Newsletter
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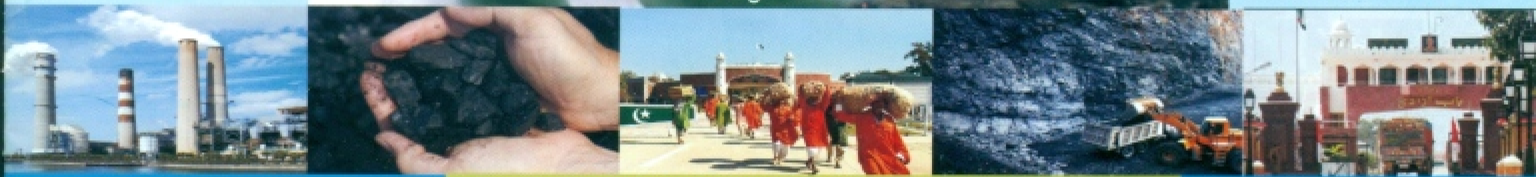

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Enjoy the Mangoes!

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Additional Secretary
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Message From Project Director

Dear readers,

Let me begin by underscoring a cliché, "our industry is playing on a field that is not flat vis-à-vis the rest of the world". The banality not withstanding it is undoubtedly the most important concern of our industry. Chronic energy shortages, high interest rates, weak, quality and standards regime, poor infra structure with frequent law and order disruptions in major business centers especially in Karachi are impeding growth and increasing costs of production. While acknowledging these setbacks, faced by the industry, regional trade promotion and its manifold virtues are being extolled by many in the wake of granting India MFN 'plus' status. Henry Ford an iconic industry figure said, "Before everything else, getting ready is the secret of success." He also said that," Competition is the keen cutting edge of business, always shaving away at costs." Esteemed readers it is in the context of these two very apt quotes that we are now trying our best to raise the awareness of our industry. To forewarn is to forearm albeit it has been done a bit late. Five workshops were arranged in Islamabad & the provincial capitals by the Ministry of Industries. Today apart from 1209 negative list items all other remaining 5599 tariff lines of the total 6808 can be imported from India. South Asian Free Trade Agreement has entered the MFN 'plus' phase. MFN 'plus' means that exports from India after doing away of the 'positive list' of items importable from India face SAFTA tariffs of 5 to 8 % while this will further reduce to 0 to 5% January 2013 onward except for the SAFTA sensitive list of 1169 items which may be imported from India but their tariffs are not to be reduced.

On the Genève front the thoughts of Director-General WTO, Pascal Lamy expressed at an informal meeting of heads of delegations to the WTO on 7 June 2012 that the protectionist trend in terms of, "scale of trade restrictions is a cause for "serious concern" and needs to be taken note of. All developed and emerging economies and others are most worried about creating jobs and that is the rationale giving rise to protectionist trends. In Pakistan we need to bring 'industry' to the "heart of the economic revival package". This is the sector that can create jobs for all skill levels in the shortest possible time.

The harsh, hot relentless summer has arrived since our last news letter. Many decades ago I recall summers as synonymous with the smell of 'khas' an exquisitely fresh smelling grass root peculiar to the subcontinent woven into straw frames and used as 'blinds' on windows and doors to ward off the heat by throwing water on the grass releasing the refreshing smell and cool air; air conditioning was rare. Sipping the revitalizing 'skanjbeen' and 'sattu' drinks made from 'lemon' and 'wheat' in the afternoons with 'motia' and 'gainda' bracelets put around the earthen ware water pitchers; The water from earth pitchers had a peculiar pleasing taste of the wet earth which left the taste buds tingling and the water just cool enough not to activate tonsil bacteria. The milk, meat and groceries were bought farm fresh daily. Readers, the point I wish to underscore by recalling bygone days apart from experiencing nostalgia is that all these activities were free of the use of 'energy' as available today. Our 'carbon foot print' four decades ago was minimal. We cannot survive today without umpteen electricity driven machines. We are desperately short of energy today because of the 2012 lifestyle. The old forgotten ways of beating the heat were environmentally 'green' and not hurting the ecology or exacerbating 'climate change'.

Readers the stifling heat is on not only in terms of our intense Pakistani summers but also the financial difficulties our economy runs into every few months. Our loans are on a trajectory to multiply exponentially while the economy is on a path where for each percent of growth three percent increase in energy supply is a necessary condition. Our current policy is one of rationing energy. Inflation is primarily fuel price driven. Reducing sales tax on diesel and petrol by 50% would, drive inflation down; provide an alternate and substitute to gas/electricity shortage. This will bring immediate relief to consumers, industry and taxes will increase as petrol/diesel are price elastic. With lower price more will be consumed yielding higher tax. Energy generation and its supply to end users is non transparent and complicated by all power generated at different rates first entering what is called the 'national grid' and then is sold at policy rates. This process promotes and hides inefficient power generation which is paid for by consumers both as 'load shedding' and costly energy. The case of 'industry in Pakistan' is that energy is distributed giving industry both least priority and highest rates. We hope that this situation is rectified at the earliest to enable our manufacturing sector to compete with regional competitors and also get a foot hold in markets abroad. Au Revoir!

