

Changing Trade Relation of India & Pakistan: An Evaluation

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<<<Abstract

Kautilya was the first one to write extensively on political economy. He theorized that to maintain a strong kingdom, the king must develop healthy relations with the neighbouring states through trade. When we talk about India, we can never ignore the Pakistan. India and Pakistan are the countries whose relations not only affect the economic relations of both the countries but also have some influence in the world politics. Pakistan is a neighbouring country of India. But the relationship of both the countries is bitter enough since 1947. Due to this there is extra burden on Indian economy on defence sector. If there is a good relationship it will be beneficial for growth and development of both the countries. So, there is a need to find out the solution of some major problems which exist between both the countries. An effort is made in this article to search out solutions of some big problems between India and Pakistan.

1. INTRODUCTION

The painful memories of partition continue to weaken these two countries till date. Successive wars, the unresolved Kashmir issue and terrorist attack aggravated the situation. The government of both the nations have constantly tried to maintain diplomatic relations, but in vain. The condition between both the countries is worst at present. There are much more influence of Pakistan Army in Pakistan's policy towards India. ISI, the Investigation Bureau of Pakistan, always make efforts to imbalance India through terrorist activities. So many terrorist camps are running in Pakistan as well as in POK but there is no any control of Pakistan government over them. These terrorist are trained by the Pakistan Army and are helped to infiltrate into India for terrorist activities. Numerous earlier efforts to improve relation between India and Pakistan have been ruined by sporadically heightened political tension between the two countries because of 1965 and 1971 war, 1999 Kargil war, December, 2001 Parliament attack, and the most recently the terrorist attack at various cities in India including the Mumbai attack in 2008. Adding fuel to the fire, the domestic political opposition in the two countries have also created obstacle in the 'confidence-building' exercise. In this condition there is some question before us, the answer of which yet to be searched out:

- Is in this condition the peaceful trade between both the countries is possible?
- What are the obstacles in making good trade relations between both the countries?

- How can these obstacles be removed ?
- What are the future prospects of India's Foreign Trade with Pakistan?

2. PAKISTAN'S STAND TOWARDS INDIA

Pakistan's Policy Against Normalizing Trade Relations with India: Pakistan's Government say that unless and until the Kashmir dispute is resolved, there can not be a normalization of the economic relations with India. But the real reason are more economic than political. At the time of its birth in 1947, Pakistan was essentially a three-commodity and one-port economy. It continues to be so. There has been no major diversification of the economy. Textiles, Leather Goods and Sports goods still account for over 75% of its export and over two-third of its tax revenue. Karachi is the only major port available for international trade.

The Pakistan's Textile Industry is export-dependent. The quality and the cost of its productions are determined by the external and not the internal market. As against this, the Indian textile Industry is not export-dependent to that extent and domestic demand plays a more important role in determining the quality and cost of its productions. It is said that, consequently Pakistan's Textile are of a much better quality than Indian Textile, but much more expensive and hence not easily affordable by the poorer sections of the Pakistan society. Many of the Indian textiles, though poorer in quality, are within the reach of the poor people. Hence, the Pakistan's textile magnate have always been worried that if the Pakistan market is thrown open to Indian industries, the cheaper Indian textile could flood their market affecting them.

Role of Pakistan in Giving Transit Right to India to Its Export to Afghanistan: Presently the government of Pakistan is prepared to concede transit right to Afghanistan for its export to India, it is not prepared to grant transit right to India for its export to Afghanistan. There are two reasons for it:

- Afghanistan's transit trade through Pakistan is a lucrative source of revenue for the Karachi port through which most of Afghanistan's external trade passes.
- If a two way transit trade between India and Afghanistan is allowed, Kabul might start using the Mumbai port for part of its external trade. Thereby affecting their profit. But instead of admitting the real reason, they cite the so-called Kashmir dispute as the reason.

Role of Pakistan on Gas Pipeline Project from Iran to India via Pakistan: The proposal for a gas pipeline was first mooted by Iran when Benazir Bhutto was the Prime Minister between 1993 and 1996. It was taken up with the Nawaz Sharif government also. At that time, the Inter-Service Intelligence (ISI) had advised them that they should not agree to the extension of pipeline to India because the availability of gas from Iran could strengthen India's economic and industrial capabilities. Benazir and later on Nawaz Sharif told Iran that while the pipeline could connect Iran and Pakistan, it could not be extended to India.

