even the broad brush with which the farm lobby paints the gloomy picture cannot withstand scrutiny. More than 50 percent of agricultural incomes in Pakistan originate from the livestock sector, which is under no threat from Indian producers. In fact, it is the import of milk powder from the EU countries at subsidized rates that is creating problems for the processed milk industry in Pakistan. Another 37 percent of incomes in agriculture sector are derived from major crops: wheat, rice, cotton and sugarcane and the relative economics of these crops does not suggest that the producers of these crops will be affected adversely by opening to India. Pakistani procurement prices of wheat have been relatively higher than international and Indian prices in the recent years. Both countries run wheat surpluses and compete in international markets.Pakistan is self-sufficient in sugarcane and, like India, is a major exporter of rice to the rest of the world. The cotton crop falls short of the domestic demand by 2-3 million bales annually and the mills are free to import from whatever source they feel appropriate. Prices are fixed internationally and cotton is traded worldwide at those prices. Except in an odd year when there is shortage due to crop failure and Indian produce would enter the market to augment overall supply, there does not seem to be any other significant risk for producers of any of these major crops. In the event of supply shortages, Pakistani producers won’t be hurt while Pakistani consumers will be insulated from price shock arising from domestic crop failure. The remaining sub-sectors – forestry and fisheries – account for 3 percent of agricultural income and minor crops about 10 percent. It is only in respect of some of these crops – mainly fruits and vegetables (onions and potatoes), lentils, maize, gram – that trade will take place, mainly between the two Punjabs. Past experience shows that trade between the two countries in vegetables, lentils etc. acts as a price stabilizing force because it equilibrates supply and demand. Due to the proximity between the Pakistan Punjab and the Indian Punjab (the Haryana-Delhi belt), low transportation costs and the time advantage make trade in perishable and fresh agricultural good quite attractive. When India falls short of onions or potatoes and Pakistan has a bumper crop or vice versa, countries, their farmers and consumers gain from these transactions. Imports will also force Pakistani farmers, if they are uncompetitive, to strive to become more efficient by adopting better production, storage and preservation techniques and reduce post-harvest losses.So if evaluated in terms of the overall net gain, the limited agricultural imports covering only a small proportion of the total agricultural value added will act as a price-stabilizing influence, enhance consumer welfare and promote efficiency in the long run. The fears raised against agricultural imports appear highly misplaced. In the short term, it is possible that there may be some losers but they will switch over to other crops for better remuneration. Pakistan’s annual food import bill is about $5 billion. If some of the items currently imported from third countries are instead purchased from India at lower end-use prices, consumers will be better off without hurting agriculture.The writer is a former governor of SBP. |  |
|  |  |  |