

India Pakistan Trade Relation

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Abstract: *Bilateral trade between India and Pakistan is as old as the two countries are, but the volume of trade between them is minuscule relative to the size of their economies.. This paper is an attempt to measure importance, strength and nature of bilateral trading relationship between India and Pakistan. Several statistical indices can be used to measure trade relations between two nations. One such index is the trade intensity used in this paper. Bilateral trade relationships between India and Pakistan described in terms of intensity indices helps to identify how intensively the countries are trading with each other. Bilateral trade intensity indices have been calculated for the time period 1994 to 2008.. The limitation of the study is that the trade intensity indices have limited application for measuring bilateral potential trade between nations. The policy implications of the analysis are that there is no option for the two countries than to increase the economic ties. This paper is divided into three sections. Section first Introduction followed by result and discussions in section second and section third conclusion.*

Key words: *Bilateral trade, Economic ties, Trade intensity, Trade potential*

I. Introduction

Relations between India and its neighbors' have been historically volatile, epitomized in particular by India and Pakistan. Inter and intra-state conflict have fuelled each other, stifling trade and economic relations and, in the extreme, evoking the specter of a nuclear conflict. The share of regional trade and foreign investment between both nations has historically hovered around 1 per cent of their total global trade. Open conflict and latent tensions between the two states have restricted trade volumes to levels that are low in relation to their gross national product (GNP), population, proximity and cultural ties. The two states have been locked in perpetual conflict either overt or covert, since they gained independence in 1947, constituting the single largest constraint for bilateral trade. Bilateral trade between India and Pakistan is as old as the two countries are, but the volume of trade between them is minuscule relative to the size of their economies. Bilateral trade relations of India and Pakistan are influenced by their political relations much more than anything else. In 1948-49 India's share in Pakistan's exports was almost 56 percent and 32 percent in imports. In the year 1955-56 \$41.1 million were India's exports to Pakistan and \$209.8 million were imports from Pakistan to India. Trade balance remains in favor of Pakistan till 1956-57. In the year 1957-58 India's exports to Pakistan were \$87.8 million and imports were \$87.6 million. In 1964-65 India exports went to \$127.7 million and imports constitutes \$219.8 million with 92.1 trade surpluses in favor of Pakistan^[1]. After the India Pakistan war in 1965, trade was almost negligible for a period of nine years. Bilateral trade did resume in 1975-76, following the 1974 protocol for the restoration of commercial relations on a government to government basis, signed by the two countries after the 1971 war but it remained at an insignificant level. In the year 1991-92 both countries adopted the policy of economic reforms and made attempts to increase the bilateral and multilateral trade. But nontariff barriers continuous as hurdle, concessions granted so far are of token significance. Since 1991-92 the India Pakistan trade has relatively increasing. In 1990-91 Indian export to Pakistan were \$ 46.63 million which decreased to \$ 43.13 in 1991-92. Exports increased to \$ 62.42 million in 1992-93 which again increased to \$ 70.23 million in 1993-94. There were twofold increases in the exports from \$ 63.67 million in the year 194-95 to \$ 157.22 million in the year 1996-97. The exports were \$ 143.15 million in 1997-98 but decreased to \$ 92.95 million in 1999-2000. Exports increased to \$ 186.83 million in 2000-01 to \$ 206.16 million in 2003-04 and \$ 286.94 million in 2003-04 which further increased to \$ 521.05 million in the year 2004-05. The exports to Pakistan were \$ 1348.55 million in the year 2006-07. The highest exports from 1990-91 to 2008-09 were highest \$ 1945.12 million in the year 2007-08 followed by decrease to \$ 1084.3 million in 2008-09^[2].

I.1 Review of literature

While conducting any research work the review of literature of the past theory is necessary. The literature review provides information of the work done in the related area and theoretical framework on which the proposed solution of the problem can be based. The literature on the problem is quite scattered and extract from different sources to make the depth study of the problem under study namely India Pakistan trade relation. The brief review of the literature has been given below.

Ghuman (1986)^[3] Examined Indo-Pak trade relation with respective to different items of the exports and imports, estimate the mutual gains and explore the possibility of the regional cooperation. It was opined that

the strengthening of the mutual cooperation could help in big way to ease tension between two countries and both the countries could play a good role in strengthening the regional cooperation in south Asia.

Srinivasan, T. N. and Cananero, (1993)^[4] Analyzed the bilateral trade as being proportional to the product of GNP of the trading partners and inversely related to the distance between them. The study also concludes that unilateral trade liberalization would yield more gains for the region compared to preferential trade liberalization.

Ministry of commerce, (1996)^[5] In a study indicates that India is doing better than Pakistan in value added clothing's.

