

Who gains from trade between India and Pakistan?¹

Amir Ullah Khan

India Development foundation

March 2004

Introduction

A lot has been written about trade ties between India and Pakistan with opposing views – those who think that trade would facilitate cheaper access to goods for the consumers in both the countries while others believing that India being the larger economy will dominate the sub-continent. In this paper we study the trade taking place between the various trading blocks like ASEAN, MERCOSUR and NAFTA at two points in time - 1991 and 2001. This is done to highlight the fact that geographically close countries in these blocs trade much more than what the countries of south Asia do and this flow has dramatically increased in the last decade with the liberalization of trade being accomplished in the other trade blocs.

¹ Draft paper on Pakistan India Trade prospects. Author: Amir Ullah Khan, Fellow, India Development Foundation. Research assistance: Zafar Anjum, Syeda Quratulain, Bhupesh Yadav and Samrat Bose.

A common fate

Historically the Indian subcontinent has been an agricultural country. The 1871 census reports that 56% of adult male population was engaged in agriculture. The manufacturing sector coexisted in the form of labour intensive industry based on handicrafts. Technical skills available paved the way for a relatively strong spinning weaving, dyeing, gold, silver, and perfume industry. However trade suffered, as communication systems were poor, and transportation meager. Yet there was enough evidence of external trade. India enjoyed surpluses and received gold and silver. There were really no roads, though the shipping infrastructure was of a high standard. The banking sector was one where individuals and families operated banks.² The predominance of rural life saw an economy that was almost entirely rural. A simple form of division of labour based on hereditary skills needed only a small urban population.

The British period was significant in its colonial undertones. Stagnation under the British rule resulted in tremendous impoverishment and therefore India became an underdeveloped economy. The downward slide, it is argued came about as a result of some major factors like

- a. A steady reduction in the per capita income – The per capita income recorded in terms of paddy production fell from 15.4 in 1867 to 12.7 in 1899 and from 100 in 1905 to 91 in 1945.
- b. A fall in living levels evidenced in a high birth rate of 45 per thousand considered the biological maximum rate. The death rate went up to 47 per thousand. In 1941 only 17% of the population was literate.
- c. Low growth in national income coupled with little addition to stock of real capital. The level of net investment was low. Capital stock in fact declined due to the world war. And

² The main instrument of credit was the Hundi – and the two types of hundis were the Darshni Hundi and the Mudati Hundi

if this was not enough, the partition in 1947 further depleted capital. Both new countries faced tremendous constraints and inherited a landlord tenant relationship encouraged by the British.

d. The number of workers in agriculture had steadily gone up. 74% of the population was engaged in agriculture in 1881 and this figure went up to 76 in 1931. On the other hand the workforce in manufacturing that was at 18% in 1881 went down to 15 in 1931.

There have been several explanations offered for this decline. Among the prevalent ones are the level of technology employed, a prevalence of anti growth attitudes,³ religion, rigid caste structure and a moribund class hierarchy. Another oft-quoted reason has been population pressure and Kinsley Davis has further argued that it was not population alone, but a case of growth growing far slower than population. Whereas Dadabhai Naoroji and Romesh Dutt have put the blame squarely on the Government's colonial policy where the state apparatus was used in the interest of British industry and against Indian economy. Heavy import duties in Britain were accompanied with high excise duties in India. The entire government procurement system was lop-sided. On top of all this the country was squeezed of its surpluses from the budget and the foreign trade sector. Several payments were effected for which there was no return.⁴

Part 1 – The Indian story

India's economic policy till economic reforms took place in the early 1990s, economic policy focused on a drive for self-sufficiency with a minimum of foreign participation. Reforms have since proceeded slowly—a large (and inefficient) public sector co-exists with a sizeable and diversified private sector. Agriculture is almost entirely in private hands. Health care, despite a large presence of public health care delivery systems, is largely in the hands of poorly equipped semi trained medical workers.

³ As argued by Knowles in *The Economic Development of the British Overseas empire*.

