

South Asian Free Trade Area and Indo-Pakistan Trade

INDRA NATH MUKHERJI

1. INTRODUCTION

Preferential trading is one of the mildest forms of an integrative arrangement. Under the arrangement, the Contracting States (CS) offer a preferential margin with respect to trade barriers in relation to their MFN rates. CS having disparate levels of development as well as trade regimes, find this an acceptable instrument for initiating regional trade liberalisation. Such an arrangement nevertheless provides the building blocks towards accelerated regional trade liberalisation culminating in a free trade area within a defined time frame. Under a free trade area the CS eliminate all trade restrictions on their mutual trade, while maintaining restrictions in their trade with non-CS at a level they deem appropriate. When all CS decide on a common external tariff, then the arrangement translates itself in a more cohesive customs union. The arrangement translates to a common market when all CS agree not only to allow free movement of goods and services, but all the factors of production including capital and labour. Finally, the most comprehensive form of an integrative arrangement results from an economic union, which integrates national economic policies of CS and leads to the adoption of a common currency. The Agreement on South Asian Preferential Trading Arrangement (SAPTA), which became operational since December 7th, 1995 thus, symbolises the beginnings of the very first stage of an integrative arrangement among the member countries of SAARC. The decision made at the Twelfth SAARC Summit at Islamabad in January 2004 to launch South Asian Free Trade Agreement (SAFTA) from January 2006 would mark the second stage of the process of integration in the region. The main focus of this paper is to assess the impact of SAPTA on Indo-Pak trade.

The implementation of any preferential trading arrangement is initiated with the issue of customs notification. Till to date as many as four rounds of SAPTA

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negotiations have been initiated on a product-by-product basis. India and Pakistan did not exchange any concessions in the Fourth Round. A summary of customs notifications issued for three rounds of negotiations by CS of SAPTA is presented in Table 1 below.

Table 1

| <i>Customs Notifications Issued by SAARC Member States</i> | | |
|--|--|----------------------|
| Rounds | Issuing Countries | Date of Issue |
| First | All SAARC CS | 7 December 1995 |
| | Bangladesh | 26- 02- 1997 |
| | Bhutan | 04- 02-1997 |
| | India | 01-03-1997 |
| | Maldives | 01-03-1997 |
| | Nepal | 31-03-1997 |
| | Pakistan | 13-06-1997 |
| | Sri Lanka | 17-06-1997 |
| | India | 10-08-1999 |
| | Pakistan and other Contracting States | by 31-10-1999 |

Source: SAARC Secretariat.

It will be observed that both India and Pakistan along with all other CS issued customs notifications for the products exchanged concessions in the first round on 7 December 1995. Customs notifications for the second and third rounds were issued by India on 1st March 1997 and 10 August 1999 respectively. The same were issued by Pakistan on 13 June 1997 and 31st October 1999 respectively.

Table 2 below shows the number of products exchanged concessions by CS under the different rounds of SAPTA negotiations exclusively for least developed countries (LDCs) and for all countries (including LDCs). It will be observed that in the three SAPTA rounds as many as 5550 products were offered concessions by all CS of which concessions on 3439 products were offered exclusively for LDCs. Since both India and Pakistan are non-LDCs, only those products offered concessions for all countries (which include non-LDCs) are relevant for our analysis. The data reveals that in the three rounds while India offered concessions on 477 products for all countries, Pakistan offered concessions on 271 products for all countries. It will be further observed that the maximum number of products offered concessions by each country were exchanged during the Second Round. Since the number of products offered concessions during the First Round was quite modest, the impact

Table 2

*Number of Products on which Tariff Concessions have been Extended by SAARC
Member States in the Three Rounds of Trade Negotiations under SAPTA*

| Countries | First Round | | | Second Round | | | Third Round | | | Grand Total |
|-----------------|-------------|-----------|------------|--------------|------------|------------|-------------|-----------|-------------|-------------|
| | For LDCs | For All | Total | For LDCs | For All | Total | For LDCs | For All | Total | |
| Bangladesh | 1 | 11 | 12 | 11 | 215 | 226 | 143 | 338 | 481 | 719 |
| Bhutan | 7 | 4 | 11 | 10 | 37 | 47 | 101 | 23 | 124 | 182 |
| India | 62 | 44 | 106 | 514 | 390 | 904 | 1874 | 43 | 1917 | 2927 |
| Maldives | 17 | 17 | 34 | 2 | 5 | 7 | | 349 | 349 | 390 |
| Nepal | 4 | 10 | 14 | 67 | 166 | 233 | 137 | 52 | 189 | 436 |
| Pakistan | 15 | 20 | 35 | 131 | 227 | 358 | 271 | 24 | 295 | 688 |
| Sri Lanka | 11 | 20 | 31 | 23 | 72 | 95 | 54 | 28 | 82 | 208 |
| Total | 100 | 126 | 226 | 759 | 1109 | 1868 | 2580 | 876 | 3456 | 5550 |

Source: SAARC Secretariat.

assessment on bilateral preferential trade flows of the two countries should be of particular relevance with effect from 1997-98. We have obtained data till 2002-03 which permits seven years post-liberalisation assessment of trade flows of products covered under SAPTA First Round, six years for products covered under SAPTA Second Round, and a little over three years for products covered under SAPTA Third Round. It needs to be noted here the analysis is based entirely on Indian source, the financial year being April to March.