Pigato, (1997)^[6] Analyzed the CGE model in context of the SAFTA provides clue that India's gains are much larger in unilateral liberalization scenario than in regional scenario.

Batra, B.R., (2004)^[7] in his study estimates the augmented gravity model. The study shows that the potential for India's trade with Pakistan is the highest in the SAARC region.

Ahmad and Shabir, (2005)^[8] Investigates the prospects of trade with India in a selected industrial chemical product, namely caustic soda. The authors recommend that government should make efforts to expand trade with India by increasing the range of chemicals on the positive list or by granting MFN status to India.

Qamer Abid, (2005)^[9] Study was conducted to identify potential of trade and identify the items. A comparison of Pakistan's exports with Indian imports indicates various potential sectors that can be explored in case trade between the two countries is liberalized.

IMF, (2005)^[10] In an effort to study the trade liberalization and its impact conduct the study. The study found that Indians trade restrictiveness measures eight (on scale from one to ten), while Pakistan's index stand at six. Taneja, Nisha, (2008)^[11] In an effort to promote trade and economic relations between India and Pakistan focuses on identifying bilateral trade possibilities and identifying non-tariff barriers to Indo-Pak trade. The study shows that there is large untapped trade potential between the two countries of US \$11.7 billion. The export potential from Pakistan to India is US \$ 2.2 billion while that from India to Pakistan is to the tune of US \$ 9.5 billion.

I.2 Research methodology:

The study namely India Pakistan trade relation is conducted by using the secondary data. Data related to the problem is quite scattered and were extracted from different sources. Data was collected from DGFT Delhi, ministry of commerce govt. of India, different issues of economic surveys conducted in the two respective economies, IMF, WTO etc. In order to make the study meaningful and empirical both tables, graphics and empirical models were used. The appropriate methodology employed is based on the objectives of the study. Several statistical indices can be used to measure trade relations between two nations. One such index is the trade intensity index (TII). TII appears in two forms, i.e., the export intensity index (XII) and import intensity index (MII). The trade intensity model is used to measure variations and relative resistance in bilateral trade flows. One can also measure the trade intensities between two countries to see the trajectory of trade over the years and the orientation of a country with its trading partner. Bilateral trade relationships between India and Pakistan described in terms of intensity indices helps to identify how intensively the countries are trading with each other. Trade intensity index is defined as the share of one country's trade with another country, divided by the other country's share of world trade. The value of index ranges from 0 to 1 (0 to 100 when multiplied with 100). If the value is 0, it implies no trade relationship between partner countries. On the other hand, if the value is 1 indicates high trade relations. If import intensity index is more (or less) than 100, it indicates that country India is importing more (or less) from country Pakistan than might be expected from that country's share in total world trade. In export too, if the value is 0 it implies export link between these two countries is negligible and if the value is nearer to 100 that indicates that performance is significant and if it exceeds 100 it indicates that India is exporting more to country Pakistan than might be expected from that country's share in world trade. A simple index of trade intensity has been estimated for trade between India and Pakistan between the time periods 1994-2008. This is to examine whether or not the bilateral trading relationship of India is strengthening (or weakening), with Pakistan. In a rather crude fashion, this shows whether India's trade with Pakistan is greater or less than what might be expected given the importance of the trading partner's share in total world trade. Trade intensity indices have been estimated from the trading partner's (Pakistan) perspective as well. The research methods are used to know (i) Pakistan's importance in India's total trade (ii) India's importance in Pakistan's total trade. (iii) Trade intensity of India with Pakistan. (iv) Trade intensity of Pakistan with India. (v) India Pakistan trade and competing supplier in the respective market discussed in the result section of the paper. The importance of India in the Pakistan's trade and Pakistan's importance in India's trade is calculated as the share of one country in total exports and imports of another country. As trade intensity index appears in export and import intensity indices both export and import indices have been calculated for India and Pakistan with one another.

Export intensity index of trade of India with respect to Pakistan:

$$XIIip = [XIP / XI] / [MP / (MW- MI)] \dots\dots\dots (1)$$

Where:

XIIP = Export intensity index of trade of India with Pakistan:

XIP = Exports of India to Pakistan.

XI= Total Exports of India.

MP = Total Imports of Pakistan.

MW = Total World Imports.

MI = Total Imports of India.

