

BILATERAL TRADE RELATIONS BETWEEN INDIA AND PAKISTAN: RECENT EXPERIENCE AND FUTURE PROSPECTS

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ABSTRACT

India and Pakistan are two most populous and largest economies of the South Asian Region (SAR), however official bilateral trade accounts for only less than one per cent of India's global trade. Their rapprochement has the potential to change the geopolitical dynamics of India. This paper examines bilateral trade relationship in terms of share in global trade, bilateral trade flow, trade intensities, trade reciprocities, revealed comparative advantages, possibility of intra- industry trade along with overall potential of trade between two neighbours for the period 1996-2014. The study highlights weakness in overall bilateral trade relation and recommend multi-pronged strategy encompassing reduction in existing high rates of tariff and non-tariff barriers; lowering of trade costs of at least specific products of interest, reduction in infrastructure and financial bottlenecks, opening up of more trade routes through sea, rail as well as road; expansion of investment and technology transfer in the production and marketing of those products which enjoy high revealed comparative advantage, dilution of multiple rules and regulations, trade diversification and promotion through trade facilitation measures like Make In India, Digital India and Skill India programs, granting MFN status to India as soon as possible to reduce cost and loss of revenue through informal trade and resolving transit rights to improve the existing trade relations.

Keywords: Comparative advantage index, Grubel Lloyd Index, intra- industry index, MFN, trade intensity index, trade potential, trade reciprocity index.

INTRODUCTION

India and Pakistan are contiguous and once were the same country before partition in 1947. Two separate countries were carved at the time of independence on ethno-linguistic and religious lines but both share same stock of inhabitants, common history and continue to

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be plague by identical problems. The relationship between two countries remain estranged and some of the outstanding issues that continue to complicate the normalization are issue of cross-border terrorism, Kashmir dispute, distorted trade, Siachen, Sir Creek, sharing of water, visa, routine cross firing on Line of Control (LOC) etc. Various solutions have been provided at official levels but no solution appears to be working towards right direction. In respect of bilateral relations, sense of déjà vu is overwhelming as the pendulum of relations between the two countries continues to oscillate between two extremes with metronomic regularity.

It is argued by the eminent scholars, experts, academician, policy makers, planners etc. on both sides over the years that if business ties improve between the two, it might lead to people to people contact and issue of Kashmir would become blunted and diluted. They cite Sino-Indian relationship where India pushed its border dispute aside with China and the two concentrated on other aspects of relationships like economic ties, FDI, bilateral trade etc. Today, China has emerged as the largest trading partner of India with trade having surpassed 65859 million US \$ in 2013-14 from 39747 million US\$ in 1996-97 thereby registering a growth rate of 65.69 per cent during this period. India and China continues to have conflicts and tension on the border, but are able to deal with it with maturity. Moreover, trade is also beneficial between neighboring countries due to low transportation costs. Language similarities also reduce communication & transaction barriers; in turn trade improves economic efficiency on account of comparative advantages. Trade nurtures growth through economies of scale, innovation & knowledge spillover and can better aid the broader process of economic, political and social integration.

In fact, just after India and Pakistan had become sovereign states, India's share in Pakistan's global exports and imports accounted for 23.6 per cent and 50.6 per cent respectively in 1948-49 which went down to 1.3 per cent and 0.06 per cent respectively in 1975-76 and then to merely 0.02 per cent and 0.04 per cent in 2012-13 respectively whereas Pakistan's share in India's global exports and imports was 2.2 per cent and 1.1 per cent respectively in 1951-52 which gradually declined to merely 0.006 per cent and 0.0006 respectively in 2012 -13. Several studies [Ghuman(1986), Srinivasan; T.N.(1995),Ministry of Commerce (1996) Pigato(1997), Batra A.(2004), Qamer Abid (2005), IMF(2005), Taneja, Nisha(2008), Iqbal, B. A. (2011), FICCI(2012), Khan, J. A.(2012), PILDAT(2012), Kugelman, M. *et.al* (2013), Chengappa; Raja (2013),Taneja *et.al* (2013)] have been undertaken to examine the pattern of economic relation, bilateral ties, trade volume; its trend & emerging issues, future strategy to enhance economic relations, and normalization of trade between the two nations. Many of these studies indicated that political trust deficit is the main cause behind the slow growth of trade volume and trade flow is hindered by high tariffs and non-tariff barriers, poor infrastructure, restrictive maritime protocol. Until 2005, poor trade facilitation measures like custom & procedural barriers and difficult visa scheme affected smooth transaction. In order to strengthen the trade relations between the two countries, India has granted Most Favored Nation (MFN) status to Pakistan in 1996, which means, in principle, Pakistan can enjoy lower tariffs and fewer trade barriers in its economic relationship with India whereas the same has not yet been granted by Pakistan to India due to the resistance of dominant military establishment. However, the previous Pakistani government led by the Pakistan People's Party (PPP) actually

announced the MFN to India in November 2012, but was forced to back out by the military establishment.

The present study has been undertaken to examine whether the bilateral trade relationship is weakening (or strengthening) between the two countries over the years? More specifically, the objectives of present study are:

1. To examine the importance of bilateral trade in the economy of India and Pakistan;
2. To work out trade intensities and reciprocities between the two respective economies;
3. To find out revealed comparative advantage and intra- industry trade along with trade potential of India with Pakistan; and
4. To identify the major impediments of bilateral trade and to seek appropriate solution to improve the trade relations between the two neighboring countries.

II. Data Source and Methods

Data related to the problem is quite scattered and compiled from various secondary sources. Data were collected from Export Import Data Bank; Ministry of Commerce, Government of India; IMF, WTO, UN COMTRADE and various issues of Economic Surveys of both economies for the period from 1996 to 2014. The base year 1996 has been chosen due to the fact that India granted MFN clause to Pakistan in the same year. However, there are various methods available in the literature to study the trade relations, but for the limited purpose export intensity, import intensity, trade reciprocity, revealed comparative advantage index, Grubel Lloyd Index have been employed.

III. Results and Discussion

In this section, an attempt has been made to meet out the objectives of present study. Before analyzing trade volume, trade reciprocity, intra industry trade, trade potential etc., it would be appropriate to look at the trade economics of the two countries. An overview of different parameters like population, GDP, per capita income, current account balance, trade to GDP ratio, share in world exports etc. has been summarized in Table 1. India is the second most populous country with 1210 million people (Census of India, 2011) and seventh largest country in terms of area (3,287,263 sq. km) in the world. It is seventh largest economy of the world when measured at nominal GDP and the third largest on measurement by purchasing power parity (PPP) basis. It is the largest growing economy of the South Asia with average annual growth rate of 6.8 & 7.4 per cent during 2013-14 and 2014-15, respectively (*Economic Survey of India, 2014-15*). India is also a co- founder member of General Agreement on Trade and Tariff (GATT) since 1947 and its successor, WTO in January, 1995. According to the WTO Statistics (2013), India accounted for nearly 1.66 per cent of global exports and 2.47 per cent of global merchandise imports ranked at 19th and 12th, respectively. During 2013-14, the major items of exports were software, jewellery, petrochemicals, pharmaceuticals, agricultural products, ores, engineering goods, chemicals, transportation parts etc. Major import commodities included crude oil & related goods, gold & precious stones, engineering

goods, plastics, chemicals, iron, vegetable oils etc.

Despite many achievements on economic front, India continues to face several major challenges in the area of poverty, unemployment, economic inequality, malnutrition, chronic energy deficiency, quality rural education, all- weather roads, institutional co-ordination, low degree of policy implementation etc.

Likewise, Pakistan is also a founder member of GATT (1945) and its successor, WTO (1995). With a population of 182 million (sixth most populous) and area of 796,095 km², Pakistan is a developing economy with per capita income of US \$ 1312 having potential of becoming one of the large economy of the world. During 2013-14, major export commodities included cotton & yarn, rice, non-knit men's suits, refined petroleum and cement. Similarly, the main items on the import side were food, machinery, transport vehicles, textile, fertilizer, chemicals, crude oil etc. Like many other developing economies, Pakistan is also a member of two Regional Trade Blocs (RTB) i.e. SAARC (South Asian Association for Regional Cooperation) and ECO (Economic Cooperation Organisation). SAARC nations have also signed SAFTA (South Asia Free Trade Area) agreement in 2004 in Islamabad to reduce the tariff barriers and shift to free trade after 2016. The Agreement came into force in Jan, 2006. Pakistan is facing problems on current account balance, exchange rate volatility, employment, poverty, quality health & education, malnutrition, inflation, corruption etc.

