

Chapter 2

Normalizing India-Pakistan Trade

Nisha Taneja, Mishita Mehra, Prithvijit Mukherjee,
Samridhi Bimal, and Isha Dayal

2.1 Context of the Study

Even though positive measures have been taken in the past, the series of credible steps taken since November 2011 are likely to lead to a quantum jump in trade between India and Pakistan. As the two countries move toward normalizing their bilateral trading regimes, there will be new trading opportunities for both of them. It is important to quantify the trade potential and identify sectors with the largest potential. The negative and sensitive lists operational in Pakistan against India and the sensitive lists maintained by India for Pakistan indicate sectors in which the two countries want to protect their domestic industries from each other's imports; the lists indicate the corresponding gains to the protected exporters of both countries. The trade potential for these sensitive items would indicate the extent to which possible losers and gainers in different industries are being affected. While trade negotiations have focused largely on the goods sector, there are trade possibilities in the service sector as well. Assessing these possibilities would help equip businessmen in India and Pakistan with relevant information on services trade.

The extent to which trade potential can be realized between India and Pakistan depends on several factors. Identifying impediments to trade can help policymakers take relevant measures. Identifying nontariff barriers can also help improve market access for both countries. Foreign direct investments can help deepen trade linkages and sustain trade gains. Cross-border transportation at low costs can provide large gains to traders on both sides. It is also important to assess the impact of the trade normalization process on informal trade flows. For several years, India and Pakistan have followed a very strict visa regime that restricts the movement of people across the border. It is important to understand the nature of these restrictions,

N. Taneja (✉) • M. Mehra • P. Mukherjee • S. Bimal • I. Dayal
Indian Council for Research on International Economic Relations, New Delhi, India
e-mail: NTaneja@icrier.res.in

assess the steps taken so far, and suggest improvements. More importantly, greater people-to-people contact will erase misconceptions and help them engage fearlessly with each other. The success of the trade normalization process will also be determined by the role of institutions involved in this process at the center, state, and border levels, business and trade associations, nongovernment organizations, and the media.

Against this backdrop, our study focuses on the following questions:

(I) What is the trade potential between India and Pakistan?

- What are the total bilateral trade potential and the items with the largest potential?
- What is the trade potential of items on the negative and sensitive lists and which sectors in these categories have the largest trade potential?
- What items on the negative and sensitive lists are prone to competition?
- What are the trade possibilities in the service sector?

(II) How can the trade potential between India and Pakistan be realized?

- What are the transport and transit impediments, and how can the transaction costs of trading be reduced?
- What are the nontariff barriers and how can these be addressed?
- What is the magnitude of informal trade and how can it be shifted to formal channels?
- What are the impediments related to visas?
- How can investment flows deepen trade linkages?
- What is the role of institutions in enhancing trade?

2.2 Methodology

The study uses mixed methods that are based on primary information collected through field surveys and secondary sources. The secondary sources are published papers, data, and government policies, agreements, regulations, and protocols.

Primary surveys were conducted to understand the impediments to trade normalization, while secondary data was used to prepare estimates of trade potential between India and Pakistan. The primary survey was conducted during 2005–2008 and in 2012 in India, Pakistan, and Dubai. Face-to-face interviews, focus group discussions, and stakeholder consultations were held formally and informally using semi-structured, open-ended questionnaires with importers, exporters, manufacturers, freight forwarders, clearing agents, government officials at the state and central levels, and academics on the trade-related issues raised in this study.

Several methods have been used to predict the trade potential between India and Pakistan. The most popular econometric method is the use of gravity models in which bilateral trade is explained as being directly proportional to the product of the Gross National Product (GNP) of the trading partners and inversely related to the

distance between them. Gravity model estimates range between 0.5 times and 27 times of actual trade (Batra 2004; Rahman et al. 2006). While these estimates are useful, the model has some weaknesses, particularly for geographically contiguous countries such as India and Pakistan, where despite lower intercountry distances, transport and other transaction costs of trading are very high. Moreover, any econometric model would be limited in its use when existing bilateral trade is limited to the positive list.

This chapter uses a simple yet intuitive method to compute the trade potential between India and Pakistan that yields more realistic results. A two-step approach was used to calculate trade potential. In the first stage, products with trade potential were identified as those that had (a) adequate demand in the receiving country and (b) adequate supply capabilities in the source country. In the second stage, of the identified products, only items that were globally competitive were retained to arrive at estimates of trade potential.

Thus, in Step 1, trade potential for any commodity is given by $\text{Min}(\text{SE}, \text{MI}) - \text{ET}$, where SE, MI, and ET are supplier's global exports, receiver's global imports, and existing trade between the supplier and the receiver.

In Step 2, the revealed comparative advantage (RCA) for all items identified in Step 1 was computed, and only those which with an RCA greater than unity were included. Thus, India's export potential to Pakistan was arrived at by first calculating the trade potential for all commodities and then retaining only those in which India has a comparative advantage to export to the world. A similar exercise was conducted to estimate India's import potential from Pakistan.

The RCA index is a ratio of the share of a given product in a country's exports relative to the product's share in world exports (Balassa 1965). The RCA was computed using the following formula:

$$\text{RCA}_{ij} = \frac{(X_{ij} / X_i)}{(X_{wj} / X_w)}$$

where X_{ij} represents country i 's export of commodity j , X_{wj} represents world exports of commodity j , X_i represents the total exports of country i , and X_w represents total world exports. The RCA index was computed by averaging the item-wise RCA for the years 2010 and 2011. The problem with such a measure of RCA is that its theoretical concept is based upon pre-trade relative prices in a world where markets function without distortions, but there will always be a gap between a country's comparative advantage inferred from post-trade observable data and its actual comparative advantage. However, Balassa (1965) argues that comparative advantage can be revealed through an examination of country/commodity trade patterns, because actual exchanges reflect relative costs as well as differences in non-price factors.

The estimates of trade potential have to be treated with caution, as they merely indicate the untapped trade possibilities. The estimate of trade potential is the maximum possible trade that two countries can have if they sourced from each other all items that they sourced from the rest of the world. Though this can never be the

case, this exercise gives ballpark figures on trade possibilities at a disaggregated level. The estimates also vary depending on the year of reference. In this exercise, the calculations are based on trade data for 2011.

Secondary data on India's trade with Pakistan was collected from the Directorate General of Foreign Trade (DGFT), Ministry of Commerce, and the United Nations International Trade Center's (UN ITC) World Integrated Trade Systems (WITS) Database published by the World Bank.

2.3 Trade Potential and Possibilities

In this section we examine current trade trends, assess the trade potential for India and Pakistan, examine the composition of the negative and sensitive lists, and assess the extent of trade potential accounted for by these items. Protected sectors with the highest trade potential are identified, and the implications of opening up these sectors are discussed. The sectors that are likely to face competition from imports once the negative and sensitive lists are further liberalized have also been identified. Trade possibilities and potential in the important service sectors have been examined as well.

2.3.1 Trends in Bilateral Trade

Bilateral trade between India and Pakistan increased by more than nine times between the years 2000 and 2011.¹ Total trade between the two countries was US\$1.97 billion in 2011, of which India's exports to Pakistan were US\$1.66 billion and imports US\$313 million. Despite exporting only on the positive list, India has always had a trade surplus with Pakistan, with the trade balance as a proportion of its total trade with Pakistan increasing from 55 to 68 % between 2000 and 2011 (Table 2.1). However, from 2009 to 2012, the average annual rate of growth of imports from Pakistan was 23 %, while that of exports was just 9 %, signaling some reversals in the trend.

In 2011, India's top three exports to Pakistan at the HS-21 level of classification of items included chemicals, textiles, and vegetable products and accounted for 68 % of total exports to Pakistan.² India's top three imports included mineral products, vegetable products, and textiles, accounting for 59 % of total imports (Appendix Table 2.3).

At the disaggregated level (HS 6-digit classification), the top commodities exported from India to Pakistan that year included cotton, oil cake, xylene, tomatoes, woven fabrics, chickpeas, polypropylene, rubber tires, tea, fruits, and iron and steel containers. Cotton alone accounted for 16 % of exports (Appendix Table 2.4).

¹Excluding mineral fuels.

²HS refers to Harmonized System of classification.

Table 2.1 India's trade with Pakistan (US\$ million)

	US\$ million (excluding mineral fuels)		US\$ million (mineral fuels)		US\$ million (including mineral fuels)	
	(1)		(2)		(3)=(1)+(2)	
Trade	2000	2011	2000	2011	2000	2011
Exports	162	1,659	0	19	162	1,678
Imports	47	313	22	39	69	352
<i>Total trade</i>	209	1,972	22	58	231	2,030

Source: UN ITC-WITS database

Table 2.2 India's trade potential with Pakistan

	US\$ million (excluding mineral fuels)	US\$ million (mineral fuels)	US\$ million (including mineral fuels)
	(1)	(2)	(3)=(1)+(2)
Trade potential (year 2011)			
Export potential	7,874	9,062	16,936
Import potential	3,019	1,289	4,308
<i>Trade potential</i>	10,893	10,351	21,244

Source: UN ITC-WITS database

Note: Calculations based on trade data for 2011

Dates were the most important item imported from Pakistan, accounting for 19.8 % of total imports in 2011. Other items included cement, gold, light petroleum, lead, copper, petroleum oil, cotton yarn, disodium carbonate, gypsum, terephthalic salts, and vinyl chloride (Appendix Table 2.5).