⁴ The drain is estimated to be at least 2 to 3 per cent of national income 1757 - 1939. Romesh Dutt - *the lifeblood of India in a continuous ceaseless flow was drained away*.

India's economic reforms started in the mid eighties and gained momentum in the 1990s. The import licensing system was dismantled, all non tariff barriers phased out,(except in consumer goods) and QRs phased out by March 2001. Peak tariff rates have been brought down from a high of 335 per cent to 50 per cent. Foreign investment is allowed in most sectors and a Foreign Investment Promotion Board (FIPB) set up to consider all proposals that do not get automatically cleared. The law on monopolistic practices was amended, banking was deregulated and foreign institutional investment allowed to trade in securities without restrictions.

India has maintained a democratic framework since independence. The centralisation of decision making, particularly in the 1970s, has led to the growth of regional parties, and coalition government is now the norm. Despite poor literacy rates and widespread corruption, a high level of political awareness and the sheer size of India's electorate have ensured that democratic norms are, on the whole, respected. The prime minister is the head of government, requiring the support of a majority of the national parliament. The president is the head of state and, although limited in executive power, can influence the formation of governments at both the state and national level when no party has received an outright majority. The judiciary is formally independent and is increasingly assertive.

Reducing the fiscal deficit is a major policy issue. Simplifying the tax structure, lowering real interest rates and the politically difficult issues of disinvestment and a reduction in government subsidies are key to the problem. Further liberalisation will increase the role of domestic and foreign private-sector companies in a range of sectors. Sharp increases in the price of oil and further liberalisation of imports caused the merchandise trade deficit to widen in 2000; it reached US\$12.2bn, compared with US\$8.7bn in 1999. Goods exports in 2000 rose by 16.8%, and imports increased by 21.3%. An industrial slowdown in 2001 led to a slowdown in both imports and exports: consequently the trade deficit is estimated to have fallen to US\$9.6bn.

The maximum rate for personal income tax is 30% and the corporation tax rate is 35% for

Indian companies and 40% for foreign companies. All firms are subject to a 10% tax on distributed profits. Customs duties have been sharply lowered, but remain high by international standards. An increased reliance on direct rather than indirect taxes is likely over the forecast period.

Despite India's success in software and nuclear technology the country suffers the image of being a poor economy. With a per capita income of 450 US dollars, India is indeed a poor country. The World Bank's World Development Report for 2000/2001 ranked India 162nd in the world, measured in terms of per capita income. Admittedly, per capita income that uses official exchange rates for conversion is not necessarily a good indicator, since it fails to capture the purchasing power of a currency. The India's purchasing power parity (PPP) per capita income is 2390 US dollars. External debt stands at 99 billion dollars, the gross fiscal deficit as a percentage of te GDP is at a fragile 5.3%, the GDP growth rate is 5.3% and the foreign exchange reserves hover around the 62 billion dollar mark.⁵ 44.2% of the Indian population is estimated to be below the internationally accepted poverty line of 1 US dollar per day.⁶ Poverty is also reflected in quality of life indicators. The UNDP's Human Development Report for 2000 gives India a rank of 128th in the world, measured in terms of the human development index (HDI). Life expectancy at birth is 62.6 years, the infant mortality rate (per 1000 live births) is 69 and the adult literacy rate is 52.2%.

However, all these indicators have improved since Independence in 1947, as have other economic indicators. For example, in 1950-51 (India follows a financial year system from 1 April to 31 March of next year), life expectancy was 32.1 years and the adult literacy rate was 18.3%.

Till the end of the 1970s, real national income grew at an average annual rate of around 3.5%. Since the population rate of growth was around 2%, this meant that per capita real national income grew by only around 1.5%. This was clearly not enough to make an

⁵ Hindustan Times dates 23 September 2002.