Import intensity index of trade of India with respect to Pakistan:

$$MIIIiP = [MIP / MI] / [XP / (XW- XI)] \dots\dots\dots (2)$$

Where:

MIIIiP = Import intensity index of trade of India with Pakistan:

MIP = Imports of India from Pakistan

MI = Total Imports of India

XP= Total Exports of Pakistan

XW = Total World Exports

XI = Total Exports of India

Export Intensity index of trade of Pakistan with respect to India:

$$XIIPi = [XPI / XP] / [MI / (MW- MP)] \dots\dots\dots (3)$$

Where:

XIIPi = Export intensity index of trade Pakistan with India

XPI = Exports of Pakistan to India

XP = Total Exports of Pakistan

MI = Total Imports of India

MW = Total World imports

MP = Total Imports of Pakistan

Import intensity index of trade of Pakistan with respect to India:

$$MIIPi = [MPI / MP] / [XI / (XW- XP)] \dots\dots\dots (4)$$

Where:

MIIPi = Import intensity index of trade of Pakistan with India

MPI = Imports of Pakistan to India

MP = Total Imports of Pakistan

XI = Total Exports of India

XW = Total World Exports

XP = Total Exports of Pakistan.

Abstracting from transportation margins, this index can be reconfigured to focus on the exporting country India and its competing suppliers in market (Pakistan). The supply of country and its competitors is measured as the share of exports to the market. In this way index becomes the ratio of relative destination shares.

$$TII = \frac{\text{share of Indian exports going to Pakistan}}{\text{Share of world exports going to Pakistan}} \dots\dots\dots (5)$$

Share of world exports going to Pakistan

The $TII > 1$ indicates that Pakistan is more important market for exporter than any typical country exporting to Pakistan. If $0 < TII < 1$ indicates opposite. TII has been computed from the Pakistan's perspective as well.

Section 2

II. Results and discussion

2.1 Importance of Pakistan in India's trade

The calculated values in the Table 1 indicate that Pakistan's importance in India's total merchandise imports (measured in terms of share in total imports) is decrease. The share was \$ 0.15 percent in the year 1994 which further decreased to \$ 0.12 percent in 1995 year. In year 1996 the share in total exports was 0.09 reached to \$ 0.5 percent in 1998. The share was \$ 0.14 percent in the year 1999. In 2000 year the share in total exports reached to \$ 0.12 percent but again decreased to \$ 0.08 percent in 2002. The share was \$ 0.12 percent in 2005 as compared to \$ 0.07 percent and \$ 0.09 in 2003 and 2004. In the last two years the share in imports remained constant at \$ 0.13. The values in the Table 1 indicate that the Pakistan's share in India's total imports is decreasing. On average the Pakistan's share in India's total imports stood at \$ 2.15. On the other hand the Pakistan's share in the total exports of the India is higher as compared to import share. The share of Pakistan's in total exports of India was \$ 0.25 percent in 1994. It increased to \$ 0.33 percent in 1995. The share was \$ 0.47 in 1996. From 1996 to 2002 the share was decreasing and reached to \$ 0.49 percent in 2003 as compared to \$ 0.42 percent in 2002. In 2004 the share was \$ 0.68 percent followed by 0.69 in 2005 and 1.11 in 2006. The

highest share was 1.32 in the year 2007 as given in Table 1. However the share decreased to 0.16 in 2008. On average the share of Pakistan in the total exports of India was 7.68. From the Table1 it is clear that Pakistan's importance in the total imports of the India is decreasing but the share in the exports of India is showing increasing trend. On average the export share was more than the import share. The average value of the share in the exports was 7.68 which is significantly higher than the average value of 2.15 in imports. The value indicates that given the India's total trade Pakistan's exports from the India is increasing.

2.2 Importance of India in Pakistan's trade

The results in Table 1 indicate that on average the share of India in the total imports of the Pakistan is decreasing. The value was \$ 0.71 in 1994 to \$ 0.89 in 1995. The share in the total imports was hovering around the minimum and maximum value ranging from \$ 0.17 and \$ 5.97 million in 2007. The share was \$ 0.29 in 1996 and \$ 1.23 in 1997. The lowest share in total imports was in year 1996. The share reached to \$ 1.37 in 1998 followed by decrease to \$ 0.91 in 1999. The Table 1 indicates that from 2001 the share increased more continuously stood at 2.71 in 2005 and 4.52 in 2006. The share was highest in 2007. However the share decreased in 2008 and stood at 2.56. As far as the Indians share in the total exports of the Pakistan is concerned from the last years the share is increasing. The share was \$ 0.56 in 1994 and shows a decreasing trend till 1997. In 1998 the share was increased to \$ 2.52 but again in year 1999 the share stood at \$ 0.81. The share was \$ 0.7 lowest in the entire sample period in the year 2001. In the year 2003 the share was 0.48 significantly highest than 2001 but lowest than \$ 0.71 in the year 2004. The value reached to 1.21 in the year 2005 followed by certain increase to 1.91 in 2006. The share \$ 1.61 in year 2007 and \$ 1.82 in year 2008. It is clear from the Table that the share was above unity from the last four years i.e. from the year 2005 to 2008. From the Table 1 the computed average share of India in Pakistan's exports was higher than the share in the total imports as shown in the Table 2. Table2 indicates that the India's share in the Pakistan's trade is higher than the Pakistan's share in the total trade