2.3.2 Trade Potential in Goods

The trade potential between India and Pakistan was calculated using the methodology outlined in Sect. 2.2. The results show that the total trade potential, excluding mineral fuels, is US\$10.9 billion, with the export potential accounting for US\$7.9 billion and import potential accounting for US\$3 billion. The trade potential from mineral fuels stands at US\$10.4 billion (Table 2.2).

The same methodology was used to calculate the export and import potential for Pakistan's negative and sensitive list and for India's sensitive list. India's export potential for the items on Pakistan's negative list accounts for 43 % of its total export potential; and items on Pakistan's sensitive list under SAFTA account for 33 % of India's total export potential (Appendix Table 2.6). The export potential of items that are either on Pakistan's negative list or on the SAFTA sensitive list accounts for 56 % of India's total export potential (Fig. 2.1, Appendix Table 2.6).

India's import potential from Pakistan for items on India's sensitive list under SAFTA accounts for 22 % of India's total import potential (Fig. 2.2, Appendix Table 2.7). Thus, a substantial proportion of India's export potential is in products

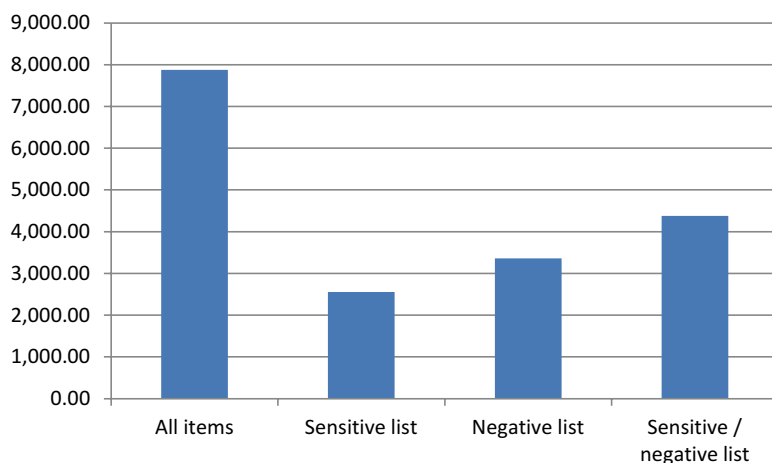


Fig. 2.1 India's export potential to Pakistan (US\$ million) (*Source: UN ITC-WITS database*)

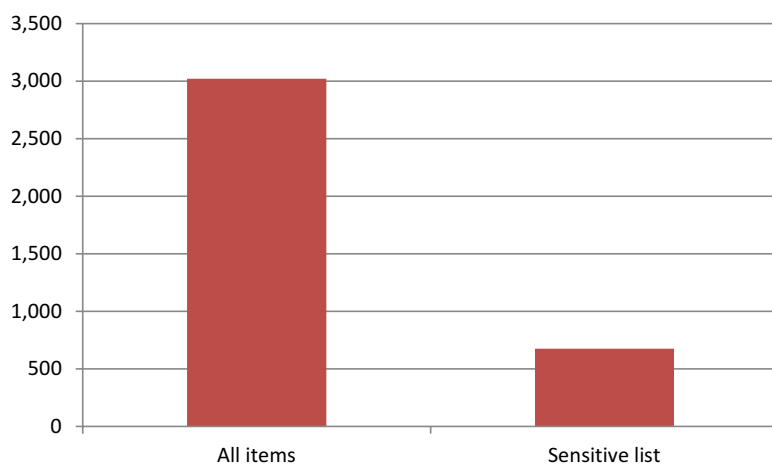


Fig. 2.2 India's import potential from Pakistan (US\$ million) (*Source: UN ITC-WITS database*)

that are either on Pakistan's negative list for India or on the sensitive list under SAFTA. Similarly, a significant proportion of India's import potential is in items on the sensitive list for non-LDCs under SAFTA. Thus, even if trade is normalized, the two countries are likely to have limited preferential access to each other's markets.

The three categories (of HS-21 sectors) with the largest export potential from India to Pakistan are textiles, chemicals, and machinery, mechanical appliances and electrical equipment, which account for 55 % of the total export potential (Appendix Table 2.8, Columns 3 and 4). At the disaggregated level, the largest potential items include petroleum oils, light petroleum oils, cellular phones, cotton, vehicle components, polypropylene, xylene, tea, textured yarn, synthetic fiber, and medicaments (Appendix Table 2.9). However, 13 of the top 25 products with the

highest potential are currently on Pakistan's negative or sensitive lists or on both, making it difficult to realize the potential from these items.

The three categories with the largest import potential are textiles, jewelry and precious metals, and base metals, which account for 52 % of the total import potential (Appendix Table 2.10, Columns 3 and 4). At the disaggregated level, the items with the largest import potential are petroleum oils, jewelry, medical instruments and appliances, cotton, tubes and pipes of iron and steel, polyethylene, copper waste and scrap, structures and parts of structures, terephthalic acid and its salts, and sports equipment (Appendix Table 2.11). Again 6 of the 25 products with the highest import potential are on India's sensitive list for non-LDCs under SAFTA.

India has a huge export potential in mineral fuels largely accounted for by petroleum oil and light petroleum oil. The potential for the former is US\$7.7 billion and the latter is US\$1.3 billion (Appendix Table 2.9). India's import potential from Pakistan in petroleum oils is US\$1.3 billion (Appendix Table 2.11). Although both countries have export potential in petroleum oils, analysis at a more disaggregated 8-digit level reveals that Pakistan's major petroleum oil export is base oil, while India's comparative advantage is in high-speed diesel, aviation turbine fuel, fuel oil, and lubricating oil.

2.3.3 *Negative and Sensitive Sectors*

Pakistan's negative list of 1,209 items is specified at the 8-digit level of classification followed by Pakistan Custom's Office. This classification differs from the Indian classification at the same level of disaggregation. An analysis of the 1,209 items indicates that auto components account for 32 % of the items, followed by steel and paper products that account for 11 % and 8 %, respectively (Fig. 2.3).

To assess the potential in these items, the codes were collapsed to the HS 6-digit level and then reclassified according to Pakistan's customs classification. However, in the process of aggregation, some products that were not on the negative list at the 8-digit level got included. Hence, at the HS 6-digit level, there were 788 items on Pakistan's negative list. Five categories, namely, automobiles, electrical machinery, textiles, steel, and pharmaceuticals, accounted for almost 90 % of the export potential on the negative list (Appendix Table 2.12, Column 2); within this, auto alone accounted for around 30 % of the export potential on the negative list. In addition, India's export potential in items that are included in Pakistan's negative list is the largest in automobiles (included largely in the category of vehicles, aircraft, vessels, and transport), which accounts for 12 % of India's total export potential to Pakistan (Appendix Table 2.8, Column 6).

To identify specific commodities on Pakistan's negative list that are "vulnerable" to competition from imports, paired RCAs were computed for every item traded between India and Pakistan. Vulnerable items identified through this exercise were those in which India had $RCA > 1$, but Pakistan had $RCA < 1$ (Taneja et al. 2011b). Thus, in the automobile sector, which accounted for the highest export potential on the negative list, of a total of 167 items at the 6-digit level, only 35 were vulnerable, as these were items in which India is globally competitive, but Pakistan is not.

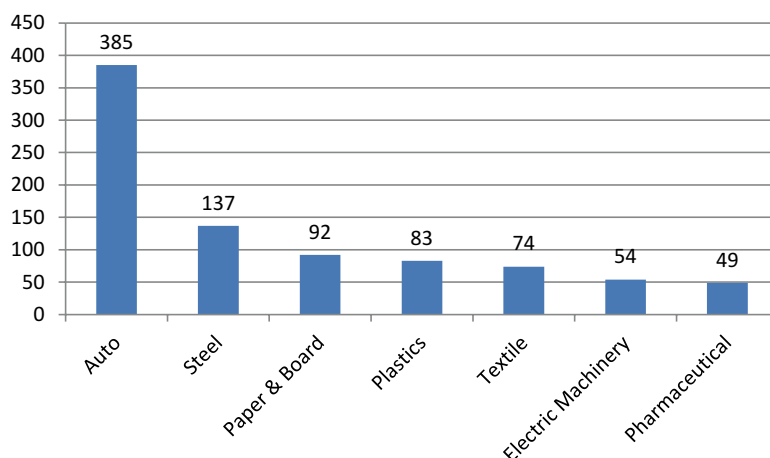


Fig. 2.3 Number of commodities on Pakistan's negative list (based on Pakistan customs classification 8-digit level) (Source: Ministry of Commerce, Government of Pakistan)

Similarly, in textiles, of the 74 items on the negative list, Pakistan is vulnerable in only 25 or 34 % of the items (Appendix Table 2.12, Columns 3, 5, and 6).

