



IMPACT OF POLITICAL RELATIONS ON INDO-PAK TRADE IN 2017-18-19

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ABSTRACT

The political relations of India and Pakistan are not good in many years. Presently India has withdrawn the most favourite nation (MFN) status of Pakistan and imposed 200% customs duty on Pakistani import. Pakistan also stopped trade with India on Kashmir Issue. Consequently, the Indo-Pak trade has been stopped. Interestingly, both countries are a member of WTO and binding for free trade. India and Pak are also a member of SARRC trading bloc and it's Free Trade Agreement namely South Asian Free Trade Area. Therefore, the stoppage of trade between the two countries due to political bad reasons becomes the subject matter of research. The researcher has collected data and opinion from various trade associations from Katmandu (Nepal) to Mumbai and addressed the problem. The researcher has analyzed the data and suggested to withdraw Pakistan from SAPTA and adds to Thailand.

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INTRODUCTION

India and Pakistan are neighbouring countries. The goods which are traded between both nations include cement, fruits, mineral oils, sugar, cotton, date, onion, etc. Both countries depend upon each other for agriculture goods such as rice, tea, sugar, and onion. There is growth in trade for the last five years. But both countries are frequently disturbed due to unstable political relations. Consequently, there are adverse impacts on their trade. There was a terrorist attack on Pulwama an Indian army base in Kashmir in Feb 2019. Therefore, the Indian government withdrawal of the status of Most Favored Nation (MFN) to Pakistan. India also has increased customs duties up to 200 % on goods coming from Pakistan. The Hike in the duty drastically increases the prices of Pakistani goods in Indian markets, making them uncompetitive compared to other imported goods. India's act of slapping an import duty of 200 per cent effectively means almost banning the imports from Pakistan. On the other hand, Pakistan has also banned Indian goods due to the removal of article 370 from the Indian constitution and withdrawn the special status of Kashmir. Consequently, trade from both countries has been almost stopped. Interestingly both countries are a member of WTO and SAARC and binding for free trade among them.

Import Containers stuck up in the Ports: The 600-800 containers loaded with cement are currently at Karachi Port, high seas or Colombo and Dubai due to the stoppage of this trade. According to Cochin Steamer Agents' Association, more than 200 containers are stranded in different Container Freight Station and International Container Transshipment Terminal in Cochin port. Many containers were abandoned by the importers, as they are not able to pay the escalated duty. Their supply chain has been disturbed due to this stoppage.

Life-Saving Medicine: Prices of several medicines are increased due to Pakistan's decision to ban Indian origin imports. The ban could have caused a shortage of life-saving drugs in Pakistan as the pharmaceutical industry imports up to 50 per cent of the raw material from India to produce medicines.

Indo-Pak Trade: Pakistan exported \$495 million of goods to India in 2019, which was approximately 1.5% of total exports from Pakistan. The range of products exported was limited, mostly comprising cement, gypsum and dried dates. Similarly, more than 50% of the total raw cotton imported into Pakistan was sourced from India in 2014 and 2015. In 2017, the share of Indian raw cotton fell below 27%. Pakistan's exports to India are worth almost \$489m as of FY18 versus imports of about \$ 1924m.

Table 1. Indo-Pak Trade for last five years (Figures are in USD Million)

Year	India's Export	Import from Pak	Trade balance with Pak	Total Indo-Pak Trade	India's Total Foreign Trade	% of Pak trade in India's Total Trade
1914-15	1857	497	1360	2354	758371	0.03
1915-16	2171	441	1730	2612	643299	0.04
1916-17	1821	454	1367	2275	660209	0.03
1917-18	1924	489	1435	2413	769107	0.03
1918-19	2067	495	1572	2561	838440	0.03

Source: Ministry of Commerce, Government of India.

Table 2. Opinion of Trade Association

No	Trade Associations	Yes	Can't Say	No
1	World Trade Centre-Mumbai	√		
2	Asian Exporter Chambers			√
3	Cement Manufacturing Asso	√		
4	Cochin Steamer Agents' Association			√
5	Synthetic Rayon Export Promotion Council			√
6	Maharashtra Chambers of Commerce & Industry			√
7	Bombay Chambers of Commerce			√
8	Federation of Nepal Chambers of Commerce	√		
9	Indian Chambers of Commerce		√	
10	Bombay Customs House Agents Association	√		
	Total	4	1	5

The country's exports to India comprise raw hides and skins (\$21.4m) and other minor groups including cotton, medical equipment, and mineral fuels, etc. Both countries are adjacent to each other in the same geographically area. There was an advantage of low logistics costs. The trade was complimentary to meet each other's requirements.