Since the depth of tariff cuts on MFN rates has a bearing on trade flows, we have presented this in Table 3 below. It will be observed that India offered concessions to all countries between 10-90 percent during the First Round, 10-40 percent during the Second Round and 10-20 percent during the Third Round. In

Table 3

*Depth of Tariff Concessions on MFN Rates Agreed by the SAARC Member
States in the Three Rounds of Negotiations under SAPTA (%)*

| Countries | First Round | | Second Round | | Third Round | |
|-----------------|---------------|-----------------------|--------------|--------------------|---------------|--------------|
| | For LDCs | For All | For LDCs | For All | For LDCs | For All |
| Bangladesh | 10 | 10 | 10 | 10 | 10,15 | 10 |
| Bhutan | 10,13,15 | 15 | 15 | 10 | 10,18,20 | 10 |
| India | 50,100 | 10,25,30,50,90 | 25,30 | 10,15,25,40 | 50-100 | 10,20 |
| Maldives | 7.5 | 7.5 | 15 | 10 | 5,10 | 5,10 |
| Nepal | 10 | 10 | 15 | 10 | 10,15 | 10 |
| Pakistan | 15 | 10 | 15 | 10 | 30 | 20 |
| Sri Lanka | 10,15 | 10,20 | 10,50,60 | 10 | 10,30,50 | 10 |

Source: SAARC Secretariat.

contrast, Pakistan offered tariff preference to all countries to the extent of 10 percent in the First and Second Rounds and 20 percent during the Third Round. Thus the depth of tariff cuts offered to all CS by both India and Pakistan quite was modest.

2. METHODOLOGICAL ISSUES

As noted above, SAPTA has been operationalised in phases since December 1995. It is now time to take stock of its impact on expansion of intra regional trade. Such an exercise is possible when the data is available electronically. The researcher had access to such data from the Director General of Commercial Intelligence and Statistics (DGCI & S), Kolkata. Further, the web site of the Indian Ministry of Commerce was found to be most useful.¹ The data was obtained at 8- digit level of aggregation under the Harmonised System (HS) of classification so that the trade flows could be traced as minutely as possible. This is the highest level of disaggregation available from the Indian source. The concessions exchanged by the SAPTA CS were generally at 6-digit level of aggregation. With effect from the Third Round, concessions were sometimes also exchanged at a much higher level of aggregation as under Chapters (2-digit HS classification). Products at 8-digit level of aggregation are hence subsets of those aggregated under 6-digit, 4-digit or 2-digit levels. Hence all products under 8-digit levels were aggregated to conform to the 6-digit, 4-digit or 2-digit levels in respect of which concessions were exchanged.

The modalities of negotiations envisage that each pair of CS first negotiate bilaterally under the various rounds on the basis of offer and request lists. At the end of negotiations the products finally conceded concessions are multilateralised for all countries or for all LDCs in case the products so conceded are meant for only LDCs. After the end of negotiations multiple products offered concessions under both the lists for LDCs and non-LDCs are eliminated to arrive at a Consolidated National List of Concessions. This modality for negotiations was also followed in case of India and Pakistan. This list has been obtained from the SAARC secretariat website.² The objective of this exercise is to ascertain as to whether India's offer of concessions on negotiated products to all countries (including Pakistan), resulted in an increase in its imports of negotiated products relative to its overall bilateral imports from the latter country. To obtain a macro perspective the values of all products conceded preferences are summed up and the share of this aggregated value is looked at as a percentage share of India's total bilateral imports from that country. The period of analysis is initiated from 1996-97, roughly the year from which exchange of concessions was initiated, to the year 2002-03, the last year for which data could be

¹www.dgft.delhi.nic.in.

²www.saarc-sec.org.

obtained. In case the rate of increase in preferential imports is more rapid than total bilateral imports in general, positive impact consequent to tariff reductions may be subsumed.

A similar procedure was followed in assessing as to whether trade concessions offered by Pakistan to India as a non-LDC stimulated the latter country's export to the former. The rising value share of products conceded concessions by Pakistan in favour of India could be considered to be a reflection of the positive impact on India's exports. Accordingly a faster growth of such concessional exports in relation to total bilateral exports to Pakistan would be reflected in rising shares.

3. BASIC HYPOTHESES

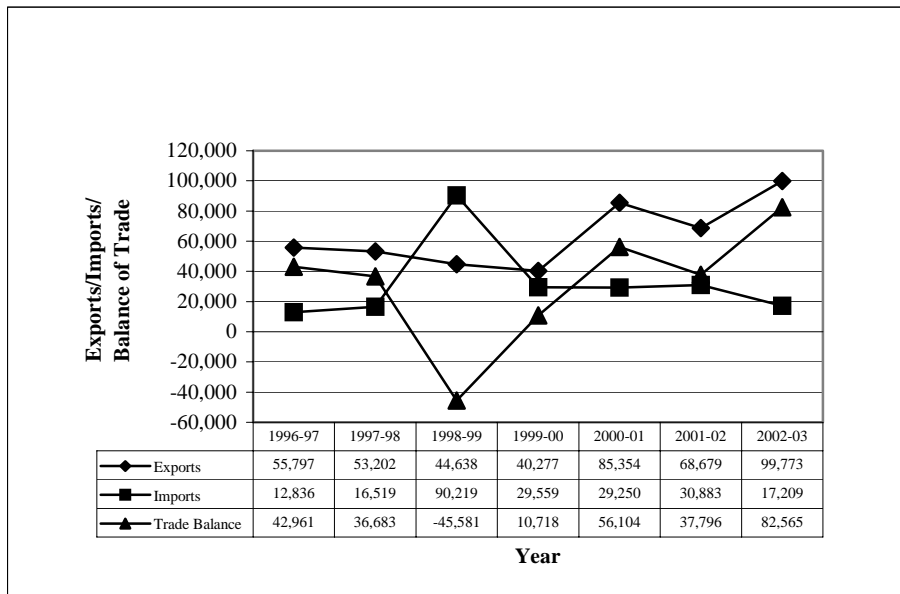
The basic hypothesis of this paper is that when tariff preferences are offered by the concession offering country, the import price facing the concession receiving country reduces by the like margin in relation to competing imports from third countries making the product relatively cheaper to the consumer. This should cause such preferential imports to increase faster in relation to total bilateral imports from the concession offering country.