India's export potential in items that are included in Pakistan's sensitive list under SAFTA is the largest in automobiles (included largely in the category vehicles, aircraft, vessels, and transport) accounting for 37 % of the export potential of sensitive list items (Appendix Table 2.13, Column 2) and 12 % of India's total export potential (Appendix Table 2.8, Column 8). However, of the 70 items on the sensitive list in this category, Pakistan is vulnerable in only 19 items (Appendix Table 2.13, Columns 3 and 5). In terms of number of items, the textile sector was the largest, accounting for 24 % of the total number of items on the sensitive list (Appendix Table 2.13, Column 4). But these accounted for only 4 % of India's export potential for items on Pakistan's sensitive list under SAFTA (Appendix Table 2.13, Column 2). Moreover, of the total 224 textile items on the sensitive list, Pakistan is likely to face competition in only 41 or 18 % of the items (Appendix Table 2.13, Columns 3, 5, and 6).

India's sensitive list under SAFTA has the largest number of items in the textile sector, which accounted for 30 % of the total number of items on the sensitive list (Appendix Table 2.14, Column 4), while accounting for 62 % of India's import potential for items on the sensitive list (Appendix Table 2.14, Columns 2 and 4), and 14 % of India's total import potential from Pakistan (Appendix Table 2.10, Column 6). Further, of a total of 182 textile items on the sensitive list, India is vulnerable in only 45 items, i.e., 25 % of the items (Appendix Table 2.14, Columns 3, 5, and 6).

It can, hence, be inferred that while Pakistan considers its automobile sector most susceptible to competition, India fears competition in the textile sector. However, the tendency for both countries has been to protect several tariff lines in which neither partner is competitive.

In Pakistan the automobile sector is highly protected. The automobile industry was set up initially by Japanese, European, and Korean manufacturers. These assemblers are supported by auto component manufacturers or vendors. Some of

the assemblers have joint ventures with the component manufacturers, while others are independent. During 1985–2006, the industry adopted a “Deletion Program” that mandated compulsory localization of components over a period of time to provide protection to the local vendor industry (USAID and Government of Pakistan 2006). To comply with the WTO on trade and investment, the Deletion Program was abandoned, but the sector continued to be protected by high tariffs. Pakistan currently imports completely knocked down kits (CKDs) and semi-knocked down kits (SKDs) from Japan and parts from Thailand at higher prices than those from India. Opening up trade with India will make cheaper parts available to the industry (Trade Development Authority of Pakistan 2012). India’s automobile vendor industry had a similar protected regime including an equivalent of Pakistan’s Deletion Program for automobile manufacturers. With continuous liberalization, India has become a global R&D and small-car manufacturing hub (IBEF 2012). Indian auto component manufacturers, on the other hand, are moving up the value chain and delivering complex products although largely for the domestic market (IBEF n.d.). The government’s Automotive Mission Plan (AMP) 2006–2016 visualizes India moving up the value chain and entering into R&D, design, and manufacture of automobiles and auto components (National Manufacturing Competitiveness Council 2011). Pakistan can learn from India’s experience of opening up the automobile and auto component industry. Moreover, one of the major factors for the significant performance improvement in Pakistan’s motorcycle industry is attributed to the opening up of Pakistan’s market to imported Chinese components (Pursell et al. 2011). Thus, there is a case for Pakistan to further liberalize its auto sector. Currently, there is hardly any direct trade in auto components between India and Pakistan, and most of the trade is routed via Dubai, according to the Automotive Component Manufacturers Association of India.

India’s textile and clothing sector has been one of the most protected sectors in India. Until 2005, readymade garments were reserved for exclusive manufacture by small-scale firms, and large firms were not permitted to manufacture these items. To protect the domestic industry, textiles and readymade garments were also subject to high import duties and specific duties that were applied in quantitative terms and not on *ad valorem* basis. In fact, some of the *ad valorem* rates exceeded 300 % (USTR 2012). In 2005, readymade garment items were removed from the reserved list, thereby allowing large firms to enter manufacturing. However, these items continued to be on the sensitive lists of India’s free trade agreements even though the rationale for protecting the industry was no longer there (Taneja et al. 2011b). It was only in 2008 that India removed 164 textile items from the sensitive list for LDCs under SAFTA and offered duty-free access. In 2011, all textile items were allowed duty-free access from LDCs. Sri Lanka was offered duty-free access to 215 textile items under the India-Sri Lanka Free Trade Agreement in 2008. Similarly, a complex system of subsidies and taxes oriented the mill sector (spinning and yarn) powerfully toward the small-scale weaving sector that used power looms, which in turn was oriented primarily toward domestic consumption (Tewari 2005). In 2011–2012, the mill sector accounted for only 5 % of the total cloth produced by the mill and power loom sectors (India Economic Survey 2011–2012). However, there is a distinct difference in the fabric produced by the two sectors. While the mill sector produces

high-quality and high-value fabric, the fabric produced by the power looms is of low quality and commands a lower price (US International Trade Commission 2001). Pakistan, on the other hand, has a strong yarn and fabric manufacturing industry, and India fears that imports from Pakistan would hurt its small- and medium-scale sector. Fabric imports from Pakistan are more likely to compete with the mill sector in India than the power loom sector, thus providing no justification for India to protect large firms from imports. Also, as noted above, India does not face much threat by opening up the Indian market to Pakistan's textile sector, as only 25 % of the textile items on India's sensitive list fall in the "vulnerable" category.

However, it is agriculture that is the main point of contention in the ongoing trade talks. Even though farmers in Pakistan are raising concerns over unfair competition from Indian imports of agricultural products while they enjoy various subsidies, the negative list has very few agriculture items. India's export potential in tobacco items that are on the negative list is less than 1 % of the total export potential of items on the negative list (Appendix Table 2.12, Column 2). All the remaining agricultural items have been removed from the negative list. However, farmers fear that if the land route is opened to agricultural imports, they would not be able to compete with Indian products (Bhutta 2012).

Pakistan has always been concerned that due to high subsidies, the prices of agricultural commodities are lower in India, and, therefore, opening up trade would have a negative impact on domestic producers. While India does offer subsidies, its non-product-specific subsidies are below 10 % of the value of agricultural output, abiding by the WTO rules (Hoda and Gulati 2013).

Further, prior to 1996 when trade between the two countries was limited to a handful of items on the positive list, agriculture was part of this positive list, as it was not only an important means of overcoming short-term fluctuations but was also important for maintaining domestic price stability. When Pakistan's positive list expanded to 1,963 items, 156 agricultural commodities formed part of this list.

While Pakistan may have genuine concerns regarding any adverse impact on its agriculture sector due to a surge in agricultural imports from India, the solution should be to seek safeguards within the WTO system and under SAFTA, rather than imposing a total ban on agricultural commodities from India.

2.3.4 Trade Possibilities in Services

There are additional trade possibilities in the service sector that are becoming increasingly important in the economies of India and Pakistan. In 2011–2012, this sector accounted for 59 % of India's GDP and 54 % of Pakistan's GDP. Three sectors where there is potential are information technology and Business Process Outsourcing (BPO), health services, and entertainment services.

India's IT and BPO sector revenue was US\$87.6 billion in 2011–2012. Software exports in 2011–2012 were US\$69 billion compared to US\$59 billion in 2010–2011. Exports dominate the industry and constitute about 78.4 % of total industry revenue. Indian IT service offerings have evolved from application development and

maintenance to emerge as full service players that provide testing and infrastructure services, consulting, and system integration (India Economic Survey 2011–2012). The BPO sector, which initially offered only low-value services, is now characterized by greater breadth and depth of services. Although the IT industry in Pakistan is in its infancy, it is growing at a rapid pace. IT exports in 2011 were US\$440³ million, up from US\$432 million in the previous year, indicating that this area holds a lot more potential. India and Pakistan can establish joint ventures. While Pakistan could provide professionals at lower wages, Indian companies could help procure international contracts (Husain 2011). Pakistan is emerging as an exporter of specialized software services, such as gaming and animation, financial services, and healthcare, which Indian companies could import. The two countries could also gain if India sets up training institutes in Pakistan, or if professionals from Pakistan come to India for professional training. The BPO segment in Pakistan is also growing. Government incentives to the international outsourcing community include 100 % equity ownership, 100 % repatriation of capital and dividends, and income tax exemption for IT companies until 2016 (Pakistan Software Export Board n.d.). India could collaborate with BPO firms in Pakistan to offer more value-added services in this segment.

Healthcare service is another area in which there are opportunities for both countries. India has emerged as an important destination for the provision of medical services due to the affordable cost of treatment and advances in the field of medicine. Several Pakistani patients have visited India for medical treatment such as liver and kidney transplants and open heart surgery (Ahmad 2012). Other specialty treatment is also offered to Pakistani patients. For instance, the Mumbai Obstetric and Gynaecological Society provides treatment for infertility to Pakistani couples (Mid-Day 2012). In February 2012, a group of Indian and Pakistani doctors jointly performed a complicated liver transplant procedure in a Lahore hospital, thereby opening new avenues for cooperation in the area of healthcare services (Times of India 2011).