Table 1: Key Facts and Some Selected Indicators about India and Pakistan

S. No.	Particulars	India	Pakistan
1	Population (thousands, 2013)	1,252,140	182,143
2	GDP (Million Current US \$, 2013)	1,876,797	236,625
3	GDP(Million Current PPP US \$, 2013)	6,774,441	855,868
4	GDP Growth at Factor Cost, 2013-14 (Percentage)	6.8	3.3
5	Per Capita Income, 2014(US \$)	1,626; 141st rank	1342; 148th rank
6	GDP Rank Nominal PPP	7th 3rd	44th 26th
7	Current Account Balance (million US \$, 2008)	(-)30972	(-)15655
8	Trade per Capita (US \$ 2011-13)	820	425
9	Trade to GDP Ratio (%) (2011-13)	54.2	33.8
10	WTO Accession	January 1st, 1995	January 1st, 1995
11	Contribution to WTO Budget (Percentage, 2014)	1.971	0.179

12	Share in World Total Exports		
	i) Merchandise Trade	1.66	0.13
	ii) Commercial Service Trade	3.25	0.07
13	Share in World Total Imports		
	i) Merchandise Trade	2.47	0.7
	ii) Commercial Service Trade	2.84	0.16
14	Rank in World Merchandise Trade (2013)		
	Exports	19	69
	Imports	12	57
15	Patent Grants by Patent Office, 2012	4328	312
16	Ease of doing business (Rank, 2013)	142nd	107th
17	Foreign Exchange Reserves in Billion. (US\$)	343(April 2015)	16 (Feb. 2015)
18	Major Trading Partners (2013)		
	Export Partner	European Union, USA, UAE & China	USA, China and UAE
	Import Partner	China, EU, S. Arabia & UAE	China, UAE & Kuwait

(Source: <http://stat.wto.org> and Economic Surveys of two respective countries)

3.1 Global Trade Profile of India and Pakistan

Trade openness provides opportunities for higher growth through increase in exports and makes available better quality products domestically at globally competitive prices (Economic Survey of India, 2014-15). In recent years, global trade has also increased from US \$10,955 billion in 1996 to US \$ 37,706 billion in 2013 with an increase of more than 3 times. Table 2 exhibits the latest trends of India and Pakistan's share in world merchandise trade. India's share in world exports, imports and total trade has increased from 0.61, 0.68 and 0.64 per cent in 1996 to 1.66, 2.46 and 2.06 per cent in 2013, respectively. Therefore during this period, India's share in global merchandise trade has also increased by more than three times on the pattern of world trade growth. In 2007, India's share in world exports crossed above 1 per cent after the decline to below 1 per cent in 1983. It is pertinent to mention that India's share in global trade was 2.1 per cent in 1951. India's progress in global trade is the outcome of better trade policy mix, association with RTB, enlargement of size of the economy, better growth rate, product diversification, introduction of economic reforms in 1991, increase in FDI, moderate transport cost and favorable WTO measures.

On the other hand, export from Pakistan has declined from 0.17 per cent in 1996 to meager 0.13 per cent in 2013, while imports as well as total trade with some marginal fluctuations are

more or less the same during this period. The main factors behind this decline or stagnancy in the share of Pakistan's global trade during this period are bleak economic performance, poor governance, domestic inflation, high tariff, lack of association with new RTB, poor trade policies etc. The share of these two respective economies in world trade can also be seen from the Figure 1(a) and 1(b). A perusal of the Figure 1(a) clearly depicts that share of India in world exports and imports are on increasing side, however the share of imports in world trade are higher than the exports under the study period whereas, Pakistan's share in world trade has become more or less constant after the shock of world economic slowdown in 2008, {Figure 1(b)}.

Table 2: Share of India and China in World Trade since 1995

(Percentage)

Year	India			China		
	Exports	Imports	Total Trade	Exports	Imports	Total Trade
1995	0.61	0.70	0.66	2.85	2.55	2.72
1996	0.65	0.75	0.70	2.95	2.67	2.81
1997	0.66	0.78	0.72	3.49	2.69	3.09
1998	0.64	0.80	0.72	3.55	2.67	3.11
1999	0.68	0.91	0.79	3.64	3.03	3.33
2000	0.66	0.81	0.73	3.91	3.44	3.67
2001	0.71	0.80	0.76	4.34	3.86	4.10
2002	0.78	0.87	0.83	5.08	4.51	4.79
2003	0.79	0.95	0.87	5.87	5.41	5.64
2004	0.83	1.06	0.95	6.53	6.03	6.28
2005	0.96	1.33	1.15	7.36	6.23	6.79
2006	1.01	1.46	1.23	8.09	6.48	7.28
2007	1.05	1.55	1.31	8.84	6.81	7.82
2008	1.13	1.94	1.54	8.93	6.98	7.95
2009	1.42	2.13	1.78	9.68	8.05	8.86
2010	1.45	2.31	1.88	10.44	9.21	9.83
2011	1.67	2.55	2.11	10.53	9.64	10.08
2012	1.60	2.69	2.15	11.33	10.03	10.68
2013	1.82	2.53	2.17	11.96	10.59	11.28
2014	1.68	2.46	2.07	12.45	10.52	11.49

(Source: Author' own Calculation Based on data given in UNCOMTRADE)

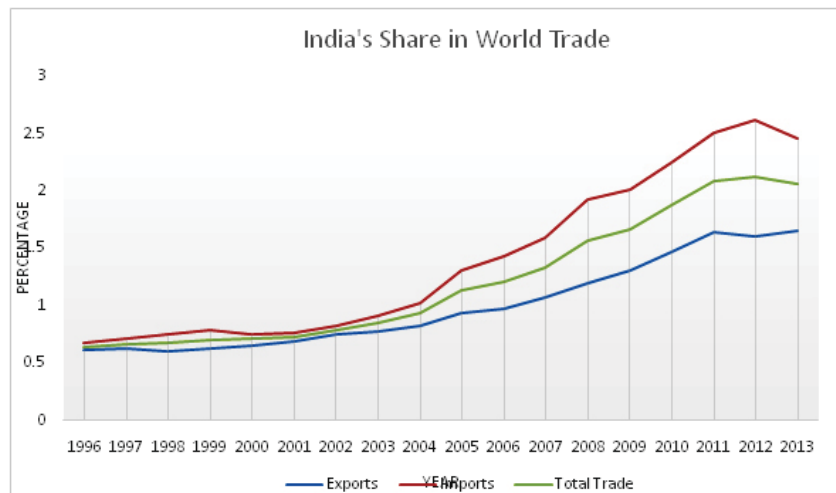


Figure 1(a)



Figure 1(b)

3.2 Bilateral Trade

Keeping in view the global trade profile of both the countries, the bilateral trade flow between the two are below the expected level despite the fact that there is a considerable potential to enhance the trade flow through trade diversification, better policy measures, improving business to business contact, improving trade investment & infrastructure scenario, reducing information gap etc. Table 3 shows the percentage share of India’s merchandise exports to Pakistan. This has substantially decreased from 0.47 in 1996-97 to a low level of 0.25 in 1999-00 due to the incident of Kargil war (May, 1999) and then reached at the peak

level of 1.19 in 2007-08 following a good deal of business communication of previous NDA Government. However, it has further started declining during the subsequent years and reached at the level of 0.72 in 2013-14. However, in respect of merchandise imports, the picture is not satisfactory. During 1996-97 to 2013-14, the share ranged from 0.09 to 0.17 per cent except in 1998-99 when it peaked to 0.50 per cent. The average share of exports and imports has worked out to be 0.60 and 0.12 per cent respectively.

Similarly, it is also clear from Table 3 that the share of Pakistan's exports with India has reached up to a maximum of 2.23 per cent in 1998-99 before the incidence of Kargil War (1999) from a level of 0.43 percent in 1996-97, but after that it has further slipped to a level of below 1.0 per cent during 1999-2000 to 2003-04. During 2004-05, it has further improved and touched the level of 2.0 per cent in 2004-05 and 2006-07 and then again has come down to a range of 1.06 to 1.78 per cent. On import side, the share was at low ebb in 1999-00 (1.23 per cent) and highest in 2012-13 (4.49 per cent). The average share of exports and imports with India has worked out to be 1.23 and 2.74 per cent respectively. Political differences, inadequate transport routes, weak transport infrastructure, cumbersome custom procedures, multiple rules & regulations, diverse array of certifying agencies, financial bottlenecks due to non-functioning of their banks on each other's territories, prolonged & costly trade transaction time, disappointing trade policies of consular officials on both sides regarding cross border trade etc. are the major factors behind the slow growth of bilateral trade flows. A bird's eye view can also be taken from Figure 2 (a) and 2 (b) which clearly indicates the growing gap in exports and imports.

Further, the computed values of average share of exports and imports of Pakistan with India (1.23 & 2.74 percent) are higher than India's average share with Pakistan (0.60 & 0.12 percent). Therefore, it can be stated that India occupies importance in Pakistan's economy with respect to trade, while Pakistan has little importance in the vast- sized economy of India during the period under review.

