Normalizing India-Pakistan Trade

Nisha Taneja
Bilateral Trade

Source: Calculations done using trade data from Ministry of Commerce DGFT Export-Import Databank
India Pakistan Bilateral trade

Source: Ministry of Commerce DGFT Export-Import Databank; Taneja et al.(2011a)
## Top 10 Export and Import Items (2012-13)

### Top Indian exports to Pakistan (2012-13)

<table>
<thead>
<tr>
<th>HS Codes</th>
<th>Product Description</th>
<th>Share of items in total trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>520100</td>
<td>Cotton, not carded or combed</td>
<td>19%</td>
</tr>
<tr>
<td>230400</td>
<td>Soyabean meal residue</td>
<td>14%</td>
</tr>
<tr>
<td>290243</td>
<td>P-xylene</td>
<td>7%</td>
</tr>
<tr>
<td>540710</td>
<td>Woven fabrics of nylon or polyesters</td>
<td>4%</td>
</tr>
<tr>
<td>070200</td>
<td>Tomatoes fresh or chilled</td>
<td>4%</td>
</tr>
<tr>
<td>390210</td>
<td>Polypropylene</td>
<td>3%</td>
</tr>
<tr>
<td>071320</td>
<td>Chickpeas</td>
<td>3%</td>
</tr>
<tr>
<td>090240</td>
<td>Tea</td>
<td>2%</td>
</tr>
<tr>
<td>550410</td>
<td>Viscose rayon staple fibres</td>
<td>2%</td>
</tr>
<tr>
<td>401120</td>
<td>Tyres used on buses/lorries</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Top Indian imports from Pakistan (2012-13)

<table>
<thead>
<tr>
<th>HS Codes</th>
<th>Product Description</th>
<th>Share of items in total trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>740400</td>
<td>Copper waste and scrap</td>
<td>28%</td>
</tr>
<tr>
<td>080410</td>
<td>Dates fresh or dried</td>
<td>16%</td>
</tr>
<tr>
<td>520100</td>
<td>Cotton, not carded or combed</td>
<td>8%</td>
</tr>
<tr>
<td>290250</td>
<td>Styrene</td>
<td>6%</td>
</tr>
<tr>
<td>252329</td>
<td>Other portland cement</td>
<td>6%</td>
</tr>
<tr>
<td>252010</td>
<td>Gypsum; anhydrite</td>
<td>3%</td>
</tr>
<tr>
<td>271011</td>
<td>Light oils and preparations</td>
<td>3%</td>
</tr>
<tr>
<td>271019</td>
<td>Petroleum oil</td>
<td>3%</td>
</tr>
<tr>
<td>510119</td>
<td>Wool</td>
<td>1%</td>
</tr>
<tr>
<td>392321</td>
<td>Sacks and bags of polyethylene</td>
<td>1%</td>
</tr>
</tbody>
</table>

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**Source:** Based on Data from Ministry of Commerce DGFT Export-Import Databank
### Top Indian exports to Pakistan (2009-10)

<table>
<thead>
<tr>
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<th>Share of items in total trade</th>
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<tbody>
<tr>
<td>540710</td>
<td>Woven fabrics of nylon or polyesters</td>
<td>23%</td>
</tr>
<tr>
<td>520100</td>
<td>Cotton, not carded or combed</td>
<td>15%</td>
</tr>
<tr>
<td>290243</td>
<td>P-xylene</td>
<td>13%</td>
</tr>
<tr>
<td>230400</td>
<td>Soyabean meal residue</td>
<td>6%</td>
</tr>
<tr>
<td>540754</td>
<td>Woven fabrics, printed, cntg by wt&gt;=85% textured polyester filaments</td>
<td>2%</td>
</tr>
<tr>
<td>390210</td>
<td>Polypropylene</td>
<td>2%</td>
</tr>
<tr>
<td>294200</td>
<td>Other organic compounds</td>
<td>2%</td>
</tr>
<tr>
<td>070310</td>
<td>Onions and shallots fresh or chilled</td>
<td>1%</td>
</tr>
<tr>
<td>290241</td>
<td>O-xylene</td>
<td>1%</td>
</tr>
<tr>
<td>71320</td>
<td>Chickpeas (garbanzos) dried and shld</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Top Indian imports from Pakistan (2009-10)

