

My Partner, My Enemy: Trade between India and Pakistan

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International political understanding as a function of increased economic interaction among countries locked in conflicts is being talked about more vociferously now than ever before. Against this backdrop, it is useful to examine the history of bilateral economic relations between India and Pakistan and explore possibilities for increased economic contact between them.[1]

A brief History

The Indian subcontinent was one economic unit at the time of partition of British India in 1947. With partition and the competitive spirit that emerged from it, the complementary relationship between the economies of India and Pakistan ended. Each viewed the other as an enemy. The sense of mistrust that characterises the relationship between the two states has been further consolidated by the wars they have fought in 1947, 1965, 1971 and 1999. The history of ‘trade’ between the two countries in spite of the many conflicts between them is analysed cursorily in this paper and then an attempt is being made to explore the prospects for partnership as well as the challenges and constraints faced by each country in its partnership with the other perceived largely as the “enemy”.

The initial period between 1947-1965 was marked by a great degree of economic interaction in spite of the fact that tariffs were high.[2] In the early fifties, trade between India and Pakistan constituted 30% and 60% of their total trade-volume respectively.[3] But gradually relations worsened. The Indo-Pak wars, Pakistan’s decision to join CENTO and SEATO as well as India’s reluctance in internationalising the Kashmir issue were responsible for this. With the Indo-Pak war of 1965 and the embargo that followed it, trade was suspended for nearly a decade.

The thaw in the political relations with the signing of the Shimla accord in 1972 led to new hopes on the trade front too. On 7 December 1974 the trade embargo was lifted[4]. More sectors were opened up for trade and for two years even private concerns in Pakistan were allowed to trade. Joint business committees and re-establishment of transport links also helped trade.

With the establishment of South Asian Association for Regional Cooperation (SAARC) channelisation of trade through State Trading Corporations (STC) gave way to trade based on a restricted list of imports prepared by Pakistan and updated from time to time. The establishment of the SAARC Preferential Trade Agreement (SAPTA) in 1993 was a breakthrough as far as economic relations of states in South Asia were concerned. The concessions offered under this gave a shot in the arm to bilateral trade. The first preferential agreement started functioning in

1995 and trade figures indicate that the volume of trade increased roughly from Rs. 345 crores in 1994-95 to Rs. 407 crores in 1995-96 and Rs. 687 crores in 1996-97.[5] In 1994 the SAARC Chamber of Commerce and Industry (SCCI) was set up. It has grown and become a forum, facilitating interaction between business-men in the South Asian region. SAPTA II became operational in 1997 while SAPTA-III was implemented in 1999. The year also saw the establishment of the India-Pakistan Chamber of Commerce and Industry.

Unfortunately in the same year, the inadvertent move of the Pakistani army in Kashmir, which resulted in the Kargil war, retarded the process of repair that was beginning to unfold in the Indo-Pak bilateral economic relations. Things cooled off after July 1999 but the later military coup in Pakistan by Musharraf upset the economic equations again. The subsequent failure of Agra talks between Vajpayee and Musharraf, and the heightening of terror in Kashmir affected the bilateral relations gravely. The attack on Indian Parliament on 13th December 2001 and continuing mass killings by terrorists in Jammu and Kashmir has created a hostile environment now where the issue of bilateral trade has taken a back-seat. This is not to say that trade has stopped between the two countries. However, Pakistan is yet to give India Most Favoured Nation(MFN) status. Imports from India into Pakistan are still governed by the list, which is decided by the Pakistani government. It is true that there have been tariff concessions but the quantum has not been enough to cross the threshold necessary to ensure steady trade flows.[6]

The Composition of India-Pakistan Trade

The main exports from India as have been decided by the Pakistani government are: oil seeds, drugs, spices, coal tar, chemicals, rubber products, paints/enamel, varnishes, plastic and linoleum products and agro-chemicals. The imports from Pakistan include rice, fruits, leather, raw cotton textiles and yarn fabrics. This shows that the general pattern has been that of Pakistan exporting largely raw materials while Indian exports have been more capital and intermediate goods. When one looks at the Balance of Trade (BOT) position, in the early years Pakistan almost always had a surplus account while India had a deficit. However, during the post-1995, India had a trade surplus except in the years 1998-99 when it had a deficit.[7]

Circumventing the Import list: the voluminous Unofficial and Circuitous Trade

Restriction of trade to the import list which in spite of extensions excludes a number of important items like heavy engineering goods, cement, tyres etc. has resulted in flourishing unofficial trade. The FICCI report estimates that “unofficial trade between India and Pakistan stands somewhere near one billion US dollars which is five times the quantum of official trade of twenty million dollars between the two countries.”[8]

The estimate will go up if circuitous trade is taken into consideration. A number of Indian and Pakistani goods find its way into one another's territory through Hong Kong, Singapore and Dubai. Examples of such Indian goods in Pakistan are videos, audio-tapes, cosmetics, imitation jewellery, clothing, alcohol and even text books in professional colleges. The Pakistani goods that take a circuitous route to India include precious stones, gold, dry fruit and synthetic fibres.