3. TREND OF TRADE BETWEEN INDIA & PAKISTAN SINCE LAST TEN YEARS

India's Exports to Pakistan:

It is quite clear from the above figure that in 2000-01, Indo-Pak trade relations was very good. In 2000-01 India's Export to Pakistan was more than double in comparison to previous year 1999-2000. There was 101.01% growth in India's export to Pakistan. But in 2001-02 there was drastically decline in export to Pakistan from 186.83 million US \$ to 144.01 million US \$ due to Parliament attack in December 2001 which reduced the growth of export by 22.92 %. After 2001 there was continuous increase in export to Pakistan with varying growth rate. Again in November, 2008 India faced a terrorist attack in Mumbai which created a very big problem between Indo-Pak relations. Again due to this export to Pakistan declined to 1439.88 million US \$ from 1950.53 million US \$ in previous year.

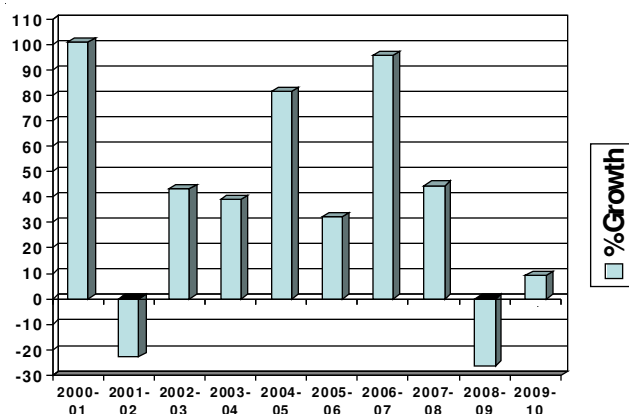
India's Imports From Pakistan: It is clear from the above figure that there is more variation in import from Pakistan than export to Pakistan. In 2001 import from Pakistan was declined to 64.03 million US \$ from 68.21 million US \$ of previous year due to Parliament attack on December, 2001 which

Table-1
India's Export To Pakistan Since 1999

(Values in US \$ Million)

S. No.	Year	India's Total Export (US \$)	India's Export To Pakistan (US \$)	% Share of Pakistan's Export To Total Export	% Growth of Export To Pakistan
1.	1999-2000	36,822.49	92.95	0.2524	—
2.	2000-2001	44,560.29	186.83	0.4193	101.01
3.	2001-2002	43,826.72	144.01	0.3286	-22.92
4.	2002-2003	52,719.43	206.16	0.3911	43.16
5.	2003-2004	63,842.55	286.94	0.4494	39.18
6.	2004-2005	83,535.94	521.05	0.6237	81.59
7.	2005-2006	103,090.53	689.23	0.6686	32.28
8.	2006-2007	126,414.05	1,350.09	1.0680	95.88
9.	2007-2008	163,132.18	1,950.53	1.1957	44.47
10.	2008-2009	185,295.36	1,439.88	0.7771	-26.18
11.	2009-2010	178,751.43	1,573.32	0.8802	9.27

Source: www.commerce.nic.in



remarked -6.14 % decline in import from Pakistan. In 2001-02 there was a less increase in import from Pakistan which was only 1.14%. Again in 2002-03 there was 30.74 % decrease in import to 44.85 million US \$ from 64.76 million US \$ in previous year. From 2003-04 to 2006-07 there was continuous increase in import from Pakistan with varying growth. But again there was decrease in import to 287.97 million US \$ in 2007-08 from 323.62 million US \$ in 2006-07 (-11.02 % decrease) and again decrease to 275.94 million US \$ in 2009-10 from 370.17 million US \$ in 2008-09 (-25.45 % decrease).

4. EFFECT OF DISPUTE ON INDO-PAK TRADE

At the time of independence Indo-Pak trade relations were very strong – 70% of Pakistan's trade transactions were with India and 63% of India's

export were to Pakistan. This came down drastically over the years. As a result of deteriorating Indo-Pak relations post the Mumbai terror attack, cross border trade is likely to witness a 60% decline in fiscal 2009-10 and now Indo – Pak trade statistical figures lingered around a mere 1%.

After 26/11 the Federation of Indian Chambers of Commerce and Industry (FICCI) surveyed Indian exporters and importers doing business with Pakistan revealed the overall trade is likely to fall to 900 million dollars trade of over 2 billion dollars at that time. According to the report surveyed by FICCI, most of the Indian exporters were scared from doing business with Pakistani businessmen. The poll said the tumultuous situation in Pakistan has created a “fear psychosis” amongst Indian exporters and importers who say “cross border travel has been greatly reduced.” Most of the Indian companies were using “wait and watch” strategy.