Table 1 Importance in one another's trade (share in percentages)

Pakistan's importance in India's total merchandise exports and imports			India's importance in Pakistan's total merchandise exports and imports		
year	share in total imports	share in total exports	year	share in total imports	share in total exports
1994	0.15	0.25	1994	0.71	0.56
1995	0.12	0.33	1995	0.89	0.54
1996	0.09	0.47	1996	0.29	0.39
1997	0.11	0.41	1997	1.23	0.51
1998	0.50	0.32	1998	1.37	2.52
1999	0.14	0.26	1999	0.91	0.81
2000	0.12	0.44	2000	1.72	0.71
2001	0.12	0.33	2001	1.41	0.7
2002	0.08	0.42	2002	1.83	0.45
2003	0.07	0.49	2003	2.2	0.48
2004	0.09	0.68	2004	2.9	0.71
2005	0.12	0.69	2005	2.71	1.12
2006	0.18	1.11	2006	4.52	1.91
2007	0.13	1.32	2007	5.97	1.61
2008	0.13	0.16	2008	2.56	1.82

Note: Authors own estimation based on data given in Export import data bank ministry of commerce govt. of India, economic survey of Pakistan 2009.

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Table 2 Importance in one another's trade (US \$ million)

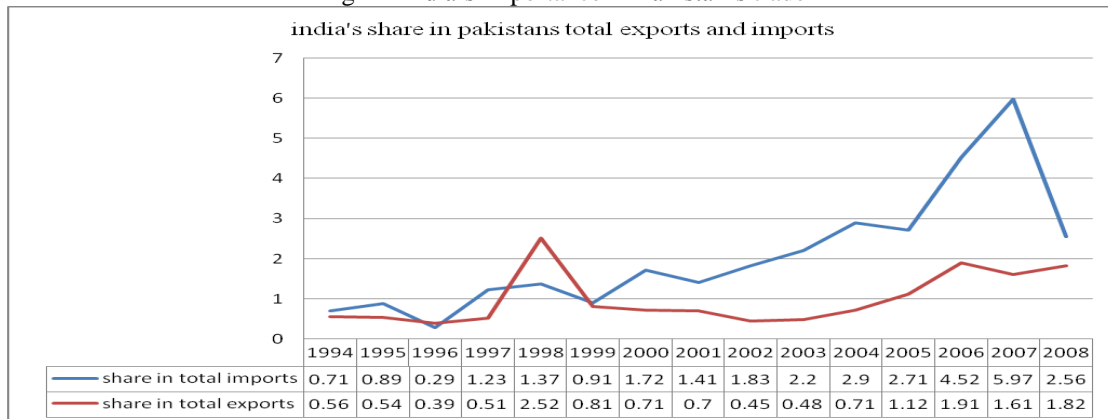
Pakistan's average share in total exports and imports		India's average share in Pakistan's total exports and imports	
Imports	exports	Imports	Exports
2.15	7.68	31.22	13.02

Note: Authors own calculation based on the Table 1

From the Table 2 it is clear that the importance of India in Pakistan's trade is growing. The share of India is more in the total imports of the Pakistan accounted for \$ 31.22 as against \$ 13.02 in the total exports of the Pakistan. On the other hand the Pakistan's importance in India's total trade is less.

"Fig"1 provides the graphical analyses of the India's importance in the Pakistan's trade. It is clear from the "Fig" 1 that the share in total imports is showing increasing trend. The share in the exports is less than the share in imports.

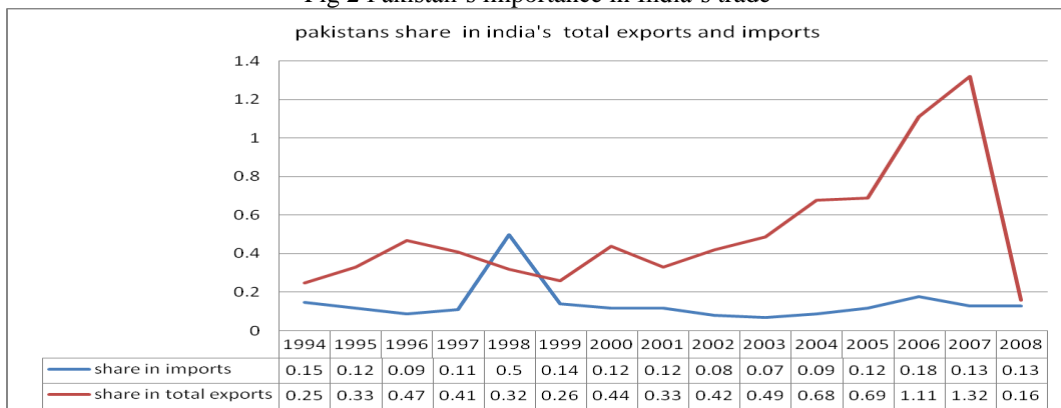
Fig 1 India's importance in Pakistan's trade



