

Pak – India, Economic & Trade Relations:
An Analytical Study from 2000 to 2006

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ABSTRACT

This research paper entitled "Pak- India, economic and trade relations" is written with the purpose to understand the present position of both the countries. The current status of trade is not reflecting any remarkable progress as a total volume of trade between the two countries remained at a low level. The liberalization of bilateral trade between the countries would not only lend impetus to the integration of both the economies but would also be seen as a good omen by the other nations as well. With political and economic stability, Pak-India can expect new foreign investment coming into these countries. There are an enormous potential for increasing trade flows between Pakistan-India. As compared to the average trade flows of \$415 million during 2000-01 to 2004-05, the estimates of trade potential range from \$1.85 billion to \$10.0 billion. However, part of such flows would certainly be the conversion of existing trade now routed through third countries into direct India-Pakistan trade, as well as the formalization of trade flows currently smuggled across the border.

INTRODUCTION

Pakistan has always maintained warm and brotherly relations with most of the countries in South East Asia. It has lagged behind in devising and implementing strategic plans for its economy to benefit from these relations, especially in the context of globalization, SAARC and ASEAN etc.¹ India is not only neighbors, but it also shares common historical past and socioeconomic affinities. Development of trade and other economic relations between Pak and India are natural and necessary to maintain historical continuity, peace, and stability - as well as fostering development in South Asia. Expansion of these relations can help significantly in reducing regional tensions and mutual doubt. Both celebrated their 60th independence days on the 14th and the 15th of August 2006, respectively.² But unfortunately this half-a-century relation is fraught with acrimony, mistrust, and pessimism. Both have fought three conventional wars, and the last war in 1999 at the heights of Kargil on the status of the state of Kashmir. This is not good omen for the development of both countries. The bilateral trade between Pakistan and India would not only lend impetus to the integration of both the economies. With political and economic stability, but they can expect new foreign investment. Cheaper cost of production, skilled labor, educated middle class, female literacy, booming economy, vital American and European interests in the region can change the fate of many people of the sub-continent in a span of 5 to 10 years' time. There is an enormous potential for increasing trade flows between India and Pakistan, as compared to the average trade flows of \$415 million during 2000-01 to 2004-05, the estimates of trade potential range from \$1.85 billion to \$10.0 billion can be promoted in coming years respectively. However, part of such flows would certainly be the conversion of existing trade now routed through third countries into direct Pak-India trade, as well as the formalization of trade flows currently smuggled across the border.³

The balance of trade has remained consistently in India's favor. Pakistan exports to India have remained between 0.4% and

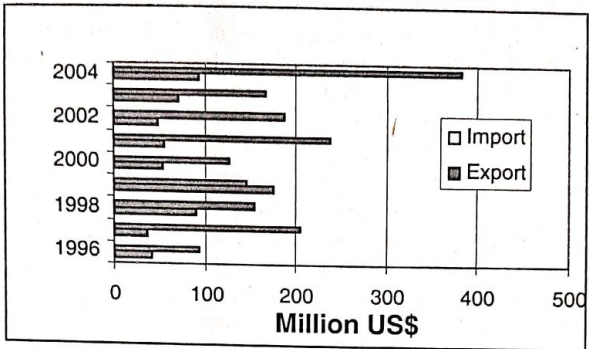
2.5% of its total exports, which in India's case the proportion, is less than 0.5%. This does not shows much more for trade between the two countries total annual trade over the past 7 years has never exceed US\$ 250 million. This is less than 1% of the combined value of total trade of the two countries averaged over the past four years. So even if our investigation confirmed the lower end of the (US \$ 0.5 billion) informal trade, this would demonstrate clearly the trade potential between the two countries.⁴

Table - 1
Pak-India, Export, Import and Total Balance of Trade
(Million US \$)