4. TRENDS IN INDO-PAK TRADE

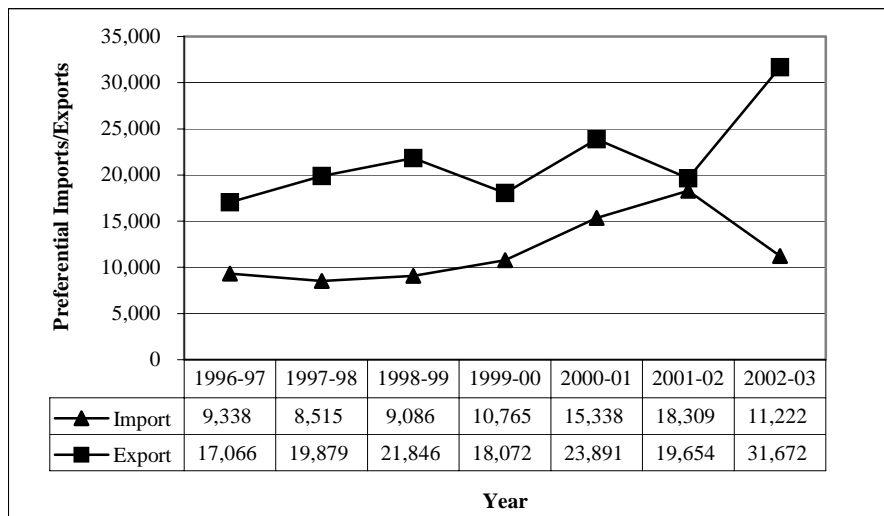
Before examining the trend in India's preferential trade with Pakistan, we may like to examine the overall bilateral trade between the two countries in general. Figure 1 shows the trend in Indo-Pak trade during the period 1997-98 to 2002-03. It will be observed that the bilateral trade between the two countries has not been buoyant since during the last seven years. In general India has been having a trade surplus with Pakistan except in the year 1998-99 when the converse was true. It may be recalled that in that year there was unusually large import of sugar from Pakistan, which turned the trade balance in Pakistan's favour.

5. MACRO IMPACT ASSESSMENT ON PREFERENTIAL TRADE

India's preferential trade with Pakistan has been presented in Figure 2. It will be seen that the coverage of India's preferential exports to Pakistan has generally been higher than its coverage in preferential imports. However the gap in the two values has been narrowing over the period 1996-97 to 2001-02. In 2002-03 however, preferential trade balance moved sharply in India's favour. Figure 2 presents the data graphically.

Fig. 1. India's Exports, Imports and Balance of Trade with Pakistan (IR Lacs).

Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

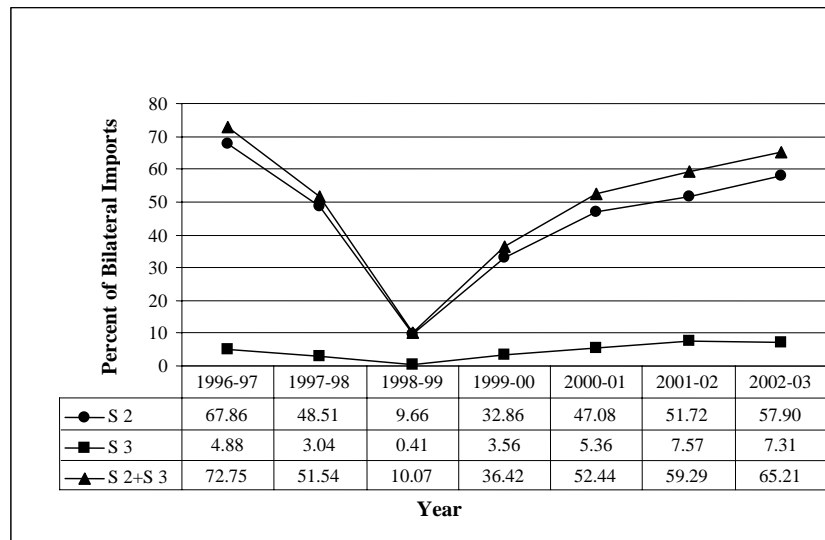
Fig. 2. India's Preferential Imports from and Exports to Pakistan (Indian Rs Lacs).

Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

5.1. Import Shares Disaggregated by Rounds

In analysing the impact of trade liberalisation one needs to see how preferential import shares have been moving in relation to India's total bilateral imports from Pakistan disaggregated by different rounds of negotiations. Figure 3 shows the trends. It will be seen that the shares of preferential imports declined initially from 1996-97 to 1998-99 but the shares started increasing from 1998-99. The very low share in 1998-99 was due to the inclusion of one product, namely sugar in India's import basket from Pakistan. It will be further noted that since the number of products offered by India was much higher in Second Round, the preferential imports were more during this Round reflecting better targeting of Pakistan's request list. The products included under the Third Round being more modest, the import share is lower and shows a mildly increasing trend since 1998-99. No preferential imports of products offered in the First Round are visible.