<table>
<thead>
<tr>
<th>HS Codes</th>
<th>Product Description</th>
<th>Share of items in total trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>080410</td>
<td>Dates fresh or dried</td>
<td>17%</td>
</tr>
<tr>
<td>252329</td>
<td>Other portland cement</td>
<td>15%</td>
</tr>
<tr>
<td>291736</td>
<td>Terephthalic acid and its salts</td>
<td>8%</td>
</tr>
<tr>
<td>780199</td>
<td>Other unrefined lead and lead alloys</td>
<td>5%</td>
</tr>
<tr>
<td>283620</td>
<td>Disodium carbonate</td>
<td>3%</td>
</tr>
<tr>
<td>740400</td>
<td>Copper waste and scrap</td>
<td>3%</td>
</tr>
<tr>
<td>290243</td>
<td>P-xylene</td>
<td>3%</td>
</tr>
<tr>
<td>520932</td>
<td>Dyed 3/4 thread twill including cross twill cotton fabrics weighing&gt;200 gm per sqm</td>
<td>3%</td>
</tr>
<tr>
<td>271011</td>
<td>Light oils and preparations</td>
<td>2%</td>
</tr>
<tr>
<td>290250</td>
<td>Styrene</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Source:** Based on Data from Ministry of Commerce DGFT Export-Import Databank
Trade Potential Estimates

Note: Base year varies across gravity estimates.
Source: Authors, updated from Taneja (2007) and Lopez-Calix (2012)

- Various gravity model estimates of trade potential between India and Pakistan range between 0.5 times and 27 times of actual trade
## India's Trade Potential with Pakistan 2011

<table>
<thead>
<tr>
<th>Trade Potential</th>
<th>US $ Million (Excluding Mineral Fuels) (1)</th>
<th>US $ Million (Mineral Fuels) (2)</th>
<th>US $ Million (Including Mineral Fuels) (3)=(1)+(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Potential</td>
<td>7,874</td>
<td>9,062</td>
<td>16,936</td>
</tr>
<tr>
<td>Import Potential</td>
<td>3,019</td>
<td>1,289</td>
<td>4,308</td>
</tr>
<tr>
<td>Trade Potential</td>
<td>10,893</td>
<td>10,351</td>
<td>21,244</td>
</tr>
</tbody>
</table>

*Source: Taneja et al. (2013), ICRIER Working Paper, Normalizing India-Pakistan Trade*

The estimate of trade potential is the maximum possible trade that two countries can have if they source from each other all items which they source from the rest of the world.

Of these the most likely items to be traded are those in which the supplier country is globally competitive. Only those items are included in which RCA>1.
Total value of informal exports from India to Pakistan estimated at US$ 1.79 billion for the year 2012-13

Main items informally imported into Pakistan from India include textiles, auto parts, jewellery, pharmaceuticals, cosmetics, tobacco, spices and herbal products

Textiles emerge as the single largest commodity being informally imported into Pakistan from India - constituting 75.8% of the total estimated informal inflows

**Commodity-wise Distribution of Major Informal Exports from India to Pakistan**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Value of informal exports (million USD)</th>
<th>Percentage of total informal exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>1356.4</td>
<td>75.8</td>
</tr>
<tr>
<td>Auto parts and tyres</td>
<td>175.5</td>
<td>9.8</td>
</tr>
<tr>
<td>Jewellery</td>
<td>76.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>59.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>48</td>
<td>2.7</td>
</tr>
</tbody>
</table>
India-Pakistan: Trade Perception Survey