⁶ These are 1997 figures, of the World Bank.

impact on poverty. The emphasis on self-reliance and import-substitution did have some benefits. A broad and diversified industrial base developed. In the initial years, there was a foreign exchange shortage and this had to be successfully managed. Self-reliance in food was an issue and beginning with the end of the 1960s, the Green Revolution (with an emphasis on hybrid seeds, chemical fertilizers and farm mechanization) gradually transformed India from a country that imported food to one that occasionally exports food. However, the Green Revolution is still limited to some States (Western Uttar Pradesh, Punjab and Haryana) and agricultural productivity levels are still low. The problem is to extend the Green Revolution to other States and increase productivity, perhaps with the use of biotechnology. After all, two-thirds of the Indian population is still employed in the rural sector, although agriculture contributes only 25% of GDP (gross domestic product). Industry chips in with another 25%, while services contribute 50%.

By the early 1980s, it was recognized that costs of State intervention were far more than benefits and some limited reforms were introduced. In the 1980s, the annual average rate of growth of real national income went up to 5.5%. A balance of payments crisis in 1990-91 drove a further set of reforms.

In the external sector, tariffs were brought down to an average of 24%, import licensing was eliminated, an administered exchange rate was replaced by a market-determined exchange rate that made the rupee convertible on the current account and export subsidies were unified across sectors and are progressively being eliminated. There was also a more open policy towards foreign direct investments (FDI) as opposed to the earlier emphasis on borrowing. FDI inflows are between 2.5 to 3 billion US dollars a year and the government has a target of increasing this to 10 billion. In the domestic economy, industrial licensing was eliminated and there have been several reforms in the financial sector, with the opening up of banking and insurance.

In PPP terms, India is the fourth largest economy in the world today, after the United States, China and Japan. At present rates of growth, it will overtake Japan between 2010

and 2015. By that time, the literacy rate should touch 85%, the percentage of population below the poverty line should drop to 15% or less and the infant mortality rate should drop to 35 per thousand. There is already a middle class of 300 million and an enormous explosion in consumption is in the offing. Together with China, India is destined to be the engine of world economic growth in the 21st century.

Almost three-quarters of India's population make a livelihood from agriculture, forestry and fishing, accounting for about 30% of GDP. The majority of landholdings is in private hands, and is cultivated at subsistence level. With annual population growth of 1.8% over recent years, India will be the world's most populous country in the next century. Its human development indicators are among the worst in the world. But India also has a large number of highly qualified professionals, as well as several internationally established industrial groups.

Part 2 – Pakistan's economic history

Pakistan's economy has traditionally been heavily dependent on external sources. The phase of high growth in the 1960s came to an end with the break up of Pakistan in the early 1970s. And the economy registered falling rates of growth. In the 1990s, the country's GDP growth rate slid down from 6 percent to 3 percent. The shortfall was mainly due to agriculture where production declined by 2.5 percent. The fall in investments did not help. The government's debt started accelerating to reach a level above 100 percent of GDP. And the September 11 damage on account of the Afghan war is estimated to be upwards of \$2 billion. Debt rescheduling and promises of grants and open markets from western countries have yet to register their presence. On a positive note, the rupee strengthened from Rs. 64 per US dollar in October 2001 to Rs. 60 per US dollar in January 2002. This has possible due to a regulation of the banking sector and remittances, and crackdown on *hawala* transactions.

Pakistan's economy has been hampered by the following factors:

