

INDIA-PAKISTAN TRADE DEBACLE

Pakistan

India



India - Pakistan Trade Debacle

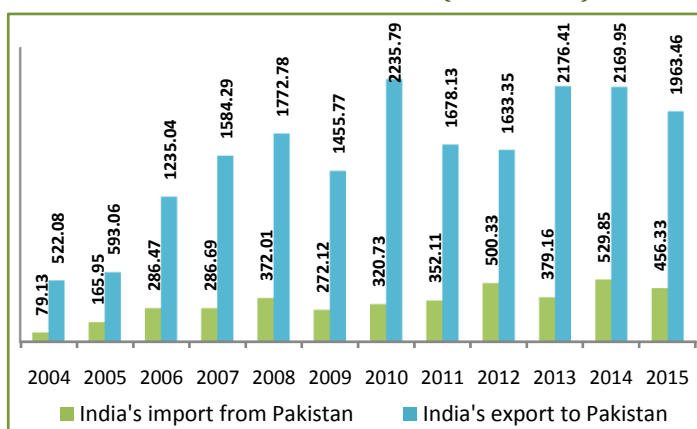
Quoting the words of Muhammad Ali Jinnah, "I sincerely hope that relations between India and Pakistan will be friendly and cordial. We have a great deal to do... and think that we can be of use to each other and to the world." It's been 69 years since Pakistan was demarcated from India and apparently, none of the aspirations came true from that statement. The path of development of bilateral trade has, unarguably, been obstructed by the element of mistrust, mutual insecurity and hostility between India and Pakistan. More importantly, this strife further exacerbates and eludes the inordinate potential of trade, i.e. estimated around 9 times the current trade, between the two nations. However, it can be witnessed that after decades of perpetual hostility with Pakistan, India has always been on front foot to build trust and friendly rapport with its old neighbour. It is essential to further develop the relationship between the two nations starting from very basic support in the global avenue. Commencing from granting Most favoured Nation status to India, TAPI pipeline establishing in Tajikistan and flowing to Afghanistan, to Pakistan and finally reaching India, Iran-Pakistan-India (IPI) gas pipeline from Iran, rejuvenating the rail network, and supporting each other's ideas in various summits across the globe and so on so forth.

❖ Trade Scenario

India and Pakistan have been able to bolster their bilateral trade to USD 2419 million in 2015 from USD 601.21 million in 2004. The overall trade between two nations registered a CAGR of 13.50%

during the same period. Under overall trade, Pakistan expanded its exports to India from USD 79.13 million to USD 456.33 million during 2004 – 2015 at a CAGR of 17.27% whereas India accentuated its exports to Pakistan from USD 522.08 million to USD 1963.46 million at a CAGR of 12.8% during the same period.

India-Pakistan Trade at a Glance (USD million)

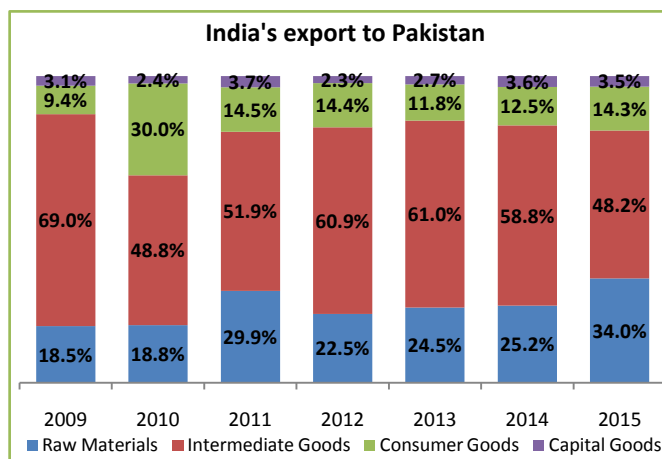


USD million	2005	2010	2015
India imports from Pakistan	165.945	320.726	456.328
Share in India's total imports (%)	[0.12%]	[0.09%]	[0.12%]
India exports to Pakistan	593.062	2235.788	1963.456
Share in India's total exports (%)	[0.59%]	[1.01%]	[0.74%]
India's trade surplus	427.117	1915.062	1507.128
TOTAL TRADE	759.007	2556.514	2419.784

