Deliverable
4

Draft

Managing Trade with India through Tariff Rationalization

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CHAPTER 1
INTRODUCTION

The previous deliverable of the Project on **Impact on Specific Sectors of having a Liberalized Trade Regime with India** has demonstrated that in the medium run (upto three years) the prospects for trade between India and Pakistan are substantial, especially in the presence of the following:

i. Granting of full MFN status to India from the beginning of 2013.
ii. Rationalization of the Sensitive List in SAFTA, with India already having announced a 30% reduction in the number of items in its list, leading thereby to tariff reductions on a range of products.
iii. Removal of non-tariff barriers by the two countries including more liberal issuance of visas, reciprocal opening of bank branches, mutual simplification of customs procedures, facilitation of the process of quality control and certification, removal of transport bottlenecks and so on.

However, as demonstrated in Deliverable 3, given the size and diversity of India's export base it is likely that the absolute increase in the country's exports to Pakistan is going to be substantially larger than the rise in exports of Pakistan to India. Consequently, the trade of deficit of Pakistan could reach three to four times its present level with India.

There is therefore, the possibility that some economic activities in Pakistan, both in agriculture and industry, could suffer significant displacement due to opening up to India and experience consequential losses in incomes and employment (as highlighted in Deliverable 3). Also, there continues be a strong lobby in Pakistan, as highlighted in deliverable 1, which is vehemently opposed to liberalization of trade with India. A quantum jump in the trade deficit with respect to India could strengthen perceptions that Pakistan's economic interests have been sacrificed.

Therefore, it is essential that over the next few years Pakistan's trade with India be managed in such a way that displacement is minimized and there is a degree of balance in trade between the two countries. Also, Pakistan is moving into a period of balance of payments difficulties next year as inflows of foreign investment and aid dry up and, on top of all this, over $ 7 billion of repayment is made to the IMF. Therefore, while diversion of imports to India could lead to significant savings in the existing import bill there is the danger that if the extent of trade creation turns out to be more than currently anticipated, it could further intensify the pressure on the balance of payments.

As such, the objective of deliverable 4 is **Managing Trade with India** in such a way that the process of liberalization of trade between the two countries can proceed in an orderly manner without being subject to periodic interruptions, as happened in the past. This could be a major confidence building measure and promote peace in the region.

Specifically, the terms of reference of deliverable 4 require focus on the following instruments of policy from the viewpoint of their merits and demerits:

i. Rationalization of the existing tariff structure, including raising the existing tariff currently at the maximum of 30%.
ii. Rationalization of domestic taxes on potentially vulnerable industries including the withdrawal of excise duties.
iii. Resort to import quotas on a case-by-case basis as and when necessary, especially in the case of agricultural commodities, under safeguard provisions of WTO and SAFTA.
iv. Strengthening of institutional mechanisms, including the National Tariff Commission for stronger vigilance of dumping activities and imposition of other safeguard measures.

In addition, given the somewhat precarious position of the balance of payments we also propose to examine the case for resort to more general instruments like the exchange rate and import margin requirements which impact on trade with all countries including India.

CHAPTER 2
TRANSITION TO MFN STATUS FOR INDIA

We describe the transition in this Chapter of different product groups in Pakistan's imports from the situation in 2010-11, when the Position List was operative, to the trading environment when these products will all be importable from India from 1st January 2013 onwards. Simultaneously, the last phase of trade liberalization under SAFTA will be undertaken and a large number of items will see a reduction in customs duty to zero or 5%. Therefore, within the next month fundamental changes are anticipated in the trading regime with India.

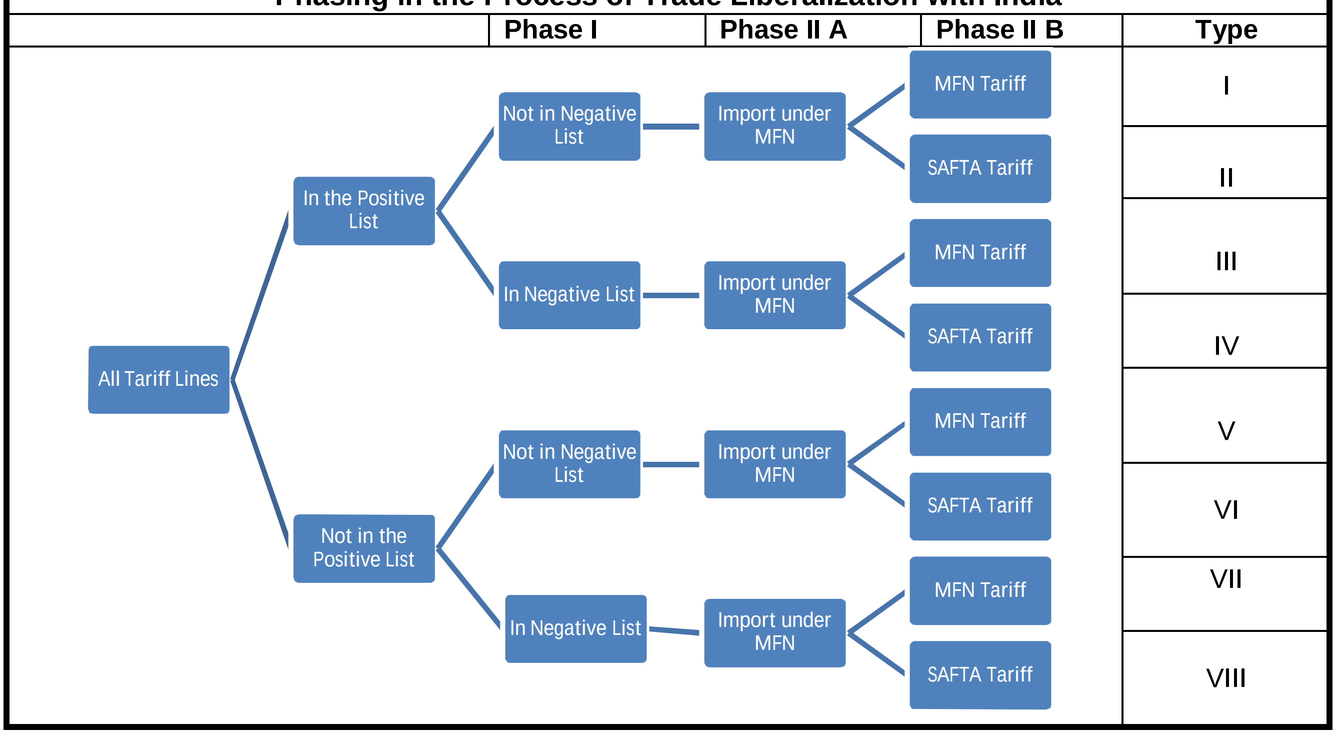
2.1. Phasing of Liberalization

There are four distinct steps in the phasing of trade liberalization between India and Pakistan, as follows:

Situation prior to March 2010			:	Positive List of Imports from India
Phase I	→	March 2012	:	Conversion of Positive List into Negative List
Phase II-A	→	January 2013	:	Granting of MFN status to India
Phase II-B	→	January 2013	:	Outside the SAFTA Sensitive List items have duties reduced to 0-5%
Phase III	→	Medium Run (starting in 2012)	:	relaxation of NTBs, development of trade-related infrastructure and strong measures for trade facilitation between India and Pakistan

The first two phases are presented in Chart 2.1.

