



Trade Between India and Pakistan

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Why in News

Pakistan will allow the import of cotton and sugar from India, partially reversing a two-year old decision to suspend all trade with India.

The decision to cancel trade was taken by the Pakistan government in August, 2019, days after the Indian government **amended Article 370** and **reorganised Jammu and Kashmir**.

Key Points

- **Pakistan's Trade Ban:**

- Pakistan's decision to suspend bilateral trade with India in August 2019 was a fallout of the constitutional changes in Jammu and Kashmir.
- However, an **underlying reason for suspending trade was the 200% tariff imposed** by India on Pakistani imports earlier that year after India revoked Pakistan's **Most Favoured Nation (MFN) status** in the aftermath of the **Pulwama terrorist attack**.
- Trade between the two countries suffered greatly.
India's exports to Pakistan dropped nearly 60% to USD 816.62 million, and its imports fell 97% to USD 13.97 million in 2019-20.

- **India-Pakistan Trade Before Ban:**

- Over the years, **India has had a trade surplus with Pakistan**, with much less imports than exports and trade has always been linked to politics.
- India's exports to Pakistan fell around 16% to **USD 1.82 billion in 2016-17 as compared to 2015-16** after relations deteriorated in the aftermath of the **Uri terror attack** and the **Indian Army's surgical strikes** on militant launchpads in Pakistan-occupied Kashmir in 2016.
- Despite continuing tensions, trade between the two countries grew marginally in subsequent years.
 - **Indian exports rose** nearly 6% to USD 1.92 billion in 2017-18, and then by around 7% in 2018-19.
 - **Imports from Pakistan**, though much less in volume, **also increased by 7.5%** to USD 488.56 million in **2017-18** as compared to **2016-17**.

- **Major Products Traded:**

- Pakistan was among **India's top 50 trade partners in 2018-19**, but was pushed out of the list in 2019-20.

It had been anticipated that **a trade ban between the countries would affect Pakistan more**, since it relied heavily on India for key raw materials for its textiles and pharmaceuticals industries.

- **Indian Export to Pakistan:**

- In 2018-19, **cotton and organic chemicals** accounted for around **half of Indian export to Pakistan**.
- Other major items included **plastic, tanning/dyeing extracts, and nuclear reactors, boilers, machinery, and mechanical appliances**.
- **After the ban**, imports of many items fell drastically, while cotton imports stopped altogether.

The only increase has been in **pharmaceutical products**. Pakistan has so far imported **drug products and organic chemicals** to ensure sufficient supplies of medicines during the **Covid-19 pandemic**.

- **Indian Import From Pakistan:**

India's major imports from Pakistan in 2018-19 were **mineral fuels and oils, edible fruits and nuts, salt, sulphur, stone and plastering materials**, ores, slag and ash and raw hides and leather.

- **Removal of Trade Ban by Pakistan:**

- **Shortage in Raw Material:** Pakistan decided to lift the ban on cotton imports as there is a shortage in raw material for **Pakistan's textile sector**, which has suffered due to **low domestic yields of cotton**.
- **Cheaper Imports from India:** Cotton and sugar imports from countries like the USA and Brazil are **costlier and take longer to arrive**.
- **High Domestic Demand and Prices:** The decision on sugar was dictated by high demand and high domestic prices.
The decision to import from India is a measure to stabilize the market prices.

- **Implications:**

- The decision by Pakistan to allow trade in the selected items will **gradually lead to restoration of normalcy in India-Pakistan trade**.
- This might be **a good time for India to explore a reduction in its 200% import duties** on products that its industries can benefit from.
- The move by Pakistan has **raised hopes for further measures** besides the granting of sports related visas by India after a gap of three years, scheduling a much-delayed meeting of the **Indus Water Commissioners** in Delhi, peace at the **Line of Control (LoC)** after more than 5,000 ceasefire violations, as well as the exchange of salutary messages between Indian and Pakistan Prime Ministers.

Source: IE