Bilateral Trade Between India And Pakistan- A Study of Agriculture Sector

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ABSTRACT

Bilateral trade between India and Pakistan is as old as the two countries are, but the volume of trade between them is minuscule relative to the size of their economies.At the time of partition, India accounted for about 70 per cent of Pakistan's official trade.

Studies suggest that deeper economic relations between India and Pakistan would benefit not just the two countries but also the entire South Asian region, leading, potentially, to a rise in economic growth and trade competitiveness in the region. This paper looks at the possibility of trade between India and Pakistan in the Agriculture Sector**.**

Analysis of relative competitiveness in agricultural products indicates that Pakistan has considerable potential to export to India. There are considerable opportunities for cross-border investments in agriculture and processed foods, given the fact that there have been significant efforts to liberalize the investment regime in both countries. Trade should be seen as a way forward for maintaining peaceful relations between India and Pakistan. The economic gain is significant enough to move ahead in this direction.

Keywords: Bilateral trade, India and Pakistan, trade competitiveness, cross-border investments.

Introduction

Trade among neighbouring nations has remained an important economic activity and has played a significant role in the economic development of trading partners. The literature on trade suggests that proximity is one of the major determinants of trade. Geographic proximity is also used as an important explanation for regional trade groupings or blocs. Often, regional economic relations are marred by historical hostility between neighbours, because of which neighbouring countries trade less with each other than with more distant countries. Trade between India and Pakistan is a classic case in this regard. Because of the historical hostility between the two countries, not much progress has been achieved in increasing regional trade in South Asia despite efforts to promote preferential trade (Chand 2006). The renowned proponent of free, multilateral trade and an opponent of regional groupings, JagdishBhagwati, cites the example of poor trade between India and Pakistan to refute the role of geographic proximity in trade (Bhagwati 1993). However, history shows that neighborhood hostility can check neighborhood trade for a long time, but not for ever. Eventually, trade liberalisation prevails, even among hostile neighbours. One would expect trade to take place based on inherent comparative and competitive advantages.

Bilateral trade between India and Pakistan is as old as the two countries are, but the volume of trade between them is minuscule relative to the size of their economies.

At the time of partition, India accounted for about 70 per cent of Pakistan's official trade (Raihan and De, 2013). Ever since, political relations between the two countries have led to frequent disruptions in trade. India granted the most favoured nation status to Pakistan after the establishment of World Trade Organization in 1996.Pakistan is still in the process of granting MFN status to India. The two countries have been trying to strengthen their bilateral economic and trade relation despite these disruptions.

Studies suggest that deeper economic relations between India and Pakistan would benefit not just the two countries but also the entire South Asian region, leading, potentially, to a rise in economic growth and trade competitiveness in the region.

Historical Background of India Pakistan Trade

Pakistan is in the process of offering the most favoured nation (MFN) status to India and this is expected to open a new trade regime between the two neighbours. Since 1947, trade between the two countries has gone down and it came to a halt for almost a decade following the war in 1965. In 1974, a protocol was signed between two countries for restoration of commercial relations. This was followed by a trade agreement in 1975. Trade resumed on a list of mutually agreed items following this agreement. Both the countries joined the WTO in 1995 and India accorded the MFN status to Pakistan in 1996. However, Pakistan initially allowed import from India on the basis of a 'positive list', which specified the products thatwere eligible to be exported from India to Pakistan. The number of products in the list has increased over the years. Until 2011, Pakistan allowed only 1,946 items to be imported from India. In November 2011, Pakistan decided to accord MFN status to India and in March 2012, it shifted to a 'negative list', which comprises of items that are prohibited from being imported by Pakistan from India. Currently, Pakistan's negative list has 1,209 items.

Immediately after independence, Pakistan had a trade surplus with India. During 1960-61, total trade was around US$50 Million but due to armed conflict, it reached near zero in 1966- 67. Trade remained suspended until 1974-75. Following the 1975 agreement, trade resumed for three years. This agreement was never renewed. In the 1980s, India's exports to Pakistan started showing a slow rising trend and in some years, the balance of trade was in favour of India. The trade balance remained in favour of India during the 1990s with a few exceptions.