Chart 2.1
Phasing in the Process of Trade Liberalization with India



Different tariff lines can accordingly be characterized as follows:

Type	In Positive List (Yes/No)	Phase I (In Negative List) (Yes/No)	Phase II-A (Import under MFN status) (Yes/No)	Phase II-B (Sensitive list, SAFTA) (Yes/No)	Impact on Product Group (High/Medium/Low)
I	Yes	No	Yes	Yes	Low
II	Yes	No	Yes	Yes	Medium
III	Yes	Yes	Yes	Yes	No impact
IV	Yes	Yes	Yes	No	No impact
V	No	No	Yes	Yes	Medium
VI	No	No	Yes	No	High
VII	No	Yes	Yes	Yes	Medium
VIII	No	Yes	Yes	No	High

Among the eight types of products in terms of transition, two types face the greatest threat from Indian imports, as follows:

Type VI: In the case of these products, the opening up with respect to India has already occurred by their omission from the negative list. The shock is further magnified by their exclusion from the Sensitive List. These activities have to adjust within nine months to both changes.

Type VIII: These products do not see competition from Indian imports till the granting of MFN status. Come 1st of January 2013 they have to adjust simultaneously to both changes-opening up and a reduction in duties.

We first determine the nature of transition by section of the Harmonised System from the Positive List to Negative List to liberalization under MFN status. The results are presented in Table 2.1.

Table 2.1
Process of Transition of Different Sections of the Harmonized System(at 6 digit level)

Type	Description	Chapter	% of Items in Positive List	% of increase in importable tariff lines in move from Positive List to Negative List	% increase in importable tariff lines in move from Negative List to MFN Status to India
I	Live Animals	01-05	13	85	2
II	Vegetables & Products	06-14	50	50	0
III	Animal, Vegetable Fats and oils	15	4	89	7
IV	Prepared Food stuffs	16-24	5	91	4
V	Mineral Products	25-27	38	0	62
VI	Chemicals & Allied Products	28-38	50	42	8
VII	Plastic &Articles	39-40	31	26	43
VIII	Hides & Skins; Leather Goods	41-43	49	30	21
IX	Wood & Articles	44-46	49	47	4
X	Paper & Paper Board	47-49	20	27	53
XI	Footwear & Personal Articles	64-67	3	85	12
XII	Textiles and articles	50-63	11	80	9
XIII	Ceramic &Glass Products	68-70	15	51	34
XIV	Jewellery,etc	71	9	85	6
XV	Metals &Articles	72-83	21	52	27
XVI	Machinery	84-85	30	53	17
XVII	Vehicles & Transport Equipment	86-89	6	13	81
XVIII	Opticals & Precision Equipment	90-92	38	50	12
XIX	Arms and Ammunition	93	0	100	0
XX	Miscellaneous	94-96	3	48	49
XXI	Works of Art	97-98	1	99	0
	Total		**27**	**55**	**18**

Source: Ministry of Commerce, GOP, SAARC

2.2. Industries in the Negative List

According to Table 2.1, product groups which featured more in the Positive List (50% or more of the tariff lines) were vegetables and products (section II), chemicals and allied products (section VI), hides, skins and leather goods (section VIII), and wood and articles (section IX). These groups constituted about 15% of Indian global exports. **Overall, 27 percent of all tariff lines were in the Positive List.**

The big transition that has occurred is the move from the Positive List to the Negative List. Now, almost 82 percent of the tariff lines are outside the Negative List and importable from India. Product groups which have witnessed a big increase (above 50 percent) in the share of importable tariff lines are live animals (section I), vegetables and products (section II), animal and vegetable fats and oils (section III), prepared food stuffs (section IV), footwear and personal articles (section XI), textiles and clothing (section XII), ceramic and glass products (section XIII), jewellery (section XIV), metals and articles (section XV) and machinery (section XVI). **Altogether, an additional 55% of the tariff lines have been made importable by placement outside the Negative List.**

Product groups which have been protected more till the granting of MFN status to India include mineral products (section V), plastics and articles (section VII), paper and paper board (section X), vehicles and transport equipment (section XVII) and miscellaneous industries (Section XX). **Overall, it appears that an additional 18 percent of the lines will become importable after India gets MFN status.** It is clear that these product groups are the ones which Government of Pakistan most wants to protect.

2.3. Industries in the Sensitive List

The inclusion of items in the Sensitive List is influenced by a number of factors. First, products which are essentially in the nature of non-competitive imports are unlikely to be included in the Sensitive List. This includes many mineral products, chemicals and machinery items. Second, items which are already at low rates of customs duty of up to 10 percent will not see much reduction in protection by being placed outside the Sensitive List. This includes many food items, petroleum products, fertilizer and machinery.

Analysis of Table 2.2 reveals that highest level of protection (in terms of a high percentage of tariff lines in the Sensitive List) has been given to the following product groups:

Table 2.2 Sections of the HC with high proportion of tariff lines (at 6 digit level) in Sensitive List		
Section No	**Description**	**% of tariff lines in Sensitive List**
XVII	Vehicles and Transport Equipment	74
VII	Plastics & Articles	63
III	Animal & Vegetable Oils	58
XIII	Ceramic and glass products	48
XVI	Machinery	40
XI	Footwear & personal articles	39
XII	Textiles and clothing	38
X	Paper and paper board	37

It is significant to note that some of the above product groups like vehicles and transport equipment, plastics and articles and paper and paper board will witness a staggered process of transition from the Positive List to being fully importable from India.

The overall strategy of trade liberalization that Pakistan seems to be following with respect to India is first, one of substantial opening of import of agricultural products. The objective here seems to reap more consumer welfare gains rather than protect the Pakistani farmer. This is in sharp contrast to the policy followed by India.

Second, labor-intensive sectors like textiles and clothing, ceramics, footwear and plastics are being afforded more protection from Indian imports. Third, emerging technology-intensive industries like vehicles and transport equipment and some engineering goods are high in the list of activities to be nurtured and developed.

At a more disaggregated level, there are chapters which have a relatively high percentage of tariff lines in the Sensitive List within Sections of the Harmonized Code which overall have a low percentage. These chapters are listed in Box 2.1.

Box 2.1 Chapters with High Percentage of Tariff Lines in Sensitive List			
Section	**Chapter**	**Description**	**% of Tariff Lines in Sensitive List**
IV	22	Beverages, spirits	83
IV	24	Tobacco and manf	70
VI	30	Pharmaceuticals	30
VI	32	Tanning &dyes, paints &varnishes	40
VI	33	Essential oils, perfumery or cosmetics	35
VI	34	Soaps, washing prepns, etc	53
XV	73	Articles of iron and steel	63

The chapters consist of products like beverages, spirits and tobacco which are considered ‘bad’; consumer goods like paints & varnishes, soaps, etc and luxury items like perfumes and cosmetics. Pharmaceuticals is a major industry in Pakistan with a strong presence of MNCs who are worried about the unrestricted import of generic products from India. Protection to industry producing articles of iron and steel is also justified on labor-intensive grounds.

CHAPTER 3
INDUSTRIES WHICH FACE A 'THREAT'

We now analyse the nominal and effective protection to different industries in Pakistan.

3.1. Levels of Nominal Protection

The distribution of items overall and in the Negative and Sensitive Lists, at the 6 digit level by rate of customs duty is given in Table 3.1. The percentage of tariff lines in the Negative List tends to rise with the statutory rate of duty.

Table 3.1
Distribution of Tariff Lines in the Negative List and Sensitive Lists by Rate of Tariff, 2011-12

Rate of Customs Duty (at 8-digit level)	**% In Negative List**	**% In Sensitive List**
0	-	2
5	2	2
10	14	8
15	24	31
20	35	32
25	21	33
30 and above	56	32
Specific	13	62

[a] % of tariff lines with the duty rate in the negative list
[b] % of tariff lines with the duty rate in the sensitive list
Source: FBR; MOC, GOP

The peak is attained at the highest rates of 30 percent and above, with 56% of the tariff lines in these slabs in the Negative List. Therefore, as expected, a high proportion of items with relative high rates of nominal protection have not been made importable in Negative List from India. The average rates of duty by chapter are given in the Statistical Annex.

