

India-Pakistan Bilateral Trade: Past, Present & Future

February 2013

PHD Research Bureau

PHD Chamber of Commerce and Industry

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi 110016

Phone: 91-11-26863801-04, 49545454, Fax: 91-11-26855450, 26863135

E-mail: research@phdcci.in Website: www.phdcci.in

Contents

S.No.	Topic	Page No.
1.	Significance of India –Pakistan bilateral trade	3
2.	History of India-Pakistan bilateral trade	5
3.	Suggestions for strengthening India-Pakistan bilateral trade	6
4.	Conclusions	7

India-Pakistan Bilateral Trade: Past, Present & Future

International trade assumes a great significance in economic development of both developed and developing countries. In the last three decades, particularly during 1990s and 2000s, most of the countries liberalized their trade as a part of economic reforms adopted by them and facilitated by the WTO policies. One of the most significant developments in the area of international trade is the emergence of regional groupings especially bilateral trade relations in the every part of World trading system.

However, the potential of bilateral trade between India and Pakistan has not materialized till yet. India-Pakistan trade has the potential to increase many fold to scale US\$10bn in the next very few years if the 'normal' relations establishes. The reason is that Pakistan has not yet reciprocated most favoured nation (MFN) status for India. At the same time, India's tariff and non-tariff barriers are also substantial. Poor transportation linkages make trade costly, with railway and road connections inadequate and sea shipments constrained by both limited port facilities and bureaucratic regulations and restrictions.

Unfortunately, recent years have observed a deceleration in significance of bilateral trade in each other's territory. India – Pakistan bilateral trade as the percentage of India's total trade has been decelerated significantly during the recent years.

1. Significance of India –Pakistan bilateral trade

Significance of India-Pakistan bilateral trade is diminishing in the recent years; the share of India's trade with Pakistan in India's total trade has been declined to 0.34% during FY2010-12 period from 0.48% reported during FY2007-09 period.

India-Pakistan bilateral trade so far

Period	% share in total
Pakistan share in India's total trade	
2006-07 to 2008-09	0.48
2009-10 to 2011-12	0.34
Exports to Pakistan in India's total exports	
2006-07 to 2008-09	1.01
2009-10 to 2011-12	0.73
Imports from Pakistan in India's total imports	
2006-07 to 2008-09	0.14
2009-10 to 2011-12	0.09

Source: PHD Research Bureau, data compiled from Ministry of Commerce, Government of India.

The share of India's export to Pakistan in India's total exports has been declined to 0.73% during FY2010-12 period from 1.01% during 2007-09 period. The share of India's imports from Pakistan in India's total imports has been declined to 0.09% during FY2010-12 period from 0.14% during 2007-09 period.

India's foreign trade expanded from US\$312149.28 million in 2006-07 to US\$793804.80 million during 2011-12 with a CAGR of around 17%. However, India's trade with Pakistan expanded from US\$1673.71 million in 2006-07 to US\$1956.57 million in 2011-12 with a CAGR at around 3% only.

India's trade with World vis-à-vis Pakistan

(Value in USD Mn)

Years	India's Foreign Trade with World	India's Foreign Trade with Pakistan	Pakistan share in India's Total Trade
2006-2007	312149.28	1673.71	0.54
2007-2008	414786.18	2238.50	0.54
2008-2009	488991.66	1810.05	0.37
2009-2010	467124.30	1849.26	0.40
2010-2011	620905.30	2372.12	0.38
2011-2012	793804.80	1956.57	0.25

Source: PHD Research Bureau, data compiled from Ministry of Commerce, Government of India

Formal trade between the two countries due to tariff barriers and quota problems is not significant; significance is diminishing year after year. The reason for diminishing India-Pakistan bilateral trade significance may be attributed to informal trade between the two countries. Informal trade between India-Pakistan is generally done (1) re-routing trade through a third country and (2) illegal trade through land borders. The informal trade between India and Pakistan is estimated at more than US\$3bn which could be brought into the mainstream through better trade facilitation measures. But with the recent untoward incidents at the Line of Control, the informal trade is expected to rise, re-routing from formal to informal channels. The informal exports from India to Pakistan constitute mainly readymade garments, cosmetics and jewellery, spices, livestock, drugs and pharma, machinery mainly textiles, chemicals, tyres and informal imports from Pakistan to India includes mainly cloth, tobacco products, dry fruits, leather products mainly footwear.

2. History of India-Pakistan bilateral trade

The India-Pakistan bilateral trade relations has, over the last more than five decades, witnessed a chequered history, reflecting the changing dimensions of geopolitical tensions and diplomatic relations between the two countries. We have made our effort to capture its essential features and landmarks as follows:

- In 1948-49, more than 70 per cent of Pakistan's trading transactions were with India, 63 per cent of Indian exports to Pakistan. The end of 1949, however, witnessed a rapid downturn in Indo-Pak trade relations.
- Although between May 1948 and March 1960 as many as 11 Indo-Pak Trade and Payments Agreements were concluded, the bilateral official trade declined from Rs. 184.06 crore of Indian rupees in 1948-49 to Rs. 13.63 crore in 1958 and to an all time low of Rs.10.53 crore in 1965-66.
- There was a trade embargo between India and Pakistan after the war of 1965 and it continued till 1974. During this period, several efforts were made by India to revive the trade, but nothing tangible could be achieved.
- A trade protocol (Shimla Agreement) was signed on 30 November 1974 for lifting the trade embargo with effect from 7 December 1974.
- In an effort to diversify trade the Pakistan Government permitted its private sector to trade with India with effect from 15 July 1976.
- In November-December 1981 Pakistan joined the Delhi International Trade Fair. Thereafter, exchange of trade delegations between the two neighbours occurred in quick succession.
- In June 1983, a Joint Business Commission was constituted, with the main objective to accelerate the decision making process on matters seeking government approval and suggesting new items for bilateral trade.
- In 1986, India and Pakistan became signatories to the final document of South Asian Association for Regional Cooperation (SAARC) which committed itself to promote the welfare of the people of South Asia.
- In July 1989, Pakistan agreed to import 322 Indian items. The installation of Nawaz Sharif Government in 1991 also boosted Indo-Pak trade, and trade touched Rs. 522.59 crore in 1992-93 from Rs. 168.09 crore in 1990-91.
- South Asian Preferential Trading Arrangement (SAPTA), concluded in December 1995, introduced an integrative trading arrangement in the region. At the end of three rounds of trade negotiations, a total of 5550 tariff lines have been included for tariff concessions.
- India accorded Most Favoured National (MFN) status to Pakistan in 1996. In the same year, Pakistan increased its positive list to 600 items that may be legally imported from India.

- In 2003 Pakistan's Prime Minister announced the inclusion of another 78 items to the positive list. Most of the permissible items include chemicals, minerals and metal products. Items such as cardamom and tea still have the high tariffs.
- In 2003 India's trade complementarity index (TCI) ¹was 50 percent while Pakistan's TCI with India was only 14 percent. India's TCI with Pakistan was highest in 2007 and Pakistan enjoyed the highest TCI in 2010 thus improving its complementarity with India which is a positive sign for Pakistan.
- During the third round of Composite Dialogue process discussions in March 2006, both countries agreed to discuss the new shipping protocol, the deregulations of air services, the joint registration of basmati rice, an increase in the size of Pakistan's positive list, proposals for information-technology-related medical services and export insurance by India, and work on a memorandum of understanding for cooperation in capital markets by Pakistan.
- During the 6th Round of Commerce Secretary Level Talks in November 2011 at New Delhi, both countries agreed to develop mechanisms to address issues of Non-Tariff Barriers. The two countries have initialled three agreements i.e., Customs Cooperation Agreement, Mutual Recognition Agreement and Redressal of Trade Grievances Agreement.
- In November 2011 Pakistan decided to grant the Most Favoured Nation (MFN) status to India to boost bilateral trade.

3. Suggestions for strengthening India-Pakistan bilateral trade

1. Pakistan should grant MFN status to India as a trade facilitation measure, India has already granted MFN status to Pakistan way back in 1996.
2. The volume of informal trade is larger than formal trade; official trade can flourish due to regularizing the unofficial trade by improving trade infrastructure and bringing the items, which are being traded unofficially into the official tradable list.
3. Efficient and cost effective transportation and communication is a pre-requisite for promotion of trade and commerce and movement of goods, services and people.
4. Easing the complexities in visa procedure, which should be taken into consideration by the two countries.
5. If bilateral trade is increased, producers in both the countries can look for price efficiencies by providing each other lower cost inputs.
6. Enhanced trade cooperation can also mean lower prices for millions of consumers. Given this advantage, both the countries can jointly fight poverty deprivation, hunger and inequality.

¹ A measure of the extent to which one of two countries, j, exports what the other, k, imports.

7. Bilateral trade between both the countries will also result in more public revenues, since governments can earn more through custom revenues when smuggled items switch to formal trade.
8. India and Pakistan should create an atmosphere of peace to boost trade. Investment and major ventures can take place in a big way if both sides are able to create an enabling political environment of peace, trust and confidence.
9. Progress in trade and economic cooperation with India and Pakistan would need a firm and a continuous commitment from Pakistani authorities.
10. India and Pakistan can learn from the global experience, where trade is increasingly being used as a prelude to age-old geo-political tensions reconciliation of the Sino-American trade relations offer a convincing example of how trade can be skillfully used to enhance mutual confidence between two politically hostile nations.

4. Conclusions

In summing up, PHD Chamber of Commerce and Industry strongly believes that the time is most opportune for two neighbouring countries of South Asia to overcome their past baggage of tension-prone economic and trade relationship and move forward with new hopes and aspirations to build an economically powerful bilateral relationship and forge the spirit of common market. The major beneficiary of trade between India and Pakistan will be the consumer, as it will give them low cost goods and services due to reduced cost of production and large economies of scale. It will enhance the savings capacity of the people, which would have positive visible effects on social indicators such as education, health, and nutrition.

About the PHD Chamber

PHD Chamber is a 108 years old vibrant and proactive representative organization of business and mercantile community of northern and central India, serving their interest. This apex regional organization plays an active role in India's development and acts as a much needed link between government and industry, serving as a catalyst for rapid economic development and prosperity of the community in the region through promotion of trade, industry and services.



With its base in the National Capital, Delhi, the Chamber has Regional offices in States of Bihar, Chhattisgarh, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand and the Union Territory of Chandigarh.

PHD Research Bureau

Dr. SP Sharma, Chief Economist
Ms. Malini Bhattacharya, Sr. Research Officer
Ms. Surbhi Sharma, Research Officer
Ms. Nidhi Gautam, Research Associate
Ms. Shiva Kumra, Research Associate
Ms. Bhawana Sharma, Research Trainee