Most Favourite Nation

India and Pakistan both are members of the WTO. The members of the World Trade Organization (WTO) have to treat one another as favoured trading partners. They are required to grant the MFN status to each other as well as other partner countries. India had granted this status to Pakistan way back in 1996 but Pakistan did not give the same MFN status to India. In this background, the researcher has selected this current topic. He has analyzed the problems in the trade of both countries. He also identified the beneficiary or loser if trade stopped continuously between the two countries. He has also suggested dropping Pakistan among SAARC countries and adding Thailand to strengthen trade in South East Asia.

Review of Literature

Aneja, Nisha, Dayal (2014) They have discussed the barrier to Indo-Pak trade in their book "India-Pakistan Trade Normalization: The Unfinished Economic Agenda" which is published by Indian Council for Research on International Economic Relations. They emphasized on untapped trade potential between India and Pakistan. According to them, India and Pakistan the two large economies of Southern Asia. But now there is an economic slowdown in India due to implementation of GST and demonetization of currency. Now both economies have lost their status of emerging economies.

Research Team of PHD Chamber of Commerce and Industry (2013) This trade association has published research paper in 2013 on "India -Pakistan Bilateral Trade". According to them, the major beneficiary of trade between India and Pakistan will be the consumer, as it will give them low-cost goods and services due to reduced cost of production and minimum logistics cost of import or export.

Michael Kugelman Robert M. Hathaway (2008) They have stated in their book "Pakistan India Trade" that Current trade volume is less than \$3 billion, but some experts estimate that a normalized trade regime could eventually send the figure soaring to \$40 billion. According to them, more Indian cotton, petroleum products, telephones, cars, organic chemicals, and tea will flow into Pakistan, while more Pakistani dates, jewellery, medical supplies, and petroleum oils will surge into India. Many of these exports are now transacted informally (such as by smuggling or through third countries).

Importance of the Study

India and Pakistan are members of the WTO. They are also a member of SAARC trading bloc. The political relations between SAARC countries have already been hampered on the trade. There was little trade among SAARC countries. Now major countries like India and Pakistan have almost stopped trade with each other due to political reasons. This is against the basic principle of free trade of WTO. Therefore, the study of the present situation in the trade is important for research as this becomes an international issue. This research is also helped to a realignment of the SAARC trading block.

Statement of Problems

The bad political relations between India and Pakistan are impacted by their trade. The trade between these two countries almost has stopped. Both countries are depriving their citizens to fulfil their needs by way of imports and exports.

Objectives of the Study

The study has been conducted with the view of following objectives

1. Identify the trade issues aroused due to the present political scenario
2. Analysis of the impact on trade between the two countries
3. Suggestion to resolve trade impact

Hypothesis

The political relations is impacted negatively on the Indo-Pak trade.

RESEARCH METHODOLOGY

The present paper is primarily based on primary and secondary sources of data. Primary data in the form of the responses of a various trade association and logistics service providers those are involved in Indo-Pak trade in various seaports. The researcher has collected the data and present status of India's export to Pakistan and Pakistan export to India. The researcher has also collected facts and figures by way of secondary data. The researcher has visited the following relevant most of the trade associations and collected their opinion on the subject matters. After the tabulation of data, the researcher has analyzed the data. Then he interpreted the data and made some conclusions. He also made some suggestions at the end of the paper. The researcher has selected seven trade association and three logistics service providers to the foreign trade between the two countries. There was a direct question to all stakeholders that the India and Pakistan stand to stops the trade with each other is right?

Out of ten stakeholders, 5 said stoppage of trade is not correct. All are said that trade should not be mix with politics. Both things are separate. Foreign trade is a major part of the economy.

World Trade centre-Mumbai: The Indian government has already been given MFN status to Pakistan. But Pakistan did not give the same status to India as a reciprocal arrangement. India's trade with Pakistan is negligible. No impact on the Indian economy. There is no harm if India closes trade with Pakistan and focus on other neighbour countries in the BIMSTEC member countries. These include Bangladesh, India, Myanmar, Sri Lanka, Thailand Nepal, and Bhutan—are among the countries dependent on the Bay of Bengal.

The Asian Exporter's Chambers –Navi Mumbai: The stoppage of trade with any country for any reason is harmful to Indian exporter or Asian exporters.