Prospects of India-Pakistan trade and Economic Cooperation

The huge network of unofficial trade between India and Pakistan gives credence to the belief that there is tremendous scope to deepen economic relations between India and Pakistan. Besides the most visible positive outcome in the form of lessening illegal trade, there are at least five good reasons for extending the hand of partnership.

First and perhaps the most obvious is the issue of bilateral economic benefits. This includes the lesser cost of transaction and more variety in goods and services. Pakistan is estimated to be the second largest consumer of tea in the world. It imports most of its tea from Kenya in spite of the fact that the Indian alternative is cheaper and of high quality.

The FICCI report has identified eleven sectors where there is high potential for bilateral trade. These include engineering industry, transport equipment, pharmaceuticals, textile machinery, tyre, chemicals, plastics, textiles, coffee and agriculture besides tea.[9] Economic co-operation in the form of bilateral joint ventures will also make tremendous investment sense. Pakistan is mineral rich but lacks capital and expertise. If India could supply that, Pakistan's dependence on imports will decrease and that will lead to more productive interaction between India and Pakistan.

From a macro perspective, the benefit to SAPTA, SAARC and South Asia is the *second* reason. India and Pakistan form the core of SAARC and their bilateral ties matter a lot for the SAARC experiment to succeed. The combined economies can become the engine of growth and boost the performance of SAPTA. In fact, it is ridiculous to talk of SAARC Free Trade Association when trade between India and Pakistan is restricted.

The *third* reason is the positive externality of increased economic activity in the Indian-Subcontinent. This will help revive the ancient silk route and enlarge the market to include Central Asian Republics, i.e., Ukraine, Tajikistan, Turkmenistan and Kazakhstan. *Fourth* is what can be called the peace dividend. Though, research on the impact of trade on conflict is inconclusive, it does not need advanced econometric analysis to realise that trade and economic relations will increase people to people contact which will gradually lead to the realisation that the peoples of South Asia can amicably coexist as they did for centuries before the advent of colonialism. If that seems far-fetched one only needs to look westward at Europe and internalise the fact that European Union is made up of countries which have fought bitter battles for centuries but now the factor of European economy has brought them together.

Long Winding Climb

Ground realities in the current scenario may make trading with Pakistan seem like a mirage. It is true that the obstacles are many. Today, Pakistan is a non-democracy where power equations among the military and the religious forces are far from settled. After Kargil the 'trust' factor, which plays an important role in expectations and thus in economic relations, is amiss. With the build up at the border and the total closure of rail, road and air links as well as other forms of communication between the two countries, Indo-Pak relations have indeed touched a new low.

Against this backdrop, resolving the question of Kashmir is extremely important. For that India has already made its intentions known about holding free and fair elections in Kashmir. Pakistan has to do its bit and bring down the curve of terrorism/militancy in Kashmir. The present government in India has made its options clear over the issue and said that it is impossible to talk about bilateral talks and friendship when its internal security is being compromised through sponsored militancy from the Pakistani side. The issue of trade comes much later in the list of priorities so far as political will is concerned. One has to agree that peace and security are important prerequisites and they have assumed even importance in the post-September 11 context.

As the economy of Pakistan struggles to keep going and the Indian economy slows down, one can only hope that political masters of one of the world's poorest regions see the practical gain that business-men of the region saw in 1999 when they extended their hands to make the enemy their "partner" and formed the India-Pakistan Chamber of Commerce & Industry. One hopes the good work done by the facilitators of economic relations will yield good dividends in the days to come and pave the way for better mutual understanding and establish lasting peace in the region.

APPENDIX
Table No.1

| EXPORTS AND IMPORTS FROM INDIA TO PAKISTAN: 1948-65 | | | |
|--|---------------|---------------|----------------|
| (In Rs. Crores) | | | |
| YEARS of Trade(BOT) | EXPORT | IMPORT | Balance |
| 1948-49 | 76.8 | 107.38 | -30.70 |
| 1949-50 | 43.30 | 44.05 | -.75 |
| 1950-51 | 30.60 | 43.87 | -13.27 |
| 1951-52 | 45.25 | 87.50 | -42.25 |
| 1952-53 | 30.90 | 21.88 | +9.02 |
| 1953-54 | 8.01 | 19.28 | -11.27 |
| 1954-55 | 9.75 | 19.38 | -9.63 |
| 1955-56 | 8.30 | 27.11 | -18.81 |
| 1956-57 | 7.92 | 15.76 | -7.84 |
| 1957-58 | 6.68 | 13.42 | -6.74 |
| 1958-59 | 7.32 | 6.31 | +1.01 |
| 1959-60 | 7.21 | 8.59 | -1.38 |
| 1960-61 | 9.51 | 14.01 | -4.50 |
| 1961-62 | 9.45 | 13.86 | -4.41 |
| 1962-63 | 9.40 | 16.67 | -7.27 |
| 1963-64 | 7.17 | 9.36 | -2.19 |
| 1964-65 | 9.78 | 15.75 | -5.97 |
| 1965-66 | 4.48 | 5.65 | -.77 |
| 1975-76 | .76 | 22.12 | -21.34 |
| 1976-77 | 9.0 | 1.72 | +7.28 |