- Rationale
  - Against the backdrop of trade normalization what is the extent of impediments perceived by businesses

- Focus
  - To determine the extent of impediments with respect to awareness of trade policies, product standards, market access, business facilitation, customs and documentation and infrastructure
  - To determine the expectation on the extent of improvement in the next year
  - To determine the expectation on demand of commodities to be traded
  - To suggest policy measures to expand trade
Methodology

- Impediments ranked on a likert scale of 1-5
- Tested for significant differences between categories in a country or between countries for a particular indicator
- Chi-square test
Sample description
- 200 firms in India; 200 firms in Pakistan
  - Including exporters/manufacturers, importers, freight forwarders/clearing agents

City-wise distribution
- In India, firms surveyed in Delhi, Amritsar, Mumbai, Chennai, Kolkata, Hyderabad and Ahmedabad
- In Pakistan, firms surveyed in Karachi, Lahore, Islamabad, Rawalpindi, Sialkot, Faisalabad, Multan and Peshawar

Sectors covered
- Agriculture, chemicals, textiles, pharmaceuticals, machinery, surgical items, cement, gypsum
Awareness Indicators

- New facilities are offered at the Integrated Check Post at Attari
  - India: 53%, Pakistan: 66%
- There are no restrictions on commodities to be traded by rail
  - India: 41%, Pakistan: 55%
- All items are allowed to be imported from Pakistan by road
  - India: 36%, Pakistan: 34%
- Only 137 items are allowed to be exported to Pakistan by road
  - India: 4%, Pakistan: 41%
- India removed specific duty on all items except for the sensitive list
  - India: 18%, Pakistan: 53%
- Concessional duty rates can be availed for imports under SAFTA
  - India: 57%, Pakistan: 70%
- India permits the import of all items from Pakistan
  - India: 22%, Pakistan: 55%
- Pakistan is moving towards granting MFN status to India
  - India: 55%, Pakistan: 86%
- Pakistan allows import of all items except 1209 items
  - India: 71%, Pakistan: 78%

Source: ICRIER Survey (January – March 2013)

Awareness significantly higher in India than in Pakistan
2. Product Standards

- BIS and PSQCA main standard setting bodies
- Members of International Laboratory Accreditation Cooperation (ILAC)
- Pakistani exporters trading in agricultural commodities find it significantly harder to comply with SPS standard requirements compared to Indian exporters
- But no significant differences found in the ease of meeting TBT standards for manufactured commodities between Indian and Pakistani exporters
- Future Expectations:
  - No change is expected regarding SPS or TBT standards
3. Market Access

- Indian importers have a perception of higher market access, than Pakistani exporters

- and Pakistani importers have a perception of significantly higher market access than Indian exporters

- Impact of Made in India/Pakistan Labels on market access
  - Large proportion perceived a low impact on market access in Pakistan or India

- Impact of Negative Political Events on Trade
  - Large proportion of Pakistani traders felt political events do not impact India-Pakistan bilateral trade
  - In India the response was mixed, though any negative impact was felt to be momentary and not permanent
4. Business Facilitation

- Ease of Obtaining Indian / Pakistani Visa:
  - Majority of traders find it difficult to obtain visas
  - Indian traders find the process significantly easier compared to Pakistani traders
  - In Pakistan the process of getting visas is perceived to be easier for large firms, and for those trading with India for longer (i.e. more than six years)

- Efficiency of Logistics Operators:
  - Large logistics operators perceived to be better than small operators in Pakistan, no significant difference found between large and small operators in India
  - Large proportion of respondents in both countries felt that in future large logistic operators would be more efficient than small operators
5. Customs and Documentation

- Indian exporters and importers perceive overall efficiency at customs to be worst at the rail route.

- Processing Time of Documents by Customs
  - Processing time is higher at sea port for Indian exporters and importers; and at road port for Pakistani exporters and importers.
  - Processing time is expected to reduce at all modes in the future.

