The Virtues of Trade and its connection to Political Ties: The Case of India and Pakistan.

Name: Ahmad Sultan

Thesis Advisor: Indradeep Ghosh
Hypothesis

The objective of this paper is to argue for increased trade between Pakistan and India. It will lay out the reasons for doing so. However, this has been done before, but a lot of people, including the authors of these studies have lamented the fact that trade is always held hostage to political ties between the two countries, which have historically been negative. The second part of this paper will investigate the relationship between trade and political ties between Pakistan and India. A lot of research has been produced in this field thus far, but only in a global scenario, rather than bilateral trade ties, and, so far as I know, only twice in the case of Pakistan and India. The question the second part aims to answer is whether there exists a connection between political and trade ties? If it does what is the nature of that connection? It will look at the specific period of 2003-2007 to determine this. No other paper has done this to date. There have been papers that have looked at the relevant linkages but they only go so far as 2002. My paper will thus bring this research up to date and see whether the connection still exists, as the previously mentioned papers have argued. I find it important to look at these two countries in this regard because not only are these two countries the biggest in their region, they are also the largest
members of South Asian Association for Regional Cooperation (SAARC) and constitute the largest GDP block of the organization. Despite the low volume of trade, India is Pakistan’s biggest trade partner in SAARC. Thus the consequences of a political détente and eventual peace affect the whole region, not just the two countries in question. A lot more is at stake here than the welfare increase in India and Pakistan as our neighbors and nearby countries can also benefit a great deal from peace between India and Pakistan, they are also stakeholders in this process.

**Literature Review**

As mentioned there has been a plethora of literature in the more general sense, part of which is relative to this discussion. This is especially true of the second section, explaining the benefits of increased trade, as the Pakistani government has commissioned a number of studies, mostly through the World Bank, to investigate the potential of trade and what needs to be done in order to fulfill this potential. Looking at scholarship, this topic is found to be a very controversial one, as there have been many differing conclusions regarding the connection between trade and peace. Research in the past testing the effect of bilateral trade on peace, found a positive relationship and concluded that more trade does indeed lead to enhanced
political ties. These findings were supported by real world events, the most obvious case being that of the economic integration of Europe started by the formation of the European Union (EU).

However, other studies have also taken place which have found the opposite conclusion to be true, that trade and political ties actually have a negative relationship. This is also supported by actual events as the SAARC Preferential Trading Arrangement (SAPTA) and the subsequent South Asian Free Trade Arrangement (SAFTA) have been in force for some time yet have not led to improved political ties; conflicts in the region have actually increased. The same is true of the South African Coordination Conference (SADC), which has also failed to stop conflicts from occurring.

Other conclusions have also been reached. Martin et. al. (2008) found both a negative and positive relationship; it found that trade and peace are positively linked in the case of bilateral trade, and negatively linked in the case of multilateral trade. Another study, one of many, finds that the linkage is ambiguous and far from certain either way. There is another interesting aspect that has come to the fore in the case of some of these studies. They have shown that “terms of trade between two countries have

the potential to intensify conflict over resources such as land, rivers or oil.”

Other studies conducted in the field of trade and war focus on the increased degree of globalization in today and conclude that this is actually bad for bilateral ties between countries. Globalization has “reduced the opportunity cost of conflict and the reduced interdependence of countries on one another.” A decrease in global conflict has, in turn, led to an increase in regional and bilateral conflict. Thus these studies show a negative relationship between trade and peace.

It would thus seem that general conclusions regarding the connection between peace and trade are wrong, or at least incomplete, as this phenomenon seems very much predicated on the respective region the study is investigating. If we were to look at this relationship during the last few centuries, we see differing results. During the first wave of globalization, we see a time of increasing local, bilateral conflict which came to a close with the start of the First World War. The inter-war period was one in which both conflict and trade went down, while the second wave of globalization has been an “era with rapidly growing trade, little global conflict, but a rise in bilateral wars and a high probability of conflict (during the cold war) which

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ended after the collapse of the USSR. During the 1990s, though there was a substantial increase in trade, and the number of independent nations also rose (former Soviet states), but we do not see a clear fall in conflicts”7 as is shown in Figure 1.

Figure 1: Militarized conflict probability and trade openness over time

Source: Martin et al. (2008)

Thus we see wildly varying conclusions of the studies conducted in this sector so far. It seems that the relevant studies in the context of India and Pakistan would be the ones indicating a negative relationship between trade and peace.

Literature regarding the second part, on the other hand, is pointing in only one direction: that bilateral trade between India and Pakistan is an unquestionably good step, and steps should immediately be taken to increase

it from the current miniscule levels. Besides arguing for more trade
promoting development through increased revenue and better political ties
between the two countries, most articles also point to a previously made
point: that not only is trade good for Pakistan and India, it is also good for
the entire region, especially the SAARC countries as SAFTA has already
been signed. It should be mentioned again that South Asia remains the least
integrated region in the world economically. Trade in South Asia has
doubled over the last twenty years to US$100 Billion, in comparison it has
risen ten times in East Asia during the same period. Kashmir remains the
outstanding political dispute in the region and if that can be solved (maybe
through trade) then it will go a long way towards increased and sustained
prosperity throughout the region.

A divergence however, occurs when talking about the potential in
trade. Different studies put it at anywhere between five to ten, even twenty
times its current value, which is almost US$2 Billion. They all agree,
however, that this is a good thing and should be pursued actively.⁸ Steps
recommended to jump start this process include, but are not limited to,
measures ranging from easing visa restrictions to making timely and
accurate information available, from Pakistan reciprocating India’s gesture

(1999), Aziz et. al. (2005)
of declaring the former a Most Favored Nation (MFN) status to India restricting quotas and its many duties which make trade at the moment almost impossible since Pakistani products in Indian markets are too expensive by the time they reach the consumers for anybody to buy them.

I plan to look at the evidence in an econometric analysis from 2003-2007 analyzing data which quantifies political ties and seeing whether a connection exists between this and data available on trade ties between the two countries in this period.

I. Introduction

In 2005, Pakistan’s GDP was US$110 Billion (at current US$ prices, not adjusted for inflation) and trade was nearly US$40 Billion (US$ 40419.6 Million), yet trade with India (exports plus imports) was only US$602 Million, which is a mere 1.5 percent of total trade and 5.4 percent of GDP. This is after a dramatic increase in this figure over the course of the last decade; in the mid 1990’s, the figure was less than 1 percent. Even after this dramatic increase, it is still only worth around US$2 Billion, a very low figure. The corresponding Indian figures tell much of the same story. The general trend from independence till at least 2003 has been unmistakably downwards, as can be seen in Figure 2.
The two countries combined have a population that touches 1.2 billion people, and peace between the two countries is vital not only for their welfare, but for the very substantial spillover effects that will come from the resolution of South Asia’s longest and costliest conflict, the status of Kashmir. The South Asian region is the least integrated region in the world, in a study that includes sub-Saharan Africa; the major reason for this is that Pakistan and India have been fighting since independence from the British, and since they lie right at the centre of the South Asian block, this is a big problem for the entire region, which thus also has a stake in improved political ties in the region.
Pakistan can benefit, from among other things, its geographic significance as the gateway from India to Central Asia and Iran, to derive hefty transit fees (the estimated transit fees of gas from Iran envisioned in the IPI gas pipeline deal are $600 Million annually) and India can find a cheap land route to steadily growing markets, and thus increase revenues while decreasing costs. An unfortunate but necessary consequence of perpetually tense ties is increased spending on military and defense, which has cost Pakistan, due to its smaller size and revenue much more than India; however both countries can benefit greatly from reduced spending on defense which will increase spending on development of the respective regions.