| | | | |
|---------|-------|-------|--------|
| 1977-78 | 13.32 | 23.91 | -10.59 |
| 1978-79 | 19.45 | 12.80 | +6.65 |
| 1979-80 | 8.5 | 24.68 | -16.18 |
| 1980-81 | 1.02 | 75.39 | -74.37 |
| 1981-82 | 4.94 | 54.70 | -49.76 |
| 1982-83 | 7.09 | 38.01 | -30.92 |
| 1983-84 | 12.33 | 24.54 | -12.21 |
| 1984-85 | 12.95 | 30.12 | -17.17 |
| 1985-86 | 14.63 | 26.59 | -11.96 |
| 1986-87 | 14.95 | 27.50 | -12.55 |
| 1987-88 | 20.12 | 30.59 | -10.47 |
| 1988-89 | 36.43 | 72.58 | -36.15 |
| 1989-90 | 51.39 | 53.78 | -2.39 |

Source: DGI&S and D.S. Arora, "Indo-Pakistan Trade Relation", *Foreign Trade Review*, Oct-Dec(1989)

Table No.2

| INDIA-PAKISTAN EXPORTS AND IMPORTS IN THE NINETEES | | | |
|---|----------------|----------------|------------|
| (In Rupees Crores) | | | |
| Years | Exports | Imports | BOT |
| 1990-91 | 73.6 | 84.4 | -10.8 |
| 1991-92 | 98.82 | 211 | -112.28 |
| 1992-93 | 147 | 375.51 | -228.51 |
| 1993-94 | 200.96 | 136.68 | 64.28 |
| 1994-95 | 179.71 | 165.61 | 14.1 |
| 1995-96 | 256.96 | 150.91 | 106.05 |
| 1996-97 | 558.12 | 128.36 | 429.76 |
| 1997-98 | 532 | 165.19 | 366.87 |
| 1998-99 | 446 | 902.19 | -456.19 |
| 1999-00 | 407.63 | 295.58 | 112.05 |
| 2000-01 | 853.54 | 292.4 | 561.14 |

Source: Tabulated from the Monthly Statistics of the Foreign Trade of India, Directorate General Of Commercial Intelligence and Statistics(DGI&S), Ministry of Commerce, Government of India, Calcutta (March 1990-91 to 2000-01)

Table No.3

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|---|
| INDIA'S PRINCIPAL EXPORTS AND IMPORTS IN 1999-2000 |
|---|

| | EXPORTS FROM INDIA | IMPORTS INTO INDIA |
|--------------------------|--|---|
| 1 | Oil Meals | Fruits and Nuts excluding Cashew Nuts |
| 2 | Drugs, Pharmaceuticals & Fine Chemicals | Sugar |
| 3 | Spices | Rice |
| 4 | Dyes/Intermediates& Coal Tar Chemicals | Spices |
| 5 | Rubber manufactured products except Footwear | Cotton Raw & Waste |
| 6 | Paints/ Enamels/Varnishes etc. | Textile Yarn, Fabrics, made up Articles |
| 7 | Inorganic/Organic/Agro-Chemicals | Leather |
| 8 | Plastic&Linoleum Products | Other Crude Minerals |
| 9 | Other Ores &Minerals | Electronic Goods |
| 10 | Primary and Semi-finished Iron and Steel | Organic Chemicals |
| Source: DGCI&S, Calcutta | | |

Endnotes

- 1 Refer to the special issue on Trade and Conflict in *Journal of Peace Research*, July 1999.
- 2 “On 1st March 1948, India declared Pakistan a “foreign country” with respect to tariff”, Dr. Rashid Ahmed Khan, “India-Pakistan Trade: Prospects and Constraints”, *Regional Studies* 13, no.1 (94-95): p.42
- 3 *ibid.* p.43. For trade figures refer to Tables No.1 and No.2 in the appendix.
- 4 D.S. Arora, “Indo-Pakistan Trade Relation”, *Foreign Trade Review*, Oct-Dec(1989):p.300
- 5 CG&IS figures from “A study on Prospects for India-Pakistan Economic Partnership”, FICCI, May 22, 2001, p.1.Refer to Tables No.1 and No.2 in the Appendix for data on India’s export-import position with Pakistan from 1948-2000.
- 6 Despite the cuts India and Pakistan have one of the highest tariffs in the world.
- 7 Refer to Table No.2 in the Appendix for data on exports and imports and Table No.3 for the composition of trade.
- 8 “A study on Prospects for India-Pakistan Economic Partnership”, FICCI, May 22, 2001, p.6.
- 9 For a detailed account refer to “Sector wise Trade Creation Potential” in “*A study on Prospects for India-Pakistan Economic Partnership*”, FICCI, May 22, 2001,p.4

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