1. Lack of an industrial Base: Over the decades, Pakistan developed a modest industrial base in steel, textiles, sugar, cement, leather goods, chemicals and plastics. Agriculture's contribution to the overall output in the country has come down from 39 percent in 1969-70 to 25 percent in 2000-2001. At the same time, the share of the services sector increased from 38.4 percent to 50.3 percent during this period. The share of manufacturing has consistently remained around 16-17 percent during the past three decades. Large-scale manufacturing sector that grew at an average rate of 8.2 percent in the 1980s slowed down to an average rate of 4.4 percent in the first half of the 1990s and further to 2 percent in the latter half.
2. Low Investments and Savings: In the second half of the 1990s, total and fixed investment rates went down to 17 percent and 15.2 percent of GDP respectively, from 19.5 percent and 18 percent in the first half of the decade. Also, foreign investment has been consistently coming down since 1995-96. From \$1400 million in 1995-96, it declined to \$403 million in 1998-99. In 1999-2000, however, investments rose ever so slightly to \$543 million.
3. Reliance on External Borrowings and Remittances: In the 1990s, remittances declined and export growth slowed down. As a result, the current account balance of payments deficit increased, touching 7 percent of GDP in 1995-96. Also, external debt quadrupled from \$10 billion in 1980 to \$40 billion in 2001. Pakistan has received foreign aid in the wake of the Afghan War in 2001, but the country is yet vulnerable to a debt trap.

Weak social sector development: Growing poverty and low standards of health and education have been a nagging problem. Nearly 35 percent of the population lives below the poverty line. Infant mortality rate is high (ten percent). Similarly, the drop out rate of children at the primary school level is as high as 50 percent. Unemployment is also a big problem. At least one out of every ten men in the organized sector is jobless. And while the country's defence expenditure accounted for 4.5 percent of GDP, its development expenditure hardly accounted for 3.2 percent of GDP.⁷

⁷ Informal economy: Despite all these bad indicators, what is keeping Pakistan's economy afloat is the parallel economy. According to the estimates of the Pakistan Institute of Development Economics, assets

Pakistan was founded in 1947, when Britain partitioned British India into India and Pakistan. Soon after independence, its founder, Mohammad Ali Jinnah, died in 1948. In 1958 General Ayub Khan brought the military to power for the first time. Zulfikar Ali Bhutto took power as president and became prime minister in 1973, but was deposed by General Zia ul-Haq in a coup in 1977. General Zia died in 1988 and soon after Benazir Bhutto, was elected prime minister. In October 1999, after two years in power, Nawaz Sharif's government was overthrown by the military: the chief of army staff, General Pervez Musharraf, became the chief executive of Pakistan and, in June 2001, the president.

The president, who is advised by a National Security Council made up of military chiefs and cabinet members, heads the government. Army commanders carry out the day-to-day functioning of the government through the largely civilian cabinet and. A National Reconstruction Bureau has been given the task of outlining the various reforms that the country will undergo in the next few years. Parliament has been dismissed and the constitution suspended, but martial law has not been declared. The military government has until October 2002 to complete its reforms and transfer power to an elected government.

Pakistan's structural adjustment programme started in 1988 with the annual budget announcing a number of measures with respect to its trade policy. The tariff structure was sought to be rationalized, the number of items on the restricted and banned lists brought down, and import licensing requirements streamlined. By 1993, the peak tariff was brought down to 90 percent. The maximum import duty is now 45 per cent and is expected to decrease further to 35 per cent. Export duties on raw cotton and yarn have been withdrawn, custom duty drawback introduced and income tax rebates given to exporters. All regulations on investment licensing, imports of capital and intermediate

worth more than \$28 billion are part of the black economy. In 2001, the World Bank calculated that Pakistan's black economy was about 70 percent of GDP.

goods and royalty payments have been removed. Public sector industry in manufacturing, banking, telecom and power is being divested.

According to the State Bank of Pakistan (SBP, the central bank), the merchandise trade deficit in the first eleven months of fiscal year 2001/02 (July-June) narrowed by 23.1% to US\$1,195m. The fall was attributed to lower import volumes and oil prices. From 2002/03, the surcharge on corporate incomes has been abolished and listed corporations pay 35% tax on profits. Banking corporations pay 50% tax in 2002/03. The number of personal income tax bands has been reduced from seven to five, with a minimum of 7.5% and maximum of 35%. Preferential rates apply in special industrial zones. Non-residents are exempt from tax on income earned from government securities and capital listed on the stock exchanges. Simplified rates of tax, from 0.5% to 1%, apply to income from the export of goods.