So what is the connection between trade and war? Does one exist? I plan to answer these questions with Pakistan and India in mind, with a focus on Pakistan, and will then elaborate on the benefits of increasing trade ties as it is a no-brainer. The bottom line is this: more trade means more revenue generated to spend on public development and infrastructure, more trade also strengthens trade communities in both countries, which might ultimately have a voice strong enough to dissuade the leadership from any military adventurism which has only ever harmed ties and has always been a
short term strategy at the expense of the long term, the latter obviously being much more important.

**A Historical Overview**

Pakistan and India were created on the 14/15\(^{th}\) of August, 1947, when the British Empire ended its presence in the Indian Subcontinent. Out of this one piece of land came two countries, later to be further divided into three countries when East Pakistan fought its War of Independence in 1971, and with the help of India, succeeded in forming Bangladesh in the same year.

Soon after the British left, the two countries fought their first war, over Kashmir, a conflict that to this day remains unresolved. Pakistan and India would fight two more wars in the coming decades and would have numerous skirmishes as well, such as Kargil in 1999, and come close to war on many occasions, like the December, 2001 attack on India’s Parliament as well as the Mumbai attacks in 2008.

Both economies started out with an agricultural base at partition; however India has made great strides in industrialization while Pakistan has fallen behind and remains a country yet to take any substantial strides in this regard. Pakistan’s majority output remains in the agricultural sector while the Indian economy is dominated by the services sector accounting for more
than half the GDP output. Heavy Industry is also present, but forms a much more significant part of Indian GDP relative to Pakistan’s GDP.

India has historically followed the policy of protectionism and regulation. This changed however in 1991 with Manmohan Singh’s new economic policy of liberalization, after which GDP growth took off; it is still growing on average of about 7 percent a year. By nominal value it is the world’s eleventh largest economy, this figure increases to fourth largest when considering Purchasing Power Parity (PPP). India’s share of trade in GDP is 30 percent and share in world trade is 1.5 percent (in 2007). While growth is impressive, the economy suffers from a multitude of problems, the biggest of which is inequality of wealth, with 80 percent of the population living on less than US$2 a day.

Pakistan’s economy is the 45th largest of the world in nominal terms, which increases to 27th largest when considering PPP. It’s main sectors are agriculture, textiles and manufacturing. Services, while growing, is still a minor part of the economy. Reforms were undertaken in 2000, after which growth took off, and has remained in the 6-8 percent bracket until 2008, after which it was beset by many problems, which are yet to be resolved, including internal conflict in the form of militancy, high fiscal deficit and increasing inflation. Pakistan recently took a loan from the World Bank as it
was on the brink of default. It has suffered from the U.S war in Afghanistan, which has now spilled over into its own borders, making the security situation precarious, as a result of which Foreign Direct Investment (FDI) has dried up.

The earthquake in Kashmir in 2005 also diverted many resources, public sector development has not been a priority in Pakistan, and while its share is increasing, it still remains very low. The conflict with India also looms large on the economic horizon as a lot of money is taken up by defense and the army, India has the same problem, but due to its much smaller size, it affects Pakistan much more so than India. Trade forms approximately 35 percent of GDP, while trade with India less than 2 percent of GDP.

**A History of Conflict**

It did not take long after the British left for the two newly created countries to fall into their first conflict. This was over Kashmir, a territory that is still declared as disputed, although both countries have troops on the ground in their respective parts, which are separated by a U.N-demarcated border, the Line of Control (LoC) which has become the de-facto border. There has always been an insurgency like situation in Kashmir, with pro-
Pakistani elements creating trouble for Indian troops. There are various demands as to the future course of action, with Indian sovereignty, Pakistani sovereignty, and Independence all on the table, although the political process here has been stuck, a hostage to fractious political ties, which is ironic given that Kashmir is the very reason those ties did not start out well.

Presently, the two countries are steadily making moves for a thaw in relations following the bitterness that followed the Mumbai attacks in 2008. This problem has remained unresolved for the entire existence of the two countries; it does not seem likely to go away any time soon.

The second war fought between the two countries was also fought over Kashmir. It lasted five weeks, there was no clear winner, and the U.N eventually brokered a cease fire. The build up to this war was dominated by Indian accusations of Pakistanis crossing into Indian-administered Kashmir to try and start an insurgency against Indian rule.

Soon after, in 1971, West Pakistan put down a perceived rebellion in East Pakistan, which soon came to involve India. This war ended with the unconditional surrender of Pakistani forces in East Pakistan to India, and in the formation of the new state of Bangladesh. Prisoners of War taken by India were later repatriated under the Simla Agreement signed by Zulfiquar Ali Bhutto and Indira Gandhi.
This was the last major war between the two countries. Now that both countries have acquired nuclear weapons, there is an extra caution attached to the notion of all out war, with fears that it may turn into a nuclear war. However, there have been numerous skirmishes, such as that in Kargil in 1999, which almost led to war, as well as that in 2001 in the aftermath of the stack on Indian Parliament, which was followed quite recently by the Mumbai Attacks.

Several studies have shown that in these instances, at least up to the Parliament attacks of 2001, trade was affected negatively by the political circumstances. Baroncelli (2006), in “The Peace Dividend” has clearly documented such effects, as Figure 3 shows. However, there have not been studies carried out into the period after that, which I will be studying (2003-2007) and thus filling the gap left by them.

Figure 3: Pakistan-India trade-conflict nexus

Note: Trade is measured as the sum of exports and imports. Values have not been adjusted for inflation.
countries trade was with each other. What can also be clearly seen here is that there was literally no trade between India and Pakistan starting from 1967 and ending in 1976. This stagnation was precipitated by the 1965 war and the time period also covers the 1971 war over Bangladesh. Relations remained bitter in the years that followed; trade began a full five years after the war ended, it remained almost negligible until the early 1990’s, where a marked increase was observed, but it really took in 2004. However, even the present increased levels are much below the potential for trade between the two countries.

It is interesting to note that out of the four major crises faced by the two countries over the years (the three wars and the Kargil conflict, two of these were fought when Pakistan was under direct military rule (the wars of 1965 and 1971), and one of them (the Kargil conflict) was fought when the military superseded the democratic leadership in the country at the time. It is important to note this because credible arguments have been made that the Pakistani military does not regard it in its interest to have peace with India. It is because of the tense bilateral relationship that it is seemingly justified that so much expenditure has been spent on the army. If the Kashmir issue was resolved and political ties restored the army would lose its primacy in Pakistan. The military plays a very pervasive role in Pakistani life,
underlined by the recent U.N Commission Report on Benazir Bhutto’s assassination. It has ruled the country for more than three decades; which is more than half of the country’s existence, and there is a sector of society that argues that the Kashmir issue should be solved first before resuming trade ties. This voice comes mostly from the military apparatus, which is using the seemingly negative connection between trade and peace to its advantage.