The Chapters with high (un weighted) customs duty (above or equal to 25%) across the tariff lines are presented in Box 3.1.

Box 3.1
Chapters with High Custom Duty across Tariff Lines

Chapter	Description	Average Customs Duty (%)
Chapters with high average duty (above 25%)		
04	Dairy produce	49
08	Edible fruit	28
19	Preparation of Cereals	30
20	Preparations of fruits, veg, etc.	31
21	Miscellaneous edible prepns	26
22	Beverages	72
23	Tobacco and Substitutes	30
33	Essential oils, perfumes	26
47	Pulp of wood	30
61	Articles of Apparel, kn/cr	25
62	Articles of Apparel, not kn/cr	25
69	Ceramic Products	28
87	Vehicles	40
Chapters with low average duty (below 10%) are as follows:		
01	Live animals	5
03	Fish	9
06	Live trees or plants	9
07	Edible vegetables	6
10	Cereals	6
09	Coffee, tea	8
12	Oil seeds	3
25	Salt, lime, cement	9
26	Ores	5
27	Mineral Fuels	8
28	Inorganic Chemicals	6
29	Organic Chemicals	6
31	Fertilizers	0
37	Photographic or Cinematographic Goods	6
41	Raw hides and skins	3
49	Printed books, etc.	8
71	Pearls, Jewellery	5
86	Railway or tramway locomotives, etc.	5
90	Optical and Surgical Instruments	9

The effective rates of protection primarily reflect, first, the rate of duty on competing imports and, second, the share of value added in the value of production. The lower share of value added in the value of production the higher tends to be the effective rate of protection.

The Sensitive List, however, reveals a somewhat different pattern. From the duty rate of 15% onwards, approximately one third of the tariff lines have been put in the Sensitive List. This implies that some lines will see a transition from high duty rates of 30% and above to 5%. This includes a number of parts and components for vehicles and tractors, waste and scrap from vehicles, cosmetics, hydraulic lifts, etc. Clearly, in such items where there is some production in Pakistan the loss of nominal protection will be substantial these items could be exposed to intense competition from India.

Table 3.2
Average Unweighted Rate of Customs Duty (at 6 digit level)
2011-12 (%)

	Average Rate
All Tariff Lines	**14.3**
After Negative List	**14.3**
Importable items	12.2
Not Importable items	23.8
After Sensitive List	**8.0**
In Sensitive List	22.2
Outside Sensitive List	5.0

Source: FBR; MOC, GOP.

The implied average rates of statutory customs duty are presented in Table 3.2. The unweighted average MFN tariff of Pakistan for all tariff lines currently is estimated at 14.3%.

This is at a moderate level by international standards for developing countries. Currently, items outside the Negative List, which are importable from India, carry an average tariff rate of 23.8%. The implementation of SAFTA will lead to a large reduction of over six percentage points to 8% from 14.3%. Therefore, not only is Pakistan opening up all its imports to India by granting MFN status but it is simultaneously bringing down substantially the rates of tariff on imports from India. This extent of trade liberalization in one step is probably unprecedented. Inevitably, it raises concerns about the impact on rates of effective protection to Pakistani industry.

3.2. Levels of Effective Protection

The World Bank [2012] has quantified the level of effective protection to different industries of Pakistan. The effective rate of protection (ERP) gives the difference in value added by an industry at domestic prices with the value at world prices.

$$\text{ERP} = \left[\frac{VAD}{VAW} - 1\right] \times 100 \quad \text{……………………………………………} \quad (1)$$

Where

VAD = value added at prices
VAW = value added at world prices

And

$$VAD=(1+t_o)-\sum_{i=1}^{n} a_i\,(1+t_i)\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

$$VAW = 1-a_i\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

Where

t_o = import tariff on the industry's output

a_i = input-output coefficient of the ith input

t_i = import tariff on the ith input.

ERP indicates the extent to which the value added (especially profit) is enhanced by the protection provided through the import tariffs.

The World Bank's estimates are given in Table 3.3 Industries which are currently enjoying high rates of effective protection are presented in Box 3.2:

Table 3.3
Effective Rates of Protection

(%)

Agriculture		**Manufacturing Agro-based**	
• Rice	10.5	• Processed rice	17.6
• Wheat	10.7	• Vegetable oils & fats	151.8
• Cereal n.e.c.	0.5	• Dairy Products	75.0
• Vegetables, fruits	14.5	• Sugar	17.0
• Oil seeds	2.3	• Food Products n.e.c.	121.5
• Sugarcane	2.9	• Beverages and Tobacco	390.0
• Crops nec	3.6	**Textiles and Clothing**	
• Live animals	-3.3	• Textiles	57.1
• Raw milk	-5.0	• Wearing Apparel	66.7
• Wool	-0.8	**Mining**	
• Animal products nec	8.7	• Coal	1.5
• Forestry	5.5	• Oil	8.7
• Fishing	9.3	• Gas	-1.6
Others			
• Leather Products	68	• Motor Vehicles & Parts	115.0
• Wood Products	19.3	• Transport Equipment	17.0
• Paper Prod, Publishing	21.4	• Electrical Equipment	10.1
• Petroleum Products	24.6	• Machinery	11.3
• Chemicals, rubber and plastic products n.e.c.	11.5	• Transport Equipment	17.0
• Minerals Products	26.6		
• Iron and steel	11.6		
• Metal prod nec	4.2		

Box 3.2 **Industries Enjoying High Rate of Effective Protection**	
	ERP (%)
• Vehicles and transport equipment	115.0
• Vegetable oils and fats	151.8
• Food Products nec	121.5
• Beverages and Tobacco	390.0

As opposed to this, industries which have been granted low levels of effective protection are the given in Box 3.3:

Box 3.3 **Industries with Low Effective Protection**			
	ERP (%)		**ERP (%)**
Sugar	17.0	Ferrous Metals	11.6
Wood Products	19.3	Metal products n.e.c.	4.2
Paper Products and Publishing	21.4	Transport Equipment	17.0
Chemicals, rubber and plastic prod	11.5	Electrical Equipment	10.1
Mineral Products n.e.c.	26.6	Machinery	11.3
Petroleum Products	24.6		

These industries could run into a difficult situation if their EPR is reduced further by competitive imports from India either due to lower prices or fall in customs duty. For example, if the import tariff on imports from India is reduced to 5% by placement outside the Sensitive List than in the case of the industry producing iron and steel the EPR falls to a critically low level of **2**% from the already low level of **12**%.

3.3. Analysis of the Level of Threat

We focus on products in the Negative List on the assumption that these are produced by industries which GOP wants to protect most. For these product groups (at 2 digit level) the level of threat from imports from India depends on the following:

i. Does India have a revealed comparative advantage (RCA) greater than that of Pakistan and an RCA greater than 1?
ii. The extent to which tariff lines in the product group are in the SAFTA Sensitive List of Pakistan.
iii. The existing average level of customs duty on tariff lines within the product group.
iv. The present effective rate of protection to the industry.

Clearly, the 'threat' is greater in the case of product groups in which India has a higher RCA, low presence of items in the Sensitive List and low levels of effective protection.