Source: PHD Research Bureau; Compiled from Trademap

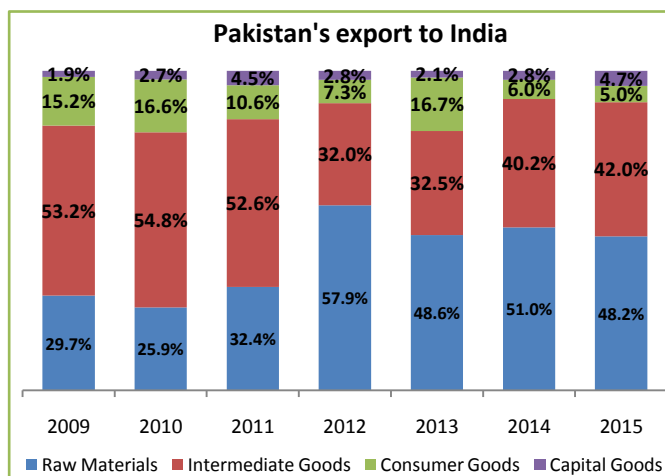
India has been able to more than three-fold its trade surplus with Pakistan during 2005 – 15. Although India's export share has fallen below unity since 2010, import share has witnessed a marginal and miniscule rise from 0.09% to 0.12% between 2010 and 2015.





Source: PHD Research Bureau; Compiled from WITS Database

India has registered a significant shift in exportable products to Pakistan based on level of processing since 2009. The share of raw materials rose from 18.5% in 2009 to 34% in 2015. The sharp rise in raw material exports commensurate to drop in share of intermediate goods from 69% to 48.2% during the same period. India's export of final goods, viz. aggregate consumer and capital goods, rose from 12.5% in 2009 to 17.8% in 2015.



Source: PHD Research Bureau; Compiled from WITS Database

On the flip side, Pakistan has also shifted its major exportable category to India from Intermediate goods to Raw materials between 2009 and 2015. Raw materials accounted for 48.2% of the overall exports from Pakistan to India, followed by intermediate goods (42%) in 2015. Also, share of

final goods declined dramatically since 2009 to reach 9.7% in 2015.

India's top 10 exports to Pakistan (2015)

HS-Code	Product Description	Value (USD million)	Share (%)
52	Cotton	620.161	31.59%
29	Organic chemicals	176.376	8.98%
39	Plastics and articles thereof	111.535	5.68%
55	Man-made staple fibres	106.951	5.45%
07	Edible vegetables and certain roots and tubers	105.988	5.40%
54	Man-made filaments; strip and the like of man-made textile materials	92.855	4.73%
23	Residues and waste from the food industries; prepared animal fodder	67.426	3.43%
09	Coffee, tea, maté and spices	56.651	2.89%
84	Machinery, mechanical appliances, nuclear reactors, boilers	56.237	2.86%
32	Tanning or dyeing extracts; tannins and their derivatives;	49.1	2.50%

Source: PHD Research Bureau; Compiled from Trademap

Prominent exportable products from India to Pakistan includes cotton, organic chemicals, plastics, man-made staple fibres, edible vegetables, man-made filaments, residues from food industries, coffee, tea, spices, machinery, mechanical appliances, tanning or dyeing extracts. The share of top 10 products comprises nearly 74% of the overall exports to Pakistan.

India's top 10 imports from Pakistan (2015)

HS-Code	Product Description	Value (USD million)	Share (%)
27	Mineral fuels, mineral oils and products of their distillation	134.395	29.45%
08	Edible fruit and nuts; peel of citrus fruit or melons	95.459	20.92%
25	Salt; sulphur; earths and stone; plastering materials, lime and Cement	72.498	15.89%
52	Cotton	50.567	11.08%
41	Raw hides and skins (other than furskins) and leather	15.326	3.36%
28	Inorganic chemicals; organic or inorganic compounds	12.365	2.71%

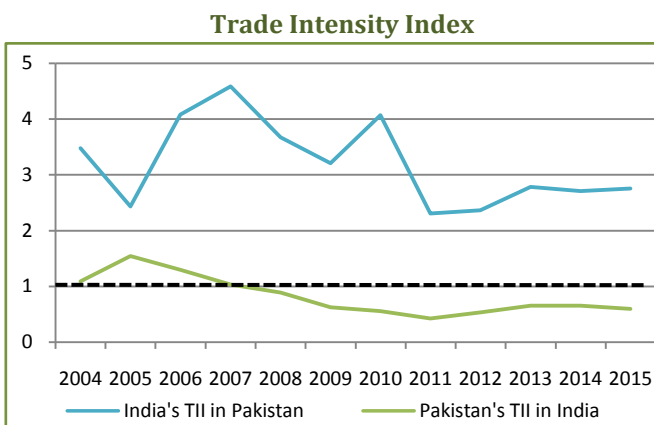
	of precious metals		
39	Plastics and articles thereof	9.827	2.15%
26	Ores, slag and ash	9.507	2.08%
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	7.49	1.64%
63	Other made-up textile articles; sets; worn clothing and worn textile articles	6.359	1.39%