5. BARRIERS TO INDO – PAK TRADE RELATIONS

There are some major trade barriers between India and Pakistan:

- Trade between India and Pakistan is taking place through three channels: Formal trade - through official means, Informal / Illegal trade- through smuggling and through third countries e.g., through Dubai & Singapore which are free port and accommodate legal agent of traders for both

Major Commodities

1.	Live Animals.
2.	Meat And Edible Meat Offal.
3.	Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates.
4.	Dairy Produce; Birds' Eggs; Natural Honey; Edible Prod. of Animal Origin, Not Elsewhere Spec. or Included.
5.	Live Trees And Other Plants; Bulbs; Roots And The Like; Cut Flowers And Ornamental Foliage.
6.	Edible Vegetables And Certain Roots And Tubers.
7.	Edible Fruit And Nuts; Peel or Citrus Fruit or Melons.
8.	Coffee, Tea, Mate And Spices.
9.	Products of The Milling Industry; Malt; Starches; Inulin; Wheat Gluten.
10.	Oil Seeds And Olea. Fruits; Misc. Grains, Seeds And Fruit; Industrial or Medicinal Plants; Straw And Fodder.
11.	Lac; Gums, Resins And Other Vegetable Saps And Extracts.
12.	Vegetable Plaiting Materials; Vegetable Products Not Elsewhere Specified or Included.
13.	Preparations of Cereals, Flour, Starch or Milk; Pastrycooks Products.
14.	Preparations of Vegetables, Fruit, Nuts or Other Parts of Plants.
15.	Miscellaneous Edible Preparations.
16.	Beverages, Spirits And Vinegar.
17.	Tobacco And Manufactured Tobacco Substitutes.
18.	Salt; Sulphur; Earths And Stone; Plastering Materials, Lime And Cement.
19.	Ores, Slag And Ash.
20.	Mineral Fuels, Mineral Oils And Products of Their Distillation; Bituminous Substances; Mineral Waxes.
21.	Inorganic Chemicals; Organic or Inorganic Compounds Of Precious Metals, of Rare-earth Metals, or Radi. Elem. or of Isotopes.
22.	Organic Chemicals
23.	Pharmaceutical Products
24.	Fertilisers.
25.	Tanning or Dyeing Extracts; Tannins And Their Deri. Dyes, Pigments And Other Colouring Matter; Paints And Ver; Putty And Other Mastics; Inks.

Source: www.commerce.nic.in

Table - 2
India's Export from Pakistan Since 1999

(Values in US \$ Million)

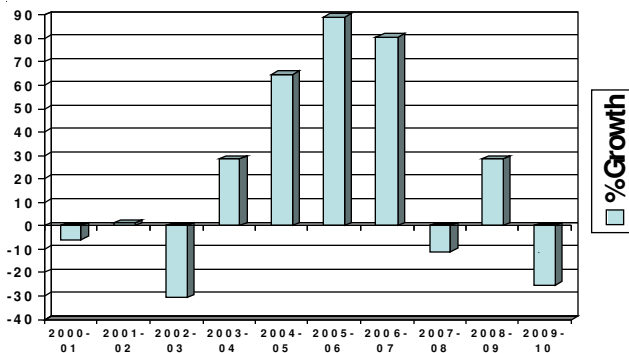
S. No.	Year	India's Total Export (US \$)	India's Export From Pakistan (US \$)	% Share of Pakistan's Pakistan's Export To	% Growth of Export To Pakistan Total Export To
1.	1999-2000	49738.06	68.21	0.1371	—
2.	2000-2001	50536.45	64.03	0.1267	-6.14
3.	2001-2002	51413.28	64.76	0.1260	1.14
4.	2002-2003	61412.14	4.85	0.0730	-30.74
5.	2003-2004	78149.11	57.65	0.0738	28.54
6.	2004-2005	111517.43	94.97	0.0852	64.75
7.	2005-2006	149165.73	179.56	0.1204	89.06
8.	2006-2007	185735.24	323.62	0.1742	80.23
9.	2007-2008	251.654.01	287.97	0.1144	-11.02
10.	2008-2009	303969.31	370.17	0.1219	28.54
11.	2009-2010	288372.88	275.94	0.0957	-25.45

Source: www.commerce.nic.in

India and Pakistan.

Due to high tariff and non-tariff barriers most of the trade between India and Pakistan take place either through informal channel or through third countries.

Official trade between the two countries might be low, but the volume of third country and illegal trade indicates the tremendous potential for bilateral trade between the two countries. Informal trade via third countries (such as the United Arab Emirates – U.A.E. and Dubai), is



estimated at some US \$ 2 billion to US \$ 3 billion per year, and this trade could obviously be undertaken bilaterally at significant lower cost. The guesstimate of illegal trade between India and Pakistan range widely between 0.5 to 3 billion dollar.