India has blamed bad ties on internal weaknesses in Pakistan with regard to this “democracy deficit”, something which India itself does not suffer from.

One last thing to note about the graph is that it also indicates the devaluation crisis of 1949, when India devalued its currency but Pakistan did not. This led to “the end of the common market with India in 1949. And later the imposition of strict import restrictions by Pakistan on Indian exports led to a further drop in the trade volume.” Bilateral trade has been shown in studies to “decline sharply during periods of conflict or heightened tensions, and it increased only slowly as political relations between the two countries improved.” However, these studies as pointed out before have not looked at the period of 2003-2007, which is the objective of my study.

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10 Naqvi and Schuler (2007).
Everybody agrees that there should be trade between India and Pakistan. This will increase revenue, which can be channeled into development of infrastructure such as hospitals, roads, schools and clinics among other things, leading to development which is sorely needed in both countries, but especially so in Pakistan. Currently, trade stands at around US$2 Billion. Various estimates put the potential of trade at anywhere between US$8 Billion to US$ 20 Billion. This part of my thesis looks at the current hindrances in trade and suggests ways to remove these barriers as trade is in the interest of both countries, as well as the entire region, especially SAARC members.

The single outstanding issue regarding trade is various duties on the Indian side, which are often referred to as ‘hidden duties’ and the non-reciprocation of MFN status by Pakistan to India. These issues lead to much of the trade between the two countries being channeled through illegal routes to avoid the relevant duties and trade through third countries, also known as circular trade such as Dubai, which is then classified under trade with those third countries, in this case Dubai, which provides a way to side step duties and tariffs on both sides as Dubai (and Singapore) has trading agreements with both countries. However, this increases transport costs dramatically and is a very inefficient way of doing business. These inflated transaction costs
are passed on to the consumer, which makes these traded items less appealing than local, cheaper items. A major objective is to bring this informal trade into legal channels and convert circular trade into bilateral trade through the elimination of subsidies.

**Figure 4: India Pakistan Trade**

![Graph showing India Pakistan Trade](image)

Note: Graph based on Table A.2, India Reporting Country
Source: Direction of Trade IMF (2006)

Informal trade is currently valued anywhere between US$250 Million to US$2 Billion, although more precise estimates put it at slightly over US$500 Million.\(^\text{12}\) Informal trade takes place largely for the following reasons:

1) Restrictions on import of specific items for various reasons such as health issues, religious beliefs, or economic reasons;

2) High tariff and transportation costs which make it cost effective to smuggle goods directly;

3) Imposition of non-tariff barriers such as quantitative restrictions and quotas;

4) Leakages in transit trade.

Tackling these issues is key to increasing direct bilateral trade between the two neighbors. I will discuss these in turn now.

Lists:

Pakistan and India formed a Joint Commission in 1983, as a result of which 40 items were placed on the import list from India. This number has steadily increased from 584 items in the 1990’s to 687 in 2004-2005. This positive list has recently been expanded to include 768 items (in 2006). Any items not covered by this list cannot be imported from India. They are brought across the border through illegal means and form part of the informal trade.

Figure 5: Expansion of the Positive List has led to Positive Outcomes.
India does not have a corresponding positive list, but has many other tariffs and restrictions which make exporting to that country rather unappealing. These restrictions include measures taken with regard to travel, customs clearance, and as mentioned before ‘hidden tariffs’, which will be discussed later. India, however does maintain a ‘sensitive list’ of items, whose import into the country is heavily regulated in order to protect local industries from international competition. Items are regularly added and deleted from this list.\textsuperscript{13} These industries are also protected by direct tariffs on imports and other non-tariff measures. Such moves are gradually being

\textsuperscript{13} Trade Integration between Pakistan and India, A study commissioned by the State bank of Pakistan, Page 17.
eliminated as the SAPTA came into force, which mandated the liberalization of bilateral trade incumbent on all signatories. This treaty envisions reducing tariff rates and eventually eliminating them all together to form a truly free trade area.

Tariffs:

Low trade volume is also predicated on the respective structures of the trade regimes of the two countries. Pakistan was ranked as more open to trade than India by the International Monetary Fund’s (IMF) Trade Restrictive Index. Starting from the early 1990’s, tariff’s have been dramatically reduced but remain higher than most regions of the world. IN 2003, India’s average tariff rate stood at 22.2 percent while Pakistan’s tariff rate was 14.9 percent.

Imports in India are subject to various types of duties, mentioned before as ‘hidden duties’. The highest basic custom duty is 70 percent, while some agricultural products have duties as high as 150 percent.14 “Other duties include

1) Additional customs duties, levied on all items imported into India, equivalent to excise duties;

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14 Indian Import Duty Regime.
2) A special 5 percent duty applicable on specific items due to the Customs Act of 2005;

3) A special additional duty levied on all articles at varying rates;

4) A surcharge of 1 percent levied on all goods;

5) Educational cess of 2 percent levied on all items of import.”

Figure 6-9: Economic and Trade Indices for Pakistan and India

Other taxes include state taxes, general sales tax and toll tax among others. Pakistan has also from time to time applied “regulatory duties” to

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15 Trade Integration between Pakistan and India, A study commissioned by the State bank of Pakistan, Page 20.
protect local industries, but these are being phased out and no new taxes
have been announced.

Non-tariff barriers:

On the Pakistani side these include the already discussed ‘positive list’ in
addition to a few others. Certain agreements have been reached, especially
with the automobile industry for reductions in import duties in exchange for
them incorporating local parts in their products. This is in contravention of
World Trade Organization’s (WTO) rules and has to be steadily phased out.
Other restrictions on imports are levied based on health concerns (second
hand electronics). One other major measure includes anti-dumping laws
recently passed in Pakistan, which is an issue across the border as well
(India has 133 anti-dumping measures and safeguards).

Some studies\(^\text{16}\) have shown that in India, “47 percent of the whole
economy and 55 percent of the manufacturing sector is covered by non-tariff
restrictions.” This trend is prevalent throughout the economy; 65 percent for
consumer goods, 43 percent for intermediate goods, and 34 percent for
capital goods.”\(^\text{17}\) Other forms of non-tariff barriers include security
clearance, customs inspection, certification standards, labeling and marking
rules, and content-of-origin schemes. Opening a line-of-credit (LC) is also a

\(^{16}\) Pandey (2004)
\(^{17}\) Trade Integration between Pakistan and India, A study commissioned by the State bank of Pakistan, Page 21.
problem since representatives of each country are not present across the border. Visa and travel restrictions, limited number of ports and trade routes, and incomplete information are other hurdles that are standing in the way of free trade.

Customs clearance is an especially troublesome form of a non-tariff barrier. This effectively constitutes extra cost, reducing the competitiveness of imports. Many of them also have a short shelf life. It was estimated that Indian imports took 17 days to clear Pakistani customs while the Indian figure was 10 days. Compare these to 4 days for developed countries and 6 days for East Asia.\(^\text{18}\)

Road links between the countries don’t exist. This leaves rail and air routes, both of which are poorly coordinated if at all, with air routes suffering due to political ties (they were only partially restored in 2003 after a long absence).