Source: PHD Research Bureau; Compiled from Trademap

Of the top importable products by India from Pakistan, mineral fuels and edible fruits and nuts holds the highest share of nearly 50% of the overall imports. Others top imports from Pakistan include salt, sulphur, plastering materials, cotton, raw hides and skins, plastics, inorganic chemicals, ores, slag, wool, man-made textile articles.

❖ Bilateral Trade Outcome Analysis and Interpretation

Trade Intensity Index (TII) is a uniform export share that describes whether a country exports more or less to a destination than world does on average. TII value greater than 1 indicates an intense trade relationship, or significant presence of exporter nation in importer's market.



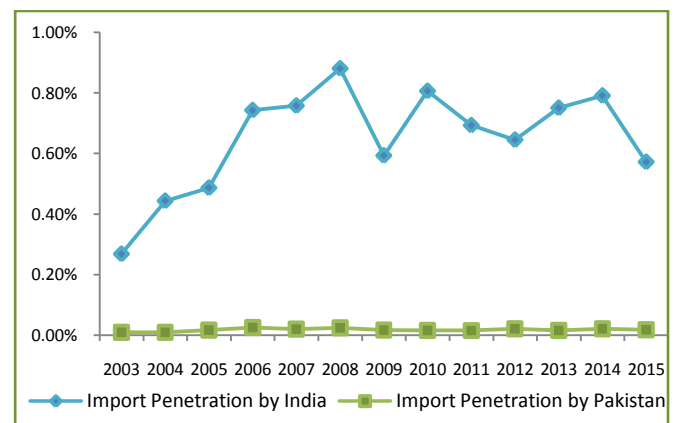
Source: PHD Research Bureau

Based on the TII estimates, Indian products hold a significant presence in Pakistan's market; however the degree of presence has fallen since the steep rise of 2007. Conversely, Pakistan's TII in India has lost its intensity since 2007 as India

has shifted its import pattern away from Pakistan's export pattern.

Import Penetration (IP) Rate examines the degree of domestic demand (the difference between GDP and net exports) is satisfied by imports. It is also termed as self-sufficiency ratio at the sectoral level. At bilateral level, it is the ratio of total imports from trade partner to domestic demand, as a percentage. It provides a broad scenario of the degree of vulnerability to certain types of shocks in the partner's economy. IP rate lies between 0 (no imports) to 100%¹ (when all domestic demand is satisfied by imports only) – a case of no-domestic production.

Import Penetration Rate



Source: PHD Research Bureau

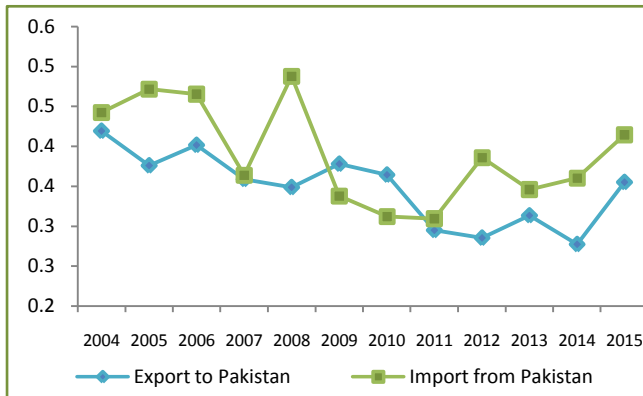
On the basis of comparison, India's import penetration rate is significantly higher than that of Pakistan's. In addition, India's penetration rate has fallen since the high of 2008, viz. from 0.88% to 0.57% in 2015. On the other hand, Pakistan's penetration in India has been consistent at around 0.02%.

Sectoral Hirschman Index (SHI) indicates the sectoral concentration of a region's exports. It

¹ During application, Index can go beyond 100% if re-exports are not accounted for.

describes the degree to which a nation's exports are dispersed across different economic activities. SHI lie between 0 and 1 wherein value closer to 1 indicates that exports are concentrated in fewer sectors.