Table a gives our relative position in terms of other comparable countries. We had referred to China and Korea as having started off, during our Independence, at positions similar to us in terms of GDP per capita. In 2000, Korea had a per capita GDP of USD 17,380 while China had a figure of USD 3,976. India, on the other hand had only USD 2,358. What is probably worse is that India was below the average for all the four regions given at the end of the Table. Indeed, both in terms of life expectancy and adult literacy, India's position is bad.

Table a

HDI Rank	Country	GDP per capita (PPP USD) 2000	per Adult Rate (% 15 & above) 2000	Literacy Life Expectancy at birth (years) 2000
9	Japan	26,755		81.0
23	Hong Kong, China (SAR)	25,153	93.5	79.5
25	Singapore	23,356	92.3	77.6
27	Korea, Rep. of	17,380	97.8	74.9
59	Malaysia	9,068	87.5	72.5
70	Thailand	6,402	95.5	70.2
77	Philippines	3,971	95.3	69.3
89	Sri Lanka	3,530	91.6	72.1
96	China	3,976	84.1	70.5
110	Indonesia	3,043	86.9	66.2
124	India	2,358	57.2	63.3
138	Pakistan	1,928	43.2	60.0
145	Bangladesh	1,602	41.3	59.4
	South Asia	2,404	55.6	62.9
	East Asia and the Pacific	4,290	85.9	69.5
	Developing Countries	3,783	73.7	64.7
	WORLD	7,446		66.9

Source: Human Development Report, 2002

Table b is even more illuminating in terms of how poorly we fare with respect to some of the things we are proud of. We often boast of our higher education system and the number of skilled personnel we produce in the country. Unfortunately, Korea has 14 times the number of scientists and engineers involved in R&D compared to us. Even China has three times the number we have, while Philippines and Malaysia have numbers comparable to us. China faces many of the same problems we do. It is a big country, with diverse topographical features and difficult geographical terrain. And yet, it has four times the telephone density that we have.

Table b

HDI Rank	Country	Telephone Mainlines (per 1000) 2000	Scientists & Engineers in R&D (per million) 2000
9	Japan	586	4,960
23	Hong Kong, China (SAR)	583	93
25	Singapore	484	2,182
27	Korea, Rep. of	464	2,139
59	Malaysia	199	154
70	Thailand	92	102
77	Philippines	40	156
89	Sri Lanka	40	188
96	China	112	459
110	Indonesia	31	
124	India	32	158
138	Pakistan	22	78
145	Bangladesh	4	51
	South Asia	33	158
	East Asia and the Pacific	104	496
	Developing Countries	78	
	WORLD	163	

Source: Human Development Report, 2002

A lot has been written about trade ties between India and Pakistan with opposing views – those who think that trade would facilitate cheaper access to goods for the consumers in both the countries while others believing that India being the larger economy will dominate the sub-continent.

In this paper we study the trade taking place between the various trading blocks like ASEAN, MERCOSUR and NAFTA at two points in time - 1991 and 2001. This is done to highlight the fact that geographically close countries in these blocs trade much more than what the countries of south Asia do and this flow has dramatically increased in the last decade with the liberalization of trade being accomplished in the other trade blocs.

Intra Block Movements

A look at the table below shows that intra-block trade has increased all across in the decade between 1991 and 2001. Though the increase in trade between SAARC countries too has notched an increase of 278 per cent but it starts with the lowest base among the four blocks under consideration.

Table 1 Trade within blocks, 1991-2001

Trade Blocks	Trade (in million US \$)			Intra-block trade as % of total trade	
	1991	2001	% Change	1991	2001
ASEAN	33,445	90,004	169	10.3	12.7
MERCOSUR	6,519	22,320	242	7.0	10.8
NAFTA	232,128	633,473	173	18.8	
SAARC	924	3,497	278	0.1	2.5

Source: International Trade Statistics Yearbook, 1991 and 2001, United Nations; Analysis: IDF

The column on 'Intra-block trade as % total trade' deflates the figures for trade given on the above table. They describe the trade within each block as the percentage of that particular trade block's external relations i.e. export – import transactions taking place with countries other than those in their trading blocks.