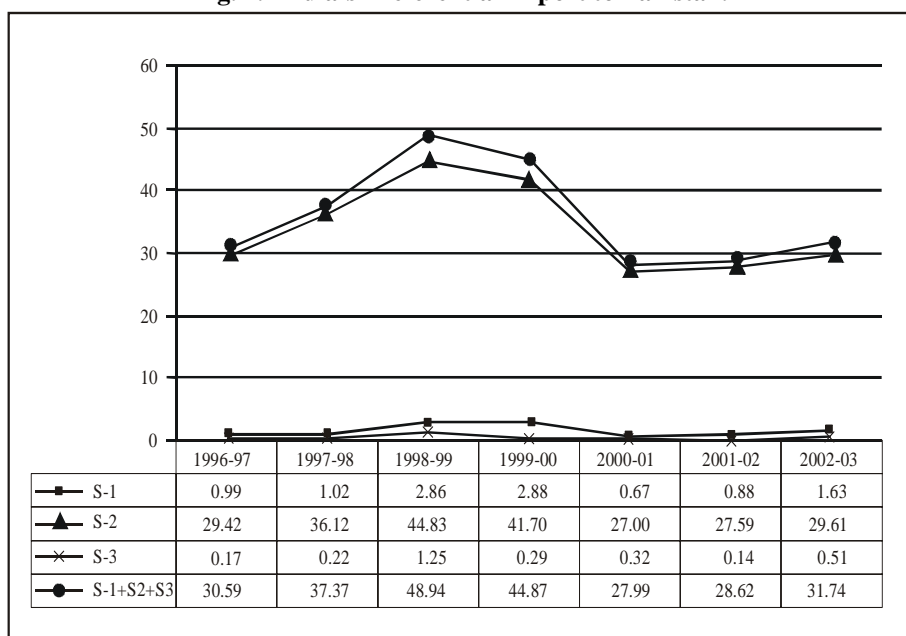
Fig. 3. India's Preferential Imports from Pakistan.



Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

5.2. Export Shares Disaggregated by Rounds

Unlike preferential imports, India's preferential exports as a percentage of total bilateral exports show fluctuating trend as may be seen in Figure 4. It will be seen that similar to preferential imports, the largest percentage share of India's preferential exports were for products contained under the Second Round of negotiations. The preferential export share of products covered under the Third

Fig. 4. India's Preferential Export to Pakistan.

Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

Round was quite modest as compared to those offered in the Second Round. Very mild share of preferential exports were observed for products offered concessions during the First Round. The trends in overall preferential exports shares are marked by decline between 1998-99 to 2000-01 and mildly increasing shares from 2000-01 to 2002-03.

6. MICRO ANALYSIS BY PRODUCT GROUPS AND PRODUCTS

6.1. Product Groups: Imports

The product group analysis covers those preferentially imported, which are grouped in terms of Sections and Chapters of the Harmonised System (HS) of classification. All products under this classification when aggregated over two-digit level are known as Chapters while a combination of chapters provides a more aggregated product grouping under Sections. Annex 1 gives the definitions of various Sections under the H.S. System of classification.

The data for 2002-03 reveals that chemicals and allied products (Section VI), mineral products (Section V), and vegetable products (Section II) together accounted for the entire preferential imports from Pakistan. In contrast, we notice that in 1996-

97 mineral products alone accounted for 87 percent of India's preferential imports from Pakistan. Since then the share of chemicals has increased considerably. The share of vegetable products too has been increasing since 1998-99. Overall we notice some diversification of India's import from Pakistan. Figures 5 (a), (b) illustrates this trend.

Table 4

India's Preferential Imports from Pakistan by HS Sections/Chapters as percent of Total Bilateral Imports: 1996-97 to 2002-03

| | | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 |
|-------------------------|---------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total Bilateral* | | 12835.92 | 16519.11 | 90219.26 | 29558.93 | 29249.98 | 30883.16 | 17208.56 |
| Section | Chapter | | | | | | | |
| All Sections | | 72.75 | 51.54 | 10.07 | 36.42 | 52.44 | 59.29 | 65.21 |
| II | 6-14 | 8.66 | 3.74 | 0.78 | 3.90 | 8.17 | 12.58 | 11.88 |
| V | 25-27 | 63.27 | 40.51 | 8.12 | 16.82 | 33.53 | 30.05 | 15.33 |
| VI | 28-38 | 0.12 | 6.57 | 0.79 | 12.39 | 9.55 | 15.23 | 37.94 |
| VII | 39-40 | 0.06 | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| VIII | 41-43 | 0.04 | 0.29 | 0.30 | 2.71 | 0.44 | 0.70 | 0.00 |
| X | 47-49 | 0.12 | 0.17 | 0.00 | 0.08 | 0.16 | 0.00 | 0.01 |
| XI | 50-63 | 0.00 | 0.15 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| XIII | 68-70 | 0.00 | 0.00 | 0.05 | 0.00 | 0.00 | 0.11 | 0.05 |
| XVI | 84-85 | 0.00 | 0.00 | 0.00 | 0.04 | 0.04 | 0.15 | 0.00 |
| XX | 94-96 | 0.47 | 0.09 | 0.03 | 0.47 | 0.54 | 0.45 | 0.00 |

Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

Note: * Denotes value in Rs Lacs.