Year	Export	% Change	Import	%Change	Balance Of Trade
1996	41.1	-	94.1	-	-53
1997	36.2	11.92	2004.7	2030.3	-1968.5
1998	90.6	150.2	154.5	-92.29	-63.9
1999	174.8	92.93	145.6	-5.76	29.2
2000	53.6	-69.33	127.4	-12.5	-73.8
2001	55.6	3.731	238.3	87.04	-182.7
2002	49.3	-11.33	186.7	-21.65	-137.4
2003	70.5	43.00	166.5	-10.81	59.69
2004	93.7	32.90	381.2	128.9	-96
Total	665.4	-	3500	-	-
Average	73.93	-	388.8	-	-
Share of Each Country	15.97		84.03		

Source: Government of Pakistan (2006) Pakistan Statistical Year Book, 2005.pp.20-25.

Figure – 1
Pakistan – India Trade Relations



It is clear from the above Table 1 and Figure 1, that export was a highest as compare to import within the period of 9 years from 1996 to 2004 and fluctuated proportionately. It is also evident that Indian exports to Pakistan amounted to 73.93 US million dollars and Pakistani exports to India averagely totaled to 388.8 US million dollars. Thus the share of export of Pakistan was 15.97% and 84.03% US million dollars of India.⁵

The only two advantages that Pakistan has over India, firstly, it does not face any border disputes with the East Asian region and, secondly, it can affiliate itself with the large Muslim population in the area. Since the inception, Pakistan has traditionally aligned itself with the US, receiving great rewards for supporting US military expeditions. After 9/11, Pakistan has had to rethink its alliances; it has slightly changed direction, but has also included the East Asian region in its economic growth strategy. Indeed, the post 9/11 scenario has presented new options and choices for Pakistan to develop its economy, particularly in benefiting terms of trade and investment.⁶

THREE COMPONENTS OF PAK-INDIA TRADE:

Pak-India trade has three components:

1. Illegal trade transacted through the land borders,
2. Circular or "informal" trade which is carried out through, other countries, and
3. Re-exported from there to Pakistan.

The formal trade is carried on through imports/exports of merchandise from all recognized seaports, airports, land routes and customs stations and inland container depots. The illegal trade channels are smugglers who operate the 675km-unfenced stretch of the Rajhistan sector along the Indo-Pakistan border; besides carriers, khepias who misuse personal baggage through the "green channel" facilities at international airports. Circular trade is conducted through agents who are stationed in free ports like Singapore or Dubai and estimated to be US \$1 billion. Thus, the combined volumes of illegal and circular trade are much larger than formal levels of trade, which in reality, therefore, amounts to "pseudo" trade between the two countries.⁷

Pakistan prefers to first solve the Kashmir issue and thereafter promote trade relations with India. However, Kashmir issue despite being unresolved has not stopped the notable amount of illegal trade taking place between Indian and Pakistani business interest groups. Voluminous smuggling of commodities and merchandise between the two sides is an indication of the mutually profitable economic opportunities and reflects the suppressed desire of the business communities in either country to trade with each other. Indian 'black' or smuggled trade exports to Pakistan are industrial machinery, cement, tyres, chemicals and tea. Indian 'black' trade imports are edible oils, spices, dry fruits and pulses and grams.⁸

Earlier the circular trade also took advantage of the formal Indo-Afghan economic interaction. Traders exported merchandise from India to Afghanistan which was subsequently smuggled into Pakistan through Peshawar the Pakistan-Afghanistan border. In this context, therefore, government initiatives by both countries

aim only at formalizing this trade which is already underway. The Kashmir problem therefore remains a non-issue for business persons who are ever eager to "capture" new markets and make their cash registers ring. Importantly, normalized trade between the two neighbors mean citizens in both countries can get merchandise/commodities at cheaper prices and also enable the governments to earn more revenue in the process.⁹

Pak-India trade routes is linked to low freight costs, which in term results in low prices. Keeping in view, the government ensure that commodities and goods are imported only from such countries for the peoples well being. The other conducive conditions are cultural similarity, common language, similar socio-economic systems which provide an ideal foundation for broader trade ties.