Table 3: Importance of Bilateral Trade between India and Pakistan

(Percentage)

Year	India's merchandise Exports and Imports with Pakistan		Pakistan's Merchandise Exports and Imports with India	
	Percentage share in Total Exports	Percentage share in Total Imports	Percentage share in Total Exports	Percentage share in Total Imports
1996-97	0.47	0.09	0.43	1.71
1997-98	0.41	0.11	1.04	1.52
1998-99	0.32	0.50	2.23	1.54
1999-00	0.25	0.14	0.62	1.23
2000-01	0.42	0.13	0.60	2.22

2001-02	0.33	0.13	0.53	1.80
2002-03	0.39	0.07	0.63	1.36
2003-04	0.45	0.07	0.76	2.45
2004-05	0.62	0.08	2.00	2.65
2005-06	0.67	0.12	1.78	2.80
2006-07	1.07	0.17	2.02	4.04
2007-08	1.19	0.11	1.32	4.25
2008-09	0.77	0.12	1.75	3.43
2009-10	0.88	0.09	1.39	3.53
2010-11	0.81	0.09	1.06	4.31
2011-12	0.50	0.08	1.43	3.36
2012-13	0.69	0.11	1.33	4.49
2013-14	0.72	0.09	-	-
2014-15 (April-Sep.)	0.57	0.11	-	-
Average Share	0.60	0.12	1.23	2.74

(Source: Author's own Calculation based on data given in Export Import Data Bank, Ministry of Commerce, Government of India, Economic Survey of Pakistan, 2013-14)



Figure 2(a)



Figure 2(b)

3.3 Analysis of India’s Trade Intensity and Reciprocity with Pakistan

Trade Intensity Index (TII) was pioneered by Brown (1949) and developed by Kojhima (1964). These indices indicate relative strength or resistance to bilateral trade flow, which is explained by the nature and importance of various factors like protectionism, transportation costs, imperfect information about foreign markets etc. (Kojhima, 1964; Wadhva & Asher, 1985; Garnaut & Drysdale 1994;, and Bano; 2002). TII is very useful in measuring bilateral trade relationship without any bias resulting from the comparative size of trading partners. The examination of trade intensity analysis tells us that exports from economically large country to a smaller one are high (or low) not because of their dominant size but because resistances between them are relatively low (or high). In order to explore the bilateral trade relationship between India and Pakistan, whether it is strengthening or weakening, we have computed export and import intensity indices with the help of following methods:

$$XII_p = \frac{X_p}{X_i} \bigg/ \frac{M_p}{M_w - M_i}$$

For India,

Where XII_{ip} = Export Intensity Index

X_{ip} = Country India’s (I) Exports to Pakistan (P)

- X_i = Country India's (I) Exports to world (w)
- M_p = Pakistan's (P) Imports from the world (w)
- M_w = Total world imports
- M_i = Country India's (I) imports from the world (w)

$$XII_{ip} = \frac{\frac{X_{ip}}{X_i}}{\frac{M_p}{M_w - M_i}}$$

Where

- III_{ip} = Import Intensity Index
- M_{ip} = Country India's (I) imports from Pakistan (P)
- M_i = Country India's (I) imports from the world (w)
- X_p = Pakistan's (P) exports to the world (w)
- X_w = Total world exports
- X_i = Country India's (I) exports to the world (w)

For Pakistan,

$$III_{ip} = \frac{\frac{M_{ip}}{M_i}}{\frac{X_p}{X_w - X_i}}$$

- Where XII_{pi} = Export Intensity Index
- X_{pi} = Country Pakistan's (P) Exports to India (I)
- X_p = Country Pakistan's (P) Exports to world (w)
- M_i = India's (I) Imports from the world (w)
- M_w = Total world imports
- M_p = Country Pakistan's (p) imports from the world (w)

$$III_{pi} = \frac{\frac{M_{pi}}{M_p}}{\frac{X_i}{X_w - X_p}}$$

Where

III_{pi}	= import Intensity Index
M_{pi}	= Country Pakistan's (P) imports from India (I)
M_p	= Country Pakistan's (P) imports from the world (w)
X_i	=India's (I) exports to the world (w)
X_w	=Total world exports
X_p	= Country Pakistan's (P) exports to the world (w)

A trade intensity index greater than one indicates that a country is exporting more to its partner than would be expected by its share in world trade, while a value of trade intensity less than one indicates the opposite. It also indicates that there is higher degree of trade intensity between two countries if the index value is greater than unity. In contrast, if the index takes the value closer to zero, it exhibits lower trade relations.

Similarly, trade reciprocity tells us about mutual changes in trade policy which bring about changes in the volume of each country's imports that are of equal value to changes in the volume of its exports (Bano S., 2014). For the present investigation, trade reciprocity is measured using the following formula developed by Wadhva and Asher (1985) to measure reciprocity in the overall balance of trade between any two trade partner countries:

$$\beta = 1 - \frac{\sum_{p=1}^n \left[\frac{|a_{ip} - a_{pi}|}{(a_{ip} + a_{pi})} \cdot \sum_{i=1}^n a_{ip} \right]}{(n-1) \sum_{i=1}^n \sum_{p=1}^n a_p}$$

Where:

a_{ip}	= exports of country i (India) to partner p (Pakistan)
a_{pi}	= exports of country p (Pakistan) to partner i (India)
n	= total number of countries involved in the context of the bilateral or regional trade
β	= the trade reciprocity index (TRI).

The value of this index always lies between 0 and 1. When there is perfectly balanced two-way trade between the trading partners, the value of this index reaches its maximum (unity). However, if there is only one-way flow of trade between the trading partners, the value of the index is at its minimum (zero). In this way the index is very useful to measure the degree of trade reciprocity (Wadhva and Asher 1985). Wadhva and Asher's equation for measuring trade reciprocity can be modified for two countries as follows.

$$\beta = 1 - \frac{\sum_{p=1}^n \left[\frac{|a_{i p} - a_{p i}|}{(a_{i p} - a_{p i})} \cdot \sum_{i=1}^n a_{i p} \right]}{(n-1) \sum_{i=1}^n \sum_{p=1}^n a_{i p}}$$

For two countries ($n=2$), it can be written as:

$$\beta = 1 - \frac{\sum_{j=1}^2 \frac{|a_{1j} - a_{j1}|}{(a_{1j} - a_{j1})} a_{1j} + \frac{|a_{2j} - a_{j2}|}{(a_{2j} - a_{j2})} a_{2j}}{(2-1) \left[\sum_{i=1}^2 \sum_{j=1}^2 a_{i j} \right]}$$

By further substitution, if 1 is represented by India and 2 is represented by Pakistan then,

$$\beta = 1 - \frac{\left[\frac{|a_{11} - a_{11}|}{(a_{11} - a_{11})} a_{11} + \frac{|a_{12} - a_{21}|}{(a_{12} - a_{21})} a_{12} + \frac{|a_{21} - a_{12}|}{(a_{21} - a_{12})} a_{21} + \frac{|a_{22} - a_{22}|}{(a_{22} - a_{22})} a_{22} \right]}{(2-1)(a_{11} + a_{12} + a_{21} + a_{22})}$$

Since a country cannot export to itself,

$$\beta = 1 - \frac{\left[0 + \frac{|a_{12} - a_{21}|}{(a_{12} - a_{21})} a_{12} + \frac{|a_{21} - a_{12}|}{(a_{21} - a_{12})} a_{21} + 0 \right]}{(2-1) (0 + a_{12} + a_{21} + 0)}$$

This modified method has been used in this study for estimation purposes.

The estimated values of trade intensities and reciprocities along with actual trade flows for the period 1996-97 to 2013-14 between India and Pakistan has been presented in Table 4. India's exports to Pakistan exhibits a relatively smooth and steady upward trend over the period under review except in 1999-00 when it reached to a minimum level of less than \$100 million due to the worsening political relations triggered by Kargil War(May, 1999). The

absolute value of the exports has increased from approximately \$ 157 million to over \$1000 million in 2006-07 and finally to a level of over \$2200 million in 2013-14 thus indicating a fourteen- fold increase during the period. This rapid increase in the exports may be attributed to the export growth story of India as well as to various economic arrangements.¹

Imports remained at a very low level in comparison with exports until 2004-05 (below \$100 million except 1998-99).But after the signing of SAFTA in 2004, it has been almost doubled in the next year and after that it has gained momentum to reach the level of about \$427 million in 2013-14, a twelve-fold jump. The analysis of exports and imports in terms of absolute value, therefore suggests that bilateral trade flow has increased during this period.