Fig. 5(a). India's Preferential Imports from Pakistan by HS Sections: 1996-97.

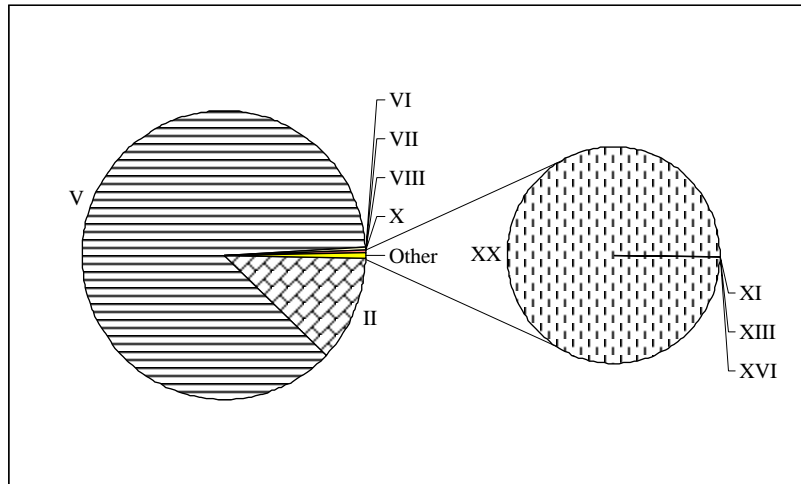
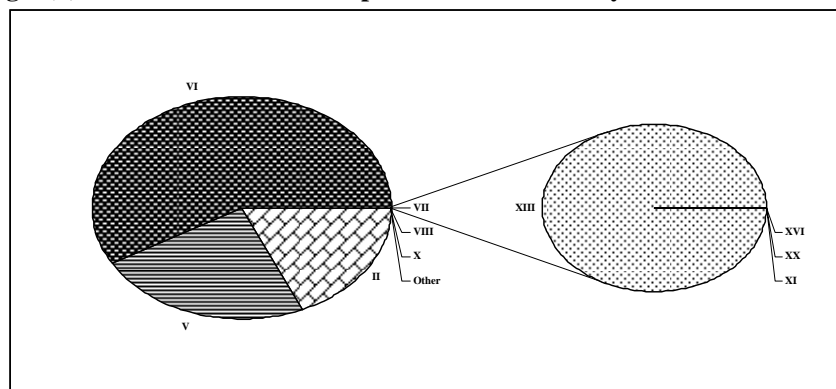


Fig. 5(b). India's Preferential Imports from Pakistan by HS Sections: 2002-03.

Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

6.2. Product Groups: Exports

Table 5 presents India's preferential exports to Pakistan by product groups. The table reveals that in 2002-03 plastics, rubber and articles thereof (Section VII), mineral products (Section V), products of chemical and allied industries (Section VI) together accounted for 86 percent of India's preferential exports to Pakistan. Compared to 1996-97 we notice that the shares of plastics, rubber and articles thereof (Section VII) have gone up considerably contributing to some diversification of India's preferential exports to Pakistan. Figures 6(a), (b) illustrates the changing composition.

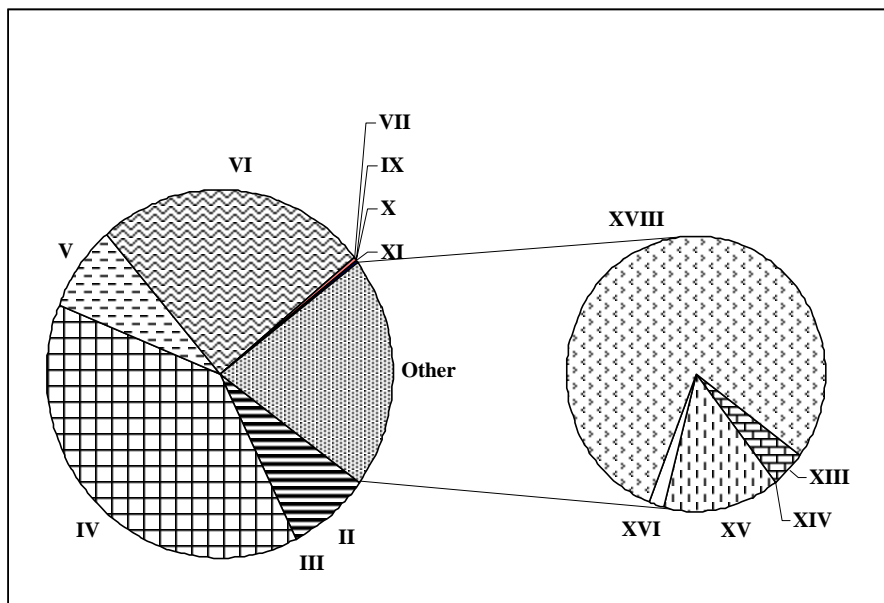
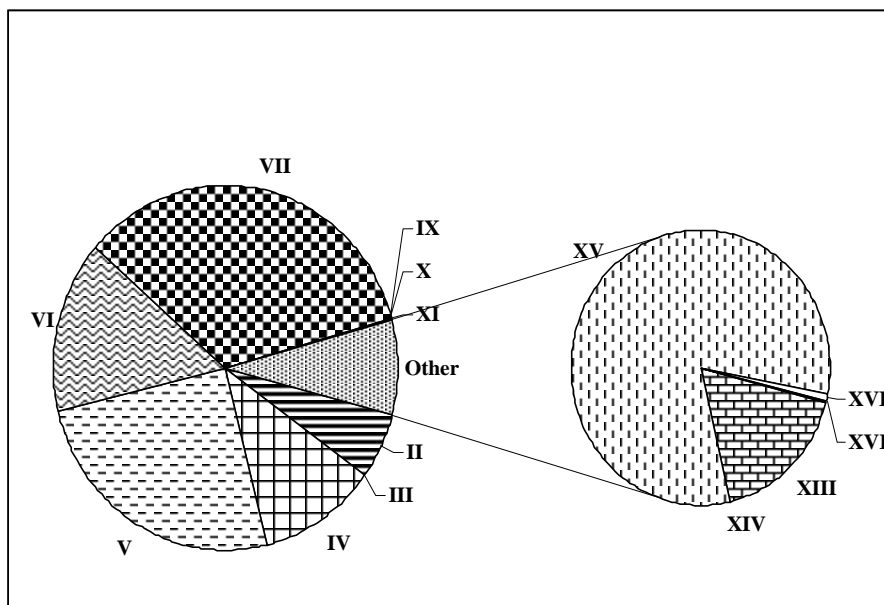
Table 5