Results of analysis are presented in Table 3.4. Altogether 20 industries (chapters) have been *analysed.*

Table 3.4
Analysis of Industries in terms of Level of Threat

Description	RCA i*/ RCA_p	Extent of Protection in SL (H/L)	Effective Rate of Protection (%)	Assessment of Level of Threat (H/M/L)
Highly Protected Industries in Negative List				
48 Paper and Paper Board	3.0 [a]	H	46	Medium
69 Ceramic Products	2.0 [a]	H	54	Low
87 Vehicles	5.0	H	115	Medium
95 Toys, Games, Sports Goods	0.1	L	62	Low
24 Cigarettes	9.5	H	99	Low
40 Rubber and Articles	7.0 [a]	H	12	Medium
42 Articles of Leather	0.3	L	68	Low
70 Glass and Glassware	2.5 [a]	H	52	Low
72 Iron and Steel	12.0	L	12	High
73 Articles of Iron and Steel	3.5	H	4	High
82 Tools, Implements, Cutlery	0.6	L	4	High
83 Misc Articles of Base Metal	∞	H	12	High
94 Furniture, Mattress etc	0.8	H	36	Low
30 Pharmaceuticals	5.0	L	12	High
54 Man-made Filaments	3.3	H	22	High
64 Footwear	1.8	H	72	Low
76 Aluminum and Articles	3.0 [a]	H	26	Medium
84 Machinery and Mech. App	3.0 [a]	L	12	High
85 Electrical Mach & Equip	4.0 [a]	H	10	High
90 Optical, Surgical Inst	0.5	L	10	Medium

RCA_I = Balassa Index of India
RCA_P= Balassa Index of Pakistan
[a] The RCA_I is less than one , although higher than RCA_P

Source: ITC; World Bank [2012]; SAARC; MOC,GOP

The results of the analysis of threat level are given in Box 3.4

Box 3.4 Industries classified by Level of Threat		
'High' Threat	**'Medium' Threat**	**'Low' Threat**
• Iron and Steel	• Vehicles	• Ceramic Products
• Tools, Implements and Cutlery	• Paper and paper Board	• Toys, Games & Sports Goods
• Misc. Articles of Base Metal	• Rubber & Articles	• Cigarettes
• Pharmaceuticals	• Articles of Iron & Steel	• Articles of Leather
• Man-made filaments	• Aluminum & Articles	• Glass & Glassware
• Machinery and Mech. App	• Optical & Surgical Instruments	• Furniture, Mattress
• Electrical Machinery and App		• Footwear
[7]	[6]	[7]
Source: Derived		

Seven industries face the maximum threat from Indian imports after granting of MFN status and implementation of SAFTA. These are iron and steel and products, pharmaceuticals, man-made filaments, machinery and mechanical appliances and electrical machinery and appliances.

Six industries are in the medium category of threat, including vehicles, paper and paper board, rubber and articles, articles of iron and steel, aluminum and articles and optical and surgical instruments.

Within these 13 industries three have a relatively low presence in the Sensitive List. These are optical and surgical Instruments (5 percent) and toys, sports goods (zero percent). Also, the group of relatively highly 'threatened' industries contains some industries which already have low effective rates of protection like iron and steel (12 percent[1]), pharmaceuticals (12 percent), optical and surgical instruments (5 percent) machinery (12 percent) and electrical machinery and equipment (10 percent).

In addition, there are a number of agricultural products in which the import tariffs are very low and there is a case for the Pakistani farmer being given a modicum of protection from Indian imports, especially to products which make a significant contribution to value added and employment in the agricultural sector of Pakistan. The following items fall in this category:

- Cotton
- Meat
- Sugar

[1] Present ERP

CHAPTER 4
STRATEGY OF TARIFF RATIONALIZATION

The previous chapter has identified industries in which ERPs are low and are strong candidates for tariff rationalization in the face of imports from India. The proposed guidelines for developing a strategy of tariff rationalization are as follows:

Guideline (i): The maximum tariff shall remain the same as at present at 30%, with the same products enjoying tariff peaks. Any general enhancement in the maximum tariff will run counter to the goal of trade liberalization which Pakistan is pursuing. In the Federal Finance Bill of 2012-13 the maximum tariff was brought down from 35% to 30% and this policy should stay.

Guideline (ii): Zero items to be taken to 5% or 10%, to provide a minimum level of protection and also thereby reduce the spread in the ERPs.

Guideline (iii): Items in the Sensitive List which are at low rates of up to 20% and in the nature of finished or semi-finished goods may be enhanced by five percentage points.

Guideline (iv): Items which are raw materials or intermediate goods and/or in the nature of non-competitive imports may see duty reduction of five percentage points to increase protection levels for industries using these inputs.

The implications of implementing these guidelines are given below:

i. The import duty on agricultural goods like cotton and meat which could be or are already major imports from India should have a tariff of 5% and not be zero-rated. The exporters of textiles and clothing of Pakistan should receive the appropriate adjustment upwards in the rate of duty drawback. Similarly, the duty on refined copper should be raised to 5%.

ii. The import duty on petroleum products which are currently at zero duty should be enhanced to 5% and simultaneously the excise duty[1] be withdrawn so that the protection level to domestic petroleum refining industry (see next Chapter) is raised somewhat without impacting on domestic prices.

iii. On a selective basis, the duty rate on medicaments could be considered for escalation from 10-15% currently to 15%-25%.

iv. The duty rate on auto parts (according to the list in the Customs tariff which are not produced in Pakistan, as certified by EDB) may be reduced by 5 percentage points and the process of import certification currently in place be curtailed.

v. There will be need later on to determine, as post-MFN trade with India develops, to monitor the impact on the following industries which have been placed outside the Sensitive List:

   ~ tubes and pipes
   ~ flat rolled products of iron and steel
   ~ woven fabrics of synthetic yarn
   ~ furnishing articles of textiles

   and in the event ‘serious injury’ is anticipated or is already visible then these items may be placed inside the Sensitive List, following the due process of enquiry by NTC.

vi. There does not appear any case for enhancement of tariffs on motor vehicles and transport equipment which already enjoy high levels of effective protection and will also receive some benefit from the duty reduction on components and parts which are not produced in Pakistan. Similarly, there is also no case for enhancement on textile products which have relatively high duties.

Overall, there is need for rationalization of the Sensitive List, without increasing the number of tariff lines in this list, which would give the impression of backtracking on SAFTA. Further, there is a case for changing the tariff structure of items within the Sensitive List of the type recommended above.

CHAPTER 5
RATIONALIZATION OF DOMESTIC TAXES

Besides the General Sales Tax, which is levied both at the stages of import and domestic manufacture as VAT, the major indirect tax is excise duty, which is leviable on various goods and services. The excise duty has the impact of reducing the effective rate of protection.

Table 5.1 lists the industries that are currently subjective to excise duty. The government has adopted the policy of gradually phasing out excise duties in the last few Budgets. Consequently, the special excise duty has been withdrawn. Also, the rate of duty on industries like cement has been brought down in a phased manner.

Table 5.1
Industries producing excisable goods and rates of excise duty

(%)

Industry	**Rate of Excise Duty**
Edible oils	16
Vegetable ghee	16
Beverages	50
Aerated water	12
Juices	10
Cigarettes	64-70
Mineral Oil	SD
Natural Gas	SD
Perfumes and toilet wares	10
Beauty or make-up prepns	10
Cleaning and washing items	10
Viscose staple fiber	10
Motor vehicles	5

SD = specific duty
Source: FBR, Excise Duty Act (As amended)

The opening of trade with India provides a further opportunity for rationalizing excise duties. The approach recommended is that the excise duty be withdrawn on industries which have relatively low ERPs and are vulnerable to competition from imports across the Eastern borders.