India's exports to Pakistan jumped significantly in 1996-97 and again in 2000-01. The steady rise in India's exports is visible after 2000. As Pakistan has been shifting products to 'positive list' gradually, India's exports responded accordingly. However, India's import from Pakistan remained at a very low level throughout the last decade. Since 2011-12, total trade between these two countries crossed the US$2 billion mark and in 2012-13, it touched US$2.4 billion. Pakistan's exports increased by 28 per cent and for India the increase is of 19 per cent in 2012-13.

Objectives

The current paper looks at the possibility of trade between India and Pakistan in theAgriculture sector**.**

Review of Literature

While conducting any research work the review of literature of the past theory is necessary. The literature review provides information of the work done in the related area and theoretical framework on which the proposed solution of the problem can be based. The literature on the problem is quite scattered and extract from different sources to make the depth study of the problem under study namely India Pakistan trade relation. The brief review of the literature has been given below.

Ghuman (1986), Examined Indo-Pak trade relation with respective to different items of the exports and imports, estimate the mutual gains and explore the possibility of the regional cooperation. It was opined that the strengthening of the mutual cooperation could help in big way to ease tension between two countries and both the countries could play a good role in strengthening the regional cooperation in south Asia.

Srinivasan, T. N. and Cananero, (1993) Analyzed the bilateral trade as being proportional to the product of GNP of the trading partners and inversely related to the distance between them. The study also concludes that unilateral trade liberalization would yield more gains for the region compared to preferential trade liberalization.

Pigato, (1997) Analyzed the CGE model in context of the SAFTA provides clue that India's gains are much larger in unilateral liberalization scenario than in regional scenario.

Batra, B.R., (2004) in his study estimates the augmented gravity model. The study shows that the potential for India's trade with Pakistan is the highest in the SAARC region.

Ahmad and Shabir, (2005) Investigates the prospects of trade with India in a selected industrial chemical product, namely caustic soda. The authors recommend that government should make efforts to expand trade with India by increasing the range of chemicals on the positive list or by granting MFN status to India.

QamerAbid, (2005) Study was conducted to identify potential of trade and identify the items. A comparison of Pakistan's exports with Indian imports indicates various potential sectors that can be explored in case trade between the two countries is liberalized.

IMF,(2005) In an effort to study the trade liberalization and its impact conducted the study. The study found that Indians trade restrictiveness measures eight (on scale from one to ten), while Pakistan's index stand at six.

Taneja, Nisha, (2008) In an effort to promote trade and economic relations between India and Pakistan focuses on identifying bilateral trade possibilities and identifying non-tariff barriers to Indo-Pak trade. The study shows that there is large untapped trade potential between the two countries of US $11.7 billion. The export potential from Pakistan to India is US $ 2.2 billion while that from India to Pakistan is to the tune of US $ 9.5 billion.

Research Methodology

The study namely Bilateral trade between India and Pakistan is conducted by using the secondary data. Data related to the problem is quite scattered and were extracted from different sources.

Indo-Pakistan Trade and Regional Tariff Agreements

Trade between India and Pakistan, due to political and strategic issues, has been fraught with hindrances. The establishment of SAARC (South Asian Association for Regional Co-operation) in 1985 can be remarked as the initiation of improving relations in the South Asian bloc, particularly between

India and Pakistan. The launching of the South Asian Preferential trade Agreement (SAPTA) in 1995 was the first major political breakthrough for SAARC since it was India's first regional agreement on economic co-operation (Sawhney and Kumar, 2007). Later, the signing of the SAFTA (South Asian Free Trade Area) Agreement in January 2004 was an attempt by SAARC countries to further integrate through trade and investment. Nepal, Bhutan, Maldives and Bangladesh comprised the least developed countries (LDCs) and Pakistan, India and Sri Lanka the non-LDCs (NLDCs).

The trade liberalisationprogramme of SAFTA has described the schedules of tariff reductions for LDCs and NLDCs. Along with this, the contracting states can maintain sensitive lists for which the tariff reduction schedules will not hold. Sensitive lists are lists of products of special interest to individual member countries that are exempted from low SAFTA tariffs. The use of sensitive lists allows countries to protect growing domestic industries or important sources of customs revenue. However, overuse of sensitive lists can make goods more expensive for consumers and reduce trade between countries.