Sectoral Hirschman Index (SHI)

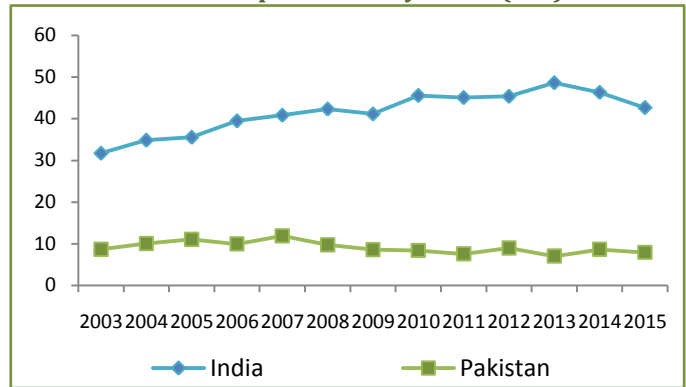


Source: PHD Research Bureau

It is also assumed that high concentration levels can be correlated with high vulnerabilities to economic changes in a small number of product markets. Over time decline in trend of SHI can be translated to broadening of the export base. Over the years, both nations have focused on exportable products from fewer sectors. SHI for both nations have increased in each other's economy. Although overall trend effect in SHI has been declining since 2004, India's SHI in Pakistan jumped to 0.36 recently. Similar trend has been witnessed in case of imports from Pakistan. SHI of imports from Pakistan witnessed consistent rise since 2012 indicating fewer products/sectors are focused on for the imports from Pakistan.

Trade Complementarity Index (TCI) is a nuanced overlap index wherein the index exhibits the degree of alignment of export pattern of one country with the import pattern of its partner's country. A high degree of TCI assumed to indicate more favourable prospects for a successful trade arrangement.

Trade Complementarity Index (TCI)

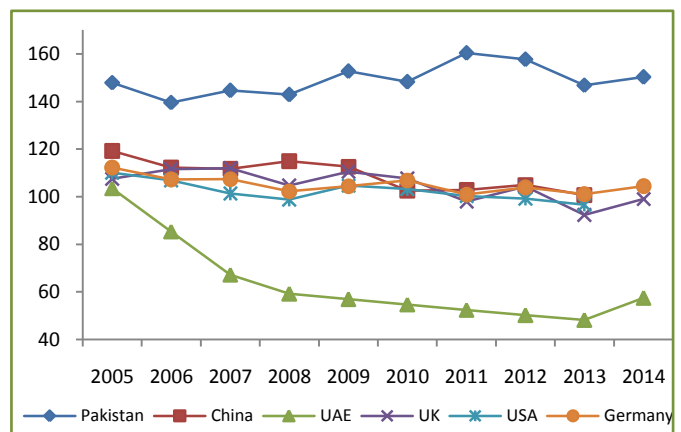


Source: PHD Research Bureau

Provided India as an exporter, TCI with Pakistan is substantially on the higher plane. This indicates huge potential for exports from India in the medium to long run. The shift in trend suggests growth/fall in alignment. Conversely, Pakistan's potential prospects in India seem bleak and unsustainable as its export pattern is not in tandem with the import pattern of India.

Trade cost analysis provides an optimal viewpoint to access the overall cost as a percentage of overall export, which is incurred during trade between two nations. Trade costs are the price equivalent of the reduction of international trade compared with the potential implied by domestic production and consumption in the origin and destination markets. Higher bilateral trade costs result in smaller bilateral trade flows.

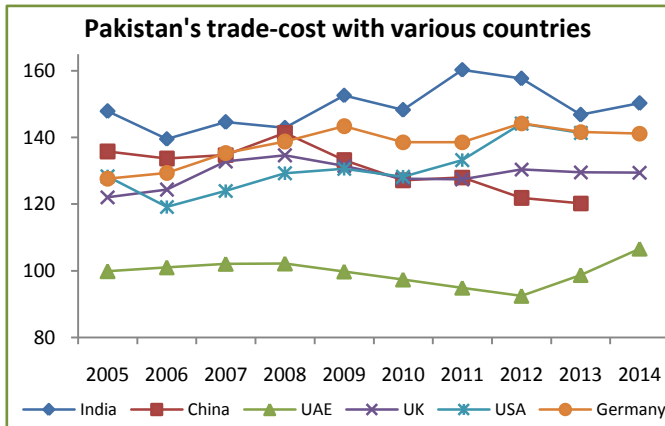
India's trade-cost with various countries



Source: PHD Research Bureau; Compiled from World Bank Database

India's trade cost with Pakistan, vis-à-vis other trading partners, is significantly high. Trade with Pakistan remained north of 140% in the recent years. India's trade cost with UAE is amongst the lowest and registering continuous fall.