India's Preferential Exports to Pakistan by HS Sections/Chapters as percent of Total Bilateral Exports: 1996-97 to 2002-03

| | | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2000-02 | 2002-03 |
|-------------------------|---------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|
| Total Bilateral* | | 55796.6 | 53201.8 | 44638.1 | 40277.12 | 85354.1 | 68679.3 | 99773.2 |
| Section | Chapter | | | | | | | |
| All Sections | | 30.59 | 37.37 | 48.94 | 44.87 | 27.99 | 28.62 | 31.74 |
| II | 14-Jun | 2.39 | 2.41 | 3.79 | 4.21 | 2.01 | 1.77 | 1.82 |
| III | 15 | 0 | 0 | 0 | 0.02 | 0.01 | 0.02 | 0.01 |
| IV | 16-24 | 11.69 | 13.22 | 23.08 | 21.28 | 9.77 | 3.06 | 3.53 |
| V | 25-27 | 2.29 | 6.24 | 5.81 | 0.75 | 2.24 | 3.28 | 7.92 |
| VI | 28-38 | 7.86 | 9.06 | 11.84 | 11.52 | 5.09 | 5.64 | 4.93 |
| VII | 39-40 | 0.06 | 1.18 | 0.3 | 1.96 | 6.79 | 13.83 | 10.81 |
| IX | 44-47 | 0.02 | 0.01 | 0.02 | 0 | 0 | 0.01 | 0.01 |
| X | 47-49 | 0.02 | 0 | 0 | 0 | 0 | 0 | 0 |
| XI | 50-63 | 0.08 | 0.16 | 0.15 | 0.29 | 0.14 | 0.07 | 0.04 |
| XIII | 68-70 | 0.28 | 0.12 | 1.23 | 0.02 | 0.22 | 0.08 | 0.46 |
| XIV | 71 | 0 | 0 | 0.01 | 0 | 0.05 | 0.01 | 0 |
| XV | 72-83 | 0.88 | 0.6 | 1.57 | 3.41 | 1.27 | 0.82 | 2.19 |
| XVI | 84-85 | 0.13 | 0.05 | 0.16 | 0.08 | 0.03 | 0.02 | 0.02 |
| XVIII | 90-92 | 4.88 | 4.32 | 1 | 1.33 | 0.36 | 0.03 | 0.01 |

Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

Note: * Denotes value in Rs Lacs.

Fig. 6(a). India's Preferential Exports to Pakistan by HS Sections: 1996-97.**Fig. 6(b). India's Preferential Exports to Pakistan by Sections: 2002-03.**

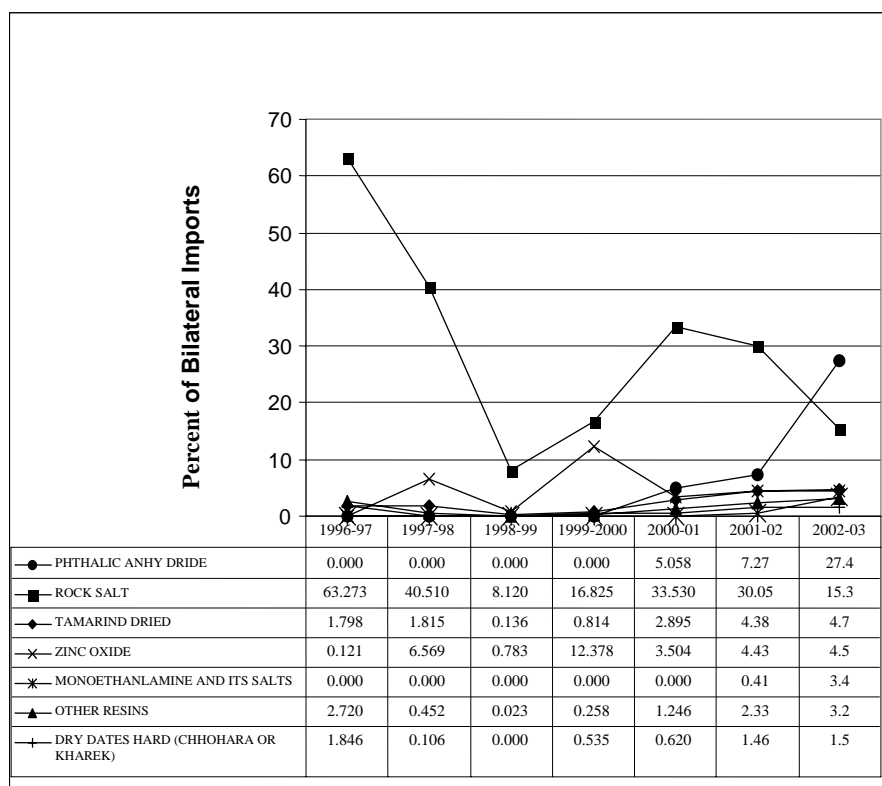
Source: Estimated from Government of India Ministry of Commerce Database: www.dgft.delhi.nic.in.

