Enhancing Trade in Goods between India and Pakistan

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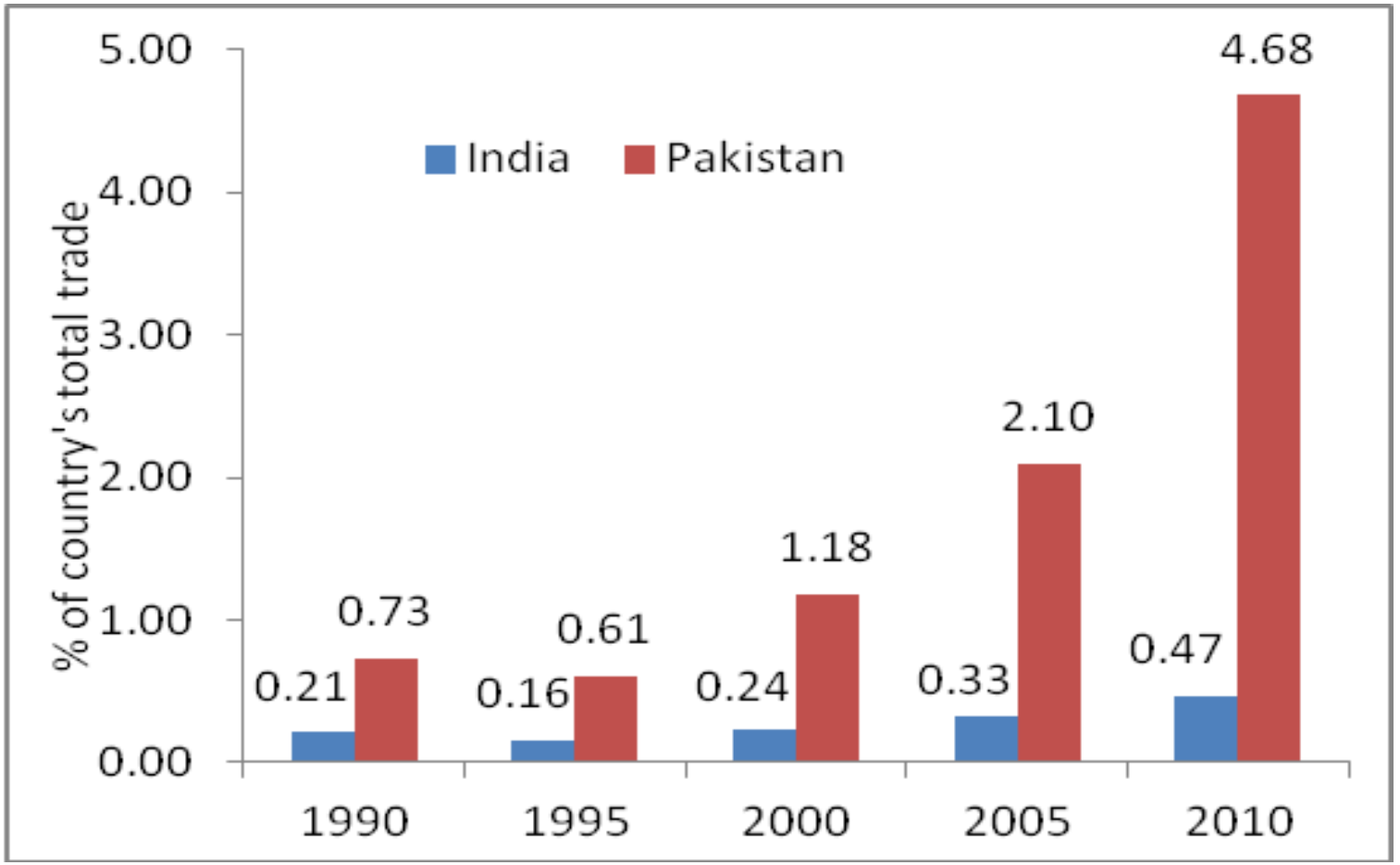
Two recent studies

- De, P., Raihan, S. and Ghani, E. (2013), “What does MFN mean for India and Pakistan? Is MFN a Panacea?”, Policy Research working paper 6483. Washington, DC: World Bank.
- Raihan S. and De, P. (2013), "India-Pakistan Economic Cooperation: Implications for Regional Integration in South Asia", Paper for the Commonwealth Secretariat, London.