Though the figures reflect the dramatic growth in SAARC countries intra-block trade as a percentage of their trade with the world, the figures pale in comparison to the other trade blocks. This also provides us with the proof of the 'cluster approach' within close geographic neighbors can be a success even while competing in third markets.

India – Pakistan trade within SAARC

But the above table does not elucidate on the pattern of trade between the countries in these blocks. A study of the table below shows a different picture when India – Pakistan trade is concerned.

Table 2 Per cent contribution to SAARC trade in 1991

Export to	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Exported from							
Bangladesh			3.47		14.52	73.56	8.46
Bhutan							
India	58.08				9.19	7.81	24.92
Maldives						0.00	100.00
Nepal	0.12	0.02	93.23			0.52	6.11
Pakistan	46.50		22.16		0.16	0.00	31.19
Sri Lanka	8.50		20.13	17.90	0.45	53.03	

Source: International Trade Statistics Yearbook, 1991, United Nations; Analysis: IDF

In 1991, India – Pakistan Trade was approximately 30 per cent of total trade between SAARC partners. For Pakistan the biggest trading partners were Bangladesh and Sri Lanka which was similar to India’s trade relation in this region. However, a decade later though total trade between SAARC countries had increased by 2.7 times, the proportion of trade between India and Pakistan has remained stagnant.

Table 3 Per Cent contribution to SAARC trade in 2001

Export to	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Exported from							
Bangladesh		1.58	23.42			75.00	
Bhutan	4.41		95.31		0.28		0.00
India	37.53	5.38		1.41	22.75	7.24	25.69
Maldives			1.45			0.00	98.55
Nepal	0.56	0.19	99.22			0.03	0.00
Pakistan	46.72		21.45	0.43	4.35	0.00	27.05
Sri Lanka			32.47	50.90		16.63	

Source: International Trade Statistics Yearbook, 2001, United Nations; Analysis: IDF

Here the important fact has been the rise of trade between India and Sri Lanka after the signing of FTA between the two countries. In fact it is Sri Lankan exports to India which

has gone up from 20 per cent to 32 per cent of its exports to SAARC countries. In the same time India's exports to Sri Lanka has remained at the level of 25 per cent of its exports to SAARC nations, thus ensuring that the major portion of the gain from FTA has accrued to Sri Lanka.

At the same time the flow of trade between India and Bangladesh has also reversed. In 1991 while Indian exports to Bangladesh constituted 58 per cent of its trade with SAARC nation, this figure has come down to 37.5 per cent in 2001. But the figure for Bangladesh has increased from 3.5 per cent of its trade with SAARC to 24 per cent.

Trading with the world

The other aspect of trade that needs to be highlighted is a nation's trade within the trade block as a proportion to its world trade. The reason for highlighting the trade figures of MERCOSUR and ASEAN is because of the formers composition which is dominated by two major players – Brazil and Argentina, while the latter is part of our Asian peer group.

Table 4 Country's trade with MERCOSUR as per cent of trade with LAIA and the World

Countries	Exports 1991		Exports 2001		Imports 1991		Imports 2001	
	LAIA	World	LAIA	World	LAIA	World	LAIA	World
Argentina	75.43	19.10	88.28	39.70	69.71	23.02	85.60	29.85
Bolivia	85.28	38.19	52.41	30.59	143.88	53.83	83.58	46.57
Brazil	43.35	6.82	66.45	13.82	67.64	11.40	76.70	13.90
Chile	54.12	8.02	43.24	9.64	61.19	16.68	71.78	33.06
Paraguay	74.93	33.29	94.45	61.34	131.96	43.46	105.86	62.01
Uruguay	78.30	31.54	86.57	43.15	85.31	41.28	99.53	53.62

Source: International Trade Statistics Yearbook, 1991 and 2001, United Nations; Analysis: IDF

A look at the above table shows that a large proportion of exports and imports that MERCOSUR members undertake are within the geographic boundaries of the trading block itself when compared with its neighboring countries of the Latin America Integration Council (LAIA) and the rest of the world.

