# 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