India's export and import intensities with Pakistan have been worked out with the help of WTO data and are represented in Table 4 and Figure 3(a), 3(b) and 3(c).It can be seen from the Table 4 that index value of export intensities of India with Pakistan throughout the period under study are greater than one. It is indicative of the fact that India has been over-represented (OR) in Pakistan's economy from export point of view. The index has taken the minimum value of 1.47 in 1999-00 and a maximum value of 4.45 in 2006-07. The results of Export Intensity Index (EII) indicating strong bilateral trade relationship with its neighboring country i.e. Pakistan. In terms of Import Intensity Index (III), India maintained index value to below unity barring 1998-99, 2006-07 & 2008-09 thereby indicating that Pakistan has been under-represented (UR) in India's trade market and trade relation seems to be weak .The index has minimum value of 0.41 in 2002-03, but subsequently, it starts to gain momentum and peaked to 1.30 in 2006-07. Again, it went down below one throughout the whole period ahead (except 2008-09). Overall results of III shows that India is importing relatively less from its trading partner than it ought to import given its importance in world trade. It is indeed surprising that India's imports are quite less from Pakistan, however it has granted MFN to Pakistan in 1996. Taking into account both EII and III, it can be said that export strength of India with Pakistan has increased, but entire trade relations are not satisfactory keeping in view the low value of III. It can also be supplemented with the computation of Trade Reciprocity Index (TRI) between India and Pakistan represented in Figure 3(c). A perusal of the Table shows that TRI is hovering around its minimum value that ranged between 0.23 in 2010-11 to 0.78 in 1997-98 but always very less from unity throughout the whole period under study. However, estimated values of TRI are moderate, avoiding extreme value of zero and one which indicates complete lack of trade reciprocity and perfectly balanced bilateral trade between the two economies.

It can be safely concluded that India is far behind the goal of perfect balanced trade with Pakistan under the review period. However, trade reciprocities and bilateral trade intensities bears positive relationship which signifies that with more economic integration over the period, trade reciprocities would tend to increase overtime and might result in a high degree of mutual gains from trade. But the correlation coefficient between EII and TRI has been found to be negative (0.55) and statistically significant at 0.05 level whereas it is positive (0.35) between TRI and III but non-significant. This entails that if India and Pakistan have to gain more from the bilateral trade, then both countries must be integrated economically in future.

**Table 4: Trade Intensity and Reciprocity of India with Pakistan over time
(1996-97 to 2013-14)**

Year	Exports (Million US \$)	Imports (Million US \$)	Trade Reciprocity	Export Intensity	Import Intensity
1996-97	157.22	36.16	0.38	2.09 (OR)	0.6 (UR)
1997-98	143.15	44.45	0.78	2.41 (OR)	0.73 (UR)
1998-99	106.10	214.45	0.76	1.93 (OR)	3.57 (OR)
1999-00	92.95	68.21	0.74	1.47 (OR)	0.93 (UR)
2000-01	186.83	64.03	0.46	2.62 (OR)	0.92 (UR)
2001-02	144.01	64.76	0.51	2.06 (OR)	0.92 (UR)
2002-03	206.16	44.85	0.51	2.16 (OR)	0.41 (UR)
2003-04	286.94	57.65	0.50	2.25 (OR)	0.43 (UR)
2004-05	521.05	94.97	0.72	2.95 (OR)	0.53 (UR)
2005-06	689.23	179.56	0.60	2.57 (OR)	0.80 (UR)
2006-07	1350.09	323.62	0.41	4.45 (OR)	1.30 (OR)
2007-08	1950.53	287.97	0.24	4.25 (OR)	0.84 (UR)
2008-09	1439.88	370.17	0.36	3.66 (OR)	1.09 (OR)
2009-10	1573.32	275.94	0.30	3.25 (OR)	0.6 (UR)
2010-11	2039.53	332.51	0.23	3.11 (OR)	0.56 (UR)
2011-12	1541.56	397.66	0.37	2.08 (OR)	0.61 (UR)
2012-13	2064.79	541.87	0.28	2.87 (OR)	0.84 (UR)
2013-14	2274.26	426.88	-	3.0 (OR)	0.69 (UR)

(Source: Author's own Calculation based on data given in <http://stat.wto.org>, Export Import Data Bank; Ministry of Commerce, Government of India and Economic Survey of Pakistan; 2012-13 and 2013-14.)

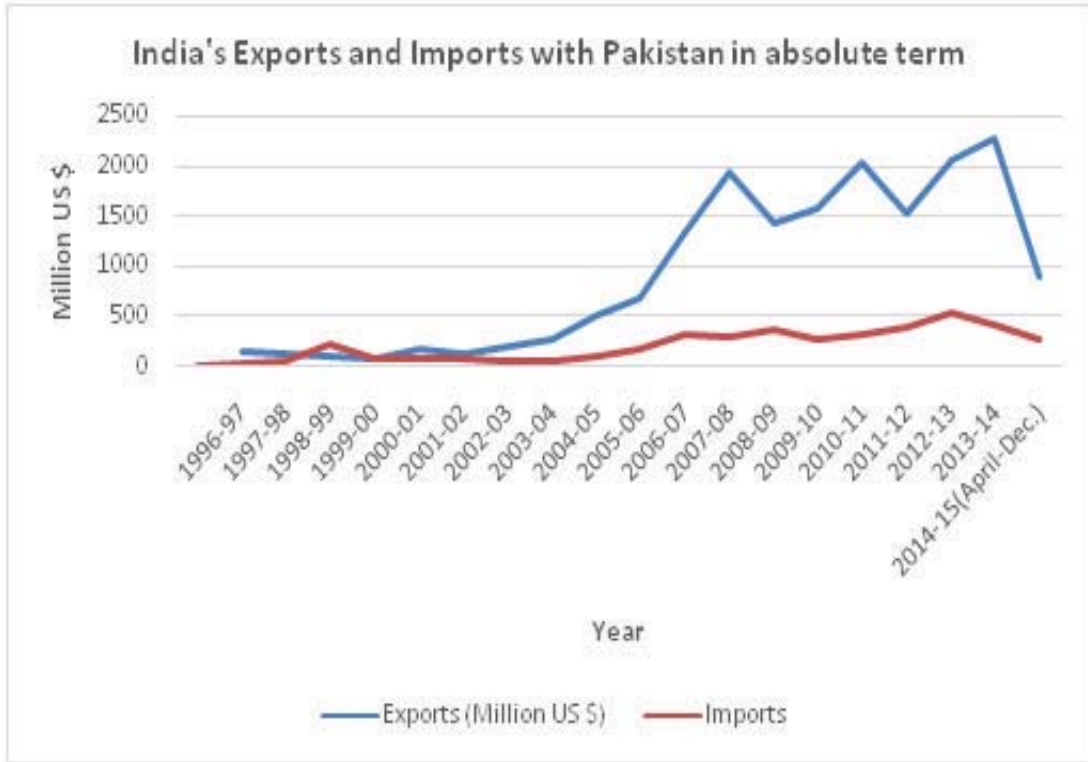


Figure 3(a)

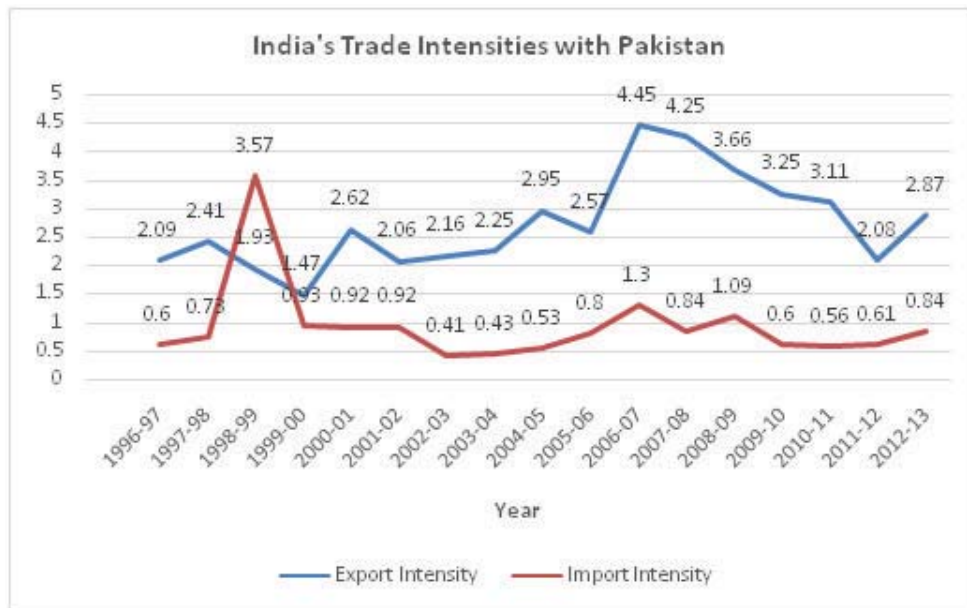


Figure 3 (b)