The LDCs and NLDCs have affirmed their existing rights and obligations with respect to each other under the Marakkesh Agreement establishing World Trade Organization (WTO). As members of the World Trade Organization (WTO), they are supposed to accord "most favoured nation" (MFN) status to each other. The MFN principle is a principle of non-discrimination embodied in the General Agreement on Trade and Tariffs (GATT), which means countries cannot discriminate between their trading partners. The MFN principle ensures that each country treats the 159 fellow-members of WTO equally. But there are some exceptions for preferential treatment of developing countries, regional free trade areas and customs unions (World Trade Organization). India accorded the MFN status to Pakistan in 1996 and Pakistan has assured it will grant India MFN status soon. However, because Pakistan has not granted MFN status to India, it maintains a negative list for India. Items in Pakistan's negative list are those which are not allowed to be imported from India.

Until 2011, Pakistan maintained a positive list for India specifying permitted items to be imported. It was when a joint statement was issued laying down full phasing-in of MFN in November 2011 that Pakistan shifted to a small negative list. Accordingly, India and Pakistan maintain a sensitive list for its SAFTA members and Pakistan, in addition, maintains a negative list for India.

India-Pakistan Trade In Agriculture

The importance of agriculture to the economies of both India and Pakistan cannot be overstated. The sector contributes a significant amount to the GDP and employment in both countries. Agriculture contributes to 21 per cent of GDP and constitutes 45 per cent of labor force Pakistan (Economic Survey of Pakistan 2012-13). In India it contributes 14 per cent to GDP and constitutes 58 per cent of labor force (Economic Survey of India 2012-13). In terms of size, India's agricultural production is more than five times that of Pakistan, yet Pakistan's per capita production across major crops is substantially higher than in India the geographical and climatic diversity across the two countries is a major factor behind differences in the variety and pattern of agriculture produce, creating considerable opportunities for trade.

But perhaps the most important difference between the agriculture sectors of the two countries is their contrasting policy regimes. Post- independence India, driven primarily by the objective of achieving food security, adopted and maintained an interventionist regime in agriculture. India continues to subsidize agricultural inputs, provides price support for 24 crops, and maintains a high average applied tariff rate on agricultural products. By contrast, Pakistan over the years has liberalized its agricultural sector with minimal state intervention. Market liberalization reforms have meant a gradual phasing out of subsidies and price supports, and a reduction in agricultural tariff rates. The only crop procured by the government at a fixed pre-announced price is wheat; the rest are freely traded at market prices. From the standpoint of the agricultural sector in Pakistan, this difference in policy regime creates an uneven playing field–subsidies reduce costs of cultivation, distort prices, and affect the direction and volume of trade.

The other contentious issue is that of market access. High average tariffs on agriculture goods and Non-Tariff Barriers (NTBs)on the Indian side such as health and quality standards (SPS and quarantine standards) are cited as major reasons for the relatively low Pakistani agricultural exports to India, despite India giving MFN to Pakistan in 1996. The non-issuance of visa for Indian Punjab is also highlighted as a major obstacle to trade in agricultural goods.

Despite the fact that Pakistan has not extended MFN and maintains a negative list with India, both the overall and agricultural trade balance is still heavily tilted in India's favour. The major agriculture imports from India have been cotton, refined sugar and more recently, fresh vegetables. On the other hand, Pakistan's main agricultural export to India over the past two years has been dried dates (US$ 47.2 million in 2011). Exports of onions, shallots, shrimps and apricots have recently picked up, but are still very small in terms of volume and value . Interestingly, trade in major crops (wheat and rice) between the two countries is non-existent, perhaps because of the relatively high applied tariffs.

Conclusion

Analysis of relative competitiveness in agricultural products indicates that Pakistan has considerable potential to export to India. Various studies that have carried out Revealed Comparative Advantage (RCA) analysis show that Pakistan is competitive in citrus fruit, mangoes, apricots, peaches, olives, fish and fish products. These products have the potential to attract significant demand in Indian markets. Furthermore, India with its large population (a middle class of more than 300 million people) offers a lot of opportunities for export of value-added agricultural processed fresh and preserved food, dairy products, juices and vegetable food supplements. Niche export market opportunities also exist for vegetarian, *halal*, kosher and organic products (TDAP, 2012).