6.3. Product Analysis: Imports

Annex 2 presents India's preferential imports of top 50 products from 1998-97 to 2002-03. The products are sorted in terms of their shares in 2002-03. Annex 2 reveals that over the period under study, India imported 83 products of which the top 50 accounted for over 95 percent of India's total preferential imports from Pakistan.

India's top seven preferential imports from Pakistan are presented in Figure 7. It will be seen that two products namely, phthalic anhydride and rock salt dominated India's PE from Pakistan in 2002-03. The two other import products being imported were tamarind dried, zinc oxide. The most important namely, phthalic anhydride can be considered to be a new product since it was not being imported prior to 2000-01. Another new product to be observed is monoethalamine and its acids, which was not being imported prior to 2001-02 but became an important item since then. This explains the increasing share of the products group of chemicals and allied industries in India's preferential imports from Pakistan.

Fig. 7. India's Preferential Imports of Top Seven Products from Pakistan.



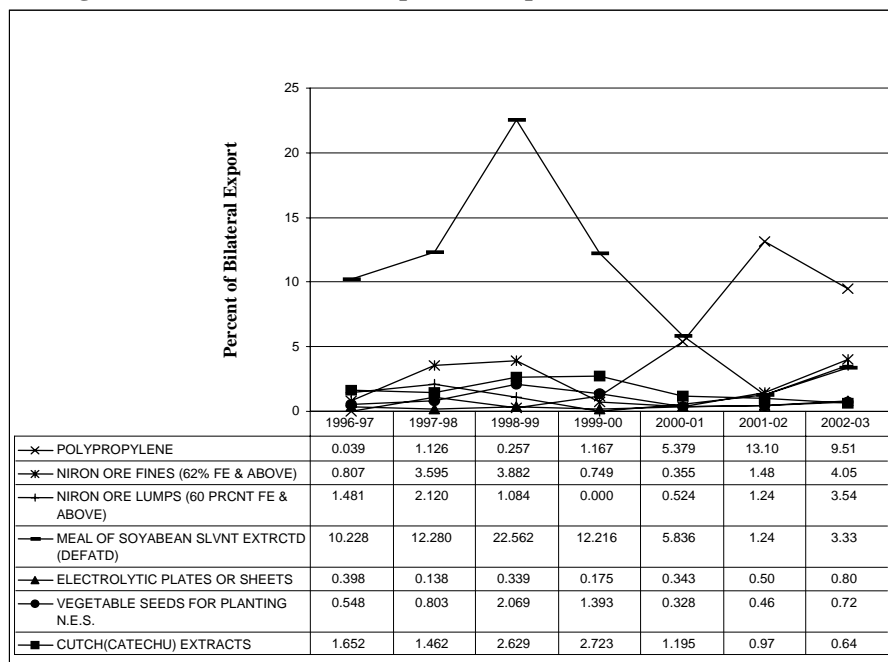
Source: Estimated from Government of India Ministry of Commerce Database : www.dgft.delhi.nic.in.

6.4. Product Analysis: Exports

The details of top 50 preferential exports to Pakistan have been presented in Annex 3. It will be seen that in all 415 preferential products were identified over the study period of which the top 50 products' share (sorted in 2002-03) has been increasing steadily. These accounted for 95 percent of India's preferential exports in 2002-03.

Figure 8 shows the export shares top seven products exported by India since 1996-97 in respect of which preferences were offered by Pakistan. The most important products exported by India included polypropylene, iron ore fines and lumps, meal of soybean solvent extracted, electrolytic plates, vegetable seeds and cutch extracts. Some of the products whose export share improved following import liberalisation in Pakistan included polypropylene, iron ore fines and lumps, natural rubber, electrolytic plates, etc. India's preferential export share to Pakistan which showed a mildly increasing trend since 2000-01 could have been due to improvement in export shares of the above mentioned products. On the whole, not many products improved their shares since the margin of preference offered by Pakistan was too modest to have any significant impact on India's total preferential exports to Pakistan.

Fig. 8. India's Preferential Exports of Top Seven Products to Pakistan.



Source: Estimated from Government of India Ministry of Commerce Database : www.dgft.delhi.nic.in.