Note: Fig. is based on the Table 1

The "Fig" 2 depicts that the Pakistan's share in the total exports lies above than the share in total import.

Fig 2 Pakistan's importance in India's trade



Note: Fig. is based on the Table 1

2.3 Bilateral trade intensity

Bilateral trade intensity indices have been calculated for the time period 1994 to 2008. As the trade intensity appears in the form of export and import intensity index. Both Export import indices have been calculated for both the countries with one another. The results are shown in the Table 3.

Table 3 Bilateral trade intensity indices

YEAR	XIIip	MIiP	XIIPi	MIIPi
1994	1.25	0.89	0.92	1.23
1995	1.52	0.79	0.81	1.49
1996	2.15	0.54	0.56	2.09
1997	1.99	0.68	0.70	1.95
1998	1.97	3.22	3.36	1.86
1999	1.47	0.96	1.01	1.45
2000	2.72	0.84	0.92	2.55
2001	2.09	0.76	0.90	2.02
2002	2.49	0.51	0.53	2.41
2003	2.93	0.50	0.52	1.29
2004	3.58	0.65	0.68	3.48
2005	2.92	0.81	0.84	3.71
2006	4.58	1.32	1.36	4.52
2007	5.54	1.04	1.05	5.46
2008	2.32	0.94	1.01	2.31

Note: Authors own calculation, computed from the data extracted from [export import data bank](#) ministry of commerce govt.of India, economic survey 2008 of Pakistan, handbook of statistic WTO

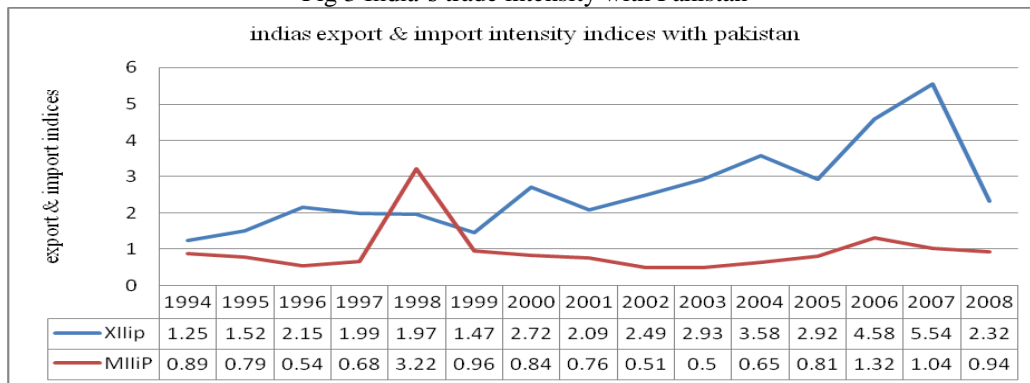
2.4 India's Trade intensity with Pakistan

The Results in the Table 3 shows that export intensities were above the unity which further indicates that exports to Pakistan are strengthens. Table 3 indicates that India's export intensities to Pakistan are increasing. The export intensity index (XIIip) is hovering round the minimum value ranging 1.25 in the year 1994 to 5.54 in 2007. Export intensity index of India with Pakistan was 1.52 in 1995 which increased to 2.15 in 1996. Export intensity was 1.99 in 1997 and was followed by the sharp decline to 1.47 in 1997. In 2004 export intensity index reached to 3.58 which decreased 2.92 in 2005. Export intensity was 4.58 in 2006 and highest in the sample period was 5.54 in 2007. However in 2008 it decreased to 2.32.

As far as the import intensity is concerned it was hovering around the minimum and maximum value ranging 0.50 and 3.22. Import intensity was 0.89 in 1994 which decreased to 0.79 in 1995. The import intensities in table3 are showing the decreasing trend. Import intensity was 0.54 in 1996 and was followed by 0.68 in 1997 and stood at 0.96 in 1999. The highest import intensity 3.22 in 1998 was followed by decrease to 1.04 in 2007 and 0.94 in 2008. The result of import intensities of India with Pakistan indicates that India is extremely importing less from Pakistan than it ought to import given its importance in the world trade. India has much scope to import from the Pakistan. However inspite the most favoured nation status to Pakistan India is still importing less from the Pakistan.