All these are reasons why trade is preferred through third countries such as U.A.E and Singapore, where such restrictions don’t apply. This however increases transport costs dramatically. Yet this forms a large part of present trade, because it is still cheaper than paying all the different duties and taxes which apply during direct bilateral trade. Examples of transport

\(^{18}\) Trade Integration between Pakistan and India, A study commissioned by the State bank of Pakistan, Page 22.
costs include Iron Ore imported from Brazil and Australia, and tea from Kenya, when all three commodities are found in India. Savings resulting from switching suppliers (to India) can be huge in the absence of restrictive trade regimes.  

Now that we know all the issues affecting trade between India and Pakistan, the next question logically becomes: What is to be done to remove these barriers? I now suggest various measures that can be taken by both countries in an effort to increase trade.

**Policy Suggestions**

Both countries need to come in line with WTO rules as well as the SAFTA agreement signed by all SAARC members which commits all the countries to reduce tariffs gradually and eventually eliminate them to make this region a free trade area. The tariff issue is more serious for India than for Pakistan, and the former needs to take the lead in this matter.

Pakistan needs to reciprocate India’s gesture of granting the former MFN status. This will automatically make it easier and cheaper for the two countries to trade. By not taking this step, Pakistan is also violating WTO

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rules which state that any country granted MFN status must also declare the other country as a Most Favored Nation.

Transport is a big issue with both countries. As mentioned earlier, road routes don’t exist while train routes are spotty and unreliable while air routes have been among the first thing to become hostage to political ties. This needs to change. Presently, there are only two routes, the Mumbai-Karachi sea route, and the Attari-Wagah rail link. This rail route should also be opened up to road traffic, and other routes need to be opened, such as the rail/road links of Srinagar-Muzzafarabad and Khokrapar-Munabao. Shipping routes are also in need of a major overhaul. The rules should be amended to allow third party ships to travel on the Mumbai-Karachi route, which will lower shipping costs. Border procedures and customs also need to be streamlined to make trade more efficient.

Banking is another sector that needs reform. As mentioned earlier opening an LC across the border is impossible since no Pakistani banks exist in India or vice versa. Payments are currently made through third parties such as the Asian Clearing Union, which causes delays and increases inefficiency.

Other issues include easing visa restrictions and supporting private ventures who want to invest across the border as many firms have
indicated. It should be noted that studies conducted on the MFN issue have found that merely granting MFN status to India will not divert informal trade to formal channels. For this to happen, both countries need to decisively act on the SAFTA agreement, and gradually eliminate all tariffs. This is important as 20 percent of trade right now is through informal channels. The MFN status, thus is a necessary, but not a sufficient condition in this regard.

It will be useful to take a look at what trade potential can be achieved by sector if trade is truly liberalized. I do this now briefly.

Textiles:

This is the largest industry in Pakistan in terms of both its contribution to GDP and exports (9 percent and 68 percent respectively in 2002-2003). The corresponding figures in India are 4 percent and 17 percent. Yarn is already traded between the two countries. Short term fluctuations due to unpredictable and unforeseen weather conditions can be smoothed over through additional trade which will also stabilize prices. Opportunities exist for two-way trade in garments such as shawls, saaris and shalwar kameez. India can also export textile machinery to Pakistan.

Agriculture:

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Agricultural trade has helped overcome shortages in both countries in the past multiple times. Potential Indian exports include tea, coffee, wheat, and fresh vegetables, while potential items for imports from Pakistan include dry fruits, fresh fruits, and molasses.

Engineering:

India has a particularly strong industrial and capital goods base relative to Pakistan. This accounted for 17 percent of India’s exports in 2002-2003. Pakistan is only able to meet 40 percent of demand through local production; the rest is imported. Indian imports in this sector could offer very significant savings. Steel is another product which Pakistan imports and can do so from India at a much reduced cost compared to what it is presently spending.

Chemicals and Pharmaceuticals:

This sector is also important in India, accounting for 14 percent of exports in 2002-2003. Petrochemicals offer a potentially large market for import to Pakistan. Other products include fibres, dyestuff, and rubber, as well as plastic products.

Health:

There have been great developments in this industry in India, and it has become a major destination for medical tourism. Specialized centers
have been set up in India and in the region as a result of partnerships, a model that can be replicated in Pakistan. Removal of visa constraints is especially important for this industry.

Energy:

This is an especially important sector. India has an ever growing population and economy which means its demand for energy will increase quite dramatically. While Pakistan has energy issues of its own, it can act as a transit country for gas from Iran and Central Asian countries. Gas from Iran can earn Pakistan approximately US$600 Million annually, a considerable amount.

Entertainment:

Since they have a shared culture trade in films (900 films in India per year) is immense. Pakistani cinema owners are interested in screening Indian films to revive a dwindling industry. Music in both countries is pervasive and can be traded as well.

Tourism:

This can not only promote good will between the people of the two countries but can also be a lucrative business. At present, strict visa regimes have repressed this industry. Tables showing the current breakdown of trade by commodities can be found in the Appendix.
The Benefits of Trade

Access to Larger Markets:

There is a trade-off involved here. Pakistani producers will lose as liberalizing trade will cause prices to fall, but this is good news for Pakistani consumers. In the long run, local producers will have to be more competitive and slash prices further to compete; efficiency in the production process will also increase. “

Benefits to Consumers:

Trade liberalization will unambiguously benefit Pakistani consumers, when product prices will fall and consumer choice will increase with reduced trade barriers. Importing from India rather than more distant locations will also reduce transportation costs. These, as well as lower tariffs will be passed on to the consumer.”\(^\text{21}\) Price spikes due to shortages will also smooth out.

Welfare Gains from trade in Wheat and Sugar:

Since Pakistan is an agricultural economy, wheat is of great significance. So is sugar, which also contributes a not inconsiderable amount to GDP in both countries. Various models have concluded that SAFTA

\(^{21}\) *Implications of Liberalizing Trade and Investment with India*, Page 66.
would increase trade the most. If subsidies to Indian farmers are eliminated as Pakistan demands, then their comparative edge will disappear and the market will become very competitive, again good news for consumers.

Higher Customs Revenue:

Even though a large part of the reforms needed is reducing tariffs, if informal and circular trade is channeled into bilateral routes, this would on balance increase revenue collection in Pakistan. The effect of increased products crossing the border will be more than the reduction in revenues due to decreasing tariff rates.

Foreign Exchange Savings:

This is a very important benefit of liberalization of trade. Imports with India will cost less in a regime with minimal obstructions as a result of reduced transport and tariff costs. This is especially important for Pakistan, which has recently taken out a US$7.6 Billion loan from the IMF. It represents a very significant saving.

The Peace Dividend:

Studies investigating a period of time up to 2001 have found that trade gains from peace can effect revenue growth significantly. Another consequence of a lasting peace is that defense spending, which presently takes up a significant amount of the budget, especially in Pakistan, can
decrease. This saved money can be spent on development and welfare of the population. Kashmir remains a thorn in the side of bilateral relations, but this may be solved after confidence building measures (CBMs) such as an increase in trade are witnessed.