7. CONSTRAINTS TO PREFERENTIAL TRADING

An analysis of preferential trading between India and Pakistan has been subject to a number of constraints. First, it has been observed that the preferential margins offered by the two countries have been indeed modest. A preferential margin of say, 10-20 percent offered by Pakistan has been too small to allow Indian products to find a market in Pakistan. The preferential margin offered by India to Pakistan has also been quite modest in relation to the costs of negotiations based mainly on product-by-product offer / request lists. *It must be noted that tariffs are only one element of the total cost of transactions between trading partners and their reduction when modest, may not account for much saving on part of the trader.*

The second most binding constraint is the prevalence of non-tariff barriers (NTBs) to trade by both the countries. *But the most binding of all constraints has been the part of Pakistan's policy of not granting MFN status to India except for a positive list of some 677 products.* This goes against the very core and spirit of preferential trading. The inability of Pakistan to offer MFN status to India has led to several anomalies in the exchange of concessions under SAPTA. It has been observed that quite a number of products "offered" by Pakistan to India are not permissible as they are contained under their negative list of import from India. It has been reported that as many as 146 of the 250 products offered concessions to India under bilateral exchanges in the three SAPTA rounds were not contained in Pakistan's list of 677 items permissible for import from India under its positive list. To enable India to avail concessions, Pakistan has to offer the same only from its positive list. This has also has serious implications for a multilateral preferential trading arrangement. To illustrate, if Pakistan wishes to offer concessions to Sri Lanka, a non-LDC, it will be constrained in so doing since any offer of concessions to Sri Lanka would have to be offered to India as well being a non-LDC. Similarly any liberal offer of concessions to Sri Lanka by India would entail similar concessions to Pakistan, which India may have reservations in granting in the absence of MFN status from Pakistan. *A natural consequence has been the splintering of the SAPTA process with both India and Pakistan developing bilateral free trade agreements with Sri Lanka.*

A World Bank study brings out the anomaly while referring to non-tariff barriers in Pakistan:

An exception to the general removal of QRs is the continuation of a long-standing ban on imports from India of products not on a limited positive list of 677 items (corresponding to about 1030 8-digit tariff lines). Given the considerable potential of this trade, this practice (together with equivalent informal restrictions by India which appear to severely constrain Indian imports from Pakistan) is a major qualification to Pakistan's otherwise generally QR-free policies.³

³World Bank, "Trade Policies in South Asia: An Overview" Vol.II, Report No. 29949, September 2004, p. 22.

The above study thus points to the need for removal of NTBs on part of both Pakistan and India.

8. LIMITATIONS OF THE STUDY

The main limitations of the study has been the lack of adequate number of observations on preferential trade flows both pre and post trade liberalisation to offer statistically significant analysis based on “before” and “after” approach. The number of observations available are too few to carry out such an analysis.

9. CONCLUDING OBSERVATIONS

The main objective of this paper has been to analyse the impact of SAPTA on bilateral preferential trade between India and Pakistan. The two countries exchanged the largest number of concessions in the Second Round, the customs notifications for which were issued by India after the first quarter of 1997 and by Pakistan from the second quarter of the same year. Unfortunately, the Third Round, instead of accelerating the exchange of concessions, marked a sharp decline in concessions offered for all CS. Both India and Pakistan preferred to offer concessions to LDCs only. Hence the impact on bilateral preferential trade flows need to be assessed with effect from 1997-98.

One significant finding of this study is that even though India's total bilateral imports from Pakistan declined significantly between 1999-2000 to 2002-03, its share of preferential imports in total showed steady increase during this period. This supports the hypothesis that Pakistan's exports of products offered trade preference by India performed much better than those that did not receive any. Similarly, India's preferential exports performed better than its bilateral exports in general which is reflected in the increasing share of such exports in total since 2000-01.

The study has also highlighted product diversification of preferential trade, however modest. To illustrate, in 1996-97 mineral products accounted for 87 percent of India's preferential imports from Pakistan. However in 2002-03, chemicals and allied products, mineral and vegetable products were also added to the list of India's major preferential imports from Pakistan.

Similarly, in 1996-97 mineral products accounted for the bulk of India's preferential exports to Pakistan. However in 2002-03 plastics, rubber and articles thereof were added to the earlier list thereby diversifying India's preferential exports to Pakistan.

The analysis is finally extended to individual products that have been clear winners and also those that entered the trade basket for the first time as new products.

Some of the positive effects notwithstanding, the achievements of SAFTA has been quite modest and certainly not in keeping with the enormous trade potential

between the two countries. If one were to document the list of products that have not performed, the list would be much larger. However one must bear in mind that these achievements have been accomplished in spite of the severe constraints mentioned above. The expansion of products freed from trade barriers as well as the increase in the depth of tariff cuts, when accompanied by other trade facilitation measures, may be expected to offer far better results.

Till to date we notice that adverse bilateral relations between India and Pakistan has lead to a very low pace of regional cooperation among the countries of South Asia. This is amply reflected in the SAPTA process, which has been slow and tardy and quite incommensurate with the time and energy spent on negotiating for a free trade area in the region. The recent thaw in Indo-Pak relations as was witnessed in the Twelfth SAARC Summit held in Islamabad in January this year has lead to a Framework Agreement on South Asian Free Trade Area (SAFTA), a decision that should have been taken as far back as 1993 when Agreement on SAPTA had been put in place. The time frame set for the attainment of SAFTA which supersedes SAPTA, has been kept too long to be meaningful.⁴ Given the context and pace of multilateral trade liberalisation, SAFTA may gradually become irrelevant as most South Asian countries undertake multilateral trade liberalisation in the years ahead.

SAFTA clearly states that Contracting Parties shall eliminate all quantitative restrictions, except otherwise permitted under GATT 1994 in respect of products included in the trade liberalisation programme. The Agreement on SAFTA stipulates that all NTBs of CS are identified and efforts made to eliminate those that are incompatible with WTO norms. Both India and Pakistan have to play a crucial role to play in the elimination of mutually restrictive trade barriers to make SAFTA a success.

⁴Under SAFTA trade liberalisation is to begin from 2006. Non-LDCs such as India and Pakistan are required to bring down their mfn tariffs to 0–5 percent in seven years (2013).