Trade intensity of India with Pakistan is presented graphically in "Fig" 3. The graphical analysis of the result based on Table 3 indicates that export intensity is increasing as opposite to import intensity. As far as the trade intensity of India with Pakistan is concerned the result suggested that export strength of India with Pakistan is increased but the entire trade relations are not strengthening because of less import strength confirmed by index.

Fig 3 India's trade intensity with Pakistan



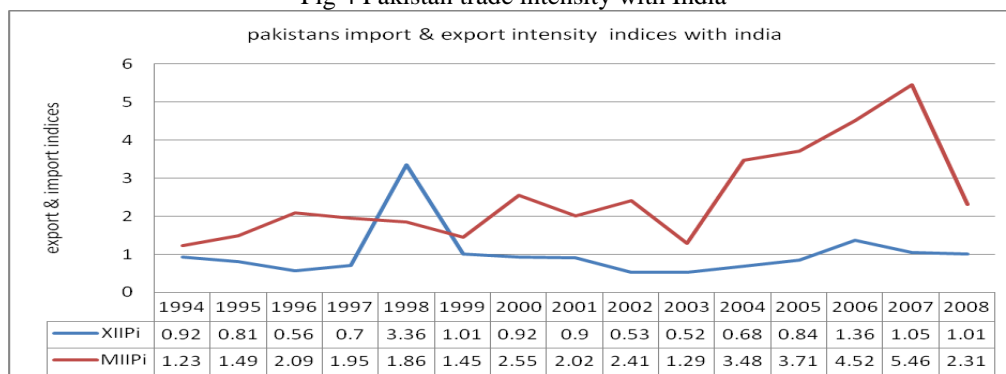
Note: based on table 3

2.5 Pakistan's trade intensity with India

The results shown in the Table 3 indicates that the export intensity of Pakistan with India (XIipi) is increasing but is below the unity in maximum years. Value of intensity below the unity indicates that there is more scope for the Pakistan to export to India and increase the welfare of the people. The export intensity was 0.92 in 1994 and reached 0.81 in 1995. There was sharp decrease in the export intensity to 0.56 in 1996 which increased to 0.70 and 3.36 in 1997 and 1998. The export intensity higher in the entire sample period was 3.36 in 1998 which decreased to 1.01 in 1999. From 1998 the export intensities are showing continuously decreasing trend up to 2005. In 2003 export intensity was 0.52 followed by increase to 0.68 in 2004 and 0.84 in 2005. From the last three years export intensity of Pakistan with India is showing the increasing trend. Export intensity was 1.36 in 2006 which decreased to 1.05 in 2007 and further 1.01 in 2008. These values shows that from past three years the export performance of the Pakistan with India is increasing.

As far as the Pakistan's import intensities to India are concerned it is showing the increasing trend. Pakistan's import intensity index (MIipi) is above one and is hovering round the minimum value ranging 1.23 in 1994 to 5.96 in 2007. Import intensity of Pakistan with India was 1.23 in 1994 followed by a sharp increase to 1.49 in 1995. Intensity increased to 2.09 in 1996 and stood at 3.48 and 3.71 in 2004 and 2005 respectively. Import intensity of Pakistan with India was 0.44 below unity in 2006 which increased to 2.58 in 2007 and stood at 2.31 in the year 2008. Overall the import intensities in the entire sample indicate that Pakistan is importing more from the India than it ought to import given its importance in the world trade. Pakistan's trade intensity is presented graphically in the "Fig"4. In the "Fig"4 it is clear that the import intensity curve lies above the export intensity curve indicate that Pakistan is importing more and exporting less. The imports of Pakistan are strengthening. It is clear from the figure the export intensity (XIpi) was below the unity in maximum years indicates that Pakistan is exporting less to the India as it ought to export. This reveals that there is scope for the Pakistan to export from the India

Fig 4 Pakistan trade intensity with India



Source: based on the Table 3.

