



## India-Pakistan Trade: Status, Outlook

Recently, Pakistan's Prime Minister Imran Khan had stated that the best way to alleviate poverty and uplift the people of the subcontinent is to resolve differences through dialogue and trade.

### Where does India-Pak trade ties currently stand?

- Trade between India and Pakistan jumped nearly three-and-a-half times between 2000-01 and 2005-06 (from \$251 million to \$869 million per annum), however, the following decade witnessed a slower progress.
- In FY17, India-Pakistan trade was a mere \$2.29 billion, or about 0.35% of India's overall trade.
- Also, informal trade, estimated to be around USD 4.71 billion, continues to thrive between India and Pakistan despite measures undertaken by the two countries to normalize trade.
- Informal trade is easier because of harassment by customs officials, political tensions between the two countries and ease of routing goods through third countries like West Asia and border countries.

### Why has trade not grown?

- Obstacles in the way of normalising India-Pakistan trade relations include
  - weak logistics and customs processing
  - technical barriers to trade such as sanitary or phytosanitary (SPS) restrictions
  - enhanced visa restrictions due to the recent political and military tensions between the two countries
  - Lack of financial support and telecommunication connectivity.
  - persisting infrastructure and connectivity deficit along with poor awareness amongst traders with regard to non-tariff barriers.
- While India and Pakistan have facilitated a degree of industry outreach in recent years, progress on the ground has been very less.
- A study by ICIER has identified an export potential of \$2.2 billion from Pakistan to India, and \$9.5 billion from India to Pakistan per annum. However, of the top 50 potential export items from Pakistan, India was importing 45 from countries other than Pakistan and this situation remains largely unchanged even now.
- Article 1 of the General Agreement on Tariffs and Trade (GATT), 1994, requires every WTO member country to accord Most Favoured Nation (MFN) status to all other member countries. India accorded Pakistan MFN status in 1996; however, Pakistan hasn't reciprocated.
- In 2012, India announced a 30% reduction in its SAFTA Sensitive list for Non-Least Developed Countries (NLDCs), including Pakistan, allowing for the tariff on 264 items to be cut to 5% within three years. Further, a roadmap was established between the two countries to move towards full normalisation of bilateral trade. However, it hasn't been implemented yet as Pakistan has failed to take the first step of permitting all importable items through the Wagah-Attari land route.

### South Asia Free Trade Agreement (SAFTA)

- The South Asia Free Trade Agreement (SAFTA) was agreed to among the seven South Asia countries that form the South Asian Association for Regional Cooperation (SAARC): Bangladesh,

Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

- SAFTA replaces the earlier South Asia Preferential Trade Agreement (SAPTA) and aims to reduce tariffs in order to promote intraregional trade among the SAARC members

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