There are trade possibilities in the entertainment industry as well. India and Pakistan share a common language and culture, thus providing scope for trade and cooperation in the film industry. India is the second largest producer of movies in the world, while Pakistan produces very few movies. Pakistan imposed a ban on the screening of Indian films in 1965 following the Indo-Pakistan war (Chi n.d.), mainly to protect the domestic film industry. Despite the ban, the Pakistani film industry has not done well (The Express Tribune 2012). The ban was lifted in 2008, but since then there has been uncertainty in the policy as several ad hoc steps have been taken to ban Indian movies on a case-by-case basis. Through the years, the ban has been practically ineffective as the demand for Indian movies in Pakistan is met through pirated DVDs and satellite cable broadcasts of Indian films.

There is an interest in India and Pakistan in each other's music, both audio and visual. There is also an interest in Pakistan for Indian television serials and in India for Pakistani plays. However, Pakistani entertainment channels are not broadcast on Indian channels, whereas several Indian channels are broadcast in Pakistan.

³Balance of Payment Statistics, IMF.

The trade potential in the entertainment industry, particularly in films, television, and music, can be tapped by encouraging joint productions. Removing the ban on screening movies would benefit both countries. Exchanging broadcast rights to telecast each other's programs on television is yet another trade opportunity for India and Pakistan.

2.4 Realizing Trade Potential

For trade potential to be realized, the two countries would have to take measures in several areas. It is important to examine the regulatory regimes related to transport, nontariff barriers, and visas and assess how these regimes operate. The effectiveness of these policies will also determine the extent to which informal trade flows will be steered toward formal channels. The policies related to the liberalization of foreign direct investment also need to be examined, as the realization of cross-border investment will lead to deeper trade linkages. It is also important to assess the visa regime and the extent to which it is likely to get liberalized. The role of institutions in supporting the trade liberalization process also needs to be assessed, as they would play a key role in helping realize the untapped trade potential between India and Pakistan.

2.4.1 Transport and Transit

Most discussions and studies on the transport issue have focused on impediments to the land route. While the sea route has always been operational, it went unnoticed due to the restrictive maritime protocol. This protocol allowed only Indian and Pakistani flagships to carry cargo between India and Pakistan. This arrangement restricted competition from foreign vessels and resulted in high sea freight rates being charged by Indian and Pakistani vessels. The amendment of this protocol in 2005 brought sea trade between the two countries under global maritime arrangements, leading to greater competition and, therefore, to a considerable reduction in costs for sea-based trade between Mumbai and Karachi.

It is not surprising that when the road route was closed in 1995–1996, trade by rail accounted for 63 %, while trade by sea accounted for 33 % of the total trade between India and Pakistan (Fig. 2.4). By 2011–2012, the share of different modes in total trade between the two countries changed substantially due to the opening of the road route and the liberalization of sea trade. The share of trade by rail fell to 15 %, while that by sea increased to 60 %. The share of trade by road increased from zero percent in 1995–1996 to 17 % in 2011–2012. What is striking is that for both exports and imports, apart from a few commodities such as dry dates and cement, most of the top commodities are traded via a single mode of transport—road, rail, sea, or air.

The opening of the road route between India and Pakistan after 58 years was a historic move. Its significance can be understood when compared with the cross-border transport protocols that India has with Nepal. India and Nepal have a very liberal transport protocol that permits trucks from the two countries to move into each

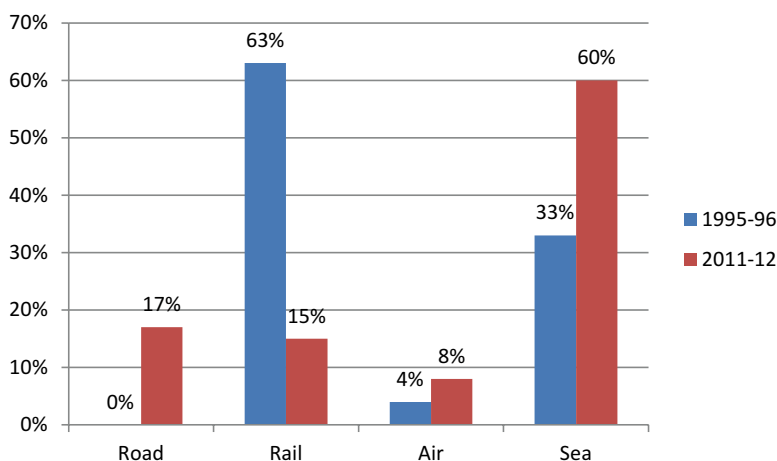


Fig. 2.4 India's total trade with Pakistan by mode (*Source:* Directorate General of Foreign Trade: Ministry of Commerce, India)

other's territory. However, in practice, goods from the trucks of one country are offloaded and loaded onto the other country's trucks at the border, because the local mafia extorts money from foreign trucks at the border. Thus, transshipment continues because these informal payments are higher than the cost of transshipment, which calls for effective implementation of policies. On the other hand, the opening of the road route between India and Pakistan has met with relatively little opposition. In fact, the institutional framework supporting trade between the two countries is strong enough to counter lobbyists and interest groups that may have resisted such a change. This raises immense hopes for successful implementation of further trade-facilitating measures at the 2,912 km land border between India and Pakistan.

Amritsar and Lahore are the two major cities on either side of the border and are separated by a distance of only 54 km. Hence, the cost for goods moved via the land route between northern India and northern Pakistan could be substantially lower than the sea route. Recognizing the importance of the land route, India opened an Integrated Check Post (ICP) at Attari in April 2012, with new facilities including a trade gate that would house all trade activities under one unit including warehousing and other facilities. The timings for trade were increased to 12 h every day for all days of the week. The two most important facilities that are being set up are automated systems for electronic filing of customs documents through the Electronic Data Interchange (EDI) facility and the installation of truck scanners. This is a marked change from the past when there was only one gate for trade and for passengers, trade timings were limited to 7 h a day, and no warehousing facilities were offered.⁴

In a short span of just 6 months—between April and October 2012—the warehouse has reached full capacity,⁵ which limits the entry of trucks from across the

⁴Interviews with traders and officials in Amritsar in 2012.

⁵Ibid.

border. The question is whether these facilities will be able to bear additional cargo load that is likely to occur due to two factors: Pakistan's move to normalize trade on the road route by allowing all items to be imported from India via road, instead of the existing list of only 137 items, and a likely shift in trade from the sea route to the cheaper road route. When the Indian government designed the ICP, it clearly did not envisage such a paradigm change in trade between the two countries, and trade will increase even further if the two governments agree to move containerized cargo by road, which would reduce transaction costs further. The two governments are considering opening up new road routes; the option of opening the Munabao-Khokhrapar road route was discussed in the seventh round of talks between the two governments.

For several years the rail route was the dominant land transport mode for India-Pakistan trade, but its importance has declined because its reach continues to be limited. Goods are transported by 6–10 parcel wagons attached to the Samjhauta Express passenger train that runs twice a week or by the goods train, often referred to as “interchange train.” Since the capacity of the Samjhauta Express is limited, most of the rail cargo is carried by the interchange train. Taneja (2006) pointed out that a single rail route through the Attari/Wagah border, the poor quality of the rolling stock, and restrictions on the type of wagons are some of the problems that traders faced. Also, traders in Kolkata, located in eastern India, find it difficult to trade through the Attari/Wagah land border because of lack of information on how to trade by the rail route. Therefore, they send consignments by sea to Colombo that are then transshipped to Karachi (Taneja 2007).

Since 2007, the services of the interchange train have deteriorated. Goods by the interchange train move only between Amritsar and Lahore through Attari station, with only the Pakistani wagons plying this route, unlike earlier when Indian wagons also plied the rail route. Cargo for export either comes in Indian wagons up to Amritsar where it is unloaded and then loaded onto Pakistani wagons, or it is loaded onto trucks to be sent through Wagah. Transshipment of cargo from Indian to Pakistani wagons or onto trucks adds considerable time and cost to transporting goods.

Even though infrastructure has improved with the ICP, these facilities do not extend to rail cargo movement, because the railway line is about 3 km from the ICP. The agenda for improving rail transport remains largely unaddressed. While the seventh round of talks agreed to increase the number of interchanges to 3–4 in a day and allow high-capacity wagons to ply, the discussions have only covered the immediate needs of facilitating rail transport.

So far, the ongoing bilateral dialogue between India and Pakistan has not addressed the issue of transit. India has not allowed Pakistan to access Nepal, Bangladesh, and Bhutan through its territory, and Pakistan has not given India any transit rights to access Afghanistan for its exports. However, in 1948 Pakistan had offered transit rights to Afghanistan's exports through its territory to reach the Indian market. In July 2010, Afghanistan and Pakistan signed an amended transit trade agreement, the Afghanistan-Pakistan Transit-Trade Agreement (APTTA) that provides for an increased number of transport routes for trucks from Afghanistan and Pakistan. However, the APTTA does not allow India's exports to Afghanistan through Pakistan via the land route. To increase their gains from the trade normalization process, India and Pakistan must put this transit issue on their dialogue

agenda. This would also have huge implications for reviving the Afghan economy. Afghanistan can gain little through trade given its limited export capability, but it can take advantage of its geographical location by converting into a logistics hub and offering a range of logistics services that could help transport goods between South and Central Asia. It follows that India should also allow transit facility to Pakistani goods to access the Nepal and Bangladesh markets.