It must be pointed out that import figures substantiate the fact that the gains from trade mostly accrues to the smaller economies. In Table 4, both Argentina and Brazil have seen an increase in their imports from the other four countries of MERCOSUR after the trade pact was revived in 1993. 69.7 per cent and 85.6 per cent of Argentina's import as compared to its trade with other Latin American nations, in 1991 and 2001 respectively, came from the other four nations of MERCOSUR. The figures for Brazil were 67.6 and 76.7 per cent at the same points in time.

Table 5 Country's trade with ASEAN as per cent of trade with Asia and the World

Countries	Exports 1991		Exports 2001		Imports 1991		Imports 2001	
	Asia	World	Asia	World	Asia	World	Asia	World
Brunei	18.26	16.95	17.07	15.07	101.50	60.97	79.56	51.14
Cambodia			71.85	32.92			78.67	67.55
Indonesia	16.00	11.06	26.73	16.92	16.88	9.21	47.55	28.68
Malaysia	46.53	29.07	42.20	25.11	67.50	39.83	58.27	37.04
Myanmar			35.14	26.79			45.89	42.12
Philippines	52.04	19.61	31.42	15.53	21.53	11.23	32.16	21.49
Singapore	47.59	26.26	49.60	31.13	27.53	17.81	38.89	25.17

Thailand	26.31	12.02	34.75	18.77	23.90	15.16	29.22	18.85
Vietnam			35.34	20.38			40.38	32.39

*Source: International Trade Statistics Yearbook, 1991 and 2001, United Nations;
Analysis: IDF*

Similarly for the ASEAN nations, their trade within forms a large chunk of their overall trade in Asia as well as their exports from and imports to the rest of the world. Imports from ASEAN countries as percentage of imports from other parts of Asia has gone up for Indonesia, Singapore and Thailand pointing to the fact of increased intra-block trade wherein the larger economies absorb more of the imports.

Table 6 Country's trade with SAARC as per cent of trade with Asia and the World

Countries	Exports 1991		Exports 2001		Imports 1991		Imports 2001	
	Asia	World	Asia	World	Asia	World	Asia	World
Bangladesh	16.93	4.18	8.27	0.88	26.11	15.97	22.39	15.64
Bhutan			92.53	91.90			78.06	75.40
India	9.91	2.90	15.03	5.59	1.41	0.45	4.21	1.08
Maldives			49.11	18.02			40.03	33.00
Nepal	87.57	25.50	93.52	45.19	21.34	14.23	48.47	37.82
Pakistan	10.04	3.95	9.14	3.28	3.18	1.61	3.30	2.42
Sri Lanka	10.12	2.92	15.93	3.82	7.99	5.58	16.22	13.79

*Source: International Trade Statistics Yearbook, 1991 and 2001, United Nations;
Analysis: IDF*

The following table highlights the areas for trade between the two South Asian neighbors:

Table 7 List of commodities

Pakistan import list / India export list	Pakistan export list / India import list
Product	Product
Electric and Power Generation Machinery	Animal Hides and Skins
Iron ore, pig iron	Raw Cotton
Medicinal and Pharmaceutical products	Edible nuts
Organic chemicals, Pesticides & Insecticides	Metal Scrap
Rubber Tyres	Precious and Semi-precious stones

Rationalizing India-Pakistan Trade

Pulp and paper board	
----------------------	--

Source: International Trade Statistics Yearbook, 2001, United Nations; Analysis: IDF