Based on the earlier identification of such industries, we suggest that the excise duty be withdrawn on the following industries in the Finance Bill of 2013-14:

- Mineral oils (petroleum products)
- Viscose staple fiber

Revenues from the tax are given for different industries in Table 5.2. Withdrawal of the excise duty on the above two industries will not lead to a sizeable loss of revenue. The loss is estimated at less than Rs 7 billion, which should be compensated by the increase in revenues from customs duties. In addition, the excise duty on cement should be withdrawn at a more rapid pace to enable the industry to have greater ability to penetrate the Indian market.

Table 5.2
Revenue from Excise Duties
(Rs in Billion)

	2010-11	2011-12
Cigarettes	47.1	53.5
Cement	15.5	12.7
Natural Gas	11.6	12.1
Services	11.0	10.4
Beverages	9.1	7.9
POL products	5.1	5.8
Perfumery	2.0	2.4
Others	11.2	12.2
SED	24.6	4.4
Total	**137.4**	**122.6**

CHAPTER 6
USE OF OTHER INSTRUMENTS

We explore in this Chapter the use of other instruments to manage trade generally and/or with respect to India.

6.1. Import Margin Requirements

The State Bank of Pakistan imposes margin requirements (extent of self-financing) on import letters of credit (L/Cs) as a way of regulating imports. This is a flexible instrument and can be used especially when the balance of external payments is under pressure, as is the case currently. It is likely that there could be a further deterioration in the BOP position of the country in the second half of 2013.

Box 6.1 lists items on which there is no import margin requirement. Other items in the Harmonized Systems have an import margin requirement of 35%.

Box 6.1
Items with no import margin requirement*

****HS 04**	**Description**
1,001	Wheat and Meslin
1,101	Wheat or Meslin Flour
1,507	Soybean Oil and Its Fractions
1,511	Palm Oil and Its Fractions, Not Chem. Modified
2,707	Oils etc from High Temperature Coal Tar
2,708	Pitch and Pitch Coke from Coal Tar
2,709	Crude Oil from Petroleum and Bituminous Minerals
2,710	Oil from Petrol and Bituminous Mineral etc.
2,711	Petroleum Gases & Other Gaseous Hydrocarbons
2,712	Petroleum Jelly; Mineral Waxes and Similar Products
2,713	Petroleum Coke, Petroleum Bitumen and Other Residues
3,001	Glands and other Organs for Organo-Therapeutic Uses
3,002	Human Blood or Animal Blood Prepared for Therapeutic
3,003	Medicaments Mixtures for Therapeutic Use
3,004	Medicaments NES
3,005	Wading, Gauze, Bandages etc.

Box 6.1
Items with no import margin requirement* *(cont…)*

3,006	Pharmaceutical Goods
3,101	Animal and Vegetable Fertilizer Not Chem. Treated
3,102	Mineral or Chem. Fertilizers, Nitrogenous
3,103	Mineral or Chemical Fertilizers, Phosphatic
3,104	Mineral or Chemical Fertilizers, Potassic
3,105	Fertilizer of Nitrogen, Phosphorus or Potassium
5,201	Cotton, Not Carded Or Combed
8,401	Nuclear Reactor; Fuel Elements and Apparatus
8,402	Steam etc Generating Boilers NES
8,403	Central Heat Boilers NES and Its Parts
8,404	Auxiliary Plant Used With Boilers; Condensers and Parts
8,405	Producer Gas or Water Gas Generators
8,406	Steam Turbines and other Vapor Turbines and Parts
8,407	Spark-Ignition Reciprocating or Rotary Internal Comb Piston
8,408	Compression-Ignition Internal Combustion Piston Engines
8,409	Parts For Combustion Engines etc.
8,410	Hydraulic Turbines, Water Wheels and Regulators
8,411	Turbojets, Turbo propeller and Other Gas Turbine and Parts
8,412	Engines and Motors NES and Parts Thereof
8,414	Air or Vacuum Pump, Compressors and Fans
8,416	Furnace Burners, Mechanical Stokers etc and Parts
8,417	Industrial or Lab Furnaces, Ovens and Parts
8,421	Centrifuges, Including Dryers, Filter etc.
8,435	Presses, Crushers and Similar Machinery
8,436	Agriculture and Poultry etc Equipment Including Incubators
8,445	Machines For Preparing Textile Fibers and Yarn
8,446	Weaving Machines Like Looms
8,447	Machines, Knitting and Stitch-Bonding Machines etc
8,448	Auxiliary Machinery for use With Textile Machines
8,449	Machinery for Manufacture or Finishing of Felt etc
9,937	Items Relating to Disable Persons

* all other items are subject to import margin requirements of 35%
** HS Code (Harmonized System Codes)-Pakistan Customs Tariff

At an appropriate time, the SBP may consider introducing an import margin of 15% on the above items except the following essential products which should remain exempt:

1507	Soya bean Oil
1511	Palm Oil
2709	Crude Oil
2710	Petrol Oils
3101-3107	Fertilizer

The import margin on items which are currently subject to the 35% requirement may be raised to 50%. An increase of 15% of self-financing will raise the effective cost of imports by about 1.5%. Simultaneously, this will increase protection to most industries from Indian impor.

6.2. Exchange Rate Policy

The other instrument potentially available is the exchange rate. As the exports of developing countries have declined or stagnated in the presence a global recession and imports have remained high due to a relatively high oil price, the balance of trade has deteriorated generally in 2011-12. This is shown for India and Pakistan respectively in Table 6.1.

Table 6.1
Percentage Growth in Trade and Change in Exchange Rate by India and Pakistan in 2011-12

	Growth Rate (%)				
	Exports	**Imports**	**Change in FE Reserves**	**Balance of Trade Deficit**	**Depreciation of Nominal Exchange Rate**
Pakistan	-2.8	11.8	-27.0	47.2	9.7
India	21.2	32.3	-3.4	55.7	14.6

Pakistan suffered deterioration in its balance of trade of over 47 percent in 2011-12, leading to decline in foreign exchange reserves of as much as 27 percent in one year. Consequently, the nominal exchange rate depreciated by almost 10 percent. In the case of India while exports continued to grow, imports grew even faster, leading to an even larger worsening of the trade deficit than Pakistan. The Indian rupee depreciated by 15%, five percentage points more than Pakistan. Consequently, this has made Indian imports relatively cheaper.

It is important that the relationship between the Pakistani and Indian rupee not change significantly at the time of opening of trade with the latter country. This is essential to avoid any worsening in the competitive position of Pakistani industry vis-à-vis India.

6.3. Use of Tariff Quotas

In addition to rationalizing the Sensitive List, changing the tariff structure of items in the Sensitive List, imposing import margins on some products, preserving the relative parity between the Pakistan and Indian rupee, there is a case for using ‘tariff quotas’ on imports which threaten the most vulnerable industries.

These tariff quotas must be general in character and not discriminatory and applied thereby only on imports from a particular country. Ideally, the existing rate of customs duty should continue on the current quantity of imports. Beyond this quantity a higher rate of customs duty may be applied. For example, if the quantity of import of a particular item is 1 million tons at a duty rate of 10%, the tariff quota should be introduced if the import exceeds 1 million tons. In this case, for import above 1 million tons the rate of duty may be set at, say, 30%.

The advantage of introducing a ‘tariff quota’ is that it does not appear to impose a restriction on the existing level of imports and thereby should avoid any perception of a retreat from the process of trade liberalization. However, beyond the existing volume of trade, the tariff quota raises the effective rate of protection to an industry. However, imports can still take place at the higher duty rate. There is no physical restriction like an effective import quota.