There is a need to develop a long-term vision and plan for road and rail cargo movement. It is not enough to limit the opening of the land route to the land border. Freight costs are often determined by the freight trade balance between two countries. Since India has a trade surplus with Pakistan, India's cargo trucks/wagons moving back from Pakistan will not be fully loaded, and the empty wagons would add considerably to transaction costs. However, if the trucks/wagons are allowed cross-border movement and multimodal transportation is permitted, cargo balancing could be achieved by linking the seaports of Mumbai and Karachi through the land route, with the seaports largely connecting the rest of the world. Similarly, transit through Pakistan can link Indian seaports with Afghanistan and to the rest of Central Asia through Pakistan.

2.4.2 Nontariff Barriers

For several years, the Pakistan government has argued that its businessmen face nontariff barriers in accessing the Indian market (Taneja 2007; Taneja et al. 2008, 2011a). During talks, both countries recognized that there were no Pakistan-specific barriers but a general lack of awareness among Pakistani businessmen on the regulatory regimes in India. A study conducted in 2008 for the Task Force on Nontariff Measures (NTMs) found that while these NTMs were not discriminatory, the procedures relating to product standards were cumbersome, some regulations lacked transparency, and there were problems related to recognition of standards (Taneja et al. 2008). The two governments, however, felt that it was important to address the perceived barriers as well. In September 2011, the Indian government arranged interactive sessions between Indian regulators and Pakistani businessmen in New Delhi to help increase awareness among the latter on India's regulatory policies. A similar session was subsequently held in Pakistan in January 2012.

This government-to-business interaction is an innovative and effective method of addressing information gaps on the regulatory environment of India and Pakistan. Recently, the Trade Development Authority of Pakistan supported experts to undertake a study that identified potential products for exports to India, including tariff and nontariff barriers, which Pakistani businessmen faced. The findings of the study were disseminated across 10 cities in Pakistan to inform businesses on India's regulatory regimes. Some of the reported barriers included overvaluation of goods, tedious packaging and labeling requirements, access to a limited number of ports for some products, lack of testing facilities at ports, inadequate infrastructure, mishandling of goods, and theft of cargo at ports. Businesses were also

educated on the use of WTO-compliant trade defense instruments and how they are used to restrict imports that could hurt the domestic industry. Such a government-supported awareness initiative, if done on a sustained basis every few years, could have a long-term impact on dispelling misconceptions about barriers among businessmen who want to access the Indian market. It would also help raise awareness about genuine nontariff barriers and equip businesses to deal with expanded imports if they hurt their domestic industry.

In another initiative to address nontariff barriers, the governments of India and Pakistan signed three agreements in September 2012: a customs cooperation agreement to help avoid arbitrary stoppage of goods at each other's ports, a bilateral cooperation agreement on mutual recognition between the Pakistan Standard and Quality Control Authority (PSQCA) and the Bureau of Indian Standards (BIS), and an agreement on redressal of trade grievances between Pakistan and India. Taneja (2006, 2007) identified nontariff barriers of a different nature. The studies found that Pakistani consignments were subjected to excessive checks—usually due to security concerns—that caused harassment to genuine traders. Marketing and labeling issues that relate to the perceived “image” of Pakistani goods have also been pointed out; for instance, the label on Pakistani bed linen was changed to European and Indian labels for sale in the Indian market (Trade Development Authority of Pakistan 2012). Holding exhibitions, such as the Pakistan Mega Lifestyle Exhibition in Delhi in April 2012 and the Made in Pakistan Expo in August 2012 in Mumbai, could aid the acceptance of Pakistani goods in India. In September 2012, the Pakistan Fashion Design Council⁶ opened an outlet in an upmarket shopping complex in New Delhi. Such steps will certainly raise awareness among Indian consumers about Pakistani products.

Indian products, too, face a labeling issue, with their Pakistani counterparts advising them to drop the “Made in India” label to increase sales in Pakistan.⁷ However, newer products such as sweets and snacks manufactured by a large Indian firm have made a successful entry in the Pakistani market under the Indian label.⁸

Though measures have been taken to mitigate NTBs, addressing them is not a one-time effort. India and Pakistan need to identify, deal with, and address new NTBs on a continuous basis, as and when they are raised.

2.4.3 *Informal Trade*

The restrictive trade environment has led to large informal trade flows between India and Pakistan that are estimated to range between US\$250 million and US\$3 billion. The most detailed study on Indo-Pakistan informal trade estimated its value at around

⁶A leading design store that brings together more than 60 designers from all over Pakistan.

⁷Interviews with Indian manufacturers who are trying to enter the Pakistani market after their products were included in the positive list.

⁸Interview with an exporter of packaged sweets and snacks to Pakistan under the Indian label.

US\$545 million in 2005 (Khan et al. 2007). Of this, Pakistan's imports from India are estimated to be around US\$535 million and exports to India US\$10.4 million. The main import items from India, via informal channels, are cloth, tires, pharmaceuticals, textile machinery, cosmetics, livestock, and medicines, which account for roughly 80 % of the total informal import value. Pakistan's informal exports mainly consist of textiles, which account for approximately 90 % of the total informal trade.

The modalities of India-Pakistan informal trade are interesting, with most of the trade flowing via a third country. Khan et al. (2007) estimate trade via the Mumbai-Dubai-Karachi route to be around 88 % of total informal trade and the remainder as cross-border informal trade through the Amritsar-Lahore and Sind-Rajasthan border routes. However, almost 51 % of informal trade taking place via Dubai does not reach Karachi directly and is shipped to Bandar Abbas in Iran and then moved by land across Afghanistan to finally reach Pakistan.

While these estimates are dated, they provide useful insights into the functioning of informal trade markets. It is reasonable to assume that individuals trading through the informal channels have devised parallel institutional mechanisms for contract enforcement and dispute settlement. Also, the smooth functioning of such markets shows that traders have developed efficient mechanisms for obtaining information on quantities and commodities to be traded and mitigating risks that might arise in the unofficial transacting environment (Taneja 2004).

The move toward trade normalization and a parallel reduction in tariffs and nontariff barriers would certainly lower informal trade flows between India and Pakistan.⁹ Trade through Dubai is likely to decrease sooner if there are active channels of information that would bring buyers and suppliers on either side together in order to conduct trade directly with each other rather than through third parties. Elimination of the negative list would also allow the export of several items that are routed via Dubai and other informal trade channels. Until all such measures are fully implemented, informal trade and formal trade between India and Pakistan are likely to coexist.

2.4.4 Visas

A lot needs to be done to simplify the visa regime between India and Pakistan. Aspiring traders get limited market access because there are delays in granting visas, they are granted only city-specific visas, and they are required to report to the police on arrival and before departure Taneja (2006).

Consulates in both countries have exercised tremendous discretionary power in granting visas and waiving visa requirements, along with allowing some traders to be exempted from scrutiny by the Ministry of Home Affairs in India and Ministry of Interior Affairs in Pakistan. They have also allowed extended periods of stay, exempted traders from police reporting, and removed restrictions on the number of cities that can be visited. Traders who are beneficiaries of such largesse can make

⁹Interviews with traders in Dubai in 2012.

repeated visits and enhance their Pakistan-specific trade information, which remains inaccessible for other aspiring traders due to restricted market access, lack of transparency, market imperfections, and information asymmetries. However, Indian officials argue that, for the sake of security, rigorous screening of visas is essential. While it is true that no compromise can be made on national security issues, it needs to be recognized that genuine traders often become victims of a strict visa regime.

A new visa agreement was signed between India and Pakistan in September 2012. The agreement introduces measures to ease travel of tourists, pilgrims, the elderly, and children to facilitate people-to-people contact between the two countries. The business visa has also been made more liberal, allowing 1-year multiple entry visas for up to 10 places with exemption from police reporting for those who report a turnover of at least Rs. 30 million or equivalent in Pakistani currency.¹⁰

The new visa regime is a step toward easing the channels for information exchange on trade-related matters between India and Pakistan. As a next step, the countries could consider the use of electronic systems that would help in setting up adequate and effective security systems and at the same time would allow genuine traders to trade across borders.

2.4.5 Foreign Direct Investment

Investment flows play an important role in deepening trade linkages and raising market access between the countries involved. For several years India did not permit FDI inflows from Pakistan. In a move to normalize economic ties between the two countries, in August 2012 the Department of Industrial Policy and Promotion (DIPP) in India announced changes in the Consolidated FDI Policy to allow investment from Pakistani firms and individuals in all sectors (except defense, space, and atomic energy) through the government route. Following this, India recently removed Pakistan from the negative list under the Foreign Exchange Management Act (FEMA), paving the way for investment from Pakistan. The FEMA regulations have also been amended to allow Indians to invest in Pakistan.