Cement Manufacturing Association. Mumbai: The import of Cement from Pakistan is not necessary. Since India can produce sufficient cement. But if there is shortage, then we have to import from Pakistan.

Cochin Steamer agent's Association Cochin: The managing committee members of the Cochin Steamer Agents' Association visited the new Commissioner of Customs, Kochi, and held discussions on sudden imposition/increase in the Customs duty for imports from Pakistan. According to them, many importers in Kochi, who had imported cement from Pakistan before the date of notification were affected by the unexpected hike.

Pakistan Horticulture Development & Export Company: India has imposed 200pc additional duties on imports of Pakistani products. "This decision has impacted our date exports to India. Pakistan has no export strategy for horticulture and all date exporters are facing problems. Pakistan's total date exports of 96pc were going to the Indian market. The new markets for Pakistani dates include UAE, Bangladesh, Nepal, Sri Lanka, and Bhutan. Now Pakistan will

promote the export of fresh date to these countries. The Pakistan Horticulture Development and Export Company (PHDEC) is working on a comprehensive plan to enhance exports of fruits and vegetables to a \$1 billion mark within the next three years. The five products identified by PHDEC include kino, mangoes, dates, onion, and potatoes. This shows the need to restore trade relations between the two countries.

Federation of nepalese chambers of commerce & industry Y-Katmandu: As per the Federation of Nepal Chambers of Commerce and industry, Pakistan and Afghanistan both are disturbed countries due to terrorism. Therefore, it is better not only for Pakistan but Afghanistan also withdrawn from the SAARC countries.

Maharashtra Chambers of Commerce & Industry–Mumbai: India is required for many items from Pakistan. Trade should be stopped. Politics should keep away from the trade.

Indian Chambers of International Business–Mumbai: There is an adverse effect on the real sector due to high duty on cement import from Pakistan. Pakistan supply good quality of cement to India by following Indian quality standard. The gypsum is the main raw material in cement manufacturing. Pakistani cement manufacturing company mixes a sufficient quantity of gypsum in their process and provides a good quantity of cement. But now construction companies depend upon only the domestic market which provides costly cement.

Thai Trade Centre –Mumbai: Thailand trade promotion council agreed if Thailand included into SAARC countries. The inclusion in this trading bloc will help to Thailand to more trade with India and adjacent countries such as Bangladesh, Below is a list showcasing 15 of Pakistan's top trading partners, countries that imported the most Pakistani shipments by dollar value during 2018. Also shown is each import country's percentage of total Pakistani exports. India's share in Pakistan trade just 1.6%.

Table 3. Major Trading partner of Pakistan in the year 2018 (Figures are in USD billion)

No	Country	share	% in total Export to Pakistan
1	United States	3.8	16
2	China	1.8	7.7
3	United Kingdom	1.7	7.3
4	Afghanistan	1.4	5.7
5	Germany	1.3	5.5
6	United Arab Emirates	0.996	4.2
7	Netherlands	0.941	4
8	Spain	0.992	3.9
9	Bangladesh	0.787	3.3
10	Italy	0.776	3.3
11	Belgium	0.668	2.8
12	France	0.447	1.9
13	India	0.382	1.6
14	Sri Lanka	0.357	1.5
15	Saudi Arabia	316	1.3

Sources: Forbes Global 2000 rankings The World's Biggest Public Companies. Accessed on March 27, 2019

FINDINGS

1. Most of the trade associations and stakeholders are in favour to continue the trade.

2. Pakistan mostly imports teas from South India and some small quantities from Assam. Pakistan has completely stopped lifting teas from India. Therefore, Pakistani traders are now looking at countries like Malaysia, Iraq and West African nations such as Mali and Burkina Faso to sell Pakistani teas.
3. Earlier India was importing Onion from Pakistan. But now India has black listed to Pakistan and importing onion from China, Myanmar, Afghanistan, Turkey and Egypt. This become costly import to India.
4. Pakistan has geographical proximity to India. The commodity can reach in a short time to each other countries. There is a need for both countries to trade and meet the requirement of their citizens in an emergency such as a shortage of onion and sugar and cement.
5. Pakistan stopped date export to India. But actually, it has not been fully stopped. The import duty on dates in India was around 30-50%. The new duty on dates went up by 200%. Consequently, Pakistani traders searched new illegal route for date export. Indian traders with help from their Pakistani counterparts started trading illegally through Oman.
6. Now dates come to India through Oman. The Mumbai zone of the Directorate of Revenue Intelligence (DRI) arrested four businessmen from Mumbai and Navi Mumbai for their alleged involvement in illegal import of dry dates from Pakistani traders by routing them through Oman and causing a loss of 9 crore INR to the government by evading duty. Containers were also intercepted at Chennai and various ports in Gujarat.
7. There was a shortage of onion in India during Sept 19. India has floated a global tender to supply onion urgently. India dropped Pakistan from the list of onion supply country. Consequently, Afghanistan provided onion to India on an urgent basis by road transport via Pakistan.
8. India produces a huge quantity of cotton and selling to Pakistan Bangladesh and Vietnam. India exports 30million tons out of that 8 million to Pakistan Presently, trade via Singapore and Dubai. This becomes costly affairs to Pakistan.