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Likely Implications of MFN Status Being Offered to India

By Saifullah Khan (S.U.Khan Associates, Management Consultants)

Although Pakistan has access to a big market in India due to MFN status granted in 1996, yet its exports to India are less than a quarter of India's exports to Pakistan. In case of India, with a smaller market access in Pakistan due to a restrictive trade regime in the form of Positive List (imports restricted to 1963 items) and absence of MFN status, its exports to Pakistan have been considerably higher. The following can be identified as the major reasons responsible for this significant difference:

a) India has imposed many Non-Tariff Barriers (NTBs) on its imports which restrict Pakistan's exports to India.
b) Pakistan is not adequately competitive in the Indian market for a number of reasons including lower capacities, old technologies, higher cost of inputs etc. Pakistan also does not have sufficient export surplus.

By granting MFN status to India, it is very likely that India's exports to Pakistan would increase substantially but Pakistan's exports to India are not likely to increase to that extent, at least initially. Thus the likely result would be a balance of payment initially more favorable to India. To avert this situation to some extent, Pakistan although claims to have identified non-tariff barriers which will have to be removed by India as a part of the agreement to grant it MFN status, the exercise demands in-depth analysis of the NTB regime followed by serious negotiations to get them removed.

Despite the apparent issues, Pakistan still stands to benefit on the following accounts in the new trading regime:

a) There will be some shift in its imports from expensive destinations around the world to cheaper Indian imports.
b) Pakistani industries which are not competitive in the domestic market with Indian imports will have to become more efficient and competitive.
c) Pakistani industries which are dependent on imported expensive raw materials would become more competitive due to availability of cheaper inputs from India.
d) In case Pakistan increases its export surplus, it can further increase its exports to India.
e) Consumer items imported from India will reduce the domestic prices of competing items in Pakistan presently available at higher prices.
f) In case of sudden shortage of any item, lead time will be less for imports from India and thus Pakistan can cope with such a situation swiftly.
g) Even other exporting countries will reduce their prices in a bid to retain Pakistani market to compete with likely Indian imports.
h) Clandestine import from India will come through regular import channel. This will increase government revenue.

In spite of the above benefits, the main threat to a number of Pakistani industries would be the likely injury due to greater imports from India and especially if prices of the imported goods are unfairly low. The WTO regime, which makes it obligatory for each country to grant MFN status to all member countries, also provides for certain exceptions in the form of trade remedy laws. Pakistan can therefore resort to trade remedy laws i.e. Anti-dumping Duties Ordinance 2000, Countervailing Duties Ordinance 2001, Safeguard Measures Ordinance 2002 for the protection of domestic industry against unfair as well as fair trade. Anti-dumping Duties Ordinance 2000 provides protection to the domestic industry against dumped imports. Similarly, Countervailing Duties Ordinance 2001 provides protection to the domestic industry against subsidized imports, whereas Safeguard Measures Ordinance 2002 provides protection against fair trade where there is sudden surge in imports. In order to claim injury in its application for initiation of an investigation under trade remedy laws, the domestic industry is required to provide its own data for the preceding three year period relating to production, sales prices, productivity, capacity utilization, sales quantity, market share, profit, employment, cost of production etc.

The National Tariff Commission is the investigating authority in Pakistan which applies these trade remedy laws for the protection of domestic industry after establishing the existence of dumping, subsidy or sudden surge in imports. NTC analyzes the impact of prices and volume of such imports on various injury factors claimed by the domestic industry. It then decides the imposition of relevant measure for the protection of applicant domestic industry. The Commission has so far levied Anti-dumping duties against a number of products imported from various countries including, Belgium, China, Indonesia, South Korea, Taiwan, France, Finland, Germany, India, Netherlands, Thailand, Malaysia, Turkey, USA etc. Anti-dumping duties are imposed, initially, for a maximum period of 5 years, further extendable keeping in view the circumstances of each case.

The Commission has also initiated an anti-subsidy case in the recent past.These laws occupy significant importance in the wake of normalization of trade with India. Even in case of 'threat of injury' from Indian imports or 'material retardation' to the establishment of the domestic industry, the Commission can initiate investigations under the trade remedy laws for its protection. Let's take the example of China where Pakistan in addition to the normal MFN status has also entered into a Free Trade Agreement (FTA). Pakistan is providing the required protection to its industry by implementing trade remedy laws and has so for imposed Anti-dumping duties against import of some products from China as well. Compared to India, China is a bigger market, and has more economies of scale in manufacturing various products. Even India and China are using trade remedy laws to provide the desired protection to their industries. Pakistan can also take recourse to these laws to shield its vulnerable industry from harm while not deviating from the rules of international trade.