In 2011, Pakistan's total outward FDI flow was only US\$62 million. While a country-wise and sector-wise breakup of FDI outflow from Pakistan is not available, data from the Board of Investment in Bangladesh indicates that Pakistan has invested in textile firms there. Pakistan has also invested in Sri Lanka in the food processing and construction sectors (Vaqr 2012). In the Indian context, the sectors that could attract FDI are textiles and cement (Mishra 2012). A bilateral investment treaty between India and Pakistan in the near future would help boost both the safety of investments and investor confidence (Taneja and Bimal 2012). Given that due to inhibitions business interest may not be forthcoming immediately, an interesting

¹⁰For businessmen whose turnover is Pakistani Rs. 3 million or equivalent, a 1-year visa will be permitted that allows visits to five places, for up to four entries.

solution offered by businessmen has been to set up joint ventures between India and Pakistan without physically locating in each other's countries. Investment ventures set up in this manner could pave the way for raising investor confidence. During our consultations with industry, the sectors with potential for investment were identified as agriculture, fertilizers, drip irrigation, tissue culture, seeds, herbal extracts, biotechnology, mining and mining equipment, dairy and livestock, tourism and tourism infrastructure, textile machinery, heavy engineering and earthmoving machinery, and entertainment.¹¹

2.4.6 Institutions Engaged in Trade Normalization

Trade normalization efforts have been driven at multiple levels on both sides. In India, the Ministry of External Affairs spearheads all bilateral talks, and the other important government departments involved are the Ministry of Commerce, which is leading the trade negotiating agenda, and the Ministry of Home Affairs, which has the primary responsibility for maintaining security. In the context of trade, the Home Ministry handles issuance of visas and border management, and as part of its border management functions, the Land Ports Authority of India (LPAI) was set up in April 2012 to provide cohesive management of cross-border movement of people and goods. On the Pakistan side, the road port is managed by the National Logistics Cell that comes under the Ministry of Defense.

With respect to their bilateral visa regimes, Ministry of Home Affairs in India and Pakistan has taken progressive steps. Even though the issue of cross-border terrorism often comes up in bilateral talks, so far there has been no attempt to link it to the trade agenda. The Indian and Pakistani military forces are not seen as adversaries in the trade normalization process, and the involvement of nongovernment organizations (NGOs) is quite limited.

The business communities in both countries have been actively engaged in pursuing the trade liberalization agenda through the Chambers of Commerce for several years. In India, the Federation of Indian Chambers of Commerce and Industry (FICCI), the Confederation of Indian Industry (CII), the Associate Chambers of Commerce (ASSOCHAM), and the Punjab, Haryana, and Delhi Chambers of Commerce and Industry (PHDCCI) have taken the initiative to facilitate cross-border interactions between business delegations and communities to assess trade possibilities. Since the initiation of the trade normalization process, such cross-border interactions have increased manifold.

Academic discourse in India has largely focused on the political issues between India and Pakistan that have implications for trade normalization between the two countries. Until recently, the print and visual media were engaged in "negative" reporting, as there was a tendency to report conflict rather than any peace initiatives taken by the two sides. Even the proposed grant of MFN status did not make headlines in any of the major news dailies. There is, however, an evident shift

¹¹ Summary of Proceedings, Regional Chambers of Commerce Roundtable, Lahore, January 10, 2013.

toward positive reporting in the media on peace initiatives and trade cooperation that can have an enormous impact on the perceptions of civil society toward the relations shared by India and Pakistan.

2.5 Conclusion

The trade normalization process will unleash trade opportunities for both India and Pakistan. Even though the automotive sector in Pakistan and the textile sector in India have resisted trade liberalization, there is no rationale for holding back a process that will inevitably benefit both countries.

India and Pakistan need to work together in several areas to be able to realize the untapped trade potential. So far, the two governments are only considering incremental steps to improve cross-border movement of goods. A comprehensive and integrated international land transport policy needs to be put in place not only to provide rail and road services connecting the two countries but also to link sea ports through land borders to enable connectivity with the rest of the world.

India should continue to lower its nontariff barriers as part of its ongoing reform process. In addition, a more concerted effort is required to help businessmen overcome their apprehensions about entering each other's market and fearlessly selling their products along with their country labels across the border. The unprecedented number of exhibitions and fairs held in India and Pakistan that display each other's products has received an overwhelming response from consumers, providing support for such efforts to continue.

While the removal of restrictions on FDI flows has opened up new investment opportunities, businessmen from India and Pakistan are reluctant to invest due to fears of a possible disruptive political event. Investors also fear in becoming easy targets for those who oppose their presence. Businessmen willing to invest could enter into joint ventures without physically locating in each other's territory as the first step to entry until legal systems are set up to safeguard investments and investor confidence improves.

For a liberal visa regime to be in place, electronic "smart systems" should be used to screen visa applications and track the physical movement of people, while avoiding unnecessary harassment of genuine traders. Telecommunication channels also need to be opened to foster people-to-people contact and reduce business costs. The existing communication system between India and Pakistan does not permit travelers to use their mobile phones in the other country. Buying local SIM cards is not easy, as it involves a lot of documentation; as a result, visitors and businessmen have developed informal mechanisms to procure local SIM cards through friends and relatives. The issue of improving telecommunications between the two countries was raised in the seventh round of talks and is expected to be part of the trade normalization process.

India and Pakistan need to constantly engage with one another to understand each other's regulatory regimes. As new businessmen enter into trading relations, it is important to have forums that bring buyers and sellers together. Guaranteed

payments are essential for building new and lasting business partnerships, for which banking channels need to be improved. An innovative dispute resolution system should also be put in place. For several years, Dubai has acted as a facilitator for trade and guaranteed payments between India and Pakistan. Thus, a third country that is trusted by both India and Pakistan could provide an effective dispute resolution mechanism. Moreover, it is important for business communities to create multilevel channels of communication that can reduce misconceptions, bridge information gaps, and generate a significant change in the business environment of the two countries. All such holistic measures could help in realizing the untapped trade potential between India and Pakistan.

Appendix

Table 2.3 India's exports to and imports from Pakistan (2011)

Product description	Exports (US\$ million)	Share of sector in exports (%)	Imports (US\$ million)	Share of sector in imports (%)
Animal or vegetable oils and fats	0.6	0.0	2.2	0.6
Arms and ammunition	—	—	—	—
Stone, plaster cement, glass, ceramic, etc.	7.1	0.4	1.1	0.3
Base metals and articles	89.4	5.3	33.4	9.5
Footwear, headgear, umbrellas, walking sticks, etc.	0.5	0.0	0.3	0.1
Live animals and animal products	15.9	0.9	1.3	0.4
Machinery and mechanical appliances, electrical equipment, electronics and parts	27.4	1.6	10.4	3.0
Mineral products	23.0	1.4	85	24.2
Miscellaneous manufactured articles	8.2	0.5	0.9	0.3
Pearls, precious stones and metals, imitation jewelry	0.1	0.0	32.7	9.3
Optical, measuring, precision, medical or surgical instruments, etc.	2.0	0.1	5.5	1.6
Plastics and rubber	140.1	8.4	12.2	3.5
Prepared foodstuffs, beverage and tobacco products	213.8	12.7	2.1	0.6
Chemical and allied products	419.3	25.0	30.1	8.6
Pulp of wood and paper products	5.2	0.3	1.0	0.3
Raw hides and skins and leather products	0.5	0.0	10.3	2.9
Textile and textile products	393.8	23.5	39.1	11.1
Vegetable products	330.5	19.7	82.1	23.3
Vehicles, aircraft, vessels, and associated transport equipment	0.2	0.0	1.3	0.4
Wood and wood products	0.2	0.0	0.5	0.1
Works of art	0.0	0.0	0.0	0.0
Total	1,678	100.0	352	100.0

Table 2.4 India's top 25 exports to Pakistan at HS-6 (2011)

Code	Product description	Exports (US\$ million)	Share of the product in exports (%)	On Pakistan's sensitive list
520100	Cotton, not carded/combed	272.8	16.3	
230400	Oil cake and other solid residues	168.3	10.0	
290243	p-Xylene	120.1	7.2	
070200	Tomatoes, fresh/chilled	65.2	3.9	
540710	Woven fabrics	50.8	3.0	
071320	Chickpeas (garbanzos)	41.8	2.5	
390210	Polypropylene	41.8	2.5	
290242	m-Xylene	41.3	2.5	
401120	New pneumatic tires, of rubber	40.3	2.4	Yes
090240	Tea, black (fermented)	35.1	2.1	Yes
090420	Fruits of the genera <i>Capsicum</i>	34.0	2.0	Yes
731100	Containers for compressed/liquefied gas	32.4	1.9	
170199	Cane/beet sugar and chemically pure sucrose	27.4	1.6	Yes
294200	Organic comps. n.e.s. in Ch. 29	26.2	1.6	
550410	Artificial staple fibers	21.0	1.3	
381700	Mixed alkylbenzenes and mixed alkylnaphthalenes	19.4	1.2	
290241	o-Xylene	19.0	1.1	
121190	Plants and parts of plants	16.5	1.0	
320416	Reactive dyes and preparations based thereon	16.2	1.0	Yes
100190	Wheat other than durum wheat, meslin	14.1	0.8	Yes
270400	Coke and semicoke of coal/lignite/peat	13.8	0.8	
080119	Coconuts, other than desiccated	13.6	0.8	
720230	Ferro-silicomanganese	13.2	0.8	
070310	Onions and shallots, fresh/chilled	12.5	0.7	
120991	Vegetable seeds, of a kind used for sowing	11.9	0.7	

