



# KCCI - Country Wrap: INDIA (May.'18)

## India – a brief overview

India has reformed its economy by following successful models of developed economies which has enabled it to adopt rapid industrialization and open its economy for international trade. Among other sectors, the Indian film industry has played effective role in the growth of Indian economy. India's economic growth is largely dependent on various revenue generating industries which include pharmaceuticals, machinery, mining, software and petroleum apart from media. India, being an agrarian country, is an active producer of wheat, rice, cotton, jute, tea, etc.

## Pakistan and India - a brief perspective

Pakistan and India share a long complicated history as Kashmir still remains the bone of contention. Many a times important political and trade initiatives have been backtracked due to abrupt eruption of political and military incidents between the neighbors. Hence trade ties have not fully flourished between the two countries. It is believed that being major players in the South Asian region, stronger and deeper political, social and trade links between India and Pakistan are the need of the day.

## Pak-India Bilateral Trade relations

Trade balance has remained in favor of India where during 2017, Pakistan goods export to India remained \$ 470Mn as against \$ 461Mn in 2016 depicting an increase of 2%. On the other hand, goods import by Pakistan from India surged by 12% during 2017 amounting to \$ 1,783Mn as against imports of \$ 1,593Mn in 2016.

## Trade agreements between Pakistan and India

Pakistan and India signed bilateral agreements on mutual recognition of standards, customs cooperation and redress of trade grievances in September, 2012 during 7th Round of Pakistan India commerce secretary level talks. It is considered to be the major breakthrough until now in improving bilateral relations.

## Pak-India trade yet to realize full potential of SAFTA

On January 6, 2004, Pakistan and India concluded South Asian Free Trade Agreement (SAFTA) with a pledge to allow free trade by eliminating trade barriers and scale down their tariffs in two phases to 0-5% by January 1, 2016. The treaty allows free cross-border movement of goods with the provision for a list of sensitive items. Under SAFTA, India maintains a Sensitive List (SL) of 614 items for Non-Least Developing Countries (NLDC). This SL, however, applies to Pakistan only as India already has a preferential trade agreement (PTA) with Sri Lanka, the only other NLDC in SAFTA. Under this SL, India restricts around 40% of import items that mainly fall in Pakistan's area of trade interest, while Pakistan restricts only 17% of import items from India under its own SL. As per developments in July 2013, India has decided that it would bring down its SL to 100 items, provided that Pakistan grants MFN status to India and phases out its negative list for India. However SAFTA has failed to derive desired results of boosting bilateral trade between Pakistan and India.

## MFN Status and its impact

India has granted MFN status to Pakistan in 1995 which was enforced in 1996 while Pakistan has yet to reach a final decision on granting the status to India. Under the discussions for MFN, Pakistan had also considered phasing out the current negative list of 1,209 non importable items. The average applied MFN tariff for Pakistan is around 12%. Ironically, tariffs are high in sectors of interest to Pakistan, namely textiles and agriculture, marble and cement. Pakistan, postponed giving India the MFN status in 2012, due to lack of consensus among different stakeholders. However, according to the WTO's report on the Trade Policy Review of Pakistan - 2015, Pakistan is in the process of granting the Non-Discriminatory Market Access (NDMA) status to India.

## Non-Tariff Barriers: A Major trade hurdle

Bilateral and regional trade can only be fully utilized if both the nations address the prevalent non-tariff barriers (NTBs). Non-tariff barriers create hurdles in enhancement of regional and bilateral trade. Efforts should be made by the governments of Pakistan and India to eliminate NTBs, and draw up explicit commitments from both sides to deal with them through negotiations. The NTBs imposed by India broadly include requirement of standard certification, security clearance, customs inspection, packaging specification and rules, marketing and labelling rules.

## Pak India Informal Trade

Due to a number of trade hurdles, informal trade has been carried out for long time through smuggling at the border along with gross misuse of personal baggage scheme. Illicit trade is being conducted mostly via Afghanistan whereby goods officially exported from India reach Pakistan through Peshawar or en-route via Dubai. The smuggled items include consumer goods like spices, coffee and tea, cashew nuts, confectionaries, alcoholic beverages, cosmetics, stainless steel utensils and ayurvedic medicines. According to the ICRIER estimates; the quantum of informal Indian exports to Pakistan is estimated to be at \$ 3.99Bn while informal trade from Pakistan to India is estimated to be at about \$ 0.799Bn.