If Pakistan imports iron ore from Australia, Brazil and tea from Kenya in place of India, at higher prices, though these items are available at lower rates in India. Similarly considering Indian pharmaceutical products are 30% cheaper than Pakistani products, it would certainly make a difference to the common man in that country. In turn, this would help Indian pharmaceutical products to sell larger volumes in geographically proximate markets, besides impacting positively on industrial growth.¹⁰

In Pakistan, Indian coffee which is now smuggled, due to the absence of formal trade of the commodity, has scope of being a lucrative export item. In 1994-95, India liberalized its coffee industry and coffee growers/traders are now free to sell their crop to private parties. This has resulted in greater investments in coffee cultivation within the country owing to the higher prices available both in the domestic and international markets. Pakistan is estimated to be the second largest tea consumer in the world with market size of around 157 million kg per annum and for several years it did not import tea from India. Pakistan's economy which is characterized by inadequate industrialization has created a demand-supply gap and drives both "black" and circular trade for truck tyre exports from India. The size of the market in the country is one million truck tyres annually and production facilities exist

for only two lakh tyres, of which half is taken by the government sector. The remaining one-lakh truck tyres for sale in the open market which cannot fulfill the demands. Therefore, Indian truck tyres are a popular product in Pakistan. However, though the item has been placed on the 'open' import list, the high duty structure of 46.6% would make Indian tyres costlier in Pakistan than tyres imported through the Turkmenistan route.¹¹

Pak- India both being agrarian economies could cooperate in agriculture which is a core component of the GDP and the largest employment generation sector in either country. The food and agri-business industry has a significant impact on the regional economy. This industry has one of the highest economic multiplier effects among the various industries, even ahead of the telecom or power sector. Liberalized Pak-India trade in the agro-sector would generate around 0.17 million jobs in Pakistan 0.27 million jobs in India. Pak-India should regularly pursue a joint gas pipeline project, encourage tourism and convene a joint meeting of finance and commerce ministers from both sides to promote bilateral trade.¹² The key lessons for Pakistan:

- No army involvement in politics of India as a well as flexible policy regime have been the key driving factors enabling India to fully utilize the opportunities into the global economy.
- The impressive economic growth from very beginning as compared to Pakistan has been greatly facilitated by the Indian government's institutional support, through the encouragement of high levels of savings and investment; prudent fiscal and monetary policies; and investment in physical infrastructure, education, training, and basic health care.
- In comparison, Pakistan has failed to sustain its periods of high economic growth and translate them into improvements at the macro and micro levels of the economy because of:
- The inability of successive governments to stabilize and improve the political climate and the lack of willingness to continue and deepen economic policies and reforms, thus leading to unstable macroeconomic conditions.

- The government's inability to (i) encourage high levels of domestic savings and investment; (ii) to invest substantially in physical and social infrastructure.
- The high levels of protection to domestic industries and discrimination against primary production and exports have impeded the opening up of the economy to global competition.¹³

CONCLUSION

It is clear from the above study that the trade and economic interaction between the Pak-India, shows that great opportunity exists for an expansion of mutually valuable economic relations between these two countries. This potential has not been exploited in the past due to various political and economic constraints. As a result, both have paid a heavy opportunity cost in economic conditions, because the huge amounts of their scarce resources are spent on armaments. This unproductive expenditure can be cut drastically by enhancing mutual cooperation in economic, cultural, and political fields. Actually both nations must share a long border and have fairly well-developed railway, road, air and sea links, because their geographical proximity and contiguity, with well established transport connections, definitely can cut transportation costs through increased mutual trade and reciprocal confidence under the influence of *lassies faire* options with each other, as compared to equivalent trade outside the region.

Thus, the geographical proximity and economic complementarity are natural compulsions, which should bring Pak-India closer, insofar as commercial relations are concerned. Putting an end to the illogical barriers artificially created by vested interests in both countries is the next step in achieving mutually beneficial economic growth.

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