There are 37 countries with tariff quota and 1374 individual tariff quotas are in operation. These have to be notified to WTO. Tariff quotas have generally been used mostly in the case of agricultural and iron and steel products. It is necessary to indicate how the tariff quota will be administered, that is, if import licences are to be issued or on a first-come-first served basis. In the former case it is necessary to specify as to who is eligible and how they will be allocated.

We recommend that in the Pakistan case tariff quotas may be introduced on imports of particular items within the following product groups:

- Agricultural products
- Iron and steel products
- Pharmaceuticals

It is suggested that the tariff quotas may be operated on a ‘first-come-served’ basis. This will maximize competition from potential exporters to Pakistan and avoid the evils associated with the licensing regime. After granting of MFN status, tariff quotas do not in any way stop India from competing for diversion of existing Pakistani imports to its exporters. But it will reduce the possibility of trade creation.

6.4. Some Concerns

We have identified above the major threat that is faced by the iron and steel industry in the form of cheaper imports from one of the major global producers of steel, India. This enhances the vulnerability of the largest industrial plant of Pakistan, Pakistan Steel Mills (PASMIC), which is already making large financial losses. Competition from India may render it completely unviable. Will the Government accept the closure of PASMIC as a consequence of liberalization of trade with India?

The other area of concern is the posture adopted by multinational companies operating in Pakistan. These companies set up industrial units behind a high tariff wall and traditionally enjoyed high levels of effective protection in sectors like automobiles. Foreign pharmaceutical companies will argue that unregulated import of generic drugs from India will put them at a severe competitive advantage. Automobiles and parts manufacturers will present the case that they cannot compete with the Indian automotive industry because it enjoys substantial economies of scale, and so on. How will the Government react to lobbying pressures from the influential group of MNCs and will it retain at least part of the Negative List?

The next issue is the tradeoff between development of the engineering goods sector of Pakistan by a tariff policy of protection to 'infant industries' or low duties on machinery imports from India to keep capital costs low and thereby stimulate more private investment in the economy, at a time when it has plummeted. As of now, the government appears to have opted for the latter strategy.

Finally, there is a likelihood of the emergence of tariff anamolies in the case of items outside the Sensitive List with duty rate at 5%. It is possible that some of the intermediate inputs may carry higher duties, leading to a situation of negative protection and a severe loss of ability to compete with imports from India. An in-depth examination may be needed of the overall tariff structure to ratify any anomalies identified by the private sector after January, 2013.

CHAPTER 7
INSTITUTIONS AND LAWS

Pakistan has legislation under the purview of National Tariff Commission (NTC) which needs to be examined from the viewpoint of providing sufficient safeguards to economic activities in the country against imports, especially with regard to avoiding ‘serious injury’. This legislation is examined below.

7.1. Safeguards

This is provided for under the Safeguard Measures Ordinance of 2002. It is consistent with the Agreement on Safeguards included in Annex (IA) to the Final Act of the Results of the Uruguay Round concerning the implementation of Article XIX of GATT, 1994.

‘Serious injury’ under the Ordinance means a significant overall impairment in the position of a domestic industry caused by increased imports, absolute or relative to domestic production, of the investigated product. ‘Threat of serious injury’ means serious injury is clearly imminent.
The Ordinance is in nine Parts as follows:

- I Preliminary
- II Safeguard Measures
- III Serious Injury
- IV Investigation
- V Provisional Duty
- VI Definitive Measures
- VII Review
- VIII Extension and Reapplication Measures
- IX Miscellaneous

The determination of ‘serious injury’ is to be based on the following:

i. The rate and amount of increase in imports of the product under investigation
ii. The share of the domestic market taken up by increased imports of the investigated product
iii. The impact of the increased imports on domestic industry, as evidenced by relevant indicators, including but not limited to production, productivity, capacity utilization, sales market share, profits and losses, and employment

iv. Factors other than increased imports of the investigated product which at the same time are causing serious injury or threat of serious injury.

An investigation may be initiated by NTC, first, upon receipt by the Commission of a written application for an investigation by or on behalf of a domestic industry or, second, **Suo moto** by the Commission where it is satisfied that there is sufficient evidence to justify the initiation of an investigation. In the former case, the application must be submitted in such manner, number and form and with payment of fee, including such information as may be prescribed.

The process of conducting the investigation has been indicated in the Ordinance[2]. The Commission shall complete an investigation within **four months** from the date of its initiation. This period may be extended by **two months**. A provincial determination has to be reached no later than **forty-five** days. This period may also be extended, by a period not exceeding **fifteen** days.

A provincial safeguard duty may be imposed by the Federal Government, by notification in the official Gazette where there are critical circumstances, namely, that delay would cause damage which would be difficult to repair and there is evidence of serious injury or threat of serious injury. The provisional duty shall apply for a period not exceeding **two hundred days** and may be withdrawn earlier. The Federal Government has the right to affirm or reject the proposal by NTC.

The definitive safeguard measure can be in the form of an additional duty or import quota. The quota shall not reduce imports below the level of the average quantity of import over the last three years. In special circumstances, the Federal government may fix a smaller quota. The allocation of the quota shall be based on proportions among exporting countries to Pakistan during the previous three years.

A definitive safeguard measure shall be applied for a period **no more than four years**, unless extended under Section 35 of the Ordinance. There exists a provision for review mid-term of the safeguard measure. As opposed to this, the process for extending the measure has also been indicated. A standard questionnaire has been prescribed for filling up by applicants.

[2] On initiation, the Federal Government is expected to inform the Committee on Safeguards of WTO established under Article 13 of the Agreement on Safeguards.

Miscellaneous provisions of the Ordinance permit the appointment of advisers and consultants, conviction (up to three years) or a fine of up to five million rupees in the event of knowing and wilful provision of wrong information to the Commission.

Safeguard Measures Rules have been formulated by the Federal Government on January 27, 2003. These rules specify clearly the nature of information to be provided by interested parties to the Commission. In addition, the process of investigation and its culmination is described in greater detail.

The Safeguard Measures Ordinance is an important measure to protect Pakistani industry. It will be useful in tackling any threat of serious injury following the granting of MFN status to India and implementation of SAFTA. However, the following amendments/additional provisions may be considered for adoption in the Ordinance:

i. The focus of the Ordinance is on 'domestic industry'. However, we have demonstrated that the level of effective protection to agricultural activities is very low currently in Pakistan and these activities could be more adversely affected by increase and/or diversification of agricultural imports from India. As such 'agriculture' should also be explicitly covered by the Ordinance.

ii. The objective of the Ordinance appears primarily to be to protect domestic producers from serious industry. But it may also be appreciated that lower import prices could be beneficial in terms of consumer welfare gains. This should be explicitly recognized in order to create a greater balance in the Commission's recommendations. Also, in 'interested parties' there must be mention of consumer associations or individual consumers and their right to also participate in the process of investigations.

iii. In the determination of actual or imminent 'serious injury' a key indicator is the fall in profits or increase in losses to domestic industry. But there has to be some objective methodology for quantifying the extent of change in profits/losses due to general deterioration (if any) in macroeconomic conditions and due to increased imports respectively.

iv. The Safeguard Measures Rules need to be somewhat more specific in the setting of norms and yardsticks. How much of a fall in profit constitutes 'serious injury'? For example, the automotive sector of Pakistan is relatively more profitable today because of the high level of effective protection provided to it. In the event that Indian vehicles and transport equipment enter the Pakistani market, how much of the fall in profits can be justified on the grounds of increased competition and how much can be said to constitute ‘serious injury’? Similarly, norms may have to be prescribed for other indicators of the state of an industry.

v. The Commission has been given important **suo moto** powers to initiate investigations. What sort of a data base does the Commission need to have to be able to exercise this power in the absence of an application by an affected industry? Do the Safeguard Measures Rules need to indicate some warning signals which the Commission must look out for? Also there should be some indication on the conditions under which a Suo Moto enquiry can be initiated.

vi. The period for making a recommendation on a safeguard measure has been set at a maximum of six months. This period needs to be reduced to a maximum of three months if during the period of investigation the extent of serious injury is to be minimized.

vii. The instruments available to the Committee in the event ‘serious injury’ is established are either an import quota or a safeguard duty. The law should also permit the imposition of a **tariff quota,** whereby on the level of imports, corresponding to the average of the last three years, the existing duty continues to be applied and beyond that for additional imports higher slabs of duty are specified. This has the merit of limiting an upsurge in the price level of the product under investigation.

viii. The investigation is based on a jump in imports on the average of the last three years. The problem is that an import may have only become possible from India after the granting of MFN status. As such, there is no past history in such cases? If the Commission opts for an import quota then the allocation of Imports to India cannot be based on the past record. An alternative mechanism for quota allocation among countries could be global shares in exports.