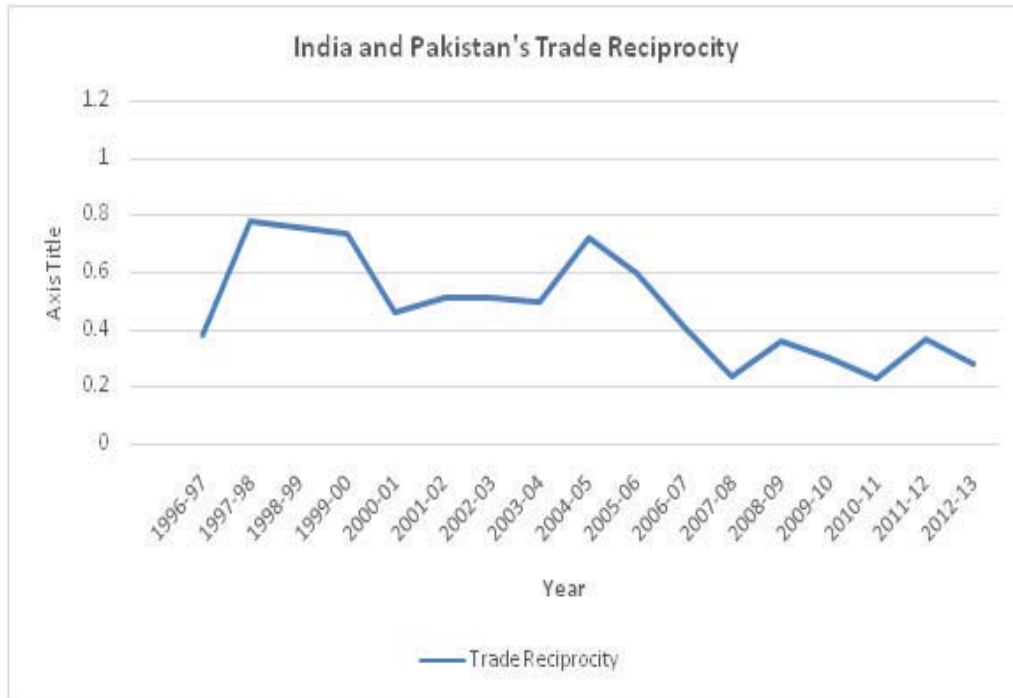


Figure 3(c)

3.4 Analysis of Pakistan's Trade Intensities and Related Parameters with India

The absolute value of exports, imports, trade reciprocity index, trade intensities of Pakistan with India are shown in Table 5. The value of exports has increased from \$36 million in 1996-97 to over \$100 million in 1998-99 and then again below this \$100 million mark for next five consecutive years. With ups and down, export has increased upto a level of \$ 340 million during the period between 2004 and 2012. Similarly, in terms of imports, the value has increased from \$ 127 million in 1999-00 to \$ 2021 million in 2012-13 indicating nearly sixteen fold increase in imports. There is an upward trend of imports with some minor fluctuations since 2006-07.

The study of export intensity points towards Pakistan's under representation in Indian market except few years (1997-98, 1998-99, and 2004-05 to 2006-07) whereas index of import intensity indicates strong representation in Indian trade market. The maximum value of EII has been computed at 3.01 in 1998-99 whereas it is found as low as 0.50 in 2012-13. However there is a greater scope for Pakistan to export more to India and enhance its own mutual gain from the trade. After 2006-07, EII are continuously below unity with minor fluctuations. All index values of III are greater than that of the entire period under study indicating that Pakistan is importing more from India. As far as Trade Reciprocity Index is concerned, it is same as in case of India and its implications has been explained above. Figure 4(a) and 4(b) also indicates similar results.

**Table 5: Trade Intensity and Reciprocity of Pakistan with India over time
(1996-97 to 2012-13)**

Year	Exports (Million US \$)	Imports (Million US \$)	Trade Reciprocity	Export Intensity	Import Intensity
1996-97	36.21	204.66	0.38	0.61 (UR)	2.80 (OR)
1997-98	90.57	154.54	0.78	1.44 (OR)	2.45(OR)
1998-99	174.10	143.95	0.76	3.01 (OR)	2.56 (OR)
1999-00	54.34	127.39	0.74	0.73 (UR)	1.92 (OR)
2000-01	55.55	238.37	0.46	0.80 (UR)	3.21 (OR)
2001-02	49.28	186.76	0.51	0.67 (UR)	2.57 (OR)
2002-03	70.47	166.47	0.51	0.69 (UR)	1.67(OR)
2003-04	93.76	382.21	0.50	0.76 (UR)	2.91 (OR)
2004-05	288.55	547.39	0.72	1.72 (OR)	2.94 (OR)
2005-06	293.35	803.20	0.60	1.29 (OR)	2.85 (OR)
2006-07	343.14	1235.98	0.41	1.35 (OR)	3.96 (OR)
2007-08	254.31	1708.85	0.24	0.75 (UR)	3.66 (OR)
2008-09	310.23	1190.86	0.36	0.95 (UR)	3.00 (OR)
2009-10	268.36	1227.58	0.30	0.61 (UR)	2.48 (OR)
2010-11	264.35	1743.23	0.23	0.44 (UR)	2.64 (OR)
2011-12	339.53	1510.68	0.37	0.53 (UR)	2.01 (OR)
2012-13	327.75	2021.29	0.28	0.50 (UR)	2.75 (OR)

(Source: Author's own Calculation based on data given in <http://stat.wto.org>, Export Import Data Bank; Government of India and Economic Survey of Pakistan for the year 2012-13 & 2013-14.)²



Figure 4 (a)

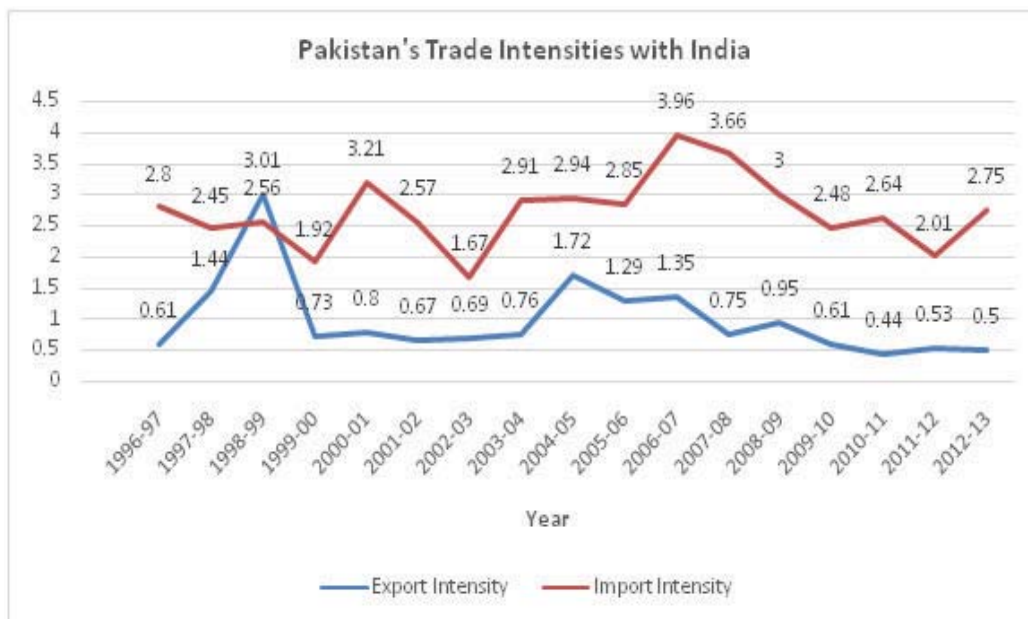


Figure 4 (b)

3.5 India and Revealed Comparative Advantage (RCA)

Generally, countries export those items in which they have comparative advantages and import those commodities in which comparative advantages are relatively low. Balasa (1967) developed the formula for RCA. He states that a country's comparative advantage in a particular industry or commodity is reflected by its export performance in the world market. It is calculated as under:

$$RCA_{zi} = \frac{\frac{X_{zi}}{X_{ti}}}{\frac{X_{zw}}{X_{tw}}}$$

Where:

RCA_{zi} = Revealed Comparative Advantage of India (i) with respect to z commodity

X_{zi} = Value of exports of India with respect to z commodity

X_{ti} = value of India's total exports

X_{zw} = value of world's exports with respect to commodity z

X_{tw} = value of world's total exports

Table 6: Revealed Comparative Advantage (RCA) Index Value of Top Ten Export Commodities for India during 2011-13

S.N.	SITC* Commodity (code)	HS Code	2011	2012	2013
1	Petroleum oils other than crude (334)	2710	3.6	3.6	4.0
2	Diamonds whether or not worked but not mounted or set (667)	7102	11.11	8.75	8.88
3	Articles of Jewelry and parts thereof, of precious metal (897)	7113	6.66	8.57	4.28
4	Medicaments (excluding goods of heading 30.02,30.05 or 30.06 (542)	3004	2.5	3.75	3.33
5	Commodities not specified according to kind (931)	9999	1.33	0.26	-
6	Rice (042)	1006	10	20	20
7	Motor cars and other motor vehicles principally designed for transports (781)	8703	0.33	0.33	0.33
8	Electrical apparatus for the telephony or line telegraphy (764)	8517	0.50	0.33	0.33
9	Cotton, not carded or combed (263)	5201	10	10	10
10	Vegetables , saps & extracts and substances(292)	1302	3.5	10	4

(Source: Author's own Calculation based on data given in comtrade.un. org)

* SITC stands for Standard International Trade Classification.