Table 2.5 India's top 25 imports from Pakistan at HS-6 (2011)

Code	Product description	Imports (US\$ million)	Share of the product in imports (%)	On India's sensitive list
080410	Dates, fresh/dried	69.6	19.8	
252329	Portland cement (excl. white cement)	36.8	10.4	
710812	Gold (incl. gold plated with platinum)	32.5	9.2	
271011	Light petroleum oils and preparations	29.6	8.4	
780199	Unwrought lead other than refined	13.7	3.9	
740400	Copper waste and scrap	10.0	2.8	
271019	Petroleum oils	9.0	2.6	
520531	Cotton yarn, mult./cab. (excl. sewing thread)	7.1	2.0	

(continued)

Table 2.5 (continued)

Code	Product description	Imports (US\$ million)	Share of the product in imports (%)	On India's sensitive list
283620	Disodium carbonate	6.9	2.0	
252010	Gypsum, anhydrite	6.5	1.8	
291736	Terephthalic acid and its salts	6.0	1.7	
390421	Poly(vinyl chloride)	4.6	1.3	
290315	1,2-dichloroethane (ethylene dichloride)	4.1	1.2	
510129	Wool, not carded/combed	3.9	1.1	
851712	Telephones for cellular networks/other wireless networks	3.5	1.0	
720421	Waste and scrap of stainless steel	2.9	0.8	
392321	Sacks and bags (incl. cones), of polymers of ethylene	2.8	0.8	Yes
901890	Instruments and appliances used in medical/ surgical/veterinary sciences	2.8	0.8	
520932	Woven fabrics of cotton	2.7	0.8	
121190	Plants and parts of plants, incl. seeds and fruits	2.7	0.8	
281410	Anhydrous ammonia	2.6	0.7	
410449	Tanned/crust hides and skins of bovine	2.6	0.7	
520511	Cotton yarn, single (excl. sewing thread), of uncombed fibers	2.4	0.7	Yes
520622	Cotton yarn, single (excl. sewing thread), of combed fibers	2.3	0.7	
284700	Hydrogen peroxide	2.2	0.6	

Table 2.6 India's exports and export potential with Pakistan (2011)

Exports	Value (US\$ million)	Share in total export potential (%)
India's exports to Pakistan	1,678.1	
Total export potential of Pakistan's sensitive list items	2,556.4	32.5
Export potential of negative list items	3,362.5	42.7
Export potential of sensitive/negative list items	4,375.7	55.6
Export potential	7,874.1	

Table 2.7 India's imports and import potential with Pakistan (2011)

Import	Value (US\$ million)	Share in total import potential (%)
India's imports from Pakistan	352.0	—
Import potential of sensitive list items	676	22.4
Import potential	3,019	

Table 2.8 India's export potential with Pakistan (2011)

	1	2	3	4	5	6	7	8
	Exports (US\$ million)	Share of sector in total exports (%)	Export potential (US\$ million)	Share of sector in total export potential (%)	Export potential negative list (US\$ million)	Share of negative list items in total export potential (%)	Export potential sensitive list (US\$ million)	Share of sensitive list items in total export potential (%)
Product description								
Textile and textile products	393.8	23.7	1,745.3	22.2	631.0	8.0	102.8	1.3
Chemical and allied products	419.3	25.3	1,329.9	16.9	367.8	4.7	447.1	5.7
Machinery and mechanical appliances, electrical equipment, electronics and parts	27.4	1.7	1,277.0	16.2	757.6	9.6	294.6	3.7
Vehicles, aircraft, vessels, and associated transport equipment	0.2	0.0	1,122.8	14.3	942.6	12.0	942.8	12.0
Base metals and articles	89.4	5.4	734.6	9.3	373.4	4.7	58.1	0.7
Plastics and rubber	140.1	8.4	673.9	8.6	108.4	1.4	271.3	3.4
Vegetable products	330.5	19.9	615.3	7.8	–	0.0	338.4	4.3
Pearls, precious stones and metals, imitation jewelry	0.1	0.0	90.3	1.1	71.8	0.9	–	0.0
Prepared foodstuffs, beverage and tobacco products	213.8	12.9	59.8	0.8	17.3	0.2	32.5	0.4
Mineral products	3.7	0.2	48.9	0.6	–	0.0	2.2	0.0

Articles of stone, plaster, cement, etc.	7.1	0.4	35.5	0.5	10.5	0.1	12.7	0.2
Miscellaneous	8.2	0.5	30.6	0.4	30.3	0.4	1.5	0.0
manufactured articles								
Raw hides and skins and leather products	0.5	0.0	30.2	0.4	13.2	0.2	2.3	0.0
Optical, measuring, precision, medical or surgical instruments, etc.	2.0	0.1	26.6	0.3	22.8	0.3	21.7	0.3
Pulp of wood and paper products	5.2	0.3	16.9	0.2	15.8	0.2	12.5	0.2
Wood and wood products	0.2	0.0	16.1	0.2		0.0	0.1	0.0
Footwear, headgear, umbrellas, walking sticks, etc.	0.5	0.0	16.1	0.2	0.1	0.0	15.3	0.2
Live animals and animal products	15.9	1.0	3.4	0.0	—	0.0	—	0.0
Animal or vegetable oils and fats	0.6	0.0	0.6	0.0	—	0.0	0.4	0.0
Works of art	0.0	0.0	0.08	0.0	—	0.0	—	0.0
Total	1,658.7	100.0	7,874.1	100.0	3,362.5	42.7	2,556.4	32.5

Table 2.9 India's export potential with Pakistan at HS-6, top 25 items (2011)

Product code	Product description	Export potential (US\$ million)	India's exports to Pakistan (US\$ million)	On Pakistan's negative list	On Pakistan's sensitive list
271019	Petroleum oils	7,718.4	1.7		
271011	Light petroleum oils and preparations	1,253.2	0.0		
851712	Telephones for cellular networks/other wireless networks	629.6	0.0	Yes	
520100	Cotton, not carded/combed	532.8	272.8		
870322	Vehicles (excl. of 87.02 and 8703.10)	361.9	0.0	Yes	Yes
390210	Polypropylene, in primary forms	356.7	41.8		
290243	p-Xylene	308.0	120.1		
90240	Tea, black (fermented)	304.2	35.1		Yes
540233	Textured yarn other than sewing thread	277.0	0.5	Yes	
870321	Vehicles (excl. of 87.02 and 8703.10)	263.0	0.0	Yes	Yes
550320	Synthetic staple fibers	255.1	0.0	Yes	
300490	Medicaments	213.4	10.9	Yes	Yes
721049	Flat-rolled products of iron/non-alloy steel	193.1	0.1	Yes	
401120	New pneumatic tires, of rubber	157.7	40.3		Yes
550410	Artificial staple fibers	154.6	21.0		
071320	Chickpeas (garbanzos)	138.5	41.8		
871120	Motorcycles (incl. mopeds) and cycles	84.8	0.0	Yes	Yes
890510	Dredgers	81.9	0.0		
871419	Parts and accessories of motorcycles	79.1	0.0	Yes	Yes
740311	Cathodes and sections of cathodes	75.4	0.0		
630900	Worn clothing and other worn articles	71.8	0.4		
711319	Articles of jewelry and parts thereof	69.1	0.1	Yes	
380891	Insecticides	68.2	10.1		
294190	Antibiotics and their derivatives	63.8	5.4	Yes	Yes
780110	Unwrought lead, refined	63.3	0.2		

Table 2.10 India's import potential with Pakistan (2011)

	1	2	3	4	5	6
Product description	Imports (US\$ million)	Share of sector in total imports (%)	Import potential (US\$ million)	Share of sector in total import potential (%)	Import potential of items in sensitive list (US\$ million)	Share of sensitive list items in total import potential (%)
Textile and textile products	39	12	757	25	416.1	13.8
Pearls, precious stones and metals, imitation jewelry	33	10	447.2	15	—	—
Base metals and articles	33	11	367.3	12	12.5	0.4
Optical, measuring, precision, medical or surgical instruments, etc.	6	2	290.1	10	1.1	0.0
Plastics and rubber	12	4	228.0	8	96.8	3.2
Machinery and mechanical appliances, electrical equipment, electronics and parts	10	3	188.2	6	45.8	1.5
Chemical and allied products	30	10	149.8	5	12.9	0.4
Prepared foodstuffs, beverage and tobacco products	2	1	121.5	4	13.3	0.4
Mineral products	46.5	15	101.4	3	35.0	1.2
Raw hides and skins and leather products	10	3	83.2	3	—	—
Miscellaneous manufactured articles	1	0	80.7	3	0.2	0.0
Vegetable products	82	26	52.2	2	6.7	0.2
Footwear, headgear, umbrellas, walking sticks, etc.	0	0	47.3	2	29.5	1.0
Stone, plaster cement, glass, ceramic, etc.	1	0	29.9	1	3.4	0.1
Vehicles, aircraft, vessels, and associated transport equipment	1	0	17.7	1	—	—
Live animals and animal products	1	0	15.0	0	1.9	0.1
Animal or vegetable oils and fats	2	1	12.3	0	—	—
Works of art	0	0	11.5	0	—	—
Wood and wood products	0	0	9.5	0	—	—
Pulp of wood and paper products	1	0	7.9	0	1.2	0.0
Arms and ammunition	—	—	1.3	0	—	—
Total	313	100	3,019	100	676	22.4