Regional Significance:

Even with the current repressed levels of trade, India is Pakistan’s largest trading partner within SAARC. If the two countries can make peace, this will have immense spillover effects in the region. SAFTA, widely recognized as a failure thus far, can be revived and implemented in its proper spirit. Pakistan and India, as mentioned before form the largest GDP block of SAARC. There are also geographically positioned such that Pakistan can form a transit route from India and the East and South East Asia to Central Asia, thus forming a large and powerful block of countries. Other benefits including curbing smuggling, promotion of tourism, cultural promotion, and of course peaceful relations have been mentioned before.22

II. The Connection between Trade and Political Relations.

There exists a widely held perception that political ties are intricately connected with business ties when it comes to India and Pakistan. While there have been studies, such as the one undertaken by Eugenia Baroncelli,

22 Implications of Liberalizing Trade and Investment with India, Page 62-66.
which suggest that this is very much the case, that study is limited up to the early 2000’s and cannot really apply to ties today.

Figure 10: The peace dividend

That is where my study comes in. I will investigate the time period between 2003 and 2007 and bring such studies up to date. I plan to undertake an econometric analysis to see whether this notion, which as demonstrated by Baroncelli, did indeed hold true at least up till 2002, still applies today.
Dataset

This consists of many broad indicators which I was able to find. However, I have disregarded indicators in my regression analysis that are not available on at least a monthly basis. (Codebook is found at in the Appendix.) This has ruled out Gross Domestic Product (GDP), as it was only available as a yearly statistic. Other indicators which have been disregarded include unemployment, and most importantly, bilateral trade with India as this was only present on a yearly basis, giving me only five data points to study. However, I feel that this complication can be worked around and my analysis can still be useful. I have monthly figures for both total imports and exports in Pakistan, and trade with India forms part of the total trade. Thus certain patterns can be gleaned from this information, which are found to be very useful in my study.

Lastly, I have quantified political ties based on daily newspaper reports during the years 2003-2007. These reports are only concerned with India and Pakistan ties and are taken to represent the level of political tensions throughout the relevant period. Analyzing this indicator together with exports and imports is helpful, especially when total annual trade figures with India are present to calculate the percentage bilateral trade forms of entire trade.
I plan to do an Ordinary Least Squares (OLS) regression to test my theory. This is because it fits the most criteria in regression analysis.

1) Least squares:

Because the OLS estimator is designed to minimize the sum of squared residuals, it is optimal on this criteria.

2) Highest R-square:

Because OLS minimizes squares values it will thus automatically give us the highest R-squared value.

3) Unbiasedness:

The assumptions used for the Classic Linear Regression (CLR) Model can be used to show that the estimators given by the OLS regression will be unbiased.

4) Best unbiasedness:

The coefficient in an OLS regression can also be sown to have the smallest variance and covariance matrix, thus ensuring the best unbiased estimators.23

For these reasons, I have chosen to utilize the OLS method for the purposes of my analysis. It is also the most ‘general’ model and is thus transposable and widely applicable.

---

My analysis is a systematic step-by-step process, where we will find that some variables which we might have thought to be relevant are actually not of use to us in this specific situation.

**Analysis**

```
. reg news kse
R-squared  = 0.0160
Adjusted R-squared  = 0.0136
Coefficient (kse) = -.0000272
Constant  = 2.284405
```

If we look at this analysis, it doesn’t really tell us anything. The R-squared value is .016, which means that only 1.6 percent of the variation in the KSE index is explained by relations with India. The coefficient value is also negligible and tells us nothing. The reason for this is that there are no Indian companies listed in the KSE, and thus this analysis is not relevant to our study.

What we can look at, and what will be important is the regression of news and total trade (both exports and imports separately), and the percentage change in all these quantities. These regressions will tell us how total trade is affected by relations with India as represented by the ‘news’
variable. We will also take a monthly average of the news to match up with the monthly numbers that we have for total trade and see if this gives us a clearer picture of what is going on. Since trade with India is part of total trade, and we know the bilateral trade levels (albeit in only annual figures) we can make conclusions based on these regressions.

```
. reg news totexp
R-squared   = 0.0169
Adjusted R-squared = -0.0348
Coefficient (totexp) = .0004276
Constant       = 1.754029
```

```
. reg news totimp
R-squared   = 0.0090
Adjusted R-squared = -0.0432
Coefficient (totimp) = .0001077
Constant   = 2.059435
```

These two regressions are much the same as before. A very low R-squared value (1.69 percent and 0.9 percent) indicates that these two values are not
related a great deal. The coefficients are also negligible. The conclusion is that total imports and exports don’t depend much on relations with India. And since trade with India forms a part of total trade it can be said that the former is not connected in any meaningful way with relations with India. This could be because Indian share of trade in Pakistan’s total trade is negligible. However, we can continue this analysis further before making a final conclusion on this.

Now we will regress the changes in these variables to see if we can get any meaningful results.

\[ \text{. reg changeavenews changeexp} \]
\[ \text{R-squared} \quad = \quad 0.1124 \]
\[ \text{Adjusted R-squared} \quad = \quad -0.0355 \]
\[ \text{Coefficient} \quad = \quad -.4236393 \]
\[ \text{Constant} \quad = \quad .5271016 \]

\[ \text{. reg changeavenews changeimp} \]
\[ \text{R-squared} \quad = \quad 0.0017 \]
\[ \text{Adjusted R-squared} \quad = \quad -0.1647 \]
\[ \text{Coefficient (changeimp)} \quad = \quad -.0429023 \]
The first regression here gives us a relatively high R-squared. This is actually higher than expected since less than 2 percent of Pakistan’s exports go to India. However 11.24 percent of the change in the level of total exports can be explained by the evolving relations with India. If we combine this result with the fact that trade with India is growing, albeit slowly (it has increased dramatically in recent years) then this is a significant finding. Because trade with India is increasing as a percentage of total trade, then it can be extrapolated that as this increase continues, the R-squared value found (11.24 percent) will also correspondingly increase. This is also indicative of the fact that as trade with India grows, political relations become more important, which mean that trade at the moment is not at a high enough level to link it to political ties. In other words, a certain threshold level needs to be reached for trade to be helpful or effective while dealing with it together with political ties. The threat of withholding trade is not useful right now at the current levels. This finding will only become more significant as trade with India grows as a percentage of total trade.

However this finding should not be over-emphasized. The second result gives us an R-squared value of 0.17 percent, which means that only
0.17 percent of change in imports can be determined by the change in relations with India. Again, this finding reinforces previous analysis that changing imports, of which Indian imports are a part, are detached from relations with India. Of course, this specific finding should not be overly emphasized either. The terms of trade are in India’s favor, and as we will see later, there is a dichotomy present when it comes to trade. Bilateral trade, in its complete form, also including informal and circular trade is heavily in favor of India. Except for two years in this decade, Pakistan has always had a trade deficit with India. This lop sidedness is especially true of goods smuggled across the border from India and through Afghanistan. Even after the Mumbai attacks of 2008, trade fell, but this was due in large part to factors internal to Pakistan, such as the militancy, and the global economic meltdown. Even in this period, imports from India kept pace with the year before. It was exports that suffered and that was due mainly to a divergence of resources to fight Islamic extremists within Pakistan, which affected the export sectors badly. This will be discussed in more detail later. The conclusion to be drawn from these set of regressions is that growth in Pakistani exports, of which Indian exports are a part, are much more sensitive to political relations with India than imports, which include Indian imports as well, which mean that trade at the moment is not at a high enough
level to link it to political ties. As mentioned before, a ‘threshold’ level of trade needs to be reached before linking the two processes will be useful to either country.