Pakistan's trade-cost with various countries

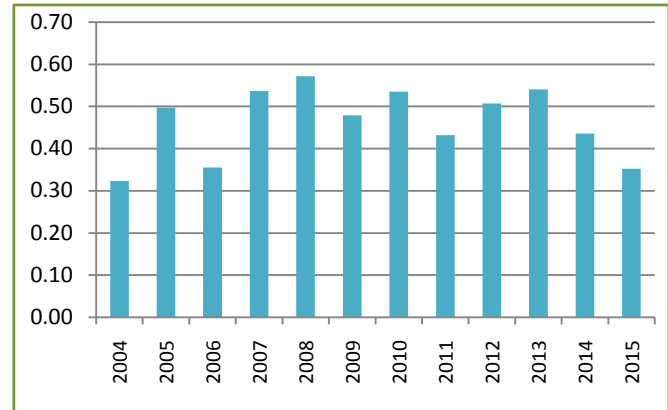


Source: PHD Research Bureau

Similar assessment can be done from chart above for Pakistan's trade cost with its major trading partners. Similar numbers are registered for Pakistan's trade cost with India, wherein ad-valorem rate remained consistently higher than 140% exacerbating the potential trade between two nations.

Grubel - Lloyd Index (GLI) is an indicator to measure the scale of intra-industry trade between nations. Nations can hugely benefit from intra-industry trade due to exploitation of economies of scale. GLI lie between 0 and 1, wherein 0 indicates pure inter-industry trade and 1 indicates pure intra-industry trade. Adjustments are made if there are any total trade imbalances in a country. India and Pakistan's intra industry trade have remained on the moderate side. Although, satisfactory performance at IIT level, trend in adjusted GLI suggests a significant drop since 2008.

Adjusted Grubel - Lloyd Index



Source: PHD Research Bureau

The crux of the above analysis suggests that India holds significant footprint in Pakistan's market, however the magnitude of that footprint has witnessed a drop over time. On the flip side, the trade cost between two contiguous nations has been amongst the highest. Despite having same border, both the nations are unable to exploit the trade potentiality primarily due to mistrust and hostility. Trade between India and Pakistan is highly concentrated on fewer sectors and the scale has further expanded in the recent years. Also, India's products are able to penetrate in Pakistan more deeply than the reverse scenario.

❖ Conclusion

Undoubtedly, trade figures between India and Pakistan remained abysmally low, and given on ongoing border events, trade numbers are expected to fall further. Notwithstanding the trade numbers running below potential, the share is expected to fall below the current mark of 0.4% of overall India's trade.

The debate over revoking the MFN status given to Pakistan won't make much difference on the international trade, except to make a proclamation of stringent reprimand on the recent actions of Pakistan. In that regard,

potential loss in trade due to present aggravating tension between two nations will not make any dent in Indian economy. In addition, the volume of informal trade between two nations has been on near high, despite measures to curb those very events. Factors such as exorbitant tariffs, border and political tension, complex non tariff barriers contribute significantly in thriving informal trade. To counter such events, it is essential for both nations to work in collaboration and proactively reduce the sky-rocketing trade costs.

Last but not the least the long list of negative items. To bolster trade, India and Pakistan needs to actively engage in discussions to reduce the number of items in the negative list to half. In addition, exorbitant tariff rates on various commodities, especially associated with high intra-industry trade, should be reduced.



Trade Acronyms

ACP	African, Caribbean and Pacific Group of States
AD	Anti-Dumping,
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BIT	bilateral investment treaty
BOP	Balance of Payments
BRICS	Brazil, Russian Federation, India, China, South Africa
CACM	Central American Common Market
CAGR	Compound Annual Growth Rate
CARICOM	Caribbean Common Market
CEMAC	Economic and Monetary Community of Central Africa
CETA	Comprehensive Economic and Trade Agreement
CFC	controlled foreign company
CFIA	Cooperative and Facilitation Investment Agreement
CFTA	African Continental Free Trade Agreement
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CSR	corporate social responsibility
CV	Countervailing Duties,
DOB	Denial Of Benefits
DTT	double-taxation treaty
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EFTA	European Free Trade Association
EPA	economic partnership agreement
ERP	Effective Rate of Protection
ES	Export Subsidies,
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GCC	Gulf Co-operation Council
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GLI	Grubel Lloyd Index
GTIS	Global Trade Information Services
GVC	global value chain
HHI	Hirschman Index
HS	Harmonized Commodity Description and Coding System
IEA	International Energy Agency
IIA	international investment agreement
IMF	International Monetary Fund
IPA	investment promotion agency
IPFSD	Investment Policy Framework for Sustainable Development
ISDS	investor-State dispute settlement
ISIC	International Standard Industrial Classification
JV	joint venture
LDC	least developed country
LLDC	landlocked developing country
M	Imports
M&As	mergers and acquisitions
MERCOSUR	Southern Common Market
MFN	Most Favoured Nation
MNE	multinational enterprise
NAFTA	North American Free Trade Agreement
NES	Not Elsewhere Specified