If the value of this index comes out greater than unity, it signifies that the country has definite comparative advantage in the production of that particular commodity. At the same time, if it turns out to be less than unity, then it indicates that share of commodity z in a particular country's exports is less than the corresponding share of that product in total world exports which in turn reflects revealed comparative disadvantage in the production of that commodity. We have computed the RCA value of top ten export commodities for India during 2011-13 and the results obtained are presented in the Table 6. India possesses strong RCA in most of the SITC commodities with a value of more than 3 except SITC code 931,781 and 764 where the index value is less than unity. In case of Rice (042) commodity, RCA is very high in 2013 with a maximum value of 20.

3.6 Pakistan and Revealed Comparative Advantage

For Pakistan, the index value of RCA for top ten commodities during 2011-13 has also been worked out and is presented in Table-7. Pakistan has shown stronger Revealed Comparative Advantages (RCA) in most of the commodities with a maximum RCA value of 80 in case of Rice (042) followed by woven fabrics of cotton (652) with RCA value of 70, bed linens (658) with index value of about 37 and cotton yarn (651) having RCA value of 27 during 2013. Pakistan has lower revealed comparative disadvantage only in case of petroleum oils (334) with a value of 0.4 in 2013.

From the aforesaid analysis, it can be safely concluded that export structures of both the countries are diverse and different from each other except Rice (042) which indicates that both nations can gain more from trade if they specialize in their respective areas of production with more economic integration in near future. Exporters of India can also take advantage by examining the RCA of such products which are not yet exported to Pakistan and vice versa.

Table 7: Revealed Comparative Advantage (RCA) Index Value of Top Ten Export Commodities for Pakistan during 2011-13

S.N.	SITC Commodity (code)	HS Code	2011	2012	2013
1	Bed linen, table linen, toilet linen and kitchen linen (658)	6302	55	50	36.66
2	Cotton yarn (other than sewing thread) containing 85 % or more (651)	5205	23.33	26.66	26.66
3	Rice (042)	1006	80	70	80
4	Woven fabrics of cotton, containing 85 % or more by weights of cotton (652)	5208 5209	60	70	70
5	Men's or boy's suit ensembles, Jackets, blazers, trousers etc. (841)	6203	7.5	10	7.5
6	Articles of Jewelry and parts thereof, of precious metal (897)	7113	1.66	8.57	1.42
7	Petroleum oils other than crude (334)	2710	1	0.2	0.4
8	Articles of Apparel and clothing accessories of leather(848)	4203	20	20	20
9	Women's or girls' suits ,ensembles, jackets, blazers, dresses, skirts etc. (842)	6204	5	5	5

(Source: Author's own Calculation based on data given in comtrade.un.org)

RCA of SITC 652 has been determined jointly, however this commodity has been classified under two heads in HS -2007 classification.

3.7 Analysis of Intra Industry Trade between India and Pakistan

In this section, we will examine India's Intra Industry Trade with Pakistan for the year 2014 using UN Standard International Trade Classification (SITC Revision-3) at all 3 –digit level for all industries. Intra Industry Trade (IIT) takes place if there are simultaneous exports and imports of goods within same industry. For the present study, we have used Grubel Lloyd Index to examine the intra industry trade due to its wide acceptance. However it is associated with certain biases created through trade imbalance at multilateral level (Grubel and Lloyd, 1975). The attempts of Helpman, E. (1987) to modify the Grubel Lloyd Index are however, not appropriate because the nature of trade bias is unknown. With the help of Grubel Lloyd Index, bilateral IIT index in commodity z of country India (i) to country Pakistan (p) at a given SITC level can be calculated as:

$$IIT_{ipz} = \frac{\sum (X_{ipz} + M_{ipz}) - \sum |(X_{ipz} - M_{ipz})|}{\sum (X_{ipz} + M_{ipz})} \times 100$$

Where,

IIT_{ipz} = Intra Industry Index of India (i) with Pakistan (p) of commodity z

X_{ipz} = Exports of India (i) to Pakistan (p) of commodity z

M_{ipz} = India's (i) Imports from Pakistan of commodity z

The index takes the value zero when there is complete absence of either of the exports or imports and 100 when exports and imports are equal whatever be the level and flow of the trade. Bilateral trade is treated as unidirectional if index takes low value thereby reflecting trade as either export- oriented or primarily import- focused. If India and Pakistan has to take advantage from trade, then it is the need of the hour to strengthen economic ties both at production and marketing level among the companies of both sides. In order to know the current scenario of entrepreneurial status on both sides, the study of IIT is of paramount importance.

Table 8 depicts the value of Grubel Lloyd Index and its associated parameters at the 3-digit level (SITC Revision 3 in 2014). These IIT values are very important to know the potential for further investment. The companies involved in the production and exports of these commodities may be benefitted by setting up joint ventures (JV_s) with those companies which are the major importers (Pakistan) of the same. There is a greater possibility for Pakistan to set-up joint ventures (JV_s) in Pakistan in the production of those products which occupy more index value. There are 15 products out of total 110 matched products where joint ventures can be set-up due to the high index value of at least 75. These products include: coffee and related products (071), oilseeds(222), inorganic chemical(522), Metals & salt(523), Polycarbonate (574), Fabric woven (654), Textile articles (658), Electro X-Ray (774), Electric Machines (778), Parts of Tractors(784), Lighting (813), Trunk and suitcase(831), women knit clothing(844), clothing non textile(848), Footwear(851). Thus, both countries could set up or forge joint production

& marketing strategy (or vice versa) in those commodities which have the potential of joint ventures. This will enhance India – Pakistan trade.

**Table 8: Intra Industry Trade of India (699) with Pakistan (586)
at the All- 3 digit level, SITC Rev. 3 Commodities (2014)**

SI TC	Commodity	Exports	Imports	Total Trade	Trade Balance	Grubel-Lloyd Index
		(X _i) (000' US\$)	(M _i) (000' US\$)	(X _i + M _i) (000' US\$)	(X _i -M _i) (000' US\$)	(IIT _i)
48	Cereal ...	2,489.7	0.739	2,490.439	2,488.961	0.05
54	Vegetables	196,728.2	4,149.6	200,877.8	192,578.6	4.13
56	Vegetables...	2,519.9	38.2	2,558.1	2,481.7	2.98
57	Fruits, nuts...	37,120.8	109,660.4	146,781.2	(-72,539.6)	50.57
58	Fruits preserved	971.2	35.6	1,006.8	935.6	7.08
61	Sugar, molasses	2,674.1	8.8	2,682.9	2,665.3	0.65
71	Coffee...	19.7	15.4	35.1	4.3	87.74
74	Tea & mate	22,809	5.1	22,814.1	22,803.9	0.04
75	Spices	56,905.9	1,643	58,548.9	55,262.9	5.61
98	Edible product....	3,624.8	180.8	3,805.6	3,444	9.50
0	Total	325,863.3	115,737.64	441,600.94	210,125.66	52.41
1		-	-	-	-	-
222	Oilseeds...	27,256.1	17,455.3	44,711.4	9,800.8	78.07
223	Oilseeds (other)	2,320.6	489.9	2,810.5	1,830.7	34.86
232	Synthetic rubber etc.	10,413.4	3,926	14,339.4	6,487.4	54.75
263	cotton	259,321.8	33,981.1	293,302.9	225,340.7	23.17
267	Other manmade fiber	33,079	10.3	33,089.3	33,068.7	0.06
269	Worn clothing....	529.1	5,016.3	5,545.4	(-) 4,487.2	19.08
273	Stone, sand...	182.8	20,538.4	20,721.2	(-)20,355.6	1.76
274	Sulphur....	17.3	102.4	119.7	(-) 85.1	28.90
278	Other crude	965.3	2,539.7	3,505	(-)1,574.4	55.08
285	Aluminums ore.	95.3	7,698.4	7,793.7	(-)7,603.1	2.44
287	Ore, base metal	1,056	397.6	1,453.6	658.4	54.70
288	Non Ferro's ...	2.8	4,105.2	4,108	(-)4,102.4	11.67

