

# A THAW IN INDIA-PAKISTAN TRADE RELATIONS?

Relevant for: International Relations | Topic: India - Pakistan

The [rejection by the Pakistan government](#) of the recent proposal made to it by the Economic Coordination Committee (ECC) [to import sugar, cotton and cotton yarn from India](#) was disappointing, but at the same time indicative of a possibility of resumption of trade relations between the two countries. In 2019, India and Pakistan undertook trade-restrictive measures against each other, which were perhaps the most severe in several decades. After the Pulwama terror attack in Kashmir in February 2019 and cross-border air strikes, India withdrew the Most Favoured Nation (MFN) status of Pakistan and imposed a customs duty hike of 200% on imports. Later, when India revoked the autonomy of Jammu and Kashmir, Pakistan suspended bilateral trade.

## Explaining Pakistan's flip-flop on trade with India

Despite the trade ban setback, the Indo-Pak history suggests that there are reasons for having cautious optimism towards reviving the trade dialogue. Even though trade curbs have been applied several times in the past, such measures have been reversed to create a trade enhancing environment. Most notable is the protocol on resumption of trade in 1974 after a hiatus of nine years following the India-Pakistan war in 1965. The two countries agreed to trade in a list of items, including essential agricultural commodities, which could stabilise domestic prices and take care of seasonal shortages and food security in the home country. Both countries worked on positive lists for some years, which expanded over the years.

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We can see parallels emerging in the current context. Within a month of suspending bilateral trade with India, the Pakistan government lifted the ban on the import of medicines and raw material from India to avert any crises and ensure that there is no shortage of essential drugs. A year and a half later, there is a demand for the inclusion of three more items, namely sugar, cotton and yarn. A deeper examination of the trade measures and data indicate that there is more concrete evidence of trade between the two countries even after the imposition of restrictions. A key difference between India and Pakistan is that while India imposed a 200% import duty and no ban on export, Pakistan banned both export and import. Hence, Indian trade data are likely to reflect trends better. Not only has trade been recorded in the first eleven months of the financial year 2020-21, but a sizeable number of items have been traded between the two countries. During 2020-21 (April-February), the recorded bilateral trade was \$280 million, of which India's exports to Pakistan were \$278 million and imports were \$2 million. Nearly 77% of India's exports comprised vaccines, pharmaceutical products and products of chemical and allied industries. Interestingly, despite the trade ban, sugar was already being exported to Pakistan and was the second most important item, accounting for 15% of India's total exports. Dates were the most important item being imported from Pakistan, accounting for 31% of total imports, followed by ethyl alcohol, which accounted for 17% of total imports.

While the overall value of trade with Pakistan may not be significant, the number of items traded certainly is. A closer look at the trade data reveals that India exported 357 products (at HS-6 digit level classification) to Pakistan and imported 25 products from the country. This is despite the complete ban on trade by Pakistan on both exports and imports. Thus, even under restrictive trade conditions, there are interdependencies between India and Pakistan.

The trade measures impacted several important domestic and export industries, even though

the volume of trade was small at \$2.56 billion in 2018-19. Governments of both countries need to recognise that there are significant costs of non-cooperation. Restrictions also shift trade to informal channels, which have functioned for decades and are a ready option for traders from both countries. Initiating a positive list for trade is the right move towards normalisation. The recent data provide an indicative list of products that can be included. Business organisations and chambers of commerce can play an important role in creating a strong lobby that could build momentum in opening channels and influence the shaping of the India-Pakistan trade policy.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

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