NTM	Non-Tariff Measures or Non-Tariff Barriers
OECD	Organization for Economic Cooperation and Development
OFC	offshore financial centre
OIA	outward investment agency
PAIC	Pan-African Investment Code
PR	Preference Tariff Rate
PTA	Preferential Trade Agreement
QM	Quality Margin
QR	Quantitative Restrictions,
RCEP	Regional Comprehensive Economic Partnership
RTIA	regional trade and investment agreements
SAARC	South Asian Association for Regional Co-operation
SADC	South African Development Community
SAPTA	South Asian Preferential Trade Arrangement
SBA	substantial business activities
SDGs	Sustainable Development Goals
SEZ	special economic zone
SG	Safeguard measures,
SHI	Sectoral Hirschman Index
SITC	Standard International Trade Classification
SPE	special purpose entity
SPS	Sanitary and Phytosanitary Measures
SSG	Special Safeguard Measures,
STE	State Trading Enterprises
TBT	Technical Barriers to Trade
TCI	Trade Complementarity Index
TIFA	trade and investment framework agreement
TII	Trade Intensity Index
TIP	treaty with investment provision
TISA	Trade in Services Agreement
TPP	Trans-Pacific Partnership Agreement
TRQ	Tariff-rate Quotas,
TTIP	Transatlantic Trade and Investment Partnership
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UNECLAC	United Nations Economic Commission for Latin America and the Caribbean
UNIDO	United Nation Industrial Development Organization
UNSD	United Nations Statistics Division
USD	United States Dollar
UV	Unit Value
WAEMU	West African Economic and Monetary Union
WEF	World Economic Forum
WIPS	World Investment Prospects Survey
WITS	World Integrated Trade Solution
WTO	World Trade Organization
X	Exports



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The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading business newspapers.

Research Activities	Comments on Economic Developments	Newsletters	Consultancy
<ul style="list-style-type: none"> Research Studies 	<ul style="list-style-type: none"> Macro Economy 	<ul style="list-style-type: none"> Economic Affairs Newsletter (EAC) 	<ul style="list-style-type: none"> Trade & Inv. Facilitation Services (TIFS)
<ul style="list-style-type: none"> State Profiles 	<ul style="list-style-type: none"> States Development 	<ul style="list-style-type: none"> Economic & Business Outlook (EBO) 	<ul style="list-style-type: none"> Business Research Consultancy
<ul style="list-style-type: none"> Impact Assessments 	<ul style="list-style-type: none"> Infrastructure 	<ul style="list-style-type: none"> Global Economic Monitor (GEM) 	<ul style="list-style-type: none"> Forex Helpline
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	<ul style="list-style-type: none"> Global Economy 	<ul style="list-style-type: none"> State Development Monitor (SDM) 	



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A: Thematic research reports

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6. The Indian Direct Selling Industry Annual Survey 2010-11 (May 2012)
7. Global Economic Challenges: Implications for India (May 2012)
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9. Reforms to Push Growth on High Road (September 2012)
10. The Indian Direct Selling Industry Annual Survey 2011-12: Beating Slowdown (March 2013)
11. Budget 2013-14: Moving on reforms (March 2013)
12. India- Africa Promise Diverse Opportunities (November 2013)
13. India- Africa Promise Diverse Opportunities: Suggestions Report (November 2013)
14. Annual survey of Indian Direct Selling Industry-2012-13 (December 2013)
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25. The Indian Direct Selling Industry Annual Survey 2013-14 (November 2014)
26. Participated in a survey to audit SEZs in India with CAG Office of India (November 2014)
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36. Progress of Make in India (September 2015)
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38. Annual survey of Indian Direct Selling Industry 2014-15 (December 2015)

39. India's Foreign Trade Policy Environment Past, Present and Future (December 2015)
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B: State profiles

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57. Suggestions for Progressive Uttar Pradesh (August 2015)
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