- Excessive Checks due to Security Measures
  - Checking highest at sea mode, as perceived by Indian importers; average for all modes among Pakistani importers.
6. Infrastructure at Ports

- Overall infrastructure: Air port infrastructure perceived to be the best; sea port perceived to be worse off compared to other modes by both Indian and Pakistani traders.

- Congestion at LCS/Port Gate
  - Significantly higher at road and sea ports for Indian exporters.
  - Significantly higher at road port for Pakistani exporters.
  - But congestion is expected to reduce in the coming year.

- Availability of Warehousing / Holding Area
  - Significantly lower at road port for Indian traders.
  - Lower at road and rail port for majority of Pakistani traders.
  - Expected to improve at all modes in coming year.

- Availability of Wagons
  - All Indian exporters expressed the availability of rail wagons for exports to be low; though it is expected to improve the next year.
7. Expected Trade Trends

- **Expected Increase in Trade**
  - Highest proportion of respondents in both India and Pakistan feel bilateral trade will increase by up to 25%

- **Expected Demand for Commodities to be Traded**
  - Growth of exports from India to Pakistan to be >10% for agricultural commodities, chemicals, pharmaceuticals, processed food items including biscuits, cotton, engineering and mechanical goods, glass, jewelry, metal alloys, machinery, paper, pharmaceutical items, tea, textile items including yarn and fabric, and tyres
  - Imports from Pakistan expected to increase by >20% for dates; dry fruits; gemstones; and sugar

- **Expected Increase in Trade through Different Transport Modes**
  - At least 25% growth in trade expected for all modes among Indian traders
  - Pakistani traders expect trade growth of >51% at sea and road ports
Policy Recommendations

- **Raising Awareness of Trade Policy:**
  - Chambers of Commerce and Governments should disseminate policies governing India-Pakistan trade particularly those related to road and rail transport.
  - Government bodies may also ensure that revisions or changes in any policy reach traders in an easily accessible manner.
  - A dedicated web portal designed exclusively for India-Pakistan trade, for tracking latest developments in trade policy should bridge the information gap.

- **Improving Ease of Meeting Product Standards**
  - Information on regulatory regimes related to meeting product standards should be made easily available to traders.
  - For key commodities, flow charts exhibiting import and export process, covering procedures and documents, regulatory requirements and relevant authorities should be displayed on the web portal.
  - As India and Pakistan are members ILAC, effort should be made to accept each country’s test certificates. This has been done successfully in the case of textiles and should be extended to other commodities as well.
Policy Recommendations

- **Improving Perception of Market Access**
  - Encouraging interaction of traders via a web portal can help in finding new trading partners
  - Increase in the number of exhibitions and participation could encourage new entrants and entrepreneurs to enter India-Pakistan trade market

- **Business Facilitation**
  - Visa regime needs to be improved- Measures to ensure no city-specific visas, exemption from police reporting, and provision of multiple entry visit visas
  - Concerns of small and medium firms in Pakistan, who find it more difficult to obtain visas, need to be addressed
  - Improvement of communication channels is a necessity: in particular, facilitating use of mobile phones in other country’s territory
  - Expanding trade requires more specialized logistics services: large logistics service providers, particularly from private sector, with the requisite expertise should be encouraged
Policy Recommendations

- **Facilitating Customs and Documentation Procedures**
  - Electronic submission of bill of entry/shipping bill at LCS will reduce time taken for processing documents on both sides of the border
  - Encourage use of RMS / Random security checks on import consignments coming into India
  - System of authorized trader status could be introduced to reduce security checks at sea and land ports

- **Improving Infrastructure at Ports (already on the agenda)**
  - Increasing number of gates on the road LCS will reduce port congestion
  - Increasing operating hours of customs from 12 to 24 hours, throughout the week would also relieve congestion
  - Availability of rail wagons needs to be improved
  - Containerized cargo by road and rail will improve efficiency of surface transportation
  - Increase in infrastructure capacity required at sea, road and rail customs stations
Thank You