Low bilateral trade:
Bilateral Trade as % of Country's Total Trade



Source: De, Raihan and Ghani (2013), Calculated based on IMF DOTS

India's Trade with Pakistan

	Export	Import	Total Trade	Trade Balance
	(US$ million)			
1990	43.49	44.86	88.35	-1.37
1995	70.4	37.37	107.77	33.03
2000	163.33	65.05	228.38	98.28
2005	647.19	158.42	805.61	488.77
2010	2252.89	310.44	2563.33	1942.45
	CAGR (%)			
1990-1999	9.22	9.88	9.56	
2000-2009	27.45	17.32	25.18	

Source: De, Raihan and Ghani (2013), Calculated based on UNCOMTRADE

Composition of India's Top 15 Exports to Pakistan

		2000		2005		2010	
HS Code	Commodity Description	Export (US$ million)	Share in total export (%)	Export (US$ million)	Share in total export (%)	Export (US$ million)	Share in total export (%)
1701	Cane or beet sugar and chemically pure sucrose, in solid form	37.11	22.65	1.09	0.18	611.65	27.36
5201	Cotton, not carded or combed.	0	0	33.18	5.60	300.33	13.43
5407	Woven fabrics of synthetic filament yarn	0.00	0.00	0.01	0.00	299.09	13.38
2902	Cyclic hydrocarbons.	0.13	0.08	119.03	20.07	177.73	7.95
2304	Oil-cake and other solid residues	25.95	15.84	47.31	7.98	75.52	3.38
0713	Dried leguminous vegetables and shelled	0.19	0.12	18.86	3.18	58.40	2.61
4011	New pneumatic tyres, of rubber	7.01	4.28	35.28	5.95	36.88	1.65
3204	Synthetic organic colouring matter	7.16	4.37	13.49	2.27	32.37	1.45
2710	Petroleum oils and oils obtained from bituminous minerals	0	0	21.72	3.66	26.49	1.18
0904	Pepper of the genus Piper	3.42	2.09	0.09	0.01	25.52	1.14
3808	Pesticides	0.05	0.03	2.63	0.44	24.88	1.11
0902	Tea	5.84	3.57	7.69	1.30	23.42	1.05
7202	Ferro-alloys	0.39	0.24	5.87	0.99	22.23	0.99
3902	Polymers of propylene or of other olefins	10.80	6.59	21.97	3.70	20.60	0.92
2942	Other organic compounds	6.17	3.76	45.12	7.61	20.47	0.92
	Total export from India to Pakistan	**163.83**	**63.62**	**593.06**	**63.11**	**2235.79**	**79.33**

Source: De, Raihan and Ghani (2013), Calculated based on UNCOMTRADE

Composition of Pakistan's Top 15 Exports to India

		2000		2005		2010	
HS Code	Commodity Description	Export (US$ million)	Share in total export (%)	Export (US$ million)	Share in total export (%)	Export (US$ million)	Share in total export (%)
0804	Fruits, fresh or dried.	25.11	36.07	24.76	14.92	59.55	18.57
2523	Cement	0	0	0	0	34.38	10.72
2710	Petroleum oils & oils from bituminous mins, other than crude	0	0	0	0	23.34	7.28
7801	Unwrought lead	0	0	1.43	0.86	20.93	6.53
2711	Petroleum gases and other gaseous hydrocarbons	0	0	0	0	16.02	5.00
2917	Polycarboxylic acids, anhydrides, halides, peroxides	0.18	0.27	7.21	4.35	13.51	4.21
2903	Halogenated derivatives of hydrocarbons.					12.26	3.82
5209	Woven fabrics of cotton	0.14	0.21	9.45	5.70	12.20	3.80
2902	Cyclic hydrocarbons.	0	0	0	0	11.75	3.66
2836	Carbonates; peroxocarbonates	0.02	0.03	0.00	0.00	10.46	3.26
5208	Woven fabrics of cotton	0.19	0.27	10.45	6.30	10.09	3.15
0713	Dried leguminous vegetables, shelled	2.42	3.47	64.90	39.11	9.72	3.03
5101	Wool, not carded or combed.	0.02	0.03	1.91	1.15	8.68	2.71
5205	Cotton yarn (other than sewing thread)	0.36	0.52	3.43	2.07	6.31	1.97
3923	Articles for the conveyance or packing of goods, of plastics	0	0	0.69	0.42	6.13	1.91
	Total export from Pakistan to India	**69.62**	**40.86**	**165.95**	**74.86**	**320.73**	**79.61**

