



INDIA-PAKISTAN TRADE RELATIONS - GS II MAINS

Examine the challenges associated with the India-Pakistan trade relations? How does Pakistan's reconsideration of trade with India signals potential for diplomatic and economic recalibration at present? (15 marks, 250 words)

News: *Pakistan to 'seriously examine' restarting trade with India: Foreign Minister*

What's in the news?

- Pakistan will “seriously examine” whether to restart trade with India, said its newly appointed Foreign Minister Mohammad Ishaq Dar.

Key takeaways:

- Meanwhile, visiting Singapore, External Affairs Minister S Jaishankar hit out at Pakistan for its “industry-level” support to terrorism, stressing that any talks with Pakistan would need to “face up to the problem”.

Recent Challenges in India-Pakistan Trade Relations:

- In 2019, both India and Pakistan had taken trade measures against each other — after the Pulwama bombing in February, India had withdrawn the Most Favoured Nation (MFN) status to Pakistan and raised tariffs on all trade multi fold.
- After India's Article 370 moves in Jammu and Kashmir in August 2019, Pakistan had suspended direct trade ties with India amidst a number of other diplomatic measures.

Backdrop of India-Pakistan Trade Relations:

1. Suspension of Bilateral Trade:

- Pakistan suspended bilateral trade with India in August 2019, after the Indian government abrogated Article 370 of the Indian Constitution.
 - Article 370 gave a special status to the erstwhile state of Jammu and Kashmir, following its accession with India in 1947.

2. Withdrawal of MFN Status:

- India withdrew Pakistan's MFN status in the aftermath of the Pulwama terrorist attack in 2019 which led to the deaths of 40 personnel.
- An underlying reason for suspending trade was the 200% tariff imposed by New Delhi on Pakistani imports earlier that year after India revoked Pakistan's Most Favoured Nation (MFN) status.



India-Pakistan Trade Relations:

1. Bilateral Trade:

- In FY17, India Pakistan trade was a mere \$2.29 billion, or about 0.35% of India's overall trade.
- India Pakistan Trade in 2018-19, cotton (\$550.33 million) and organic chemicals (\$457.75 million) accounted for around half of Pakistan's imports from India.

2. Major Pakistani Imports from India:

- In 2018-19, included plastic (\$131.19 million), tanning/dyeing extracts (\$114.48 million), and machinery and mechanical appliances (\$94.88 million).

3. India's Imports from Pakistan:

- In 2018-19, included mineral fuels and oils (\$131.29 million), edible fruits and nuts (\$103.27 million), salt, sulphur, stone and plastering materials (\$92.84 million), ores, slag and ash (\$17.18 million) and raw hides and leather (\$16.27 million).

4. Pakistan's Negative List:

- Despite having MFN status since 1996, Pakistan maintained a Negative List of 1,209 products that were not allowed to be imported from India.
- Only 138 products were allowed to be imported from India through the Wagah-Attari border land route.

5. India's Trade Surplus:

- India maintained a significant trade surplus over Pakistan, meaning the total value of goods and services it exported to Pakistan was much larger than the value of goods and services it imported from Pakistan.

Challenges Associated with India Pakistan Trade:

1. Indirect Trade:

- Pakistan's imports from India arrive via Dubai or Singapore, resulting in extra freight, extra transshipment, transportation costs, etc.

2. Trade Ban:

- Pakistan's imports fell drastically between April 2020 and January 2021, while cotton imports stopped altogether.
- The only increase was in pharmaceutical products, as Pakistan looked to ensure sufficient supplies of medicines during the Covid-19 pandemic.

3. Policy Instability:

- In 2021, Pakistan's Economic Coordination Council, a top decision-making body, allowed the import of cotton and yarn from India.
- A low domestic yield and the high cost of imports from the likes of Brazil and the United States were believed to be the reasons behind the change of stance.



- However, then Prime Minister Imran Khan again discontinued trade.

Recent behind Pakistan Reconsideration now:

1. Political Change:

- There has been a change in Prime Minister following elections held earlier this year.
- While the Pakistani military remains firmly in control, a new government indicates the possibility of a new policy.

2. Turbulent Economy:

- Pakistan's economy has been in dire condition following the devastating floods in 2022, high inflation and political instability alongside structural issues, have led to multiple crises related to meeting the food and energy needs of the population.

3. Dependence of External Support:

- Pakistan has had to frequently approach the International Monetary Fund (IMF) or friendly countries like Saudi Arabia and China for billions of dollars in loans.
- With the pause in trade with India, importing goods from faraway countries further depletes its low foreign exchange reserves.

Significance for India in Restarting Trade with Pakistan:

- As a result of partition, traders from Punjab suffered significant repercussions.
- Thus, establishing a trade mechanism with Pakistan could facilitate Indian exports to Iran, Afghanistan, and Central Asia.

Amid political shifts and economic challenges, Pakistan's reconsideration of trade with India signals potential for diplomatic and economic recalibration.