It is also important to recognize that there are also special safeguard provisions under SAFTA on product imports of items subject to concession. Article-16, paragraphs 1 to 8, summaries these provisions, presented in Box 7.1.

Paragraph 2 states that if there is evidence of actual or imminent injury then the suspension shall be only for such time and to the extent as may be necessary, but not more than three years. Such items can clearly be brought into Sensitive List and the concession in duty withdrawn. The issue is whether the rate can be enhanced beyond the current MFN rate if newly importable products from India are the primary source of injury. This needs to be clarified, in such cases; will the governing provisions be the regional agreement or the national law?

Box 7.1
Safeguard Measures

1. If any product, which is the subject of a concession under this Agreement, is imported into the territory of a Contracting State in such a manner or in such quantities as to cause, or threaten to cause, serious injury to producers of like or directly competitive products in the importing Contracting State, the importing Contracting State may, pursuant to an investigation by the competent authorities of that Contracting State conducted in accordance with the provisions set out in this Article, suspend temporarily the concessions granted under the provisions of this Agreement. The examination of the impact on the domestic industry concerned shall include an evaluation of all other relevant economic factors and indices having a bearing on the state of the domestic industry of the product and a causal relationship must be clearly established between "serious injury" and imports from within the SAARC region, to the exclusion of all such other factors.
2. Such suspension shall only be for such time and to the extent as may be necessary to prevent or remedy such injury and in no case, will such suspension be for duration of more than 3 years.
3. No safeguard measure shall be applied again by a Contracting State to the import of a product which has been subject to such a measure during the period of implementation of Trade Liberalization Programme by the Contracting States, for a period of time equal to that during which such measure had been previously applied, provided that the period of non-application is at least two years.
4. All investigation procedures for resorting to safeguard measures under this Article shall be consistent with Article XIX of GATT 1994 and WTO Agreement on Safeguards
5. Safeguard action under this Article shall be non-discriminatory and applicable to the product imported from all other Contracting States subject to the provisions of paragraph 8 of this Article.
6. When safeguard provisions are used in accordance with this Article, the Contracting State invoking such measures shall immediately notify the exporting Contracting State(s) and the Committee of Experts.
7. In critical circumstances where delay would cause damage which it would be difficult to repair, a Contracting State may take a provisional safeguard measure pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury. The duration of the provisional measure shall not exceed 200 days, during this period the pertinent requirements of this Article shall be met.
8. Notwithstanding any of the provisions of this Article, safeguard measures under this article shall not be applied against a product originating in a Least Developed Contracting State as long as its share of imports of the product concerned in the importing Contracting State does not exceed 5 per cent, provided Least Developed Contracting States with less than 5% import share collectively account for not more than 15% of total imports of the product concerned.

7.2. Anti -Dumping

Anti-dumping comes under purview of the Anti-Dumping Ordinance of 2000 with amendment in 2011, to be implemented by the NTC. This ordinance gives effect to the provisions of Article VI of GATT, 1994. The Ordinance has seventeen parts. The ‘dumping margin’ of a product means the amount by its normal value exceeds its export price. The normal value is generally defined in normal circumstances as the price for consumption of the investigated product in the exporting country, using the prevailing rate of exchange.

The determination of injury is based on an objective examination including, first, the volume of dumped imports, second, effect of dumped imports on price in domestic market and, third, consequent impact on domestic producers. Section 18 requires that causation be linked to dumping and not due to other exogenous factors. There is no provision in the law for **suo moto** initiation of investigation by the Commission. On receipt of an application, the Commission has to give notice to the government of the exporting country. Any application has to be supported by at least the producers who collectively account for more than 50% of domestic output.

The Commission is expected to conclude its investigation within **twelve months** and in no case more than **eighteen months.** A preliminary determination can be made within 180 days. The Commission may accept a price undertaking from the exporter after preliminary affirmative determination of dumping and injury.

The Commission can, by notification in the Official Gazette, impose an anti-dumping duty in an amount equal to the dumping margin established by the Commission. The duty can be either specific or ad valorem. The duty is to be terminated on a date not later than five years after the imposition of the duty.

The Ordinance provides for an Appelate Tribunal consisting of the following:

a) A retired judge of the Supreme Court who shall also be the Chairman of the Appelate Tribunal
b) A person known for his expertise in economics
c) A person known for his expertise in customs law practice.

Miscellaneous provisions are similar to that in the Safeguards Measures Ordinance, described above.

The Anti-Dumping Ordinance needs to be strengthened in the following ways:

i. The period for determination of dumping activity is far too long at a maximum of eighteen months. This should be restricted to six months as in the Safeguards Measures Ordinance, and any preliminary determination to be completed within two months
ii. There should be an element of penalty in the fixation of the anti-dumping duty which should be more than 100% of the dumping margin.
iii. The Appelate Tribunal should be established and its jurisdiction extended also to cover appeals under the Safeguard Measures Ordinance.

Pakistan also has a **Countervailing Duties Ordinance**, 2001. This gives effect to the provisions of Articles VI and XVI of GATT. However, determination of subsidies by a country exporting to Pakistan is a complex exercise.

7.3. Special Provisions

Pakistan is beginning to face serious balance of payments problem in the face of a major deterioration in the financial account, due to a sharp fall in FDI and net aid inflows, and large debt repayments to IMF. From July 1, 2011 to 30th November 2012, Pakistan's foreign exchange reserves have fallen sharply by almost $ 6 billion from $ 14.8 billion to $ 8.9 billion. Currently, they are enough to only finance about two months of imports of goods and services. If the process of depletion of reserves continues then Pakistan could face a serious balance of payments crisis by mid-2013.

The basic question is whether Pakistan should be liberalizing trade with India when it is moving into a serious balance of payments situation. This depends on the extent to which opportunities for larger exports are created and the degree of reduction in prices of existing imports due to their diversion to Indian suppliers. As opposed to this, there is a danger of worsening of the balance of payments if there is substantial trade creation by Indian exports in Pakistan and/or there is large-scale diversion of informal imports from India to formal channels. Our research has demonstrated that the net balance of trade globally of Pakistan could improve somewhat following liberalization of trade with India.

Nevertheless, while the current account deficit may remain low the erosion of foreign exchange reserves is being caused by the out flows on the financial/capital account. Therefore, Pakistan may need to invoke special provisions to improve further its current account position to compensate for the negative developments in the financial account, especially at a time of peaking of repayments to the IMF in 2013-14.