2.6 India Pakistan trade and the competing suppliers in respective markets

This sub section is devoted to know the position of India and its competing suppliers in the Pakistan market. Table 4 indicates that the share of the India to Pakistan market has increased over the time. India's share was 2.54 in year 1994 and reached to 6.92 in the year 2005. The share was less 0.011 and 0.13 in the year 2006 and 2007. The graphical analysis in "Fig" 5 shows that the export share of the India to Pakistan market has

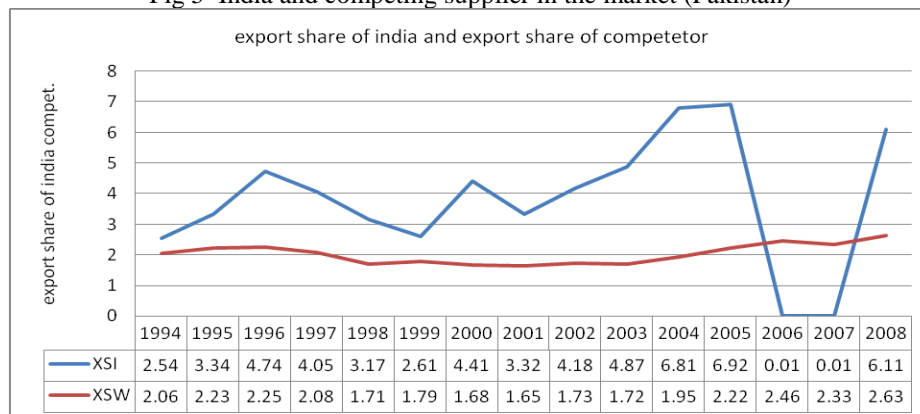
increased than the export share of the competitor except in the year 2006 and 2007. However the decreasing share of India exports to Pakistan market were not due to decreasing exports to Pakistan but due to increasing exports of India to world. Infact the exports to Pakistan were highest \$ 1348.55 and \$ 1945.12 million in the year 2006 and 2007. What could be concluded from the decreasing share in the year 2006 and 2007 is that exports to Pakistan from India were not at par with the growing importance of the two economies in world trade. As for as the ratio of the destination shares is concerned the intensity index is above the unity for India. This indicates that Pakistan nation is more important market for exporter India than for the typical country exporting to Pakistan. The findings confirmed the results that export intensity of India with Pakistan has increased over the time. As for as the stability of value of export share is concerned the competitors export share is more stable than India export share to Pakistan market.

Table 4 India Pakistan trade and competing suppliers in the markets.

India and its competing suppliers in market (Pakistan)				Pakistan and its competing suppliers in market (India)		
year	Export share of India (A)	Export share of competitors (B)	(A)/(B)	Export share of Pakistan (A)	Export share of competitors (B)	(A)/(B)
1994	2.54	2.06	1.23	5.6	6.20	0.90
1995	3.34	2.23	1.49	5.4	6.72	0.80
1996	4.74	2.25	2.10	3.9	7.02	0.55
1997	4.05	2.08	1.95	5.1	7.41	0.69
1998	3.17	1.71	1.85	0.025	7.81	3.20
1999	2.61	1.79	1.46	8.1	8.22	0.98
2000	4.41	1.68	2.62	7.1	7.98	0.89
2001	3.32	1.65	2.01	7	8.13	0.86
2002	4.18	1.73	2.42	4.5	8.70	0.52
2003	4.87	1.72	2.83	4.8	9.6	0.50
2004	6.81	1.95	3.49	7.1	10.48	0.68
2005	6.92	2.22	3.12	0.012	0.013	0.92
2006	0.011	2.46	4.47	0.019	0.014	1.35
2007	0.013	2.33	5.58	0.016	0.015	1.06
2008	6.11	2.63	2.3	0.0182	0.0182	1

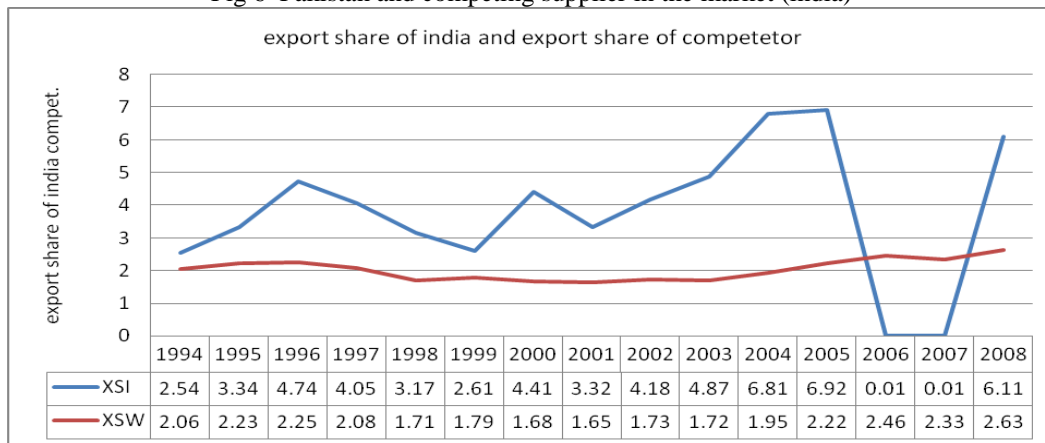
Note: Authors own calculation, computed from the data extracted from [export import data bank](#) ministry of commerce govt.of India, economic survey 2008 of Pakistan, handbook of statistic WTO