Source: De, Raihan and Ghani (2013), Calculated based on UNCOMTRADE

Trade regimes in India and Pakistan

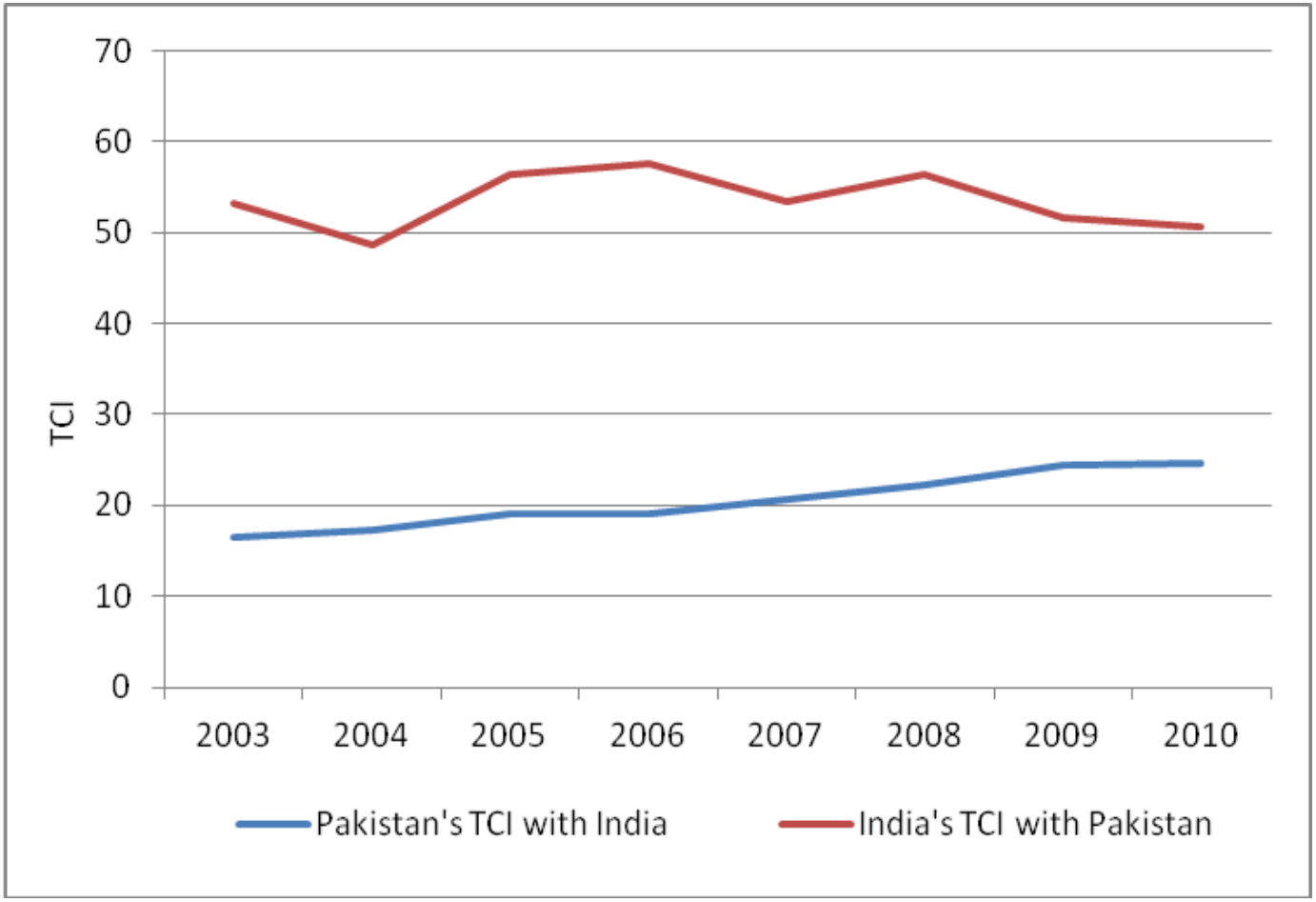
- Trade between India and Pakistan is restricted by closed trade regimes.
- In the face of restrictive trade policies and transport bottlenecks, there is a large bilateral informal trade, which varies from half a billion to about a billion US$
- High tariff still exists on some specific goods.
- Despite the fall in average tariffs, trade restrictiveness of both India and Pakistan has been heavily triggered by the large volume of NTBs.
- Trade facilitation is not well developed.
- India and Pakistan fare poorly with global peers on logistics.

Revealed Comparative Advantage (RCA) Index

Country	Year	Trade classification	No of products exported	No. of products having RCA>1
Pakistan	2005	HS 6 (at H2)	2848	668 (23)
Pakistan	2010		3194	708 (22)
India	2005		4696	1246 (27)
India	2010		4979	1490 (30)

Data in parentheses indicate percent share in total products exported
Source: Raihan and De (2013), Calculated based on UNCOMTRADE

Trends in Complementarity between India and Pakistan



Source: Raihan and De (2013), Calculated based on UNCOMTRADE at HS 6

CGE Simulations

- How much would be the bilateral gains from MFN? Do other South Asian countries benefit from India-Pakistan MFN trade? To what extend the MFN trade between India and Pakistan would pull-up the regional trade in South Asia?
- To answer these questions, we use the global computable general equilibrium (CGE) modelling, namely the GTAP model.

