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EMPOWERING GROWTH

THE DUBAI ANGLED TRIANGLE

Changing trends of trade between India and Pakistan via the UAE

Nikita Singla
Priya Arora

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The authors thank **Dr. Amita Batra** (Professor, Centre for South Asian Studies, Jawaharlal Nehru University, New Delhi), **Dr. Ben Shepherd** (Principal, Developing Trade Consultants, New York) and **Dr. Vaqar Ahmed** (Joint Executive Director, Sustainable Development Policy Institute SDPI, Islamabad), for reviewing the report and providing their valuable comments.

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Abbreviation	Details
ACU	Asian Clearing Union
AED	United Arab Emirates Dirham
B2B	Business-to-Business
CBM	Confidence Building Measure
CHA	Customs House Agent
CIF	Cost Insurance and Freight
COO	Certificate of Origin
CPFTA2	China Pakistan Free Trade Agreement 2
CWC	Central Warehousing Corporation
DAFZ	Dubai's Airport Free Zone
DRI	Directorate of Revenue Intelligence
ECC	Economic Coordination Committee
FCL	Full Container Load
FOB	Free on Board
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMO	Genetically Modified
HS Code	Harmonized System Code
ICP	Integrated Check Post
ICRIER	Indian Council for Research on International Economic Relations
IMF	International Monetary Fund
INR	Indian Rupee
ITC	International Trade Centre
J&K	Jammu and Kashmir
JNPT	Jawaharlal Nehru Port Trust

Km	Kilometre
LoC	Line of Control
MFN	Most Favored Nation
MMT	Million Metric Tons
MT	Metric Tons
NTB	Non-Tariff Barrier
PIA	Pakistan International Airline
PITEX	Punjab International Trade Exposition
PKR	Pakistani Rupee
RCEP	Regional Comprehensive Economic Partnership
RMA	Relationship Management Application
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SBL	Switch Bill of Lading
SDPI	Sustainable Development Policy Institute
SOPA	Soybean Processors Association of India
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TDAP	Trade Development Authority of Pakistan
TEU	Twenty-foot Equivalent Unit
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
US/USA	United States of America
USD	United States Dollar
USSEC	US Soybean Export Council
VAT	Value-Added Tax
WTO	World Trade Organization

Foreword

A dispassionate, rational analysis of any aspect of India-Pakistan relations, the one that is based on facts and hard evidence, is relatively rare. The publication of “The Dubai Angled Triangle” by Nikita Singla and Priya Arora is one of those exceptional events. This book comes on the heels of the 2020 book "Unilateral Decisions, Bilateral Losses" of which Nikita Singla is one of the authors.

I first met Nikita in 2017 in Washington DC while she was working with the World Bank's Regional Cooperation for South Asia Unit. I was much impressed by her passion for promoting regional trade and women empowerment with a focus on South Asia. As a former Pakistani Ambassador to the World Trade Organization and having participated in several initiatives to normalize bilateral trade between the two countries, I have kept up with her research in these and other related fields.

This study shows how traders find alternate routes to trade when two countries close borders and resort to protectionist measures. It has also given examples of African countries that closed their borders or opted for highly protectionist policies and found that most of their international trade moved to informal mode. As a result, not only the governments were denied their legitimate revenue, but also their traders had no choice but to resort to conducting their international trade through clandestine and illegal means.

It has become a truism that free trade brings prosperity and its advantages far outweigh its disadvantages. This particularly applies to trade between neighbors. Being neighbors and sharing cultural, linguistic and historical ties, India and Pakistan are natural trading partners and the potential of trade between them is huge. If fully realized it can contribute to the prosperity of both the peoples. Unfortunately extraneous factors have almost always hindered prospects of direct trade between them and created obstacles in the way of reaching the win-win situation that their trade can bring them.

The authors of this book have laid down their hypotheses and elegantly reached their incontestable conclusions about the losses both the economies are suffering because the trade between them is being done through a third country rather than directly across the border. The authors present facts and figures of the trade between each country and the UAE. The facts presented are interesting; for instance when the export of one of the countries to the other decreases for whatever reason, the value of its exports to Dubai jumps correspondingly. The value of exports and imports of the UAE to India and Pakistan goes up and down depending on whether the direct trade between the two countries is hindered or becomes freer because of their political circumstances. All this is generally known anecdotally, but to my knowledge it is the first time that it has been laid out in a rational and organized manner based on facts and figures.

According to the World Bank, the potential of trade between India and Pakistan is USD 37 billion. The actual trade is a tenth of that. Farmers of the two countries and women and vulnerable segments of the population bear disproportionate burden of the political tensions spilling over to trade restrictions. One hopes that the day would come when the leaders would realize that unhindered trade can boost the economies of both the countries.

In order to meet the challenges of Covid-19, countries around the world are looking at various options to make them competitive and overcome the huge losses incurred due to shut down. Resuming direct bilateral trade is a low hanging fruit for reviving the economies of both countries. It is not in the interest of either country to continue with its obstinacy in the face of hunger and rising unemployment.

Dr. Manzoor Ahmad
Former Ambassador of Pakistan to the World Trade Organization
Senior Fellow, Pakistan Institute of Development Economics, Islamabad

Acknowledgements

This report focuses on the changing trends of informal trade, and deep dives into the role of the UAE in informal trade between India and Pakistan, using quantitative analysis as well as primary research in the UAE and in India, along with some telephonic interviews with traders in Pakistan.

We express our sincere gratitude to all the logistics suppliers in Dubai for supporting us ever since we conceived of doing this research, and proactively connecting us with all relevant stakeholders. We are grateful to the stakeholders in Dubai - traders, clearing and forwarding agents, shipping companies, warehouse managers, stakeholders at the Jebel Ali Free Zone, wholesalers and retailers at Meena Bazar, Alras, Textile Souk, and representatives at the Pakistan and India Pavilions at the Global Village - for sharing with us their insights and data. We thank all the stakeholders in India —custom house agents and traders in Amritsar, Central Warehousing Corporation (CWC) at the Integrated Check Post (ICP) in Attari, Soyabean Processors Association of India (SOPA), Textiles Importers and Gems and Jewellery Exporters in Hyderabad, retailers and wholesalers of Majith Mandi in Amritsar, Chandni Chowk in Delhi, Lajpat Nagar in Delhi, Madina Market, Lakdi ka pul Market, Afzal Gunj Market and Abids Commercial Centre in Hyderabad, Siyaganj and Choithram Mandi in Indore, among others. We also thank traders in Pakistan for sharing their insights with us.

We are extremely grateful to Dr. Manzoor Ahmad (former Ambassador of Pakistan to the World Trade Organization; Senior Fellow, Pakistan Institute of Development Economics, Islamabad) for writing the foreword. We sincerely thank Dr. Sanjay Kathuria (Senior Visiting Fellow, Centre for Policy Research and former lead economist and coordinator for regional integration in South Asia, The World Bank) for writing the afterword.

We thank Dr. Amita Batra (Professor, Centre for South Asian Studies, Jawaharlal Nehru University, New Delhi), Dr. Ben Shepherd (Principal, Developing Trade Consultants, New York) and Dr. Vaqar Ahmed (Joint Executive Director, Sustainable Development Policy Institute SDPI, Islamabad), for reviewing the report in detail and providing their valuable comments.

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We are thankful to Mohammed Saqib (CEO, BRIEF) and Afaq Hussain (Director, BRIEF) for their overall guidance while writing this report; and Samit Chakraborty, Drishti Bansal and Aakanksha Nehra of the BRIEF team for supporting us in this research.

About BRIEF's 'Partnering for Prosperity' Program and the Authors

Bureau of Research on Industry and Economic Fundamentals (BRIEF) is a New Delhi based research and policy think tank with a focus on international trade and regional cooperation in South Asia. Over the last few years, in order to strengthen the dialogue on economic engagement between India and Pakistan, we have initiated parallel programs focusing on multiple strands of economic cooperation between India and Pakistan including both mainstream bilateral trade and cross-Line of Control trade, and other Confidence Building Measures (CBMs) between the two countries. As a part of these programs, the main focus of our work is building research repository, creating positive constituencies, engaging and interacting with key stakeholders at multiple levels, and developing cross-border linkages – that help shape a positive narrative about India and Pakistan, nationally, bilaterally, as well as at a regional level in South Asia.

This report - which is a micro level analysis of the informal trade between India and Pakistan via the UAE – is an outcome of one of our ongoing programs "Partnering for Prosperity: through enabling trade and connecting communities between India and Pakistan", which seeks to generate momentum for an overall (re)engagement process by not just providing impetus to trade but bridging the trust deficit.

Nikita Singla, Associate Director, BRIEF

Over the last decade, Nikita's engagements have spanned across Regional Cooperation, International Trade and Logistics, and Overseas Development Assistance with a focus on South Asia. Prior to BRIEF, she worked with the World Bank Group's South Asia Regional Integration unit, based in Washington DC. She has been a Visiting Research Fellow at the Centre for Strategic Studies under the President of Azerbaijan based in Baku, and has worked with the French Agency for Development (AFD) in Sri Lanka. She has recently authored a book titled 'Unilateral Decisions Bilateral Losses' focusing on the face-off between India and Pakistan in 2019. She is an Engineer from Indian Institute of Technology (IIT) Delhi and studied International Economic Policy from Sciences Po Paris.