Fig 5 India and competing supplier in the market (Pakistan)



Source: Based on the Table 4

Fig 6 Pakistan and competing supplier in the market (india)



Source: Based on the Table 4

As for as the position of the Pakistan and its competitor in India market is concerned the position of Pakistan is decreasing. The export share of the Pakistan is less than the export share of the competitor in the Indian market. The export share was 5.6 in 1994 reached 8.1 in 1999 and decreased to 7.1 in 2004. From the last three four years the share of exports going to India have decreased and stood at 0.0182 in the year 2008. The share of the competitors lies above the share of Pakistan as shown in the “Fig” 6. The share of the competitors was 6.20 in 1994 reached to 7.02 in 1996. Share increased to 7.81 from 1998 to 10.48 in 2004. However the share of both the suppliers from the last three four years have decreased to Indian market.

As for the ratio of the destinations shares is concerned the trade intensity ratio is below the unity confirmed the results that the imports from Pakistan has weakling over time. The results indicate that India nation is less important market for exporter Pakistan than for the typical country exporting to India. The ratio was 0.90 in the year 1994 and decreased to 0.55 in 1996. In 1996 India granted the MFN status to India, but still remains below unity. The ratio was 0.69 in 1997 and 0.86 in 2001. However the ratio reached 1.35 in 2006 which further decreased to 1 in 2008. The less importance of the Indian nation for the exporter Pakistan is because of the high trade restrictions laid down by the India. The share of the Pakistan in the Indian market could be increased through the open policy of India to Pakistan exports.

Section 3

III. Conclusion

Given volatile environment between two countries and less trade, the study namely India Pakistan trade was conducted to study the performance of trade relations of two countries. As the study was based on the secondary data many difficulties were met. However the data was collected from different sources for the time period 1994-2008. In order to make depth study of the problem besides graphs, tables and percentages trade intensity model was used the paper was divided into three sections. The study concludes that the importance of Pakistan in Indian total trade since 1991 was more in total exports than in imports. Relatively the share in exports is more than the share in import. On average the share in exports was 0.51 and share in imports was 0.14. As far as the importance of India in total exports and imports of Pakistan is concerned it is increasing in total imports and is more than the share in total exports. On the basis of the trade intensity model the estimates suggested that the export performance from India to Pakistan is increasing as compared to the import performance. On the basis of intensity indices the export performance of India with Pakistan has increased but the import performance has not only weakening but is less than the unity indicates the scope for India to import from Pakistan. The trade relationship has increased but it could be more if trade takes place up to the potential level. However the relationship has been estimated for the formal trade only.

Looking from the position of the competitors and India Pakistan in one another’s market. The position of the India in the export market of Pakistan is showing the increasing trend but is less stable than the position of competitors in the market. Overall the Pakistan is important market for the India. On the other hand the position of the Pakistan in the export market of India is decreasing and its share is replaced by the share of the competitors. India is not still the important export market for Pakistan.

The policy implications of the study are that, both countries should realize the trade benefits and serious steps should be taken not only in words but practical. Close economic ties between the two countries are essential to improve the health of two economies. All issues, especially Kashmir issue should be resolved. Kashmir instead of fighting place could become the important link to trade between two countries. Discriminative behavior of the trade policies should be eliminated; at least the second best policy could be to

reduce the barriers of trade. Pakistan should grant the MFN status to India, and India should improve the access of Pakistani goods to Indian markets. All link and transport roads should be opened subject to the minimum security control. Infrastructure should be developed and improved. Pakistan should import the intermediate goods from India in order to be cost saving producers. Transparency in the departments should be laid down in order to reduce the informal trade. Both parties should develop the competitive environment in each other's market. The most favored nation status granted by India to Pakistan in 1996 has not increased the Pakistan's export share in the Indian market. On the other hand the Pakistan is important export market for the India than any typical country exporting to Pakistan market. The increasing share of the competing supplier in the Indian market can be replaced by the increased share of the Pakistan by lowering the trade restrictions. Pakistan still could be the more important market for the India by granting the most favored nation status to India. So the policies needed from the Indian side are to reduce the trade restriction and implement the MFN clause fully. Pakistan should realize the trade benefits and grant the most favored nation status to India. . There are many points which will lead to increase the trade benefits purely: such as Common borders, Hereditary tastes, lowest transportation costs, less time delivery needed

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