RESULTS AND DISCUSSIONS

1. After the Pulwama attack, India has stopped the export of all kinds of fruits and vegetables to Pakistan and import of cement from Pakistan. Pakistan also banned trade with India. The reasons behind stoppage of trade is politically and not any trade dispute between the two countries.
2. The rising tensions between India and Pakistan have affected the trading of agriculture commodities between the two nations over the past few months. Exports of tea, cotton, tomatoes from India and imports of dates, mangoes and onions from Pakistan have stopped completely
3. But Pakistan has decided to lift the ban on the import and export of life-saving medicines from India, despite the recent escalation of tensions over Kashmir. According to the details provided by the Ministry of Commerce, the decision was taken on humanitarian grounds to prevent the shortage of

essential medicines in both countries. This shows how trade is important to both countries.

4. Pakistan maintains a list of 1,209 products that are not allowed to be imported from India and only 138 items can be imported from India through the Wagah/Attari border land route. That is also closed
5. The price of Pakistan cement was 30% low than Indian cement. The average price of that was exported through the rail route was \$72 a tonne(or 144 a 50kg bag) while cement shipped by sea route was \$ 68 a tonne (or 136 Rs a 50 kgs bag) When this cement reach to final destination, price was 165 per bag. But this was significantly cheaper than Rs 235-250 a 50 kgs bag for the bag cement manufactured in India. Therefore, Indian construction companies were importing cement from Pakistan through JNPT and Cochin ports. The importing of cement has been stopped. Now Indian construction company depend upon Indian cement manufacturing supplier which is costly affair.
6. Currently, Pakistan imports 820 chemicals for medical use. It relies on India for 60 such chemicals. Of those 23 are used in life-saving medicines to treat blood pressure, cancer, heart diseases, Tuberculosis, and diabetes.

Recommendations

1. Both countries are a member of WTO which is responsible to free trade between member countries. Therefore, India and Pakistan should not stop the trade. The trade should not be hampered by political cause. It has a bad impact on the economy of Pakistan. India is also suffering from its export. Therefore, trade has to start again. WTO has to advise both the countries to restart its trade.
2. Similarly, other countries of SAARC have to interfere in both countries and try to start trade again. This will help in strengthening trade relations among members of SAARC.
3. Some of the items such as dates come to India via Oman to escape from the ban. The illegal trade has been started between the two countries. Therefore, both countries have to restart trade again to avoid legal trade.
4. Thailand and India have steadily expanded bilateral trade increased by more than 34% in 2017 to 10.37 billion USD and 12.46 billion USD in 2018. There is also Thailand-India Free Trade Agreement and ASEAN-India Free Trade Agreement. Therefore, Thailand can replace to Pakistan in SAARC's Free Trade Area.
5. The trade associations from both countries have to come to gather and put the pressures on their respective government to restart the trade.
6. There is FTA between India and Sri Lanka (ISFTA). It is also a free trade agreement between Sri Lanka and Pakistan. This is a good opportunity to Sri Lankan traders to import from India and same material export to Pakistan or vice/Versa.

Conclusion

There is no sign to improve political relations between India and Pakistan. But the traders from both countries are required

import and export. Both countries are a member of SAPTA and WTO. Therefore, they should not stop the trade relations and deprive to meet the need of their citizen by way of import and export.

Limitation

The researcher has contacted to Karachi Chambers of Commerce, Lahore Chambers of Commerce, but they did not respond. Therefore it was difficult to collect any data from Pakistan side and frame the opinion. The figures of import and export do not match for the same period.

Scope for Further Research: India and Pakistan are the major countries in SAARC. Now they are not trading with each other due to political relations. Bangladesh and Pakistan are also a similar story. Therefore, there is a lot of scope for a further study like trade relations within SAARC countries. This will help to a realignment of SPTA trading block. Research is also required whether SAPTA continues or not?

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