Constructing the MFN scenario

- Pakistan's benefits of trade with India, comparing unit price, are huge. We factor in this benefit quantitatively while modeling the gains from trade.
- First, we identify 561 products for Pakistan at the 6-digit HS level from the World Bank's WITS database, where the unit costs of imports if they are sourced from India would be lower than the unit costs of imports if they are sourced from other countries.
- The percentage differences in these unit import costs are then calculated next. The percentage differences in unit prices for these 561 products at the 6 digit HS code are then aggregated into GTAP sectors matching the concordance and weights for respective products.

The MFN Simulation

- Since Pakistan would only enjoy fall in unit import prices for these products if the import source is India, in the GTAP model a scenario ('MFN' scenario) is considered, where there would be a fall in import price for Pakistan while importing from India. This simulation is done by shocking on the transaction cost of the import from India to Pakistan.
- In brief, the MFN scenario incorporates the reduction in import prices for Pakistan because of increased potential of sourcing imports from India at cheaper prices. In addition, it is assumed that there would be some 'peace dividends" for all the South Asian countries because of this improved trade relation between India and Pakistan.

Comparison of Welfare Effects (Equivalent variation in US$ million)

Country	MFN	MFN plus IND-PAK FTA	MFN plus IND-PAK FTA with bilateral trade facilitation	MFN plus SAFTA	MFN plus SAFTA with regional trade facilitation
Bangladesh	21.08	-2.58	-14.59	-111.77	1479.56
India	**160.71**	**376.43**	**2288.46**	**1810.73**	**5452.03**
Pakistan	**99.21**	**443.96**	**1964.11**	**1121.67**	**2618.38**
Nepal	18.01	-0.65	-6.85	485.03	1654.21
Sri Lanka	34.92	-4.28	-15.56	71.88	2173.12
Rest of South Asia	15.72	-20.27	-41.22	298.21	1265.02
China	-10.52	-4.81	-128.04	-216.19	-760.12
USA	-18.39	-62.13	-223.79	-270.47	-985.54
EU 25	-29.55	-38.32	-262.74	-348.32	-1394.91
Rest of the World	-66.71	-185.81	-861.13	-681.72	-3020.78

Source: Raihan and De (2013), the GTAP simulations

Impacts on exports and imports

- Mere MFN status to India would raise Pakistan's import from India by 32 percent, whereas MFN plus enhancement of bilateral trade facilitation would lead to rise in such import by 203 percent .
- Under the MFN plus bilateral trade facilitation scenario, Pakistan's total import would rise by 2.7 percent, against only 0.28 percent under the mere MFN scenario.
- Pakistan's exports to India would rise by a staggering 202 percent under the MFN plus bilateral trade facilitation scenario against only 0.4 percent under the MFN scenario.
- Pakistan's total exports would rise by 1.82 percent under the MFN plus trade facilitation scenario compared to only 0.17 percent under the MFN scenario.

Sectoral impacts

- Under the mere MFN scenario, the change in exports from India to Pakistan would vary from meat (348 percent) to vegetables, fruits and nuts (0.2 percent).
- MFN with trade facilitation will increase India's exports to Pakistan for chemical, rubber and plastic, food processing, mineral fuels (petroleum, coal products), metals, machinery and equipment, textiles, leather products, dairy products, fishing, etc.
- MFN status to India would have small but positive impact on Pakistan's sectoral exports to India. There would be some rise in the exports of plant based fibers, animal products and metals from Pakistan to India.
- However, MFN status together with improvement in bilateral trade facilitation would result in some sectors in Pakistan to benefit in terms of increased exports to India. Such sectors include wool, wheat, textile, wearing apparels, leather products, metals, machineries, chemicals, etc.

Tariff rationalization and removal of NTBs

- Further deepening of trade liberalization (e.g. removal of NTBs, cleaning the sensitive lists, removal of quantitative restrictions, etc.) between these two countries is needed.
- In addition to rationalizing import duties, policy makers could eliminate all kinds of quantitative restrictions, regulatory duties, and other para-tariffs, and several other measures that have been restricting trade in the past.

Trade facilitation and improvement in connectivity

- There is a need to support trade facilitation to complement the trade liberalization (e.g. removal of the delay in payment between exporter and importer by introducing online banking, acceptance of digital signature on cross-border trade documents, etc.).
- The CGE modeling simulations show that improved trade facilitation would increase the volume of trade between India and Pakistan by reducing the transaction costs of trade, making exports more competitive and imports less expensive.
- Trade between India and Pakistan is constrained by the poor condition of infrastructure, congestion, high costs, and lengthy delays, and these problems are particularly severe at the India-Pakistan border crossings.

Allowing FDI to narrow the trade gap

- India and Pakistan should pursue a 21st century type of regionalism (trade in tasks) through free movement of FDI.
- It is imperative to make FDI move freely between the two nations.