292	Crude veg. material.....	40,059.7	2,642.5	42,702.2	37,417.2	12.37
2	Total	375,299.2	98,903.1	474,202.3	276,396.1	41.71
325	Coke, semi coke	9,257.5	1,326.7	10,584.4	7,930.6	25.07
334	Petroleum prod.	21,948.3	114,598.5	136,548.8	(-)92,650.2	32.14
3	Total	31,205.8	115,925.4	147,131.2	(-)84,719.6	42.41
4		-	-	-	-	-
511	Hydrocarbons	136,185.6	8,445.4	144,631	127,740.2	11.67
512	Alcohols....	8,133.2	2,341.5	10,474.7	5,791.7	44.70
513	Carboxylic acid	10,944.8	425.8	11370.6	10,519	7.48
514	Nitrogen Funct..	12,787	57.1	1,335.8	1,221.6	8.54
516	Other organic chemical	34,228	3.9	34,231.9	34,224.1	0.02
522	Inorganic chemical	6,730	4,065.8	10,795.8	2,664.2	75.32
523	Metals, salt...	9,702.7	9,616.7	19,319.4	86	99.55
524	Other chemical compounds	311.2	2,671.7	2,982.9	(-)2,360.5	20.86
531	Synthetic colours....	85,199.4	270.7	85,470.1	84,928.7	0.63
532	Dyeing.....	7,370.7	10.3	7,381	7,360.4	0.27
533	Pigments.....	2,873.3	4.3	2,877.5	2,868.9	0.29
541	Medicines etc.	38,724.5	6.1	38,730.6	38,718.4	0.03
542	medicaments	24,439.8	0.305	24,440.105	24,439.495	0.24
553	Perfumery.....	14,580	38.8	14,618.5	14,541.2	0.52
554	Shop, cleaners...	12,028.5	11.5	12,040	12017	0.10
572	Polymers.....	497.3	197.6	694.9	299.7	56.87
573	Polymers, vinyl	84	14,461.3	14,545.3	(-)14,377.3	1.15
574	Polycarbonate	1,104	795.1	1,899.1	308.9	83.73
575	Plastic.....	122,893.6	591.8	123,484.4	122,301.8	9.54
581	Plastic tube	161.6	0.032	161.632	161.568	0.03
582	Plastic plate....	844.4	254.5	1098.9	589.9	46.31
592	Starches inulin	1,929.1	6.6	1,935.7	1,922.5	0.68
598	Misc. chemical	38,799.8	157.5	38,957.3	38,642.3	0.80
5	Total	560,552.4	44,434.337	604,986.637	516,118.063	14.68
611	leather	1,547.2	31,779.9	33,347.1	(-)30,252.7	9.27
625	Rubber tyres...	38,560.5	0.357	38,560.857	38,560.15	0.001

629	Articles of rubber.....	1,887.7	0.55	1,888.25	1,887.15	0.005
635	Wood manuf.....	11.8	82.3	94.1	(-)70.5	25.07
641	Paper & paper board	344.8	5.1	349.9	339.7	2.91
642	Paper.....	499.5	8.6	508.1	490.9	3.38
651	Textile yarn...	131,723.6	575.7	132,299.3	131,147.9	0.86
652	Cotton fabrics	5,430	23,227.2	28,657.2	(-)17,797.2	37.89
653	Fabrics.....	124,112.6	968.5	125,081.1	123,144.1	1.54
654	Fabric woven	108.3	130.5	238.8	(-)22.2	90.70
655	Knit, crochet....	11	732.2	743.2	(-)721.2	2.96
656	Tulle, lace.....	5,349	133.8	5,482.8	5,215.2	4.88
657	Special yarn...	3,243.7	273.3	3,517	2,970.4	15.54
658	Textile articles...	666.7	1083	1749.7	(-)416.3	76.20
659	Floor covering...	23.6	278	301.6	(-)254.4	15.64
661	Lime, cement...	7,551	47,151.2	54,702.2	(-)39,600.2	27.60
662	Clay.....	869.6	0.057	869.657	869.55	0.01
663	Minerals.....	1,396.6	670.8	2,067.4	725.8	64.89
664	Glass	643.1	17,554.7	18,197.8	(-)16911.6	7.06
665	Glassware	563.2	2.6	565.8	560.6	0.91
682	copper	3,624.9	0.156	3,625.056	3,624.744	0.86
686	Zinc	10,178.7	103.1	10,281.8	10,075.6	2.0
691	Metallic structure.....	11.4	2.3	13.7	9.1	33.57
692	Containers.....	487.1	1.7	488.8	485.4	0.69
694	Nails, screws....	7.8	0.685	8.485	7.115	16.14
695	Tools	1,610	26.6	1,636.6	1,583.4	3.25
696	cutlery	56.6	167.7	224.3	(-)111.1	50.46
697	Household equipment etc.	288	0.824	288.824	287.176	0.57
699	Base metal....	2,625.5	251.2	2,876.7	2,374.3	17.46
6	Total	343,433.5	125,212.629	468,646.129	218,220.871	53.43
716	Electric plant	2,620.9	0.309	2,621.209	2,620.86	0.023
721	Agri. Machines...	3,007	26.8	3,033.8	2,980.2	1.76
723	Civil engineering Equipment	968.7	316.6	1,285.3	652.1	49.26
724	Textile machine	15,794.4	81.2	15,875.6	15,713.2	1.02

726	Printing	297.8	0.23	298.03	297.57	0.15
742	Pumps...	282.5	53.4	335.9	229.1	31.79
745	Non electric.....	2,881	15.4	2,896.4	2,865.6	1.06
752	Automatic data.	115	10.6	125.6	104.6	16.87
772	Electric switch	816.8	1.8	818.8	815	0.39
774	Electro X-ray...	207.5	8.6	216.1	198.9	79.59
776	Transistor valve	16.3	0.027	16.32	16.28	0.33
778	Electric machine	338.5	224.4	562.9	114.1	79.72
784	Parts tractors...	88.4	78.5	166.9	9.9	94.06
7	Total	27,434.8	817.868	28,252.668	26,616.932	5.78
813	Lighting....	18.4	16.6	35	1.8	94.85
821	Furniture...	50.1	96.5	146.6	(-)46.4	68.34
831	Trunk, suitcase	28.1	37.1	65.2	(-)9	86.19
841	Men clothing	88	954.3	1,042.3	(-)866.3	16.88
842	Women clothing	172.8	520.7	693.5	(-)347.9	49.83
843	Men knit clothing	13.6	248	261.6	(-)234.4	10.39
844	Women knit clothing	97.1	70.6	167.7	26.5	84.19
845	Other textile...	270.6	660.9	931.5	(-)390.3	58.09
846	Clothing ace.....	130.6	861.6	992.2	(-)731	26.32
848	Clothing non textile	232.9	283.6	516.5	(-)50.7	90.18
851	footwear	231.7	151.2	382.9	80.5	78.97
872	Medical instru...	3,071	6,941.6	10,012.6	(-)3870.6	61.34
874	Measure instru..	1,781.1	352.4	2,133.5	1,428.7	33.03
892	Printed matter	5,555.6	267.8	5,823.4	5,287.8	9.19
893	Articles of plastic	2,924.2	634.6	3,558.8	2,289.6	17.83
894	Baby toys....	790.8	1,672.8	2,463.6	(-)882	64.19
896	Antique works	108.1	519.8	627.9	(-)411.7	34.43
897	Gold ,silver etc.	24,725.3	107.3	24,832.6	24,618	0.86
899	Misc. manu.. goods	9,381.1	55.5	9,436.2	9,325.5	0.58
8	Total	49,671.1	14,452.9	64,124	35,218.2	45.07
931	Specific transactions not classified	5,758.4	20.2	5,778.6	5,738.2	0.69
9	Total	5,758.4	20.2	5,778.6	5,738.2	0.69

(Source: Author's own Calculation based on data given in comtrade.un.org/)

3.8 Trade Potential between India and Pakistan

There is no such thing as free trade that can provide maximum mutual benefit for trading countries if there does not exist considerable trade potential between them. It is crucial to examine whether there is any considerable trade potential between India and Pakistan. It can be worked out by matching the export supply of a particular product of a country with the import demand for that product of a trading partner. An estimate can be obtained regarding trade expansion under most competitive conditions after subtracting existing trade (World Bank, 2008). Trade potential of a given product can be calculated as:

$$\text{Trade Potential of a product} = [\{\text{Minimum } X_i \text{ or } M_p\} - EX_{ip}]$$

Where:

X_i = India's total world exports of a given product

M_p =Pakistan's total world imports of a given product

EX_{ip} = Existing bilateral exports from India to Pakistan of a given product

Trade potential between India and Pakistan using SITC Rev. 3 to 1-digit level is reported in Table 9 for the year 2014. It can be seen from the Table 9 that there are enough opportunities to enhance bilateral trade given the low volume of trade that currently exists. The biggest opportunity is in the field of Mineral, fuels, lubricants & related Materials (3) with 33.8 per cent followed by machinery & transport (7) having 21.66 per cent share, chemicals & related products (5) having 15.39 per cent share, manufactured goods (6) with 11.84 per cent and crude materials & inedible except food (2) having 7.49 per cent share in total trade potential of \$ 43,755,897,000. India also possess revealed comparative advantage in the production of most of the commodities that lies under SITC 5,6 and 7 making India in a win- win position by enhancing the bilateral trade in respect of these commodities.