- The barriers are both formal and informal. Formal trade barriers comprises high tariff and non-tariff barriers (e.g., quota restrictions, trade bans, political opposition etc.). Informal trade barriers are defined as transaction cost e.g., transport cost; procedural cost; and rent seeking, constraints on visas and cumbersome payment and customs procedures further limit scope for trade.
- Communication link between the two countries often breakdown when there are problem at the Indo-Pak border.
- Pakistan prefers to first solve the Kashmir issue and only thereafter promote trade relations with India.
- Terrorism is also a very big problem in making good relations between both the countries.

6. INDO – PAK TRADE POTENTIAL

Recorded trade between the two countries is relatively very small at present even though both of them are members of South Asia free Trade Area (SAFTA). The potential of foreign trade between these two neighbors is around twenty times more than the recorded trade. The Associated Chambers of Commerce and Industry of India (ASSOCHAM) estimates bilateral trade potential worth US \$ 10 bn which at present only 900 million. Textile, IT, Agriculture, Health care, Energy, Education, Tourism, Entertainment services are recognized as

the key sector with highest trade potential in both countries. Economic co-operation in these sectors have been predicted to be convenient and beneficial to both the countries.

7. ROADMAP FOR INCREASING TRADE BETWEEN INDIA & PAKISTAN

Immediate Measure:

Easing Restrictions on Visa: Easing restrictions on visa and multiple entry visa for businessmen, eliminating requirements to report arrival to the police at each place of stay, eliminating city-specific visa and speeding up the approval process would be much useful.

Open Additional Border Crossing & Increase Traffic Frequency on Road, Rail & Transport:

- Open Wagha / Attari border and Hussainwala Checkpost for road and rail Cargo traffic
- Starting several other rail and road routes like Sindh–Rajasthan rail link,
- Khokhrapur–Munabo route.
- Allow sea shipment in addition to the current Mumbai–Karachi route.
- Open additional bus route.
- Apart from Lahore–New Delhi, Karachi–New Delhi and Karachi–Mumbai, air link between the two capitals (Islamabad–New Delhi) should also be started.
- Increase the number of custom posts where sensitive items can be cleared.
- Allowing branches of India and Pakistani banks to operate in the other country.
- Trade fairs and exhibitions would also be helpful in improving the bilateral trade.
- Medium - term Measure:
- Granting MFN status to India.
- India should reduce tariff rates on goods of particular interest to Pakistan and removing non-tariff barriers including agriculture.
- The custom procedure should be made more transparent.
- Developing transport and communication link, infrastructure, joining power grids and gas pipeline projects (Iran-Pakistan-India), and sharing Airport.

Long – term Measure:

- Private sector initiative should be strengthened.
- FDI should be encouraged.
- Each country's companies should be allowed to float shares in the securities market of other country.
- The trade in IT, BPO, Software Services etc. should be encouraged.

8. CONCLUSION

According to Prime Minister Dr. Manmohan Singh, the major reason behind such animosity Between India and Pakistan is trust deficit. So before improving overall ties a strong base of mutual trust need to be built. A major step towards building trust is improving the economic relations between the two neighbours through trade and business. Recently the top political and corporate leaders, CEOs and entrepreneurs of India and Pakistan meet under the 'Aman ki Aasha' initiative organized by the Times of India group to discuss peace initiatives between the two nations through better trade and commerce relations, and urged both the government to co-operate and help in realizing the enormous trade potential between these two major South – Asian countries. Pranabh Mukharji, Finance Minister

of India, emphasized on the need for mutual trust and interdependence for sustained economic growth of India and Pakistan. The major constraints in Indo–Pak trade is the mindset of the people on both sides of the borders. If to some people, the word 'Cricket & Conflict' come to mind when thinking of India and Pakistan, there is a need to update the language to embrace another two Cs – 'Connection & Commerce.' Many people are against the free flow of trade between India and Pakistan. Some people fear that it will facilitate terrorist activities. We should know that, Indo–Pak trade relations can not be changed over night. But winds of change are certainly flowing in the right direction. But before people welcome these winds, certain measures need to be taken. The mind-set of the people need to be changed first to build public support for liberal trade relations. People of both the countries need to open-up their hearts but it is also necessary to be remain cautious about negative activities. Better trade between India and Pakistan will surely benefit both the countries by raising there GDP and household incomes. Thus we can say that a good harmonic relation may be formed through a good trade relation between both the countries.

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