Table 2.11 India's import potential with Pakistan at HS-6, top 25 items (2011)

Product code	Product description	Import potential (US\$ million)	India's imports from Pakistan (US\$ million)	On India's sensitive list
271019	Petroleum oils	1,288.5	9.0	
711319	Articles of jewelry and parts thereof	440.9	0.0	
901890	Instruments and appliances used in medical/surgical/veterinary sciences	268.9	2.8	
520100	Cotton, not carded/combed	180.8	0.2	Yes
730690	Tubes, pipes, and hollow profiles of iron/steel	105.3	0.0	
390760	Poly(ethylene terephthalate)	81.4	0.0	
740400	Copper waste and scrap	75.5	10.0	
730890	Structures and parts of structures	60.0	0.0	
291736	Terephthalic acid and its salts	57.6	6.0	
950699	Articles and equip. for sports, n.e.s	44.8	0.4	
391590	Waste, parings, and scrap, of plastics	41.2	0.0	Yes
220720	Ethyl alcohol and other spirits, denatured	38.5	0.3	
840710	Spark-ignition reciprocating/rotary internal combustion piston engines for aircraft	36.4	0.0	
841451	Fan with a self-contained electric motor	35.6	0.0	Yes
620342	Men's/boys' trousers, bib and brace overalls, of cotton	35.3	0.1	Yes
251512	Marble and travertine	34.6	0.2	Yes
520832	Woven fabrics of cotton, dyed, plain weave	34.3	0.4	
261000	Chromium ores and concentrates	31.6	0.0	
520942	Woven fabrics of cotton, denim	29.4	2.1	
630419	Bedspreads other than knitted/crocheted	29.2	0.0	Yes
410719	Leather further prepared after tanning/crusting	28.8	1.4	
761519	Household articles and parts thereof	27.6	0.0	
390799	Polyesters (excl. of 3907.10–3907.91), in primary forms	26.5	0.1	
252329	Portland cement (excl. white cement)	21.8	36.8	
390319	Polystyrene other than expansible	21.0	0.0	

Table 2.12 Pakistan's negative list (Aggregated to HS-6 from Pakistan's customs classification)^a (2011)

Sector	1 Export potential of negative list items— RCA approach (US\$ million)	2 Share of sector in total export potential of negative list (%)	3 Total number of items on negative list	4 Share of total items in negative list (%)	5 Number of vulnerable items in negative list	6 Sector-wise share of vulnerable items in total items on negative list (%)
Auto	1,008.1	30.0	167	21.2	35	21.0
Elect. machinery	667.9	19.9	43	5.5	9	20.9
Textile	625.7	18.6	74	9.4	25	33.8
Steel	368.1	10.9	90	11.4	33	36.7
Pharmaceutical	338.8	10.1	30	3.8	15	50.0
Plastics	93.4	2.8	67	8.5	9	13.4
Gems and jewelry	71.8	2.1	3	0.4	1	33.3
Machinery	46.2	1.4	20	2.5	5	25.0
Chemical	29.0	0.9	25	3.2	8	32.0
Misc. manfd. articles	25.0	0.7	19	2.4	7	36.8
Meters	20.8	0.6	6	0.8	3	50.0
Agri. (mainly tobacco)	17.3	0.5	15	1.9	2	13.3
Paper and board	15.8	0.5	80	10.2	11	13.8
Leather	13.2	0.4	14	1.8	3	21.4
Ceramics	7.2	0.2	16	2.0	4	25.0
Rubber	5.2	0.2	10	1.3	3	30.0
Furniture	3.5	0.1	14	1.8	2	14.3
Optical fiber	2.0	0.1	2	0.3	1	50.0
Sports	1.8	0.1	8	1.0	0	0.0
Cutlery	1.3	0.0	19	2.4	6	31.6
Glass	0.4	0.0	21	2.7	2	9.5
Stone and marble	0.2	0.0	5	0.6	2	40.0
Metal products	0.1	0.0	5	0.6	1	20.0
Footwear	0.1	0.0	7	0.9	1	14.3
Aluminum	0.0	0.0	10	1.3	0	0.0
Elect. appliances	0.0	0.0	3	0.4	0	0.0
Prefabricated buildings	0.0	0.0	1	0.1	0	0.0
Soap and toiletries	0.0	0.0	5	0.6	0	0.0
Surgical	0.0	0.0	6	0.8	0	0.0
Wood	0.0	0.0	3	0.4	0	0.0
Total	3,362.5	100.0	788	100.0	188	23.9

^aNegative list of 1,209 items provided by the Ministry of Commerce, Pakistan at the 8-digit level has been compressed to 788 items at the 6-digit level, with the associated classification of sectors

Table 2.13 Pakistan's sensitive list (2011)

Sector	1 Export potential of sensitive list items—RCA approach (US\$ million)	2 Share of sector in total export potential of sensitive list (%)	3 Total number of items on sensitive list	4 Share of total items in sensitive list (%)	5 Number of vulnerable items in sensitive list	6 Sector-wise share of vulnerable items in total items on sensitive list (%)
Textile and textile products	102.8	4.0	224	23.9	41	18.3
Machinery and mechanical appliances, electrical equipment, electronics and parts	294.6	11.5	179	19.1	38	21.2
Base metals and articles	58.1	2.3	116	12.4	25	21.6
Chemical and allied products	447.1	17.5	65	6.9	21	32.3
Plastics and rubber	271.3	10.6	105	11.2	21	20.0
Vehicles, aircraft, vessels, and associated transport equipment	942.8	36.9	70	7.5	19	27.1
Pulp of wood and paper products	12.5	0.5	6	0.6	6	0.0
Stone, plaster cement, glass, ceramic, etc.	12.7	0.5	27	2.9	6	22.2
Optical, measuring, precision, medical or surgical instruments, etc.	21.7	0.8	7	0.7	3	42.9
Vegetable products	338.4	13.2	17	1.8	3	17.6
Footwear, headgear, umbrellas, walking sticks, etc.	15.3	0.6	15	1.6	2	13.3
Prepared foodstuffs, beverage and tobacco products	32.5	1.3	15	1.6	2	13.3
Animal or vegetable oils and fats	0.4	0.0	13	1.4	1	7.7
Mineral products	2.2	0.1	3	0.3	1	33.3
Miscellaneous manufactured articles	1.5	0.1	11	1.2	1	9.1
Wood and wood products	0.1	0.0	13	1.4	1	7.7
Live animals and animal products	0.0	0.0	11	1.2	0	0.0
Pearls, precious stones and metals, imitation jewelry	0.0	0.0	0.0	0.0	0.0	0.0
Raw hides and skins and leather products	2.3	0.1	45	4.8	0	0.0
Total	2,556.4	100.0	936	100.0	198	21.2

Table 2.14 India's sensitive list (2011)

	1	2	3	4	5	6
Sector	Import potential of sensitive list items—RCA approach (US\$ million)	Share of sector in total import potential of sensitive list (%)	Total number of items on sensitive list	Share of total items in sensitive list (%)	Number of vulnerable items in sensitive list	Sector-wise share of vulnerable items in total items on sensitive list (%)
Textile and textile products	416.1	61.5	182	29.6	45	24.7
Plastics and rubber	96.8	14.3	97	15.8	9	9.3
Base metals and articles	12.5	1.8	60	9.8	2	3.3
Prepared foodstuffs, beverage and tobacco products	13.3	2.0	57	9.3	4	7.0
Vegetable products	6.7	1.0	38	6.2	4	10.5
Chemical and allied products	12.9	1.9	36	5.9	1	2.8
Live animals and animal products	1.9	0.3	28	4.6	2	7.1
Machinery and mechanical appliances, electrical equipment, electronics and parts	45.8	6.8	28	4.6	2	7.1
Animal or vegetable oils and fats	0	0.0	21	3.4	0	0
Footwear, headgear, umbrellas, walking sticks, etc.	29.5	4.4	17	2.8	3	17.6
Pulp of wood and paper products	1.2	0.2	14	2.3	1	7.1
Wood and wood products	0.0	0.0	11	1.8	0	0.0
Stone, plaster cement, glass, ceramic, etc.	3.4	0.5	10	1.6	0	0.0
Mineral products	35.0	5.2	5	0.8	2	40.0
Miscellaneous manufactured articles	0.2	0.0	4	0.7	1	25.0
Vehicles, aircraft, vessels, and associated transport equipment	0.0	0.0	4	0.7	0	0.0
Optical, measuring, precision, medical or surgical instruments, etc.	1.1	0.2	2	0.3	0	0.0
Total	676.2	100.0	614	100.0	76	12.4

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