Does SAFTA contain special provisions for member states which are facing serious balance of payments difficulties? The answer is **yes.** Article 15 of the Agreement focuses on balance of payments measures (Box 7.2), according to which any Contracting State facing serious balance of payments difficulties may suspend provisionally the concessions extended under SAFTA. Any such measure will need to be notified immediately to the Committee of Exports and phased out once this Committee comes to the conclusion that the balance of payments situation of the Contracting State concerned has improved. Therefore, in the first half of 2013, if the BOP continues to deteriorate, Pakistan has legitimately the option available to examine the size and/or composition of Sensitive List. In the case of an upsurge in imports from India of some products which have been placed outside the list, these may be brought into the Sensitive list. Also, the option of raising tariffs or introducing tariff quotas is available and should be resorted to, if necessary, as discussed earlier. But, meanwhile Pakistan should go ahead with granting of MFN status to India on January 1, 2013 and hope for a positive outcome, both directly on the global balance of trade and more generally on relations between the two countries.

Box 7.2
Balance of Payments Measures in SAFTA

1. Notwithstanding the provisions of this Agreement, any Contracting State facing serious balance of payments difficulties may suspend provisionally the concessions extended under this Agreement.
2. Any such measure taken pursuant to paragraph 1 of this Article shall be immediately notified to the Committee of Experts.
3. The Committee of Experts shall periodically review the measures taken pursuant to paragraph 1 of this Article.
4. Any Contracting State which takes action pursuant to paragraph I of this Article shall afford, upon request from any other Contracting State, adequate opportunities for consultations with a view to preserving the stability of concessions under SAFTA.
5. If no satisfactory adjustment is effected between the Contracting States concerned within 30 days of the beginning of such consultations, to be extended by another 30 days through mutual consent, the matter may be referred to the Committee of Experts.
6. Any such measures taken pursuant to paragraph 1 of this Article shall be phased out soon after the Committee of Experts comes to the conclusion that the balance of payments situation of the Contracting State concerned has improved.

Statistical Annexure

Range and average Rate of Customs Duty by Chapter, 2011-12			
	CD (%)		
Rate of Customs Duty in Pakistan	**Min**	**Max**	**Average**
01 Live animals.	0	25	5
02 Meat and edible meat offal.	0	25	16
03 Fish and crustaceans, molluscs and other aquatic invertebrates.	5	10	9
04 Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included.	5	35	48.63
05 Products of animal origin, not elsewhere specified or included.	5	25	9.09
06 Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage.	0	20	9
07 Edible vegetables and certain roots and tubers.	0	15	6
08 Edible fruit and nuts; peel of citrus fruit or melons.			28
09 Coffee, tea, mate and spices.	0	15	8
10 Cereals.	0	35	6
11 Products of the milling industry; malt; starches; inulin; wheat gluten.	0	25	14
12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder.	0	10	3
13 Lac; gums, resins and other vegetable saps and extracts.	15	25	17
14 Vegetable plaiting materials; vegetable products not elsewhere specified or included.	5	25	15
15 Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes.	5	25	22
16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates.	20	25	17
17 Sugars and sugar confectionery.	5	35	17
18 Cocoa and cocoa preparations.	5	30	17
19 Preparations of cereals, flour, starch or milk; pastrycooks' products.	15	35	30
20 Preparations of vegetables, fruit, nuts or other parts of plants.	15	35	31
21 Miscellaneous edible preparations.	10	35	26
22 Beverages, spirits and vinegar.	25	90	72
23 Residues and waste from the food industries; prepared animal fodder.	5	30	12
24 Tobacco and manufactured tobacco substitutes.	5	35	29
25 Salt; sulphur; earths and stone; plastering materials, lime and cement.	5	20	9
26 Ores, slag and ash.	0	20	5
27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	0	25	8
28 Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes.	5	25	6
29 Organic chemicals.	0	25	6
30 Pharmaceutical products.	5	25	12
31 Fertilisers.	0	5	0

	CD (%)		
Rate of Customs Duty in Pakistan	**Min**	**Max**	**Average**
32 Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks.	0	25	13
33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations.	10	35	26
34 Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, "dental waxes" and dental preparations with a basis of plaster.	0	35	17
35 Albuminoidal substances; modified starches; glues; enzymes.	5	20	12
36 Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations.	20	25	22
37 Photographic or cinematographic goods.	0	20	6
38 Miscellaneous chemical products.	0	25	11
39 Plastics and articles thereof	5	25	16
40 Rubber and articles thereof	0	35	18
41 Raw hides and skins (other than furskins) and leather.	0	25	3
42 Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut).	5	25	20
43 Furskins and artificial fur; manufactures thereof.	0	25	5
44 Wood and articles of wood; wood charcoal	0	20	11
45 Cork and articles of cork	5	20	10
46 Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	20	20	18
47 Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard.	0	20	30
48 Paper and paperboard; articles of paper pulp, of paper or of paperboard	5	25	20
49 Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans.	0	25	8
50 Silk.	0	15	7
51 Wool, fine or coarse animal hair; horsehair yarn and woven fabric.	0	15	7
52 Cotton,	0	25	15
53 Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	0	25	9
54 Man-made filaments.	5	15	12
55 Man-made staple fibres.	5	15	12
56 Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	0	25	17
57 Carpets and other textile floor coverings.	5	25	20
58 Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery.	0	25	24
59 Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use.	5	25	18
60 Knitted or crocheted fabrics.	20	25	25

	CD (%)		
Rate of Customs Duty in Pakistan	**Min**	**Max**	**Average**
61 Articles of apparel and clothing accessories, knitted or crocheted.	25	25	25
62 Articles of apparel and clothing accessories, not knitted or crocheted.	5	25	25
63 Other made up textile articles; sets; worn clothing and worn textile articles; rags.	5	25	24
64 Footwear, gaiters and the like; parts of such articles,	25	25	25
65 Headgear and parts thereof	20	20	20
66 Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	20	25	24
67 Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair.	20	25	21
68 Articles of stone, plaster, cement, asbestos, mica or similar materials.	5	35	23
69 Ceramic products.	5	35	28
70 Glass and glassware.	5	35	21
71 Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation, jewellery; coin.	0	10	5
72 Iron and steel.	0	35	11
73 Articles of iron or steel.	5	35	19
74 Copper and articles thereof	0	20	10
75 Nickel and articles thereof.	5	15	18
76 Aluminium and articles thereof	0	30	14
77 *(Reserved for possible future use in the Harmonized System)*			
78 Lead and articles thereof	0	20	11
79 Zinc and articles thereof.	5	15	8
80 Tin and articles thereof.	5	20	9
81 Other base metals; cermets; articles thereof.	5	5	5
82 Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal.	5	35	14
83 Miscellaneous articles of base metal.	5	35	24
84 Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0	35	10
85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles,	0	35	16
86 Railway or tramway locomotives, rolling-stock and parts thereat railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds.	5	10	5
87 Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.	0	100	40
88 Aircraft, spacecraft, and parts thereof.	5	5	5
89 Ships, boats and floating structures.	5	20	10

	CD (%)		
Rate of Customs Duty in Pakistan	**Min**	**Max**	**Average**
90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	0	35	9
91 Clocks and watches and parts thereof.	5	35	10
92 Musical instruments; parts and accessories of such articles.	10	10	10
93 Arms and ammunition; parts and accessories thereof.	15	35	24
94 Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates and the like; prefabricated buildings.	5	35	18
95 Toys, games and sports requisites; parts and accessories thereof	5	25	17
96 Miscellaneous manufactured articles.	0	25	21
97 Works of art, collectors' pieces and antiques.	5	10	5.7
98 *(Reserved for special uses by Contracting Parties)*	16	16	16
99 (Reserved for special uses by Contracting Parties)	0	0	0