Table c: TRADE FIGURES

HDI Rank	Country	Imports of goods and services (as percentage of GDP)			Exports of goods and services (as percentage of GDP)		
		1990	2000	%change	1990	2000	%change
9	Japan	9	8	-11.11	10	10	0.00
23	Hong Kong, China (SAR)	126	145	15.08	134	150	11.94
25	Singapore	195	161	-17.44	202	180	-10.89
27	Korea, Rep. of	30	42	40.00	29	45	55.17
59	Malaysia	72	104	44.44	75	125	66.67
70	Thailand	42	59	40.48	34	67	97.06
77	Philippines	33	50	51.52	28	56	100.00
89	Sri Lanka	38	51	34.21	29	40	37.93
96	China	14	23	64.29	18	26	44.44
110	Indonesia	24	31	29.17	25	39	56.00
124	India	10	17	70.00	7	14	100.00
138	Pakistan	23	19	-17.39	16	16	0.00
145	Bangladesh	14	19	35.71	6	14	133.33
	South Asia	15	19	26.67	11	18	63.64
	East Asia and the Pacific	40	51	27.50	41	56	36.59
	Developing Countries	26	32	23.08	26	34	30.77
	WORLD	20	22	10.00	20	23	15.00

Source: Human Development Report, 2002

Table d: FDI FIGURES

HDI Rank	Country	Net Foreign Direct Investment Inflows (as percentage of GDP)			Other Private Flows (as percentage of GDP)		
		1990	2000	%change	1990	2000	%change
9	Japan						
23	Hong Kong, China (SAR)						
25	Singapore	15.2	6.9	-54.61			
27	Korea, Rep. of	0.3	2.0	566.67	0.1	0.9	800
59	Malaysia	5.3	1.9	-64.15	-3.6	1.7	147
70	Thailand	2.9	2.8	-3.45	2.3	-3.9	-270
77	Philippines	1.2	2.7	125.00	0.2	0.6	200
89	Sri Lanka	0.5	1.1	120.00	0.1	0.5	400
96	China	1.0	3.6	260.00	1.3	1.8	38
110	Indonesia	1.0	-3.0	-400.00	1.9	-4.3	-326
124	India	0.1	0.5	400.00	0.5	1.4	180
138	Pakistan	0.6	0.5	-16.67	-0.2	-0.6	200
145	Bangladesh		0.6		0.2		
	South Asia		0.5		0.3	0.8	166.67
	East Asia and the Pacific	1.7	2.8	64.71	0.8	0.7	-12.50
	Developing Countries	0.9	2.5	177.78	0.5	1.0	100.00
	WORLD	1.0	3.8	280.00			

Source: Human Development Report, 2002

Conclusion

During his famous 'bus journey' in February 1999, the Indian Prime Minister announced the formation of the India-Pakistan Chamber of Commerce and Industry. But then Kargil happened and ruined relations between the two countries. India categorically refused any talks with Pakistan – on any matter. In recent years, there has been increased consensus regarding the significant trade potential that exists between the two countries. India's unofficial and smuggled exports to Pakistan are estimated at US\$1 billion, while the official figures are a mere US\$ 94 million. Though officially only 600 items (now revised upwards to about a 1000) are under the list of imports to Pakistan, a much larger number find their way into Pakistan, from India to Bandar-e-Abbas in Iran, to Kabul and later to

Peshawar. The selling price of these goods in Pakistan's markets is that much more inflated due to this circuitous trading route.

Pakistan imports iron ore at a higher cost from Brazil and Australia. Cars and scooters produced in Pakistan are priced 50 per cent higher than Indian vehicles. Pakistan is the second-largest consumer of tea in the world, a market that can be exploited by India. Indian drugs are 30 per cent cheaper. Pakistan has banned the import of textile machinery from India and manufacturers import the machinery mostly from Germany. Pakistan's annual demand for tyres stands at 10,00,000, whereas it produces only 200,000. Yet, it has imposed a 46.6 per cent duty on popular Indian truck tyres. Indian coffee is smuggled into Pakistan in a big way due to lack of official recognition.

It is quite obvious that trade between India and Pakistan is fraught with possibilities and would clearly result in handsome rewards for both sides. Indian goods have ready-made markets in Pakistan and its neighboring manufacturers could easily tap India's large market size.