**Table 9: Trade Potential between India and Pakistan by commodity classification
(SITC Revision 3 and 1- Digit level), 2014**

(000' US \$)

SITC CODE (I Digit)	SITC Code Classification	India's World Export	Pakistan's world Imports	India's Exports to Pakistan	Trade Potential
0	Food & Live Animals	31,969,384 (10.06)	2,682,385 (5.64)	325,863.3 (18.95)	2,356,521.7 (5.38)
1	Beverages & Tobacco	1,188,777.6 (0.37)	26552.6 (0.05)	-	26,552.6 (0.06)
2	Crude Materials, inedible except fuels	12,772,874.1 (4.02)	3,653,682.1 (7.68)	375,299.2 (21.82)	3,278,382.9 (7.49)
3	Mineral fuels, lubricants & related Materials	62,346,952.8 (19.63)	14,821,664.9 (31.17)	31,205.8 (1.81)	14,790,459.1 (33.80)

4	Animal & vegetable oils, fats and vexes	100,811.4 (0.03)	2,170,579.1 (4.56)	-	100,811.4 (0.23)
5	Chemicals and related products	37,117,701 (11.68)	7,295,086.4 (15.34)	560,552.4 (32.60)	6,734,534 (15.39)
6	Manufactured goods	76,837,464.6 (24.19)	5,525,403.6 (11.62)	343,433.5 (19.97)	5,181,970.1 (11.84)
7	Machinery & Transport equipment	48,578,926.8 (15.29)	9,508,609.2 (19.99)	27,434.8 (1.59)	9,481,174.4 (21.66)
8	Misc. manufactured articles	42,297,283.7 (13.32)	1,826,498.8 (3.84)	49,671.1 (2.88)	1,776,827.7 (4.06)
9	Commodities and transactions not classified elsewhere in the SITC	3,427,175.7 (1.07)	34,426.7 (0.07)	5,758.4 (0.33)	28,668.3 (0.06)
Total	All Commodities	317,544,642.2 (100.0)	47,544,888.9 (100.0)	1,719,218.5 (100.0)	43,755,897.2 (100.0)

(Figures in the parentheses denotes percentages from their respective column total
(Source: Author's own Calculation based on data given in comtrade. un. org)

Surprisingly, In terms of Mineral, fuels, lubricants & related Materials (3), the share of Pakistan in total imports is 31.8 per cent and India has second highest share of these items in export basket after manufactured goods in India's total world exports. India's export to Pakistan is much less at 1.18 per cent in total exports. It may be a golden opportunity for India to improve marketing strategy in respect of this item in Pakistan through negotiations, economic ties, cooperation and treaties. At current level, chemical and related products (5) is the biggest item of exports to Pakistan followed by Crude Materials, inedible except fuels (2), manufactured goods (6) and food & live animals (0).

IV. Conclusion And Policy Implication

India and Pakistan are two most populous and largest economies of the South Asian Region. But official bilateral trade accounts for only less than one per cent of India's global trade. Their rapprochement has the potential to change the geopolitical dynamics of India. Enhanced bilateral relations would ensure cheaper raw material, low transportation and insurance cost which would turn into quality goods at competitive prices for both nations. While businessman will have access to wider market in its neighborhood, consumer would gain through lower prices of the goods, higher purchasing power and greater choice of traded commodities. The government would also gain by bringing informal trade into a formal one thereby ultimately creating a win- win situation for everyone. It is pertinent to analyse the bilateral trade relationship between the two nations to decipher the possible roadmap towards a deeper economic ties.

The present study indicates that India accounts for nearly 1.20 per cent share in global trade while Pakistan's share amounts to just 0.20 per cent. Similarly, the study of importance of bilateral trade in each other's economy exhibits that India has more importance in Pakistan's economy with respect to overall trade and on the other hand, Pakistan has little importance in the vast sized economy of India during the period under review. The results of Export Intensity Index (EII) indicates strong bilateral trade relationship with its neighboring country i.e. Pakistan, however, in terms of Import Intensity Index (III), India maintained index value to below unity for many years thereby indicating that Pakistan has been under-represented (UR) in India's trade market and trade relation seems to be unsatisfactory, thus making overall trade relation very weak. India is far behind the goal of perfect balanced trade with Pakistan under the review period as revealed by the measurement of trade reciprocity index. Similarly, Revealed Comparative Advantage (RCA) analysis shows that both countries are enjoying comparative advantages in their respective exportable items in recent years. Intra Industry Index of many commodities of India also shows a high degree (at least 0.70) at the SITC 3 digit level indicating feasibility of setting up of joint ventures in the production and marketing of these items. The analysis of trade potential highlights that there are enough opportunities to enhance bilateral trade given the low volume of trade that currently exists.

After evaluation of the results of present study, the paper makes certain recommendations to improve the existing bilateral trade relations as optimism is also growing on both sides due to the realization of mutual interdependence and co-existence with a change in political powers. The recent surprise stopover of Indian Prime Minister to Lahore to attend the birthday ceremony of Pak Premier Nawaz Sharif has triggered enhanced expectations for heightened trade relationship. Here is the gist of some of the doable recommendations:

- Despite significant growth in the volume of bilateral trade between India and Pakistan, bilateral trade flows are at a low level compared to world trade profiles of both nations which has also been examined through trade flow and intensity analysis. Many factors like financial bottlenecks on both sides, no transit rights by each other, limited accessibility of trade due to security reason, delay of granting MFN status to India, trade related infrastructural constraints, hard visa regime, Pakistan's dominant military establishment over democratic leadership & civil society, political trust deficit may be held responsible for this low volume of trade flow. Personal bonhomie between the Prime Ministers of two countries is helpful in building political trust. Both the leaders are wise enough and sincere in their efforts to improve relations as well as economies. They must prioritize **"Trade first; disputes later"**, thereby providing access to a market of over 1250 million consumers to Pakistan as well as to India with 182 million people. For both India and Pakistan, it is the time for new beginning and erasure of old sores. Enhanced economic activities through people to people contact will lead not only to greater employment avenue but also higher stakes of the people on both sides may be helpful to keep peaceful relation between the two countries on the lines of European Union and ASEAN which are growing as economic communities through better trade connections. This will provide a foundation for regional peace and tone down rhetoric of enmity and help create institutional mechanisms for dispute resolutions.

- In order to improve bilateral trade relationship, multi-faceted as well as multipronged strategy is urgently required which include reduction in existing high rates of tariff and non-tariff barriers as well as in trade costs of at least one particular product of the interest of both countries, reducing infrastructural and financial bottlenecks, opening up of more trade routes through sea, rail as well as road, expansion of investment and technology transfer in the production and marketing of those products which enjoy high revealed comparative advantage, dilution of multiple rules and regulations, trade diversification and promotion through trade facilitation measures like Make in India and Skill India programs, granting MFN status to India as soon as possible to reduce cost and loss of revenue through informal trade, resolving transit rights, enhancement in the number of tradable commodities etc. Effective implementation of trade facilitation measures will undoubtedly reduce misconceptions, bridge the information gaps and may be helpful in creating peaceful business environment in both countries.
- The analysis of Intra Industry Trade (IIT) and trade potential suggests that there exists the potential of trade in services like IT enabled services, medical, tourism, construction etc. and possibility of setting up of joint ventures in the production and marketing of at least in those areas where IIT have high values. These areas include hydro power, textiles, telecommunications, minerals, fuels, chemicals, pharmaceuticals, tourisms, information technology (IT) etc. RCA analysis also advocates that both countries should not compete in many areas of trade in goods because potential benefits can be reaped from specialization resulting through bilateral trade liberalization.

ENDNOTES

1. Until 2011, Pakistan permitted only a positive list of 1946 items to be imported from India. When Pakistan decided to grant MFN status to India in March, 2012 it shifted to a negative list approach which comprises items that are prohibited from being imported by Pakistan from India. At present, there are 1209 items in this list. All other items are permitted to be imported from India. As regards the sensitive list, it consists of items on which no tariff concession is allowed and items under this are 614 on Indian side and 936 on Pakistan's side.
2. The difference in the figures of Exports and Imports of Pakistan with India is due to the fact that Pakistan's financial year starts from July 1st to June 30th. Trade Reciprocity Index will be similar for both countries.

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