

Direct Trade between India and Pakistan

Why in news?

The cessation of India-Pakistan direct trade for a significant period is a result of enduring political tensions and conflicts between the two.

Why the bilateral trade between India and Pakistan banned in the past?

- **Trade relation**- As per data trade with Pakistan stood at USD 329.26 million in 2020-21 and USD 830.58 million in 2019-20.
- **Issue of Jammu and Kashmir**- Pakistan banned bilateral trade with India in 2019 when [India abolished Jammu and Kashmir's special status](#).
- **Cut in diplomatic relations**- Pakistan had stated that it was reducing diplomatic relations with India and planned to remove India's high commissioner to Islamabad.
- **Issues over tariff** - In 2012, India announced reduction of 30% in its SAFTA Sensitive List for non-Least Developed Countries of SAFTA [including Pakistan] but Pakistan continued to follow restrictive trade policy towards India.
- **Most Favoured Nation**- India had accorded MFN status to Pakistan in 1996.
- Pakistan's MFN designation was removed in the aftermath of the Pulwama terrorist incident.

MFN status means the country which is the recipient of this treatment must nominally receive equal trade advantages as the "most favoured nation" by the country granting such treatment

- **Hike in custom duty**- India imposed 200% tariff on Pakistani imports in 2019.
- Subsequently, as part of its unilateral measures, Pakistan suspended the bilateral trade with India.

How about the condition post the bilateral trade suspension?

- **Indirect trade**- A few relatively less freight sensitive products such as dry dates began coming via indirect channels to enter each other's markets.
- **Indian merchandise popularity**- Products such as fabric, skincare products, and jewellery freely made their way into Pakistani markets, gaining popularity among local consumers.
- **Other countries**- The gap created in the cross-border trade was filled by Indian goods entering Pakistan through Afghanistan, China and Dubai.
- Dubai has enabled trade between the two countries by acting as a neutral ground for the respective enterprises to conduct business without being hampered by political tensions and border crossings.

- **High cost of imports**- It compelled Pakistan to lift the ban on cotton imports from India as importing cotton and sugar from countries like the US and Brazil is expensive and time-consuming.
- **Major exports**- During the first quarter of fiscal 2022, India's exports to Pakistan is primarily driven by sugar, organic compounds and pharmaceutical products.
- **COVID-19** - Pakistan permitted import of pharmaceuticals and drugs following the outbreak of the pandemic in 2020.
- **Low volume trade**- Jewellery, machinery, medications and chemicals are examples of low-volume, high-value commodities. Businesses can afford to take a longer route, particularly via Dubai, because the increased cost are passed directly to consumers.
- **Vegetable imports**- Pakistan decided to allow vegetable imports from India via Wagah due to destruction of onion and tomato harvests by torrential rains in 2022.
- **Pakistan's commitment**- India's trade with Pakistan increased dramatically in the June 2022 quarter, due to Pakistan's willingness to restore commerce (mostly of necessities), with India.
- **Other reasons** - Some experts link the surge in direct commerce to Pakistan's new leadership and the country's mounting [economic crisis](#), compounded by high global commodity prices

What lies ahead?

- **Reduce import duty**- India can consider reducing its import duties (currently at 200%) on products that can benefit its industries.
- **Foster cooperation**- Pakistan's commitment, though driven by necessity, have sparked hope for additional measures to improve bilateral relations, including the
 - Resumption of sports-related visas by India after a 3 year interval,
 - Scheduling of a long-delayed meeting between the [Indus Water Commissioners](#), and
 - Establishment of peace at the Line of Control (LoC) following over 5,000 ceasefire violations.
- **Resume trade**- India and Pakistan trade should resume through the land crossing at Attari (India)-Wagah (Pakistan), for a win-win situation.
- **Better value**- Since, wheat flour prices in Pakistan have risen dramatically in recent months, North Indian farmers can sell it at a better price in Pakistan.
- **Enhance direct route**- Indirect trade routes like Dubai entail additional intermediaries, increasing transaction costs. Direct trade could have brought additional benefits like
 - Reducing transportation costs,
 - Expediting delivery schedules,
 - Facilitating interaction among businesses, and
- Establishing direct trade channels that could unlock potential economic cooperation and foster beneficial trade relationship.
- **Engagements**- Through direct economic engagements, both countries can promote people-to-people exchanges, cultural interaction, and business collaborations, paving the way for improved bilateral ties.

References

1. [Business Line-India and Pakistan can step up Direct Trade](#)
2. [Ministry of External Affairs- Bilateral brief between India and Pakistan](#)