India, as we know, has recovered from the economic crisis quicker than other countries, and has always had a strong industrialized base and focus on its own export sector, which kept functioning and exporting to Pakistan, even after the Mumbai attacks.

Another thing to note before moving on is the fact, that despite political ties being stagnant throughout the time period in question (the yearly average of the variable ‘news’ comes to about 2 every year), trade has grown dramatically. In the last decade, trade with India has grown twelve-fold, despite the Parliament attack in 2001, the Mumbai attacks in 2008, and the ever-present accusations leveled against Pakistan of sponsoring a separatist insurgency in Kashmir. Figure 12-15 in the appendix make this clear. In fact, what these figures also make clear is that trade with India has grown substantially more as a percentage of total trade over the concerned time period, considerably outstripping growth in overall trade.

My analysis has clearly shown that trade overall is marginally affected by relations with India. The only relatively significant result was of effect of bilateral political ties on total exports; even that number (11.24 percent) is
not outstanding, and only stands out because the other results are all negligible. This only proves that trade (from 2003-2007), generally is marginally affected by ties with India.

Figure 11: The links between Politics and Trade

Although it is outside the scope of my study, which only extends till the end of 2007, I feel that it the Mumbai attacks are very relevant and therefore deserve some discussion, as it is a test case for my thesis. There have been scant scholarly studies of Pakistan India trade after the Mumbai attacks. All evidence and data that has been gathered for this part of the
discussion is from current affairs and is, at times, anecdotal. However, all of it points in one direction.

This is the same graph as before, except that it is updated to show the effect on trade of the Mumbai attacks. Some estimates have said that trade decreased by 60 percent in the aftermath of the Mumbai Attacks, which seems accurate. There were some consequences on bilateral trading in the end of 2008 and beginning of 2009. However, this effect was rather short-lived, and soon trading levels started increasing again. There were definitely some negative effects on trade due to the political tensions arising out of the Mumbai attacks, but this effect often tends to be overstated. Other factors are resultanty glossed over. The very first and obvious factor in the slowdown was the global economic meltdown, which began to take shape in the last quarter of 2008; in other words, at precisely the same time. Pakistan at this point in time was also beginning a military operation against internal militants in the North West of the country, thus diverting away resources from crucial industries, such as the export industry. India is also on track to recover relatively quicker from the global crisis than other countries. In any case, it has an impressive amount of capital and finance that is specifically serving the export oriented sector. This would suggest that while both imports and exports took a hit, India would start importing to Pakistan soon
enough, while Pakistan, suffering from the global economic as well as local security situation would not be able to get back on its feet any time soon. This is precisely what happened. Both countries leaders met as soon as June 16\textsuperscript{th} of 2009; further meetings have followed. A December 24\textsuperscript{th}, 2008 report states: “No slowdown in imports from India to Pakistan.” It mentions that while Pakistani exports have shrunk, there is no let up in imports from India. It puts down the decrease in exports to non-tariff barriers rather than the tense political situation. At the time of writing of the report, bilateral trade stood at US$ 2.3 Billion. It also mentions that though the government of India has threatened to sever trade ties, it is under pressure from the trading community to step back from such a drastic action. Another report states that despite the Mumbai attacks, goods traveling through the Wagah border have reached US$31 Million in value. Trade has been “on an upswing between July 2008 and January 2009 as Pakistan imported goods worth US$31 Million from India during this period.”\textsuperscript{24} The reason for low exports from Pakistan is once again given as non-tariff barriers. Other articles also mention that while trade is expected to fall by as much as 60 percent, this amount will simply switch to a circular route, through Dubai and Singapore, and thus not count in official bilateral trade. There are also reports of a

\textsuperscript{24}“Trade between India-Pakistan through Wagah border touches 31 Million dollars.”
hundred-strong Pakistan business team arriving in India to take part in the five day Punjab International Trade Exposition (PITEX). P.Chidambaram, India’s home minister is also stated as saying from a news report of this year that India will continue to trade with Pakistan despite not being given MFN status. There are also reports of trade picking up along the LoC in Kashmir. While there was definitely a negative effect after the Mumbai attacks, this tends to be overstated and once the whole picture is considered, one realizes how little this attack actually affected trade ties.

**Findings**

I have found that business ties and political ties have very little connection in the period 2003-2007. This can be demonstrated by the fact that Indian exports to total exports for Pakistan is a little over 2 percent yet the R-squared value associated with this analysis was 1.7 percent which is smaller than expected. The same analysis regarding imports yielded an R-squared value of 0.9 percent when Indian imports to total imports is also above 2 percent.

I have also found that the effect on trade in the aftermath of the Mumbai attacks had little to do with political ties, and have explained the broader circumstances affecting the decrease in trade during this period;
trade has rebounded quickly, and even the trade decrease in direct bilateral trade was made up through circular routes.

The only significant finding I made was that growth in exports is affected by evolving ties. The R-squared value here was 11.24 percent. This corollary finding indicates that as trade with India grows, it is likely that political ties and business ties will be linked, but if trade leads to better relations, then this is a positive development.

**III. Conclusion**

Trade with India is an unquestionably good idea for both countries, but especially so for Pakistan. While trade has been held hostage to political ties in earlier times, and up until quite recently in fact, ever since the turn of the millennium, this notion seems to have lost credibility as I have just demonstrated. It seems that trade is no longer predicated on the state of political ties. It is time people start looking at the possibility that it may very well be trade which normalizes political ties between the two countries as argued by many people, and not the other way round. Steps should be taken immediately to enhance trade, as the political ties excuse is no longer credible.
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17) Trade across Line of Control picking up

18) No slowdown in Imports from India to Pakistan


20) Sohaib Shahid, *Can Trade bring Peace? An empirical analysis of Pakistan and India*.

Appendix
Table 1: Composition of Pakistan’s Official Exports to India (Percent)

<table>
<thead>
<tr>
<th>Commodities</th>
<th>2001-02</th>
<th>2002-03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum &amp; its products</td>
<td>0</td>
<td>0</td>
<td>41.6</td>
<td>60.2</td>
<td>33.0</td>
</tr>
<tr>
<td>Chemical elements and compounds</td>
<td>0</td>
<td>0.1</td>
<td>0.2</td>
<td>1.4</td>
<td>12.8</td>
</tr>
<tr>
<td>Cotton fabrics (woven)</td>
<td>6.7</td>
<td>5.2</td>
<td>8.4</td>
<td>6.5</td>
<td>11.6</td>
</tr>
<tr>
<td>Fruits &amp; vegetables</td>
<td>67.8</td>
<td>30.2</td>
<td>20.9</td>
<td>9.1</td>
<td>9.4</td>
</tr>
<tr>
<td>Cotton yarn</td>
<td>4.8</td>
<td>2.0</td>
<td>1.4</td>
<td>0.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Crude vegetable materials</td>
<td>8.6</td>
<td>5.5</td>
<td>2.0</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Wool (including wool tops)</td>
<td>1.6</td>
<td>1.8</td>
<td>1.9</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Molasses</td>
<td>0</td>
<td>0</td>
<td>2.9</td>
<td>5.9</td>
<td>0</td>
</tr>
<tr>
<td>All other exports</td>
<td>10.5</td>
<td>55.2</td>
<td>20.7</td>
<td>14.7</td>
<td>28.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce, government of Pakistan.
<table>
<thead>
<tr>
<th>Commodity</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical elements &amp; compounds</td>
<td>33.9</td>
<td>35.4</td>
<td>37.9</td>
<td>35.8</td>
<td>18.4</td>
</tr>
<tr>
<td>Chemical material &amp; products</td>
<td>9.3</td>
<td>11.0</td>
<td>6.9</td>
<td>12.7</td>
<td>8.7</td>
</tr>
<tr>
<td>Concentrates of iron &amp; steel</td>
<td>7.3</td>
<td>10.8</td>
<td>8.1</td>
<td>11.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Animal feed</td>
<td>4.1</td>
<td>0.6</td>
<td>7.3</td>
<td>7.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Tires &amp; tubes of rubber</td>
<td>7.2</td>
<td>11.0</td>
<td>5.0</td>
<td>6.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Raw cotton</td>
<td>0</td>
<td>0</td>
<td>14.7</td>
<td>2.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Dyeing, tanning, &amp; coloring materials</td>
<td>4.9</td>
<td>6.3</td>
<td>2.8</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Iron and steel manufactures</td>
<td>0.5</td>
<td>0.3</td>
<td>1.8</td>
<td>2.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Crude vegetable materials</td>
<td>3.6</td>
<td>3.7</td>
<td>1.4</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Machinery &amp; its parts</td>
<td>2.0</td>
<td>2.4</td>
<td>0.8</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Manufactures of nonferrous metals</td>
<td>0.8</td>
<td>1.8</td>
<td>1.8</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Tea &amp; mate</td>
<td>1.2</td>
<td>2.8</td>
<td>1.8</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Cotton yarn</td>
<td>0</td>
<td>0.5</td>
<td>2.2</td>
<td>0.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Spices</td>
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<td>1.4</td>
<td>0.7</td>
<td>1.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Fruits &amp; vegetables</td>
<td>2.7</td>
<td>0.5</td>
<td>0.1</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Concentrates of nonferrous metals</td>
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<td>1.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0</td>
</tr>
<tr>
<td>All other imports</td>
<td>18.4</td>
<td>10.3</td>
<td>6.6</td>
<td>11.8</td>
<td>34.3</td>
</tr>
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</table>

Source: Ministry of Commerce, government of Pakistan.
Table A1: India’s Trade with Pakistan and the Rest of the World (Value in $ Million)

<table>
<thead>
<tr>
<th></th>
<th>2000/01</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
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<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to Pakistan</td>
<td>186.83</td>
<td>144.01</td>
<td>206.16</td>
<td>286.94</td>
<td>521.1</td>
<td>689.2</td>
</tr>
<tr>
<td>% Growth</td>
<td>-22.92</td>
<td>43.16</td>
<td>39.18</td>
<td>77.5</td>
<td>32.3</td>
<td></td>
</tr>
<tr>
<td>India’s Total Exports</td>
<td>44,560.29</td>
<td>43,826.73</td>
<td>52,719.43</td>
<td>63,842.97</td>
<td>83,535.9</td>
<td>103,090.5</td>
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<tr>
<td>% Growth</td>
<td>21.0</td>
<td>-1.65</td>
<td>20.29</td>
<td>21.1</td>
<td>26.2</td>
<td>23.4</td>
</tr>
<tr>
<td>% Share of Pakistan</td>
<td>0.42</td>
<td>0.33</td>
<td>0.39</td>
<td>0.45</td>
<td>0.63</td>
<td>0.67</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Imports from Pakistan</td>
<td>64.03</td>
<td>64.76</td>
<td>44.85</td>
<td>57.65</td>
<td>95.0</td>
<td>179.6</td>
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<tr>
<td>% Growth</td>
<td>1.14</td>
<td>-30.74</td>
<td>28.54</td>
<td>60.9</td>
<td>89.1</td>
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<tr>
<td>India’s Total Imports</td>
<td>50,536.46</td>
<td>51,413.29</td>
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<tr>
<td>% Growth</td>
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<td>1.74</td>
<td>19.45</td>
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<td>33.8</td>
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<td>% Share of Pakistan</td>
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<td>0.13</td>
<td>0.07</td>
<td>0.07</td>
<td>0.08</td>
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<td><strong>Total Trade</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Trade with Pakistan</td>
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<td>208.76</td>
<td>251.01</td>
<td>344.59</td>
<td>616.0</td>
<td>868.8</td>
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<tr>
<td>% Growth</td>
<td>-16.78</td>
<td>20.24</td>
<td>37.28</td>
<td>74.7</td>
<td>41.0</td>
<td></td>
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<tr>
<td>India’s Total Trade</td>
<td>95,096.75</td>
<td>95,240.01</td>
<td>114,131.56</td>
<td>141,992.58</td>
<td>195,053.4</td>
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<tr>
<td>% Growth</td>
<td>0.15</td>
<td>19.84</td>
<td>24.41</td>
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<td>29.3</td>
<td></td>
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<tr>
<td>% Share of Pakistan</td>
<td>0.26</td>
<td>0.22</td>
<td>0.22</td>
<td>0.24</td>
<td>0.32</td>
<td>0.34</td>
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<tr>
<td>Exchange Rate</td>
<td>45.68</td>
<td>47.69</td>
<td>48.39</td>
<td>45.95</td>
<td>44.93</td>
<td>44.27</td>
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</table>

*Source: Department of Commerce, government of India.*
**Table A2: Pakistan’s Trade with India and the Rest of the World (Value in $ Million)**

<table>
<thead>
<tr>
<th></th>
<th>2000/01</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
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<th>2005/06</th>
</tr>
</thead>
<tbody>
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<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to India</td>
<td>55.4</td>
<td>49.2</td>
<td>70.7</td>
<td>93.7</td>
<td>288.1</td>
<td>293.3</td>
</tr>
<tr>
<td>% Growth</td>
<td>-11.19</td>
<td>43.70</td>
<td>32.53</td>
<td>207.5</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Pakistan’s Total Exports</td>
<td>9201.6</td>
<td>9134.6</td>
<td>11,160.20</td>
<td>12,313.30</td>
<td>14,391.0</td>
<td>16,451.2</td>
</tr>
<tr>
<td>% Growth</td>
<td>-0.73</td>
<td>22.18</td>
<td>10.33</td>
<td>16.9</td>
<td>14.3</td>
<td></td>
</tr>
<tr>
<td>% Share of India</td>
<td>0.6</td>
<td>0.54</td>
<td>0.63</td>
<td>0.74</td>
<td>2.0</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports from India</td>
<td>235.09</td>
<td>186.5</td>
<td>166.5</td>
<td>384.4</td>
<td>551.7</td>
<td>801.9</td>
</tr>
<tr>
<td>% Growth</td>
<td>-20.7</td>
<td>-10.7</td>
<td>-130.9</td>
<td>43.5</td>
<td>45.4</td>
<td></td>
</tr>
<tr>
<td>Pakistan’s Total Imports</td>
<td>10,728.40</td>
<td>10,339.50</td>
<td>12,230.30</td>
<td>15,591.80</td>
<td>20,598.1</td>
<td>28,580.9</td>
</tr>
<tr>
<td>% Growth</td>
<td>-3.62</td>
<td>18.29</td>
<td>27.49</td>
<td>32.1</td>
<td>38.8</td>
<td></td>
</tr>
<tr>
<td>% Share of India</td>
<td>2.19</td>
<td>1.8</td>
<td>1.36</td>
<td>2.45</td>
<td>2.7</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total Trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade with India</td>
<td>290.49</td>
<td>235.7</td>
<td>237.2</td>
<td>478.1</td>
<td>839.8</td>
<td>1,095.2</td>
</tr>
<tr>
<td>% Growth</td>
<td>-18.86</td>
<td>0.64</td>
<td>101.56</td>
<td>75.7</td>
<td>30.4</td>
<td></td>
</tr>
<tr>
<td>Pakistan’s Total Trade</td>
<td>19,930.00</td>
<td>19,474.10</td>
<td>23,390.50</td>
<td>27,905.10</td>
<td>34,989.1</td>
<td>45,032.1</td>
</tr>
<tr>
<td>% Growth</td>
<td>-2.29</td>
<td>20.11</td>
<td>19.30</td>
<td>25.4</td>
<td>28.7</td>
<td></td>
</tr>
<tr>
<td>% Share of India</td>
<td>1.46</td>
<td>1.21</td>
<td>1.01</td>
<td>1.71</td>
<td>2.4</td>
<td>2.4</td>
</tr>
</tbody>
</table>

*Sources: Ministry of Commerce and Ministry of Finance, government of Pakistan.*
. codebook

rgdp
--------------------------------------------------------------------------------------------
-------------------------------------------------------------------------------
type: numeric (float)
range: [83.2,143]                   units: .1
unique values: 5                        missing .: 1822/1827

tabulation: Freq. Value
1  83.199997
1  98
1  110
1  127
1  143
1822 .

--------------------------------------------------------------------------------------------
-------------------------------------------------------------------------------

ngdp
--------------------------------------------------------------------------------------------
-------------------------------------------------------------------------------
type: numeric (float)
range: [83.25,142.89]               units: .01
unique values: 5                        missing .: 1822/1827

tabulation: Freq. Value
1  83.25
1  98
1  109.5
1  127.33
1  142.89
1822 .
<table>
<thead>
<tr>
<th>Type</th>
<th>Range</th>
<th>Units</th>
<th>Unique Values</th>
<th>Missing</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Percentiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>[1.41, 11.1]</td>
<td>.01</td>
<td>55</td>
<td>1771/1827</td>
<td>7.09161</td>
<td>2.43497</td>
<td>2.25, 6.41, 7.78, 8.735, 9.31</td>
</tr>
<tr>
<td>totexp</td>
<td>[776.4, 1584.8]</td>
<td>.1</td>
<td>57</td>
<td>1768/1827</td>
<td>1243.3</td>
<td>217.335</td>
<td>935.6, 1049.6, 1262.6, 1469.3, 1521.1</td>
</tr>
<tr>
<td>totimp</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
type: numeric (float)

range: [918.7, 3385.1]       units: .1
unique values: 57          missing.: 1768/1827

mean:   1961.51
std. dev:   655.642

percentiles:        10%       25%       50%       75%       90%
                                   1053.1    1372.1    2033.5    2564.2    2750.2

news

---------------------------------------------------------------------------------
---------------------------------------------------------------------------------

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---------------------------------------------------------------------------------
---------------------------------------------------------------------------------

type: numeric (byte)

range: [1, 3]       units: 1
unique values: 3        missing.: 1186/1827

tabulation: Freq. Value
                                   107  1
                                   364  2
                                   170  3
                                   1186  .

---------------------------------------------------------------------------------
---------------------------------------------------------------------------------

newsave

---------------------------------------------------------------------------------
---------------------------------------------------------------------------------

type: numeric (float)

range: [1, 2.8620689]       units: 1.000e-07
unique values: 35 missing.: 1787/1827

mean: 1.9813
std. dev: .399172

percentiles: 10%  25%  50%  75%  90%
1.41154  1.72078  2.02632  2.22727  2.4881

--------------------------------------------------------------------------------------------
-------------------------------------------------------------------------------
KSE
--------------------------------------------------------------------------------------------
-------------------------------------------------------------------------------
type: numeric (float)
range: [2356.48,14787.55] units: .01
unique values: 1196 missing.: 612/1827

mean: 7905.98
std. dev: 3395.26

percentiles: 10%  25%  50%  75%  90%
3556.16  5103.67  7494.75  10828.4  12496.2

--------------------------------------------------------------------------------------------
-------------------------------------------------------------------------------
newschange
--------------------------------------------------------------------------------------------
-------------------------------------------------------------------------------
type: numeric (float)
range: [-200,66.666664] units: 1.000e-06
unique values: 7 missing.: 1411/1827

tabulation: Freq. Value
3 -200
31  -100
41  -50
253  0
55  33.333332
32  50
1  66.666664
1411

ksechange

type: numeric (float)
range: [-6.2499285,100] units: 1.000e-09
unique values: 920
mean: .213185
std. dev: 3.60838
percentiles: 10% 25% 50% 75% 90%
-1.78194 -.50403 .22179 .943849 1.68421

changeexp

type: numeric (float)
range: [-42.035496,24.256853] units: 1.000e-09
unique values: 57
mean: -.010312
std. dev: 13.442
### changeimp

*Type:* numeric (float)

*Range:* \([-35.682529, 27.689886]\)  
*Units:* 1.000e-07

*Unique values:* 57  
*Missing .:* 1769/1827

*Mean:* 0.946645  
*Std. dev:* 13.788

*Percentiles:*  
<table>
<thead>
<tr>
<th>10%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>-18.6466</td>
<td>-10.0562</td>
<td>3.1754</td>
<td>10.6547</td>
<td>17.6815</td>
</tr>
</tbody>
</table>

### changeavenews

*Type:* numeric (float)

*Range:* \([-60, 36.363655]\)  
*Units:* 1.000e-07

*Unique values:* 28  
*Missing .:* 1798/1827

*Mean:* -2.95699  
*Std. dev:* 22.9935

*Percentiles:*  
<table>
<thead>
<tr>
<th>10%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>-50</td>
<td>-11.4839</td>
<td>3.4483</td>
<td>13.2167</td>
<td>18.3333</td>
</tr>
</tbody>
</table>
Figure 12: Total exports, Pakistan.
Figure 13: Exports to India.
Figure 14: Total Imports
Figure 15: Imports from India.