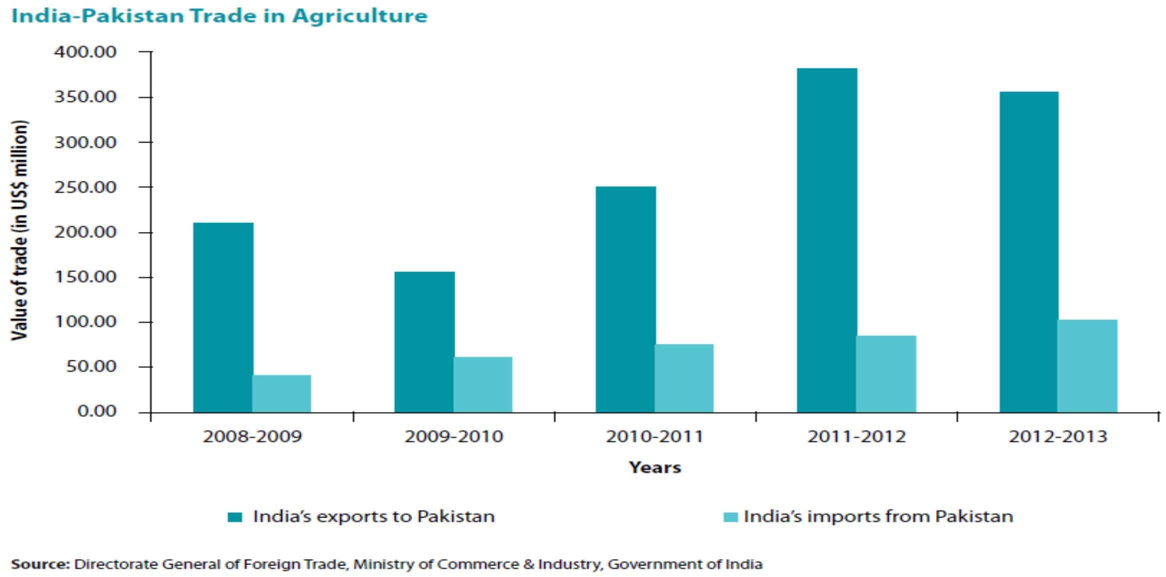
Over the medium to long run, there are considerable opportunities for cross-border investments in agriculture and processed foods, given the fact that there have been significant efforts to liberalize the investment regime in both countries.

Table 1:India-Pakistan Trade in Agriculture

(Values in US$ million)

	India's exports to Pakistan	India's imports from Pakistan
2008-2009	209.26	45.15
2009-2010	156.34	65.16
2010-2011	248.67	77.31
2011-2012	377.30	89.78
2012-2013	352.36	105.11

Figure 1: India Pakistan Trade in Agriculture



Recommendations

Trade should be seen as a way forward for maintaining peaceful relations between India and Pakistan. The economic gain is significant enough to move ahead in this direction.

The key suggestions to increase the **agricultural trade** include the following:

- To enhance trade in the agricultural sector, it was felt that following the NAFTA model could be considered. This involves having a separate agreement on agriculture between India and Pakistan.
- Trade in agriculture between India and Pakistan should be promoted on grounds of food security, price stability and peace building initiatives.
- It is important to identify in which products India and Pakistan enjoy a comparative advantage. The emphasis should be on the possibility of developing value chains by combining the resources of the two nations.
- There is a certain amount of discomfort in Pakistan with regard to domestic support levels for agriculture in India. To handle the issues arising from this, the panelists suggested Pakistani producers and government to consider the following:

- Introduce special agriculture safeguards, which are automatic in application if certain price or volume triggers are met
- Introduce a transitional tariff rate quota, which may be terminated after a certain number of years
- Introduce a tariff rate quota, which may be progressively liberalised but retained permanently thereafter
- Have both special agricultural safeguards and tariff rate quota to protect the interests of Pakistani farmers

All such measures could help in realizing the untapped trade potential between India and Pakistan.Since trade and terrorism are incompatible, the challenge that lies ahead is to create an environment where focus is on the trade and economic agenda.

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