## Potentials for enhancing Trade between Pakistan and India

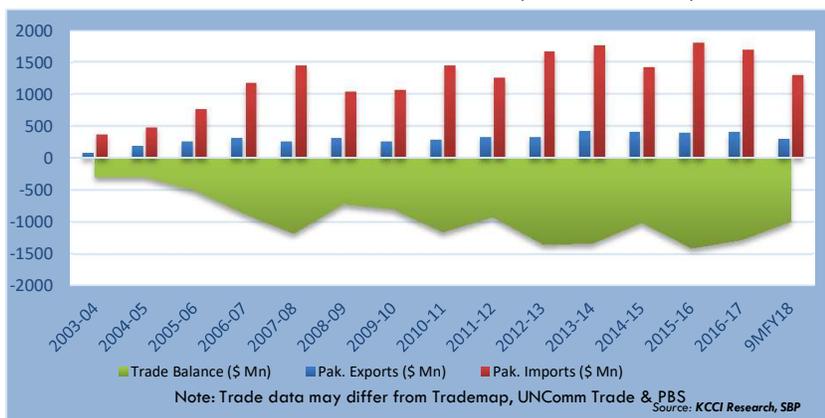
- The major items where better trade potential exists between the two countries include vehicle components, textured yarn, tea, polyethylene, medical instruments, cotton, jewelry.
- Health care sector holds good potential for cooperation.
- Bilateral trade promotion initiatives between Pakistan and India can boost bilateral trade manifolds by signing of institutional agreements for development of check posts, sea and trade routes.
- Easy issuance of visa and setting up quick custom clearance systems would also aid in enhancing bilateral trade.

## Economic Indicators

Indicators	Unit	2016	2017	Change
GDP (PPP)	\$ Bn	8,852.00	9,447.00	6.72%
GDP per Capita	\$	6,800	7,200	5.88%
GDP growth	%	7.10	6.70	-0.40%
Forex Reserves	\$ Bn	359.70	407.20	13.21%
External Debt	\$ Bn	456.40	483.40	5.92%
Exports of Goods	\$ Bn	268.60	229.30	-14.63%
Imports of Goods	\$ Bn	376.10	426.80	13.48%
Trade Balance	\$ Bn	-107.50	-197.50	-83.72%
Current Account	\$ Bn	-15.23	-33.68	-121.14%
FDI - at Home	\$ Bn	319	368	15.38%
FDI - at Abroad	\$ Bn	144.10	156.10	8.33%
CPI	%	4.50	3.80	-0.70%
Prime Lending Rate	%	9.67	9.60	-0.07%
Population	Mn	0	1,282	N/A
Unemployment	%	8.00	8.80	0.80%
Literacy Rate	%	0	0	N/A

Sources: KCCI Research, CIA Factbook

## Trade between Pakistan & India (FY04-9MFY18)



## India's Trade - Commodity Wise (2017)

Top 10 Exports Items	(\$ Mn)	Top 10 Imports Items	(\$ Mn)
Pearls, precious stones	42,573	Mineral fuels, mineral oils	123,028
Mineral fuels, mineral oils	35,896	Pearls, precious or semi-precious stone	74,369
Machinery, mech. appliances	16,652	Electrical machinery, equip and parts	46,858
Vehicles other than railway	16,227	Machinery, mechanical appliances	36,002
Organic chemicals	13,572	Organic chemicals	17,971
Pharmaceutical products	12,895	Plastics and articles thereof	13,022
Iron and steel	11,700	Animal or vegetable fats and oils	11,876
Articles of apparel not knitted	8,985	Iron and steel	9,968
Elec. machinery, equip & parts	8,801	Optical, photographic, cinematographic	8,443
Articles of apparel knitted or ..	8,347	Ores, slag and ash	5,870

Sources: KCCI Research, Trademap

## Pakistan -India Top 10 Trade Items (2017)

Pakistan Export Items	(\$ Mn)	Pakistan Imports Items	(\$ Mn)
Edible fruit and nuts; peels	119.9	Cotton	510.5
Salt; sulphur; earths and stone;	96.9	Organic chemicals	282.9
Mineral fuels, mineral oils	84.6	Plastics and articles thereof	107.4
Fertilisers	34.5	Machinery, mechanical appliances,	75.5
Raw hides and skins and leather	22.9	Man-made staple fibres	74.7
Ores, slag and ash	17.6	Tanning or dyeing extracts;	73.2
organic or inorganic metals	13.5	Iron and steel	62.1
Other made-up textile articles	12.1	Pharmaceutical products	55.1
Cotton	10.9	Man-made filaments;	50.0
Optical, photo, cinematographic	6.9	Oil seeds and oleaginous fruits;	48.3

Sources: KCCI Research, Trademap