Priya Arora, Senior Research Associate, BRIEF

Priya focuses on the trade facilitation and socio-economic impact assessment of trade policies in South Asia, with a special focus on India and Pakistan. She specializes in research, data management including visualization and presentation of data and economic analysis using statistical tools. Prior to joining BRIEF, she was senior economic analyst at Econ One Research India, where she performed extensive research on industry, legal and economic issues, using econometric analysis. She studied MSc General Economics from Madras School of Economics.

India-Pakistan Trade 2018-19

GDP India
USD 2.7 trillion

Total Exports (India)
USD 330 billion

India and Pakistan - Total Trade
USD 2.6 billion

Exports India to Pakistan
USD 2.06 billion

Pakistan's Share in India's Total Exports
0.60%

Top Exports from India to Pakistan

Cotton
27%
USD 550 million

Organic Chemicals
22%
USD 458 million

Plastic And Articles Thereof
6%
USD 132 million

GDP Pakistan
USD 315 billion

Total Exports (Pakistan)
USD 23 billion

Exports Pakistan to India
USD 495 million

India's Share in Pakistan's Total Exports
2.20%

Top Exports from Pakistan to India

Mineral Fuels, Mineral Oils And Products
27%
USD 131 million

Edible Fruits and Nuts
21%
USD 103 million

Salt, Sulphur and Plastering Material
19%
USD 92 million

Source: Department of Commerce, Government of India, International Trade Centre Database, The Observatory of Economic Complexity

Key Findings: Informal Trade

2018

Total Informal Trade (India and Pakistan)
USD 2.34 billion

Informal Trade (India -> Pakistan)
USD 1.76 billion

Informal Trade (Pakistan -> India)
USD 528 million

Trade via the Khepias
USD 52.5 million

Jump of only 7%

2019

Total Informal Trade (India and Pakistan)
USD 2.49 billion

For majority of the goods which are directly traded, direct routes are unlikely to be replaced with circuitous indirect or informal routes.

Main Product Categories

India → Pakistan

- Machinery and mechanical appliances
- Vehicles; Aircraft; Vessels & Associated Transport Equipment
- Textiles and articles thereof
- Natural or cultured pearls, precious or imitation jewellery
- Rubber and Plastic and articles thereof
- Pharmaceutical products

Pakistan → India

- Textiles and articles thereof
- Natural or cultured pearls, precious or imitation jewellery
- Essential oils and resinoids; perfumery, cosmetic or toilet preparations
- Miscellaneous edible preparations
- Medical and surgical Instruments etc
- Plastics and articles thereof

CHAPTER - 1

OVERVIEW

Countries around the world are witnessing rapid spread of the novel Coronavirus (Covid-19). As reported by the World Trade Organization (WTO), trade of the 'new essentials'—products described as critical and in severe shortage in Covid-19 crisis—totaled about USD 597 billion, 1.7 per cent of the total world trade in 2019.[1] The Covid-19 cases continue to surge and the demand for essentials continues to rise. With the WTO rules allowing for temporary export restrictions "applied to prevent or relieve critical shortages" in the exporting country, countries across the world have put export restrictions, limiting trade of key supplies, and leading to supply disruptions. In the recessionary aftermath of 2008 global financial crisis, a variety of trade-restricting and distorting measures, mostly of protectionist nature, were introduced. Yet, countries limited, to some extent, deepening of the 'beggar-thy-neighbor' policies – where countries address their economic woes worsening it for other countries - that became widely popular during the Great Depression of the 1930s.

As countries close borders and resort to protectionist measures, the restrictions in the trade environment between any two countries cause traders to find alternate routes to trade. This is where intermediaries or third countries become relatively more important to reach markets which are difficult to penetrate otherwise. However, if the restrictions are rigorously applied, both direct and indirect trade can be restricted.

When analyzing bilateral trade flows, the gravity model of international trade is traditionally used, that considers several factors like the economic size of the countries, geographical proximity, cultural similarity, linguistic commonalities, common currency, etc. Though the gravity model is based on the idea that geographically proximate countries tend naturally to trade more with each other, trade in real world is not frictionless. There are several factors which jointly contribute in creating an environment which leads to trade friction. In some cases, trade-friction can arise due to inconsistent trade policies, domestic protectionism, illegal trade, non-tariff barriers, lack of infrastructure and connectivity, and more commonly, lack of trust between the trading countries and political tensions. Traders in India and Pakistan, for example, often take the heat of such friction.

An increase in restrictions in the formal channel leads to a rise in trade through informal[2] channels. For instance, in Africa, the average share of informal trade in the year 2009 was estimated at 43 per cent of the GDP which was almost equal to the formal trade.[3] For Uganda alone, in 2006, its informal exports flowing to its five neighboring countries constituted 86 per cent of its total official exports to these countries.[4] An informal trade assessment study conducted for Kenya in the year 2012 estimated that informal cross border trade accounted for more than 40 per cent of Kenya's GDP, which was equivalent to the formal trade of the country.[5] Besides Africa's porous borders that facilitate informal trade, some of the key factors which result in a huge share of informal trade in

[1] Trade in Medical Goods in the Context of Tackling Covid-19. World Trade Organization. April 2020.

[2] In this report, for the purpose of nomenclature, indirect trade refers to goods traded via a third country leading to bilateral misallocation of trade and informal trade refers to trade that goes completely unrecorded because goods are exchanged informally, or are mis-declared /under-declared even if exchanged through formal channels. Any broad mention of informal trade includes both indirect trade and informal trade.

[3] Lesser, Caroline. Moisé-Leeman, Evdokia. Informal Cross-Border Trade and Trade Facilitation Reform in Sub-Saharan Africa. OECD, 2009.

[4] Ibid.

[5] Gor, Seth Omondi. An Assessment of the Informal Sector Trade in Kenya. University of Nairobi. The Estey Centre Journal of International Law and Trade Policy. 2012.

African countries include high level of import duty on select commodities, inadequate infrastructure, cumbersome documentation and long custom procedures, among others.

A similar scenario is seen amongst the South Asian countries where trade barriers restrict the countries to achieve the potential level of trade. Political volatilities, high tariffs and non-tariff barriers, high transportation cost, inadequate infrastructure, and lengthy procedures exist, disrupting the flow of intraregional trade between these countries. Despite these barriers, intraregional trade between South Asian countries has increased over the years, but mainly through the indirect routes or informal channels.

The presence of a trade agreement facilitates trade, but the absence of an agreement does not necessarily restrict trade. This is evident as informal routes like the UAE continue to exist to reroute India's trade with Pakistan, despite the suspension of formal trade. Informal trade is estimated at 50 per cent of formal trade in South Asia, in which India and Pakistan contribute a significant share.[6] Because of the hard border between India and Pakistan, most of the informal trade between the two countries gets routed via a third country.

This report focuses on the changing trends of informal[7] trade between India and Pakistan after 2012, and dives deep into the role of the UAE based on primary research as well as using quantitative analysis.

Chapter 2 of the report focuses on the trade journey of India and Pakistan. Formal trade between India and Pakistan stood at an abysmal USD 2.6 billion in 2018-19.[8] The informal trade between the two countries exists in parallel, with the trade mechanisms of informal trade more organized than the mechanisms of formal trade. It explains how the trade relations between India and Pakistan changed drastically after the militant attack in the Pulwama district of Jammu and Kashmir in February 2019, in the wake of which the Indian government decided to withdraw the status of Most Favored Nation (MFN) for trade granted to Pakistan since 1996. Subsequently, it increased customs duty on all goods imported from Pakistan to 200 per cent. Following the airstrikes in the Balakot region (Khyber Pakhtunkhwa province) later in February, Pakistan and subsequently, India barred each other from their respective airspaces, with Pakistan extending the ban for nearly five months. In April the same year, the Indian government suspended trade across the Line of Control (LoC) in Jammu and Kashmir region citing misuse of the trade route by Pakistan-based elements. Four months later, it enacted the Jammu and Kashmir Reorganization Bill, reorganizing the former Indian state of Jammu and Kashmir into two union territories - Jammu and Kashmir, and Ladakh. Pakistan, thereafter, reduced diplomatic and economic ties with India - expelling the Indian envoy, partially shutting its airspace, and suspending bilateral trade and postal services. The impact of these escalating tensions trickled down to impact the trade community the most.

Chapter 3 explains why the United Arab Emirates (UAE) is the most formalized trade route for informal trade between India and Pakistan. Through a micro level analysis of the trade between India and

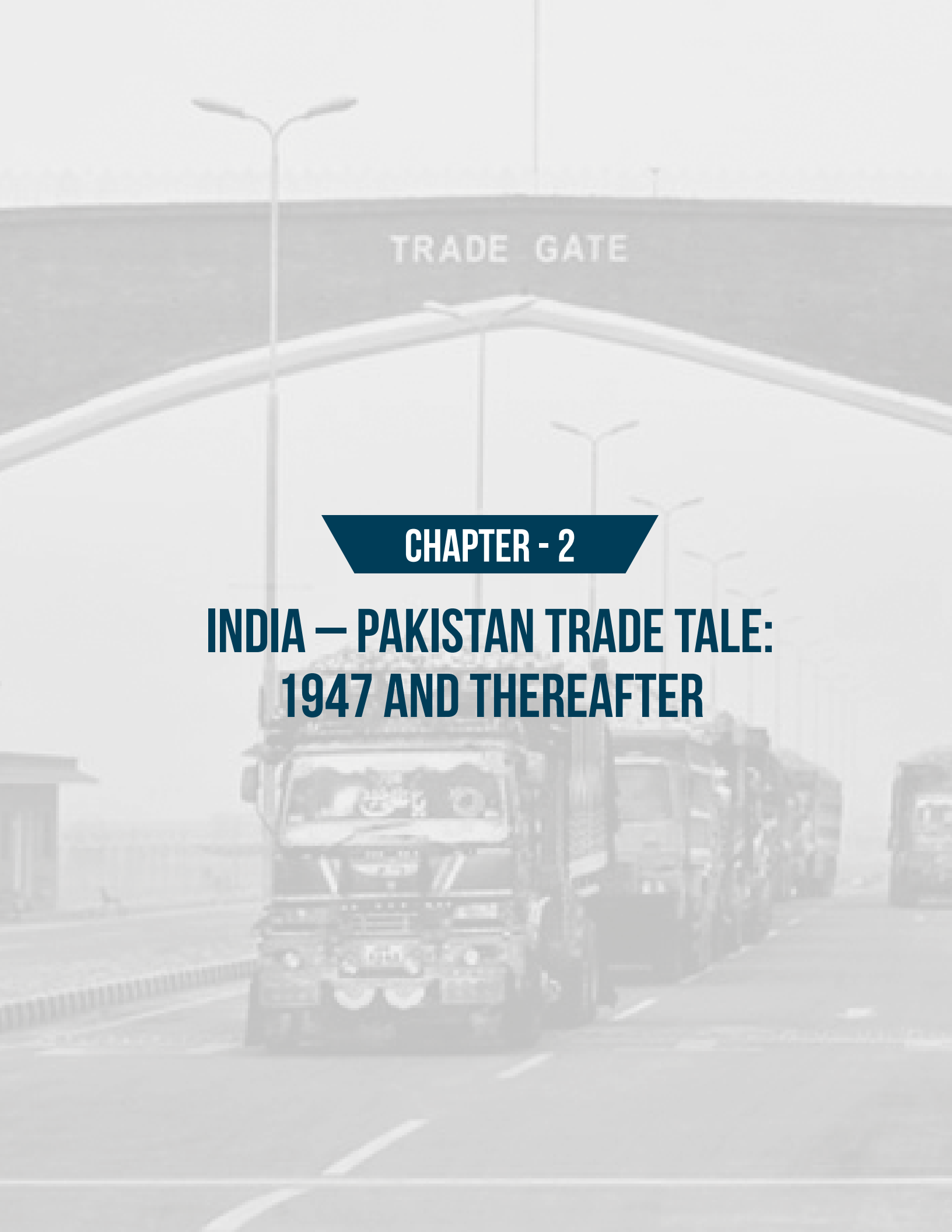
[6] Kathuria, Sanjay. A Glass Half Full: The Promise of Regional Trade in South Asia.South Asia Development Forum. Washington, DC. World Bank Group. 2018.

[7] In this report, for the purpose of nomenclature, indirect trade refers to goods traded via a third country leading to bilateral misallocation of trade and informal trade refers to trade that goes completely unrecorded because goods are exchanged informally, or are mis-declared /under-declared even if exchanged through formal channels. Any broad mention of informal trade includes both indirect trade and informal trade.

[8] Ministry of Commerce and Industry, Government of India.

the UAE, and the UAE and Pakistan, it shows the direction of this trade and the select commodities contributing to this trade. Results of detailed surveys carried out for this chapter among traders involved in the India-Pakistan trade – both direct and indirect via Dubai - demonstrate clearly that trade through third countries has been flourishing, resulting into triangle shipments between India and Pakistan via Dubai. Despite more circuitous routes and higher shipment cost, these triangle shipments make financial sense for the seller as well as the buyer. Another key finding from the survey showed that post Pulwama attack of February 2019, it is not just the trade which has amplified via the indirect routes but also the flow of money to the banks in the third countries, because of cancellation of Relationship Management Applications (RMAs) between Indian and Pakistani banks.

Chapter 4 of the report presents three product-specific case studies of textiles, dry dates and soy meal to explain the role of economics, politics and third party in changing trade flows. Over the years, though informal trade continued simultaneously with formal trade, there were some shifts from informal to formal trade between India and Pakistan because of different initiatives towards trade normalization 2012 onwards. This was particularly witnessed in case of textile trade. However after February 2019, MFN withdrawal, duty hike and eventually a complete trade ban between the two nations left no choice for the traders, like those of dry dates, heavily dependent on cross-border trade. Based on our interviews with them, they reported exploring avenues to shift back from direct to indirect trade. At times, external factors other than political and institutional, like role of a third country, can also affect trade between two countries. The soy story between India, Pakistan and the US is one such example. After the onset of the trade war between the US and China in 2016, the US started losing share in China's soybean market and began targeting other markets like that of Pakistan, initially catered to by India.

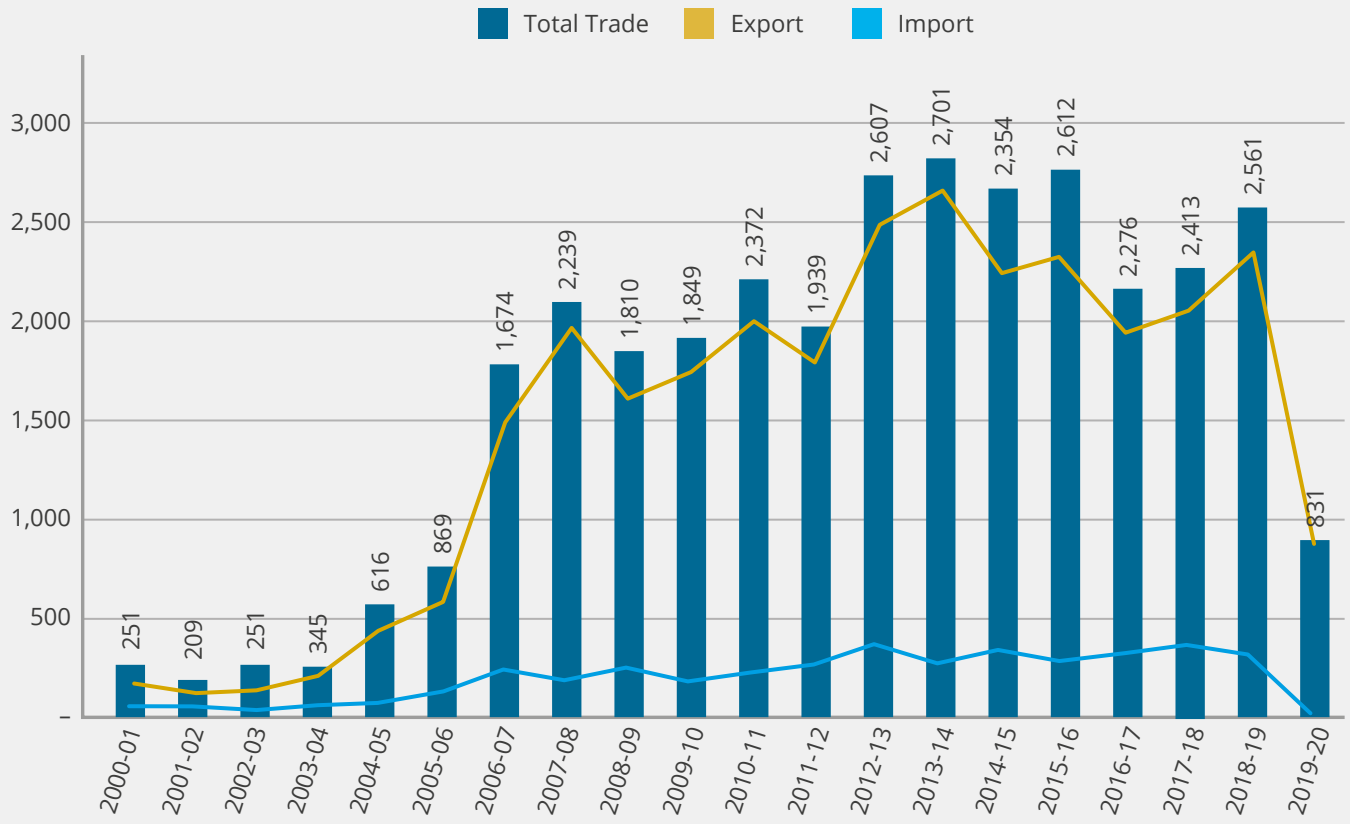


CHAPTER - 2

INDIA – PAKISTAN TRADE TALE: 1947 AND THEREAFTER

Over the years, trade between India and Pakistan has fluctuated immensely. There was a time when India and Pakistan were greatly dependent on each other for trade, and business was kept away from the political tensions between the two nations. In 1948-1949, India's share in Pakistan's trade was 56 per cent of its total exports and 32 per cent of its total imports.[9] But economic relations between the two countries became a casualty of their continued differences over the region of Jammu and Kashmir, and wars in 1965 and 1971, owing to which the share of bilateral trade declined sharply and dropped to insignificant numbers. There was little trade between the two nations for almost a decade after 1965. After the India Pakistan war in 1971, the Simla Agreement was signed, under which the two sides agreed to resume trade and cooperation in economic and other agreed fields as far as possible. Recalling the provisions of the Simla Agreement, the delegations of India and Pakistan met in New Delhi in 1974 and agreed to lift the embargo on trade. Later in 1996, India granted Pakistan the status of Most Favored Nation (MFN)[10] for trade – a status given to an international trade partner to ensure non-discriminatory trade between all partner countries of the World Trade Organization (WTO).

Figure 1: India-Pakistan Trade, 2000-2020 (USD million)



Source: Ministry of Commerce and Industry, Government of India

[9] Kugelman, Michael.Hathaway, Robert M. Pakistan-India Trade: What Needs To Be Done? What Does It Matter?. Wilson Center. 2013.

[10] Most Favoured Nation (MFN) status is given to an international trade partner to ensure non-discriminatory trade between all partner countries of the WTO. A country which provides MFN status to another country has to provide concessions, privileges, and immunity in trade agreements. It is the first clause in the General Agreement on Tariffs and Trade (GATT).

In the last two decades, various initiatives have prompted the trade communities of India and Pakistan to come together in order to improve bilateral economic relations. In 2005, amendments in the maritime protocol that allowed vessels from India and Pakistan to access each other's ports in order to lift cargo destined for a third country, and the opening of Wagah-Attari border for bilateral trade, provided impetus to both sea and land trade between the two countries. In 2006, the two nations entered the South Asian Free Trade Area (SAFTA) agreement[11]. Later, in 2008, trade began across the Line of Control, that was followed by the terror attacks in Mumbai only 35 days later. Yet, this trade survived the recurring political impasses to thrive for more than a decade. Further, in 2011, the 5th and 6th rounds of talks on Commercial and Economic Co-Operation between Commerce Secretaries of India and Pakistan pushed for speedy normalization of bilateral trade, development of associated infrastructure, new commerce initiatives, more business-to-business interactions and dismantling of non-tariff barriers. Bilateral trade was thus encouraged, increasing from USD 1.94 billion in 2011-12 to USD 2.61 billion in 2012-13. It was accompanied by other measures as well, such as setting up of the Integrated Check Post (ICP) at the Wagah-Attari border; transition from Pakistan's positive-list import regime, which allowed import of 1,946 goods from India, to a more trade-enabling negative-list scheme, which barred 1,209 items from being imported from India; and building traders' confidence and dispelling misapprehensions over cross-border trade through comprehensive dialogue between business chambers and associations in India and Pakistan.

However, trade relations between India and Pakistan changed drastically after the militant attack in the Pulwama district of Jammu and Kashmir in February 2019, in the wake of which the Indian government decided to withdraw the status of Most Favored Nation (MFN) for trade granted to Pakistan since 1996. Thereafter, in August the same year, Pakistan completely suspended its bilateral trade with India.

An increase in bilateral trade from USD 1.94 billion in 2011-12 to USD 2.61 billion in 2012-13, was partly a reflection of the positive sentiments of the people and an increasing inclination to trade with each other, a by-product of the trade normalization program of 2012.

[11] SAFTA is a trade agreement to promote trade and economic growth in South Asia by reducing tariffs for intra-regional trade.

India-Pakistan Trade – Timeline of Key Events

1947-65

India and Pakistan entered into 14 bilateral agreements related to trade facilitation; Multiple land routes were used for trade – including eight customs stations in Punjab province and three custom check posts in Sindh

In 1965, there were nine branches of six Indian banks operating in Pakistan. Habib Bank of Pakistan had a branch in Mumbai

1972

Simla Agreement was signed, under which the two sides agreed to resume trade and cooperation in economic and other agreed fields as far as possible

1974

Protocol between the governments of India and Pakistan on resumption of trade

1996

India granted Pakistan the status of Most Favored Nation (MFN) for trade

2004

Positive list by Pakistan expanded from 600 items in 2000 to 767 items

4 rounds of Composite Dialogue Process (2004 in Islamabad, 2005 in New Delhi, 2006 in Islamabad, and 2007 in New Delhi)

2005

Amendments in the maritime protocol that allowed vessels from India and Pakistan access each other's ports in order to lift cargo destined for a third country

Opening of Wagah-Attari border for bilateral trade of limited commodities, 58 years after its closure during the partition

2006

The two nations entered the South Asian Free Trade Area (SAFTA) agreement

Pakistan increased its positive list to 1075 items

2007

Wagah-Attari truck movement - the first overland truck route between India and Pakistan opened in 60 years. Indian and Pakistani trucks were allowed to unload cargo on each other's territory

2008

Pakistani President Asif Ali Zardari and Indian Prime Minister Manmohan Singh formally announced the opening of Khokrapar-Munnabao rail link, as well as cross-LoC Srinagar-Muzaffarabad and Poonch-Rawalakot roads for trade

2008

Trade began across the Line of Control, limited to 21 items and two days a week

2009

Pakistan increased its positive list to 1934 items; Economic Coordination Committee (ECC) of Pakistan permitted the Commerce Ministry to increase the number of items traded between the two countries in a phased manner. Trade through the road link initially restricted to 14 items.

2010

Afghanistan and Pakistan signed an amended transit trade agreement, the Afghanistan-Pakistan Transit Trade Agreement (APTTA). It allows Afghanistan's products to be exported to India through Pakistan via the land route. However, the APTTA does not allow India's exports to Afghanistan through Pakistan.

2011

The 5th and 6th rounds of talks on Commercial and Economic Co-Operation between Commerce Secretaries of India and Pakistan pushed for speedy normalization of bilateral trade

2012

Setting up of the Integrated Check Post (ICP) at the Wagah-Attari border; transition from Pakistan's positive-list import regime, which allowed import of 1,946 goods from India, to a more trade-enabling negative-list scheme, which barred 1,209 items from this bilateral trade

2016

India and Pakistan extended Agreement Related to Rail Communication until January 2019 in respect of both goods and passenger traffic; Extended maritime cooperation memorandum of understanding for five years

2019

Attack in Pulwama in Jammu and Kashmir, MFN withdrawal and customs duty hike to 200 per cent by India

Suspension of bilateral trade by Pakistan post the Jammu and Kashmir Reorganization Bill

Pakistan allowed import of life saving drugs from India

Inauguration of the Kartarpur corridor

Alongside, several independent efforts including Track 1.5, Track 2 and B2B meetings (for example: South Asia Economic Summit, SAARC Business Conclave, India expo in Karachi and Lifestyle exhibition in India) pushed for normalization of trade between India and Pakistan.

Pakistan allows import of life-saving drugs from India

Pakistan downgraded its diplomatic relations and formally suspended its trade relations with India last month.

Locust-hit Pakistan may make exception to trade freeze with India to import insecticides: Report

The Pakistan government considering the import of insecticides from India comes seven months after Islamabad on August 9 decided to suspended all trades ties with India following New Delhi's decision to abrogate Article 370 on August 5, revoking the special status of Jammu and Kashmir. Pakistan also expelled the Indian High Commission in Islamabad.

India shares a long border with Pakistan running through Gujarat, Rajasthan, Punjab and the Line of Control (LoC) in Jammu and Kashmir. Between 1948 and 1965, India and Pakistan used a number of land routes for bilateral trade - eight customs stations in Punjab province and three custom check posts.[12] The geographical proximity, cultural similarity, linguistic commonalities and prerogative of economic development shared by India and Pakistan should naturally propel bilateral trade and economic cooperation. Though far from potential, trade between the two neighbors has taken all routes of sea, road, rail and air– India's exports to Pakistan mainly by sea and India's imports from Pakistan by road and by sea.

Share of India-Pakistan Trade by Route

BY SEA

The Mumbai-Karachi route is the only direct sea route for trade between India and Pakistan. Despite a long land border, majority of the trade between the two countries takes place through the sea route, which is costlier and more time consuming.

India's Exports to Pakistan[14]

75%

India's Imports from Pakistan[15]

43%

BY ROAD

Trade via the road route of Wagah-Attari in Punjab started in 2005, with Pakistan allowing import of only 137 items from India.

There are two other points - Chakan da Bagh in Poonch and Salamabad in Uri that are used for cross-Line of Control trade in Jammu and Kashmir.

India's Exports to Pakistan[14]

9%

India's Imports from Pakistan[15]

51%

BY RAIL

There are two train services used for rail trade between India and Pakistan: Samjhauta Express (also known as the Attari Special Express in India) that runs from Delhi to the Attari border in Punjab, and then to Lahore – a passenger train with 10 BCXT (freight wagon type) of capacity 50 MT each (500 MT per train/week = 1000 MT per week) and a Cargo Inter-Change train with 250 wagons/month of 55-60 MT each.

India's Exports to Pakistan[14]

8%

India's Imports from Pakistan[15]

2%

BY AIR

There is limited direct connectivity between India (Delhi/Mumbai) and Pakistan (Lahore/ Karachi) offered by Pakistan International Airlines (PIA), of which the Mumbai-Karachi air route, the only commercial service connecting the two cities was suspended in 2017 because of extremely low traffic as reported by the PIA management.[13]

India's Exports to Pakistan[14]

8%

India's Imports from Pakistan[15]

4%

[12] These included eight customs stations in Pakistan's Punjab province at Wagah, Takia Ghawindi, Khem Karan, Ganda Singhwala, Mughalpura Railway Station, Lahore Railway Station, Haripur Bund on River Chenab, and the Macleod Ganj Road Railway Station. There were three custom checkposts in Sindh at Khokrapar, Gadro, and Chhor: Kugelman, Michael.Hathaway, Robert. Pakistan-India Trade: What Needs To Be Done? What Does It Matter?. Wilson Center. 2013.

[13] Sinha, Saurabh. Pakistan cuts down PIA flights from Karachi to Delhi, Mumbai. The Times of India. 2016. http://timesofindia.indiatimes.com/articleshow/54874928.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppt.; Pakistan International Airlines suspends Karachi-Mumbai flight from Monday. 2017. https://www.business-standard.com/article/current-affairs/pakistan-international-airlines-suspends-karachi-mumbai-flight-from-monday-117050700095_1.html

[14] Taneja, Nisha. Bimal, Samridhi. Sivarm, Varsha. Emerging Trends in India Pakistan Trade. ICRIER. 2018. (These shares are as of 2016-17)

[15] Ibid.

2.1 The Missed Potential

According to various studies, the potential trade between India and Pakistan is much higher than the actual trade between the two countries. The potential trade is defined as the maximum possible trade that can occur between two countries, on account of most liberalized trade restrictions at the current level of determinants to trade. On the other hand, actual trade is the trade which takes place at the current level of restrictions and determinants to trade. The difference between potential and actual trade is directly related to the various socio-political and institutional factors which ultimately hinder the actual trade to reach its potential level.[16] Several studies have been conducted to estimate the trade potential between India and Pakistan, the value varying between USD 3 billion and USD 37 billion.

Table 1: Studies Conducted to Estimate the Trade Potential between India and Pakistan

Year	Study	Potential
2018	A Glass Half Full: The Promise of Regional Trade in South Asia, The World Bank Group	USD 37 billion
2013	Normalizing India Pakistan Trade, Indian Council for Research on International and Economic Relations (ICRIER)	USD 10.9 billion to USD 19.8 billion
2013	Informal Flow of Merchandise from India: The Case of Pakistan, Sustainable Development Policy Institute (SDPI)	USD 15-20 billion[17]
2007	The Challenges and Potential of Pakistan-India Trade, The World Bank Group	USD 3 billion to USD 10 billion
2006	Implications of Liberalizing Trade and Investment with India, State Bank of Pakistan	USD 10 billion
2006	India's Global Trade Potential: The Gravity Model Approach. Global Economic Review	USD 6.5 billion
2005	Trade between India and Pakistan: Potential Items and the MFN Status, State Bank of Pakistan	USD 5.2 billion

Different studies have used different techniques to calculate the trade potential. Based on estimates by International Trade Center (ITC) on export potential, India's untapped export potential with Pakistan is USD 1.4 billion and the same for Pakistan with India is USD 310 million. Irrespective of the technique used to calculate the trade potential, the missed potential is huge. This can be attributed to numerous factors such as political tensions, existence of negative list between the two countries, poor infrastructure and trust deficit, among others. A result of these restrictions is the significant value of informal trade between India and Pakistan which takes place via third countries.

[16] Miankhel, Adil Khan. Thangavelu, Sandre. Kalirajan, Kaliappa. On Modelling and Measuring Potential Trade. IGIDR. 2009.
[17] Sourced from PILDAT 2012, Husain 2011, Qamar 2005

In 2018-19, bilateral trade between India and Pakistan was valued at USD 2.6 billion; Pakistan's imports from India accounted for USD 2.06 billion which is 3 per cent of Pakistan's total imports, and India's imports from Pakistan stood at USD 495 million accounting for only 0.1 per cent of India's total imports. Despite the similarities in culture and language, the logistics advantage and a long common border, the cost of missed potential is huge. It is 18 percentage points cheaper for India to trade with Brazil (in South America) than with Pakistan (its immediate neighbor).[18] Politics continues to trump economics, and trade continues to become a casualty of political estrangement – making direct trade more difficult and eventually pushing up the informal trade.

2.2 The Twin Account: Informal trade between India and Pakistan

Indirect and informal trade between India and Pakistan have always co-existed with the formal trade. Indirect trade is defined as exporting goods to an intermediary in a third country, who then transports the goods to the trader of importing country. Such trade between two countries is recorded in their respective national accounts but is misallocated bilaterally. Both exporting and importing countries record it as their trade with the third country which acts as an intermediary to re-route trade. However, informal trade goes completely unrecorded. In some cases goods pass through formal/official exchange channels but are still misdeclared/underdeclared. This possibility of administrative lapse also contributes to increasing incidence of informality. Many studies have been conducted to estimate the informal trade between India and Pakistan.

Table 2: Studies Conducted to Estimate Informal Trade between India and Pakistan

Year	Study	Potential
2013	Informal Flow of Merchandise from India: The Case of Pakistan, Sustainable Development Policy Institute	USD 1.79 billion
2013	Pakistan-India Trade: What Needs to be Done? What Does it Matter, Wilson Center	USD 1 billion
2012	India's Informal trade with Pakistan, Indian Council for Research on International and Economic Relations (ICRIER)	USD 4.71 billion
2011	A Primer: Trade Relations between Pakistan and India (1947-2012), USAID Trade Project	USD 1 billion
2005	Quantifying Informal Trade between Pakistan and India, Sustainable Development Policy Institute of Pakistan	USD 545 million

[18] Chandna, Himani. Don't let border tensions hamper trade: UN & World Bank economists to India, Pakistan. The Print. 2019. *https://theprint.in/economy/dont-let-border-tensions-hamper-trade-un-world-bank-economists-to-india-pakistan/200411/.*

2.2.1 Impetus to Informal Trade

There are numerous factors which result in trade through the informal routes between India and Pakistan, the most important of which is the political tension between the two nations. The general perception is that high tariffs are another reason to promote informal trade, but tariffs had reduced to a maximum of 5 per cent under SAFTA barring items under sensitive list.[19] Even though the SAFTA agreement is in existence from 2006, in reality, the region and primarily India and Pakistan remain far from achieving a tariff free trade regime. This can be attributed to "paratariffs" which are "import duties in disguise" - substantial duties on a large number of products traded amongst South Asian countries regardless of SAFTA.[20] A wide range of other factors hinder trade between India and Pakistan:

- **Continued political differences**
- **Pakistan's negative list of 1,209 items with India**
- **Sensitive lists and paratariffs that are a barrier to SAFTA's functioning**
- **Only 138 items allowed for trade through the Wagah-Attari road route**
- **Restrictions on air travel, sea transportation and land travel along with cumbersome customs clearance mostly involving physical examination of goods**
- **Pakistan not granting MFN status and non-discriminatory market access to India**
- **Inadequate infrastructure at border points like lack of scanner at Attari, insufficient wagons for rail cargo, lack of testing facility at the border, etc.**
- **Difficulty in obtaining visas and restriction on movement, for example, city specific visa for the business community**
- **Inadequate payment mechanisms for cross-border trade**
- **Difficulty in identifying trading partners**
- **Absence of harmonized regulatory regimes across border**
- **Lack of capacity to negotiate reduction in non-tariff barriers (NTBs) with the other side**
- **Overall, persistent trust deficit between the two countries – negatively impacting easy communication and business transactions**

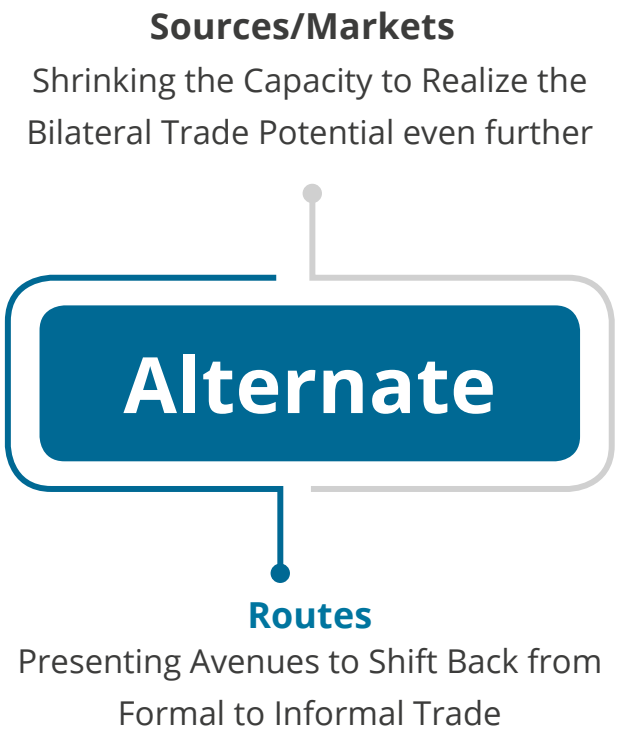
In order to avoid the hassle to trade formally, traders have been seen to choose the more convenient trade routes which are via a third country. Since the potential to trade between the two nations is much higher than the actual trade, there is clearly an appetite for trade between the two nations – some of it being met through informal trade.

[19] A sensitive list is a list with every country which does not include tariff concessions.
[20] Kathuria, Sanjay. A Glass Half Full: The Promise of Regional Trade in South Asia.South Asia Development Forum. Washington, DC. World Bank Group. 2018.

2.2.2 February 2019 and Aftereffects

While there was hope to gradually reach the potential bilateral trade between India and Pakistan and formalize the informal trade, trade relations between India and Pakistan got drastically impacted after the militant attack in the Pulwama district of Jammu and Kashmir in February 2019, in the wake of which the Indian government decided to withdraw the status of Most Favored Nation (MFN) for trade granted to Pakistan since 1996. Subsequently, it increased customs duty on all goods imported from Pakistan to 200 per cent. The year 2019 also witnessed the Indian government suspending trade across the Line of Control (LoC) in Jammu and Kashmir region and later in August the same year, Pakistan reducing diplomatic and economic ties with India — expelling the Indian envoy, partially shutting its airspace, and suspending bilateral trade and postal services.

MFN withdrawal, duty hike and eventually a complete trade ban between the two nations pushed the traders heavily dependent on cross-border trade to explore alternate sources/markets or alternate routes[21] – former shrinking the capacity to realize the bilateral trade potential even further and latter presenting avenues to shift back from formal to informal trade.



[21] Alternate routes are detailed in Table 3

Lahore's Paan Bazaar

Paan Bazaar - a market in Lahore which is famous for selling Indian goods since partition, has more than 50 shops selling paan (betel leaf), textiles like sarees and lehengas, cosmetics, ayurvedic medicines and imitation jewelry among other products which are imported from India.

After the suspension of trade between India and Pakistan in 2019, the sale of Indian products in Paan Bazaar has taken a hit - paan now coming from Sri Lanka/Karachi and Indian cosmetic products reaching Paan Bazaar via Dubai or the Afghan transit.

"Indian paan was consumed in huge quantities in Pakistan. However, after the trade ban, paan leaves are coming from Sri Lanka and Karachi, witnessing a price increase frome PKR 700 per kg to PKR 1400 per kg" - Trader, Paan Gali, Lahore, Pakistan.

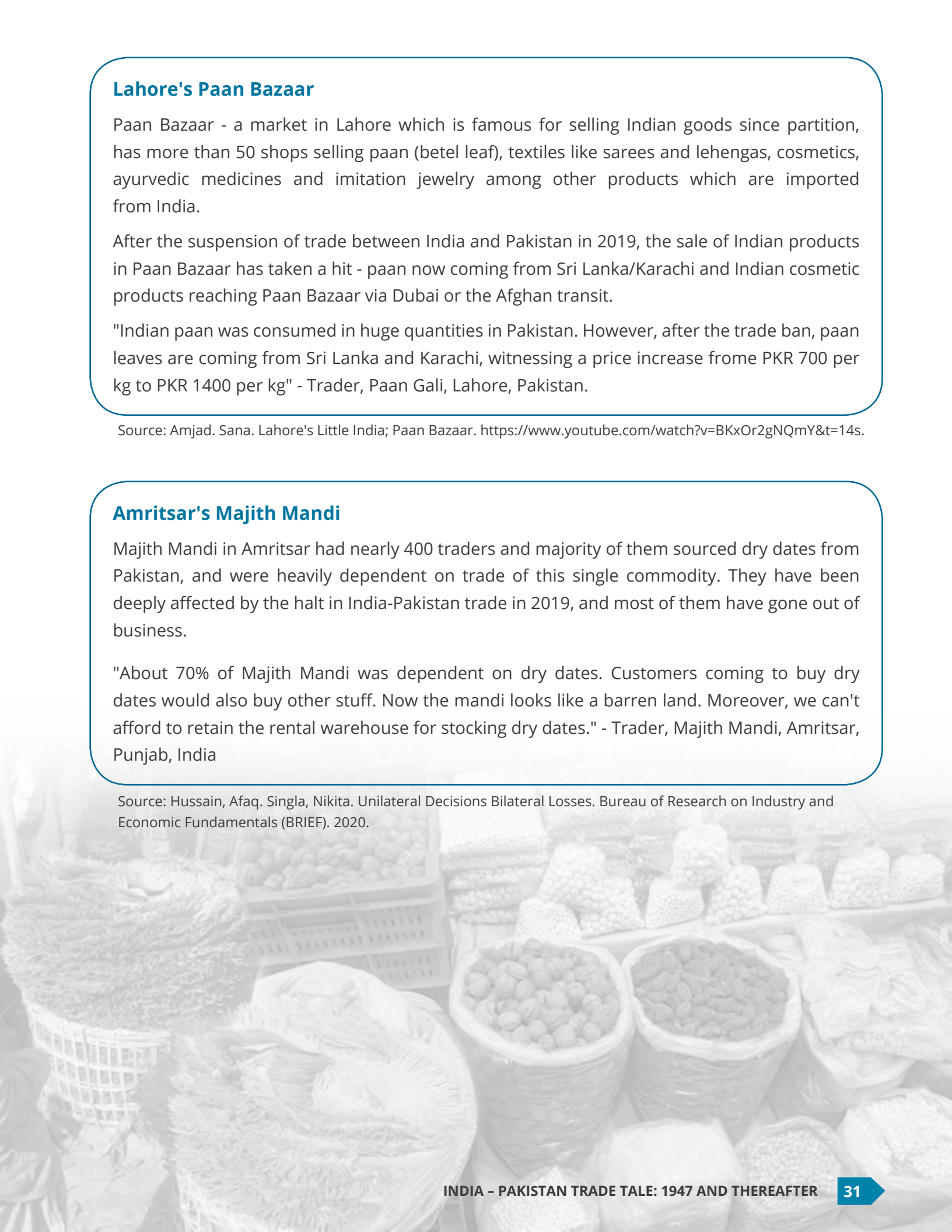
Source: Amjad. Sana. Lahore's Little India; Paan Bazaar. https://www.youtube.com/watch?v=BKxOr2gNQmY&t=14s.

Amritsar's Majith Mandi

Majith Mandi in Amritsar had nearly 400 traders and majority of them sourced dry dates from Pakistan, and were heavily dependent on trade of this single commodity. They have been deeply affected by the halt in India-Pakistan trade in 2019, and most of them have gone out of business.

"About 70% of Majith Mandi was dependent on dry dates. Customers coming to buy dry dates would also buy other stuff. Now the mandi looks like a barren land. Moreover, we can't afford to retain the rental warehouse for stocking dry dates." - Trader, Majith Mandi, Amritsar, Punjab, India

Source: Hussain, Afaq. Singla, Nikita. Unilateral Decisions Bilateral Losses. Bureau of Research on Industry and Economic Fundamentals (BRIEF). 2020.



Hypothesis A

After imposition of 200 per cent customs duty on Pakistani imports in February 2019, India's imports from the UAE have increased from 2018 to 2019, of the products earlier imported directly from Pakistan

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Hypothesis B

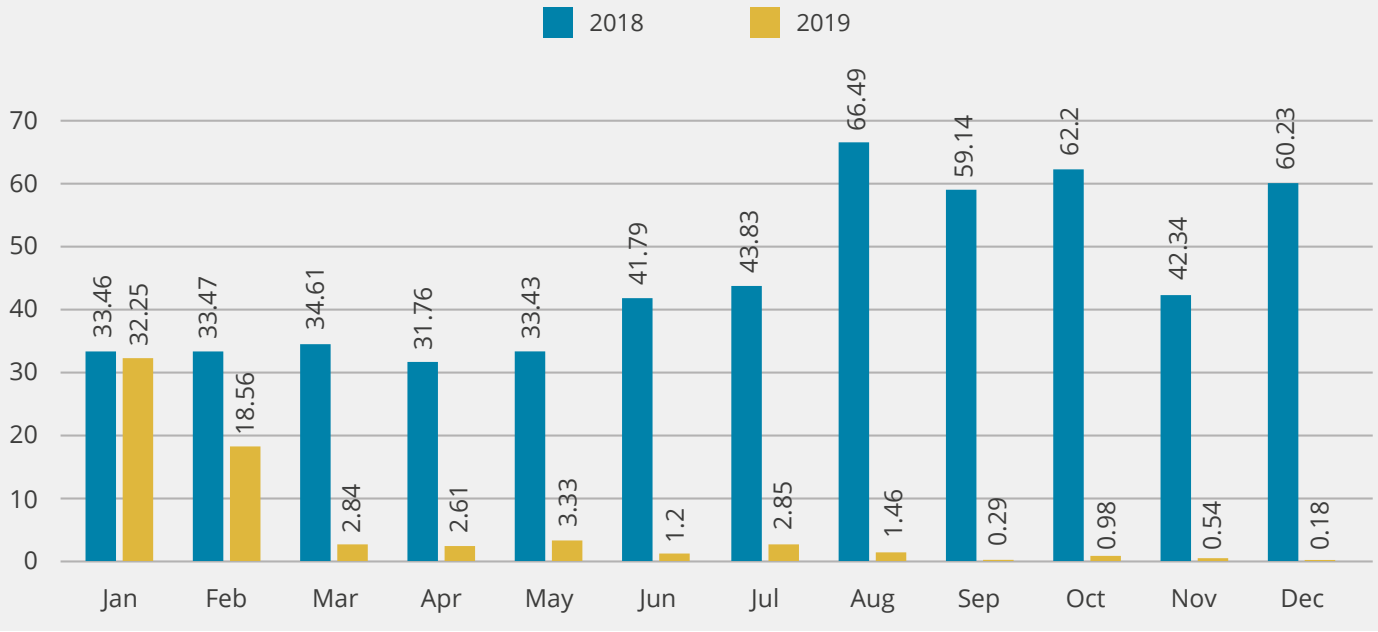
After suspension of direct trade between India and Pakistan in August 2019, India's exports to the UAE have increased from 2018 to 2019, of the products earlier exported directly to Pakistan

Hypothesis A: After imposition of 200 per cent customs duty on Pakistani imports in February 2019, India's imports from the UAE have increased from 2018 to 2019, of the products earlier imported directly from Pakistan

Barely a day after the Pulwama attack on 14 February 2019, the Indian government announced its withdrawal of the Most Favored Nation status for trade accorded to Pakistan since 1996. On 16 February 2019, it issued a gazette notification (number 05/2019), which hiked the import duty on all goods—listed under the first schedule to the Customs Tariff Act, in section XXI, in chapter 98–originating in or exported from Pakistan to 200 per cent.

This led to a significant drop in Pakistan's exports to India. In 2018-19, bilateral trade between India and Pakistan was valued at USD 2.6 billion; India's exports to Pakistan accounted for USD 2.06 billion and India's imports from Pakistan were at USD 495 million. The Indian government's decisions–withdrawal of MFN status and imposition of 200 per cent duty– hurt Pakistan's exports to India that fell from an average of USD 45 million per month in 2018 to USD 2.5 million per month in March-July 2019[22] (see figure 2).

Figure 2: Pakistan's Monthly Exports to India, 2018-2019 (USD million)



Source: Ministry of Commerce and Industry, Government of India

The extent of loss incurred by traders in India and Pakistan has varied based on the nature and route of trade. For example, through the Wagah-Attari land route, bilateral trade was mainly in the direction of Pakistan to India; in the last two financial years 2017-19, India's imports from Pakistan accounted for 82 per cent of the total trade through this land route. Since February 2019, most of this trade has been badly affected, and only a handful of items—like rock salt and dry dates—continued to be imported from Pakistan - through Wagah-Attari land route till August 2019 and later through sea routes like the UAE[23] after the trade was suspended.

[22] Bilateral trade between India and Pakistan was suspended in August 2019.
[23] Imports of Pakistani goods are not banned by India, and are hence allowed via third country on the payment of 200 per cent duty.

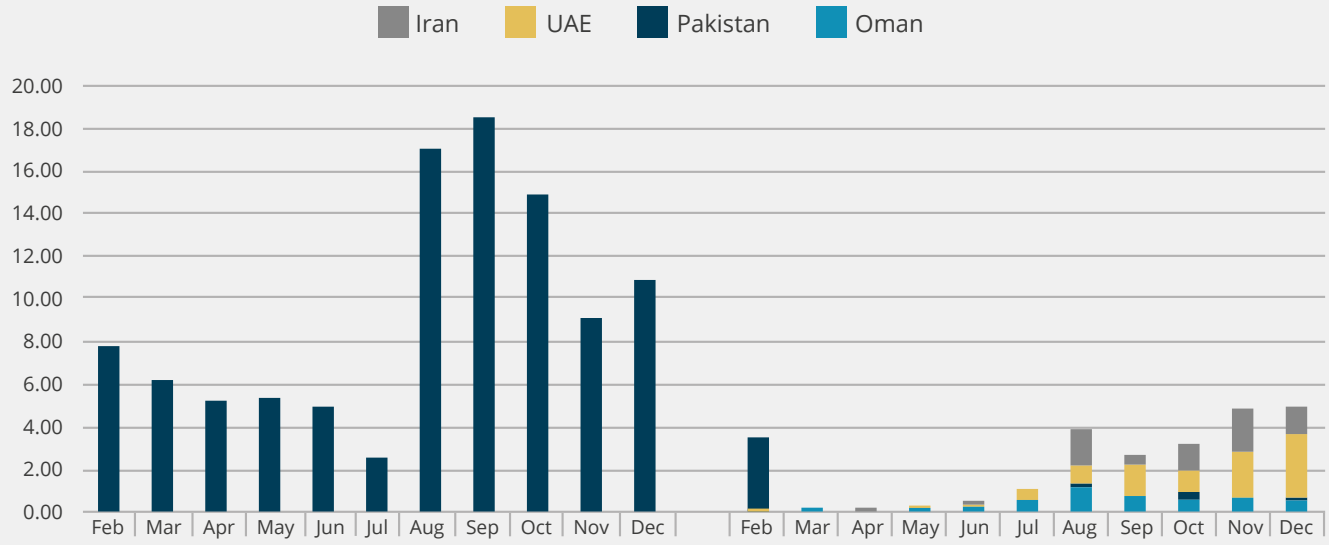
Hard dry dates (*chhohara or kharek—HS Code 08041030*) had been one of the principal commodities India sourced from Pakistan, its imports from Pakistan almost entirely meeting India's requirements. Data from India's Ministry of Commerce and Industry indicates that the share of India's imports from Pakistan was 99 per cent of its total imports from the world for fiscal years 2017-18 and 2018-19.

The data from February-December 2019 (see figure 3(a)) shows that while some dry-date imports began coming from/via Oman, after the duty hike in February 2019, most of the dry-dates starting coming from the UAE. The UAE supplied no dry dates to India in 2018, but its dry date supplies witnessed a progressive increase April 2019 onwards; for example, the value of India's dry-date imports from the UAE increased from USD 20,000 in April 2019 to USD 3,040,000 in December 2019. Similarly, a month on month analysis of Pakistan's exports of dates by country (see figure 3(b)) suggests a shift in exports to countries like the UAE and Oman in 2019 as compared to 2018 wherein a significant portion reached India through direct channels. While some of the Pakistani dates reached India via other routes in 2019, Pakistan's total exports of dates decreased post February 2019.

Dubai, an emirate of the UAE, has been an 'open secret' destination for routing goods from Pakistan to India, and vice versa.[24] Successive month-on-month increases in India's imports of dry dates from the UAE, and Pakistan's exports to the UAE, stand testimony to this.

Figure 3 (a): India's Monthly Import of Dry Dates by Country, 2018-2019 (USD million)

HS Code – 08041030



	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Iran	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UAE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pakistan	7.68	6.05	5.19	5.32	4.87	2.52	17.0	18.4	14.8	9.02	10.8
Oman	0.07	0.10	0.00	0.00	0.04	0.00	0.00	0.05	0.03	0.05	0.03

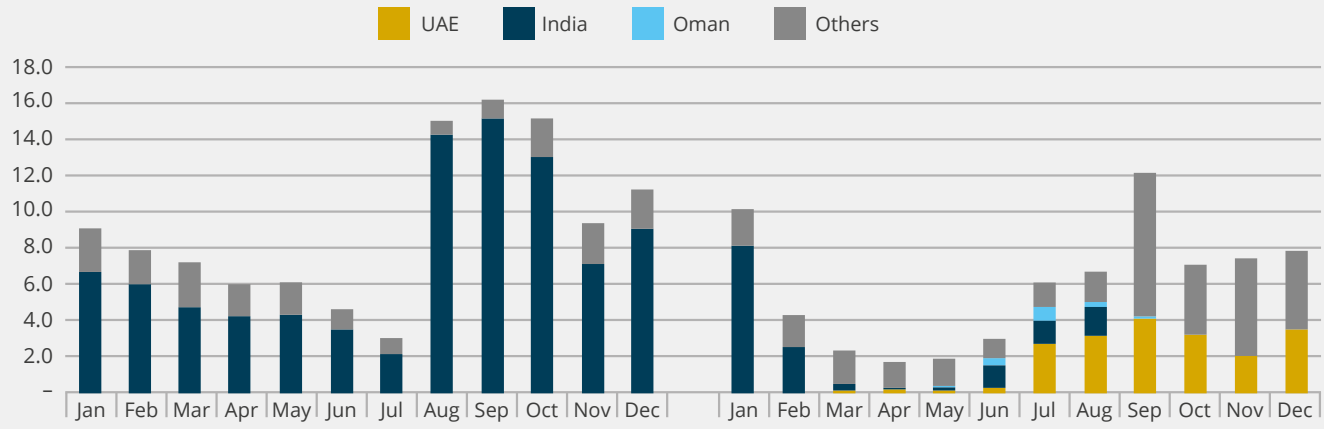
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Iran	0.00	0.00	0.01	0.00	0.04	0.00	1.61	0.33	1.19	1.96	1.21
UAE	0.00	0.00	0.02	0.02	0.12	0.51	0.99	1.54	1.05	2.18	3.04
Pakistan	3.24	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.31	0.00	0.07
Oman	0.21	0.21	0.07	0.22	0.28	0.55	1.20	0.75	0.62	0.67	0.58

Source: Ministry of Commerce and Industry, Government of India

[24] Section 3.1 elaborates on the reasons for Dubai to become the most formalized informal route

Figure 3 (b): Pakistan's Monthly Export of Dates by Country, 2018-2019 (USD million)

HS code - 080410



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
UAE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.1	0.2	0.1	0.3	2.7	3.2	4.1	3.2	2.1	3.5
India	6.7	6.0	4.7	4.2	4.3	3.5	2.2	14.3	15.2	13.1	7.1	9.1		8.2	2.5	0.4	0.0	0.2	1.2	1.3	1.6	0.0	0.0	0.0	0.0
Oman	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.1	0.4	0.08	0.3	0.0	0.0	0.0	0.0
Others	2.4	1.8	2.5	1.7	1.8	1.0	0.8	0.7	1.0	2.1	2.2	2.2		2.0	1.8	1.9	1.4	1.5	1.0	1.3	1.6	8.0	3.8	5.3	4.4

Source: UN Comtrade

A similar trend was seen for rock salt. In case of rock salt (HS Code 250100200), over 98 per cent of India's rock-salt import demand was met by sourcing Pakistani salt through the Wagah-Attari route over the years. For all these years, no customs duty was levied on rock-salt imports. Even in 2019, rock salt continued to be sourced from Pakistan through Wagah-Attari land route till August 2019, paying 200 per cent duty, and later through sea routes like the UAE after the trade was suspended[25]. This persistence in bilateral trade can be attributed to the fact that rock salt is a low-cost and high-volume product—is not cost-sensitive but logistics-sensitive.

In other cases, like for example, Portland cement (HS code 25232910) that was one of India's principal imports from Pakistan, was traded in large quantities (imports worth USD 59.92 million in 2018). According to data from India's Ministry of Commerce and Industry, Pakistan's share in India's overall import of the commodity in 2018-19 was 86 per cent. Our interactions on the ground in Amritsar (Punjab, India) revealed that the primary reason for sourcing cement from Pakistan had been the cost benefit in terms of logistics—acquiring these commodities via the Wagah-Attari route was much cheaper than the domestic routes from Indian states such as Rajasthan. Many traders reported that after the imports from Pakistan stopped, there have been sustenance issues for Indian importers—especially in places like Amritsar—who have been heavily dependent on cement and gypsum from Pakistan. After the bilateral trade stopped, there was an increase in local sourcing and augmented imports from alternative sources, like the Middle East.

Despite tariff and non-tariff barriers and presence of few alternate sources, many commodities from Pakistan continued to reach Indian markets, thereby justifying the inclination of Indian traders towards sourcing the commodity from Pakistan via a third country.

[25] It must be noted that import of Pakistani goods is not banned by India, and is hence allowed via a third country on the payment of 200 per cent duty.

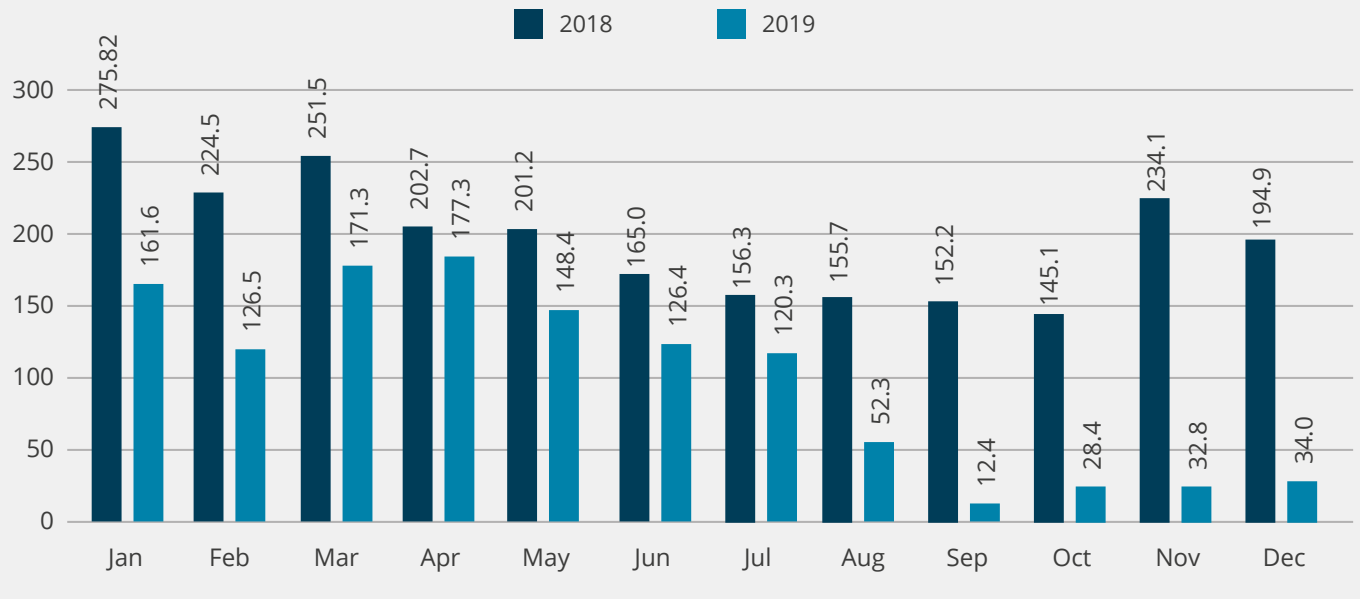
Hypothesis B: After suspension of direct trade between India and Pakistan in August 2019, India's exports to the UAE have increased from 2018 to 2019, of the products earlier exported directly to Pakistan

In August 2019, the Indian government enacted the Jammu and Kashmir Reorganization Bill, reorganizing the former Indian state of Jammu and Kashmir into two union territories—Jammu and Kashmir, and Ladakh. Pakistan, thereafter, suspended bilateral trade with India.

Escalating tensions between India and Pakistan led their governments to each retaliate through successive unilateral decisions. As in the past, traders in both countries were affected, albeit much more severely this time around.

The year 2019 witnessed decline in trade in both directions – imports as detailed in Hypothesis A and exports from an average of USD 196 million per month in 2018 to USD 99 million per month in 2019 (see figure 4).

Figure 4: India's Monthly Exports to Pakistan, 2018-2019 (USD million)



Source: Ministry of Commerce and Industry, Government of India

Different export clusters in India got massively hit. For example, the numerous spinning mills of Ludhiana, a district of Indian Punjab, lost access to Faisalabad, a district in Pakistani Punjab that provides with a valuable consumption base less than 300 kilometers away. Exports from India to Pakistan, besides hurting Indian exporters and export clusters, impacted Pakistani industries as well, such as Pakistan's textile industry. While Pakistan grows cotton domestically, 37 per cent of its cotton imports came from India. After the trade ban between India and Pakistan in 2019, Pakistan began sourcing cotton/yarn from the US and Vietnam, thereby witnessing a rise in cotton prices, amid low production and higher import tariffs (11 per cent from the US and Vietnam, compared to 5 per cent from India for cotton yarn (HS Code 520524), one of Pakistan's major imports from India). Pricier cotton hurt the manufacturers of cotton-based garments in Pakistan. The pests and locust attacks on Pakistan's crops in 2019-20 have further increased its dependence on imports of cotton from other countries.[26]

[26] Qureshi, Shujauddin. Cotton Connection. 2019. https://www.thenews.com.pk/tns/detail/568742-cotton-connection

Indirect Trade of New Essentials

In the aftermath of the outbreak of the Covid-19 pandemic, the suspension of bilateral trade disrupted the supply of Indian sanitizers in Pakistani markets and Pakistan's ethanol – a major raw material for sanitizers – in Indian market, increasing India's dependence for ethanol on the USA. Though Pakistan opened direct trade with India for life saving drugs, the restrictions in the trade environment between India and Pakistan caused traders to find alternate routes to trade. Despite more circuitous routes and higher shipment cost, the increasing demand for new essentials (essentials for Covid-19) was met via indirect trade.

For example, in case of organic surface active agents (HS Code 3402) including liquid hand sanitizers, China was Pakistan's major supplier followed by India. Pakistan's imports from China started deteriorating after November 2019 when China was first hit by the virus (the share of imports from China decreased from 44 per cent in November 2019 to 26 per cent in January 2020). In parallel, post suspension of India-Pakistan trade in August 2019, India's exports to the UAE increased by 51 per cent from September 2019 to January 2020 (see figure a) and Pakistan's imports from the UAE increased by nearly 2000 per cent in the same period (see figure b) – implying trade of the 'new essentials' from India to Pakistan via the UAE.

Figure a: India's exports to Pakistan and the UAE (USD million)

HS code -3402

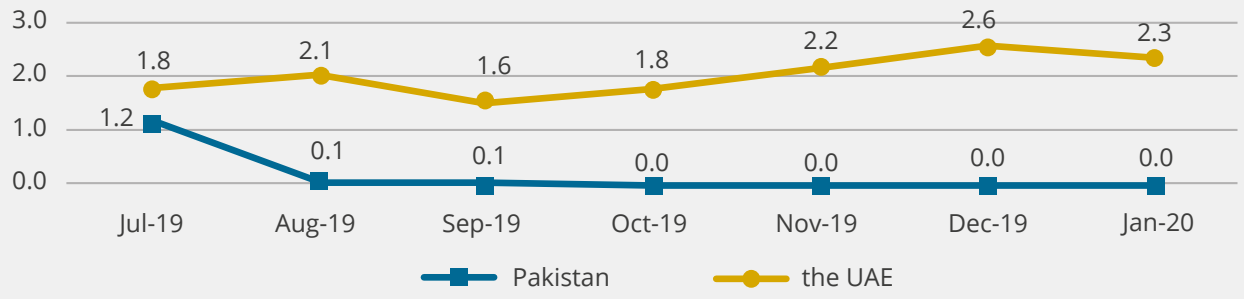
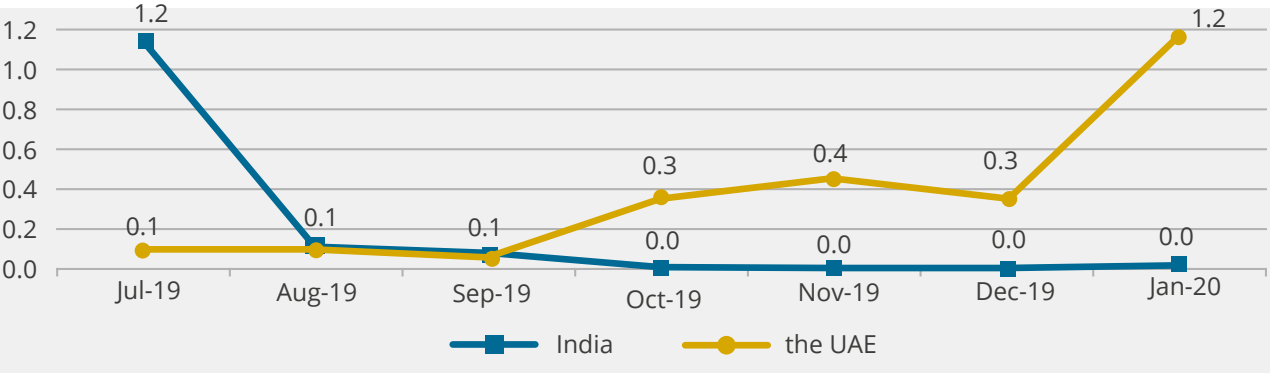


