GOVERNMENT OF PAKISTAN
Ministry of Textile Industry

F. No 1(1) RDACELL/2012-114

Islamabad: Thursday, 22nd March, 2012.

Subject: **PAKISTAN - INDIA TEXTILES TRADE**

Ministry of Commerce has recently constituted committees to evolve sector-wise strategies in wake of normalization of Pakistan-India trade with the following terms of reference.

Terms of Reference

- Identification of segments of industry which are not competitive vis-à-vis India and reasons therefore;
- Is the tariff protection for this product range adequate to safeguard the relevant industry?
- Comparative tariffs of India and Pakistan for the particular product range;
- India's export potential in this sector;
- Have trade defense laws been used in this sector? If not how can this process be facilitated (this may including suggestions regarding legal, institutional and procedural modifications required to make the process facilitative)?

EXPORT POTENTIAL FOR INDIA

- What products can be exported to India?
- Is the item included in the India's SAFTA Sensitive list for NLDCs and LDCs? If so, what is the level of protection?
- What are tariff/non tariff barriers that need to be addressed to facilitate exports of these products? (This would require specific reference to relevant Indian regulation).

2. You are requested to provide your comments/inputs on above mentioned points by 2nd April, 2012. A preliminary non paper is enclosed for your reference.

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All Textile Associations/ Chambers

CC:

PS to Secretary,

Director RDA Cell
Joint Secretary (Policy)

Non-Paper

Pakistan India Textiles Trade

India claims that Pakistan has been given GMFN since 1996 and has no discriminatory technical and/or non-tariff barriers for Pakistan. Also, more than 80% of our exports are getting preferential tariff rates due to SAFTA. We have still not been able to export more than US$ 272 million to India whereas India has exported around US$ 1,500 million worth of commodities while only being allowed 1900 tariff lines. In case of textiles, which is our main exporting sector, Pakistan only exported US$ 45 million worth of textiles products to India whereas India exported US$ 566 million worth of textiles product in the calendar year 2010 in the presence of Appendix G.

Under the SAFTA agreement tariff rates will be 0-5% on all products other than the sensitive list. Initially Pakistan had 1,183 (6-digit level) tariff lines in the sensitive list, out of which 293 were of textiles products. India and Bangladesh while realizing the importance of textiles sector in their economic development, export growth and employment generation had protected their textiles sector.

Countries	No. of tariff lines in Sensitive List	No. of Textiles Tariff Lines	Percentage Share
India	865	302	35%
Bangladesh	1254	391	31%
Pakistan	1183	293	25%

Recently Ministry of Commerce as per agreement has reduced the sensitive list by 20%. So the Sensitive List now contains only 242 textiles tariff line whereas there is no indication of reduction from India or Bangladesh. India also has separate sensitive list for LDCs and NLDCs and hence has provided lesser preference to Pakistan in comparison to Bangladesh etc. Almost all textile lines in which the Pakistan has export potential are in sensitive list of India.

Other than this protection at present, India has kept high non-adavolrem duties on all major textiles products (around 700 tariff lines) which are barrier to Pakistan's exports, examples of few are as follows:

Code	Description	Duty	US$ Duty	Pakistan Average Value	Effective Basic Duty
630231	Bedsheet of cotton	10.0% or Rs.96 per kg., whichever is higher	Minimum of US$ 1.91	US$ 6.51	29%
620342	Cotton Trouser	10.0% or Rs.135 per piece, whichever is higher	Minimum of US$ 2.68	US$ 5.05	53%
610510	Knit T-shirt	10.0% or Rs.83 per piece, whichever is higher	Minimum of US$ 1.65	US$ 3.06	54%
520931	Dyed Fabric	10.0% or Rs.150 per kg., whichever is higher	Minimum of US$ 2.98	US$ 11.83	25%

There is also multilayered tariff system in India. Indian custom authorities have levied other special duties on imports in the presence of which there is very less export potential to tap Indian domestic market.

Name of Duty	Rate	Description	Effective Indian Total Duty on Average Value
CVD Additional Duty	10%	Bedsheet of cotton	46%
Central Excise Cess	3%	Cotton Trouser	74%
Customs Education Cess	3%	Knit T-shirt	75%
Special CVD	4%	Dyed Fabric	30.27%

India's advalorem textile bound rate is currently at 40% whereas Pakistan has 25% on textiles value added products. The difference between the high bound rates and considerably lower applied rates which provide India flexibility to raise tariffs within the bound rates as well.

It may also be noted that Indian subsidy programs are highly budgeted. The budget of Ministry of Textile Industry for the year 2010-11 was Indian Rs. 54 billion and this does not include the budget of Draw Back Scheme, Duty Entitlement Pass Book (DEPB) Scheme, Market Focus Program etc.

India also has huge state-owned textile mills and has cotton trade. Only two years back, Indian Government procured around 9 million bales of cotton. India has also banned export of cotton which results in lowering of cost of cotton for Indian textile industries other than losses to Pakistani importers of cotton.

Textiles industry consists of ten industrial subsectors and raw material of one sector is the final product of the other. Similarly, the interests of a commercial exporter, importer, manufacturer and exporter, vendor industry and composite units differ immensely. At this point of time we have reduced SAFTA sensitive list (242 items) which is providing imbalanced effective protection rates whereas we have atleast 400 tariff lines of only the value added final consumer products. The negative list worsens this imbalance as it ban a number of raw materials but allows its value added product at a lesser custom duty. The tariff level according to Ministry of Textile should be computed in a scientific manner resulting in optimal rates which support achievement of following objectives:

- provide larger employment opportunities
- better utilization of domestic resources
- promote product diversification
- increase value added exports and overall exports
- provide variety of textiles product in the domestic market
- ensure protection of critical segments of the value chain

As far as trade defense mechanism is concerned, India has various technical barriers to trade already intact for protection of their industry as a whole and has repeatedly used anti dumping measures, Pakistan although has laws in place but has limited experience in handling defense trade mechanism and has a very small setup to implement such measures. A highly skilled, well budgeted and resourced organization along with organized domestic sector may take years to develop and till such time there would be no mechanism available for the domestic industry.

The private sector also lacks capacity to initiate and/or to develop a strong case to invoke the trade defense laws on the basis of decrease in capacity utilization and/or loss in domestic market as no reliable data has been maintained as far as local production and sales is concerned. This data is mandatory for initiating any kind of defense mechanism under WTO regulations.

In general Pakistan's industry is facing acute shortage of electricity and gas with appreciating input costs. The quantum of non-performing loans is increasing while exports have shown a declining trend. The security conditions have further deteriorated the productivity and efficiency of the industry. On the other hand Indian textiles industry which is the second largest in the world is enjoying protected huge domestic market which ensures its better level of economy of scales and opening of borders will just increase its outreach in the presence of SAFTA reduced rates. The comparative and competitive advantage of various industries at the time of power shortage, high level of non-performing loans and high rate of inflation on basic input costs with Indian industry textiles exports at SAFTA rates is major concern for future of our textiles industry.

At the same time the tariff rationalization exercise is proposing reduction of tariff rates to maximum of 10% which will result in reduction of duties on sensitive items as well will give India a fullest chance to enter Pakistani market. On the other hand, Pakistan will be facing huge non-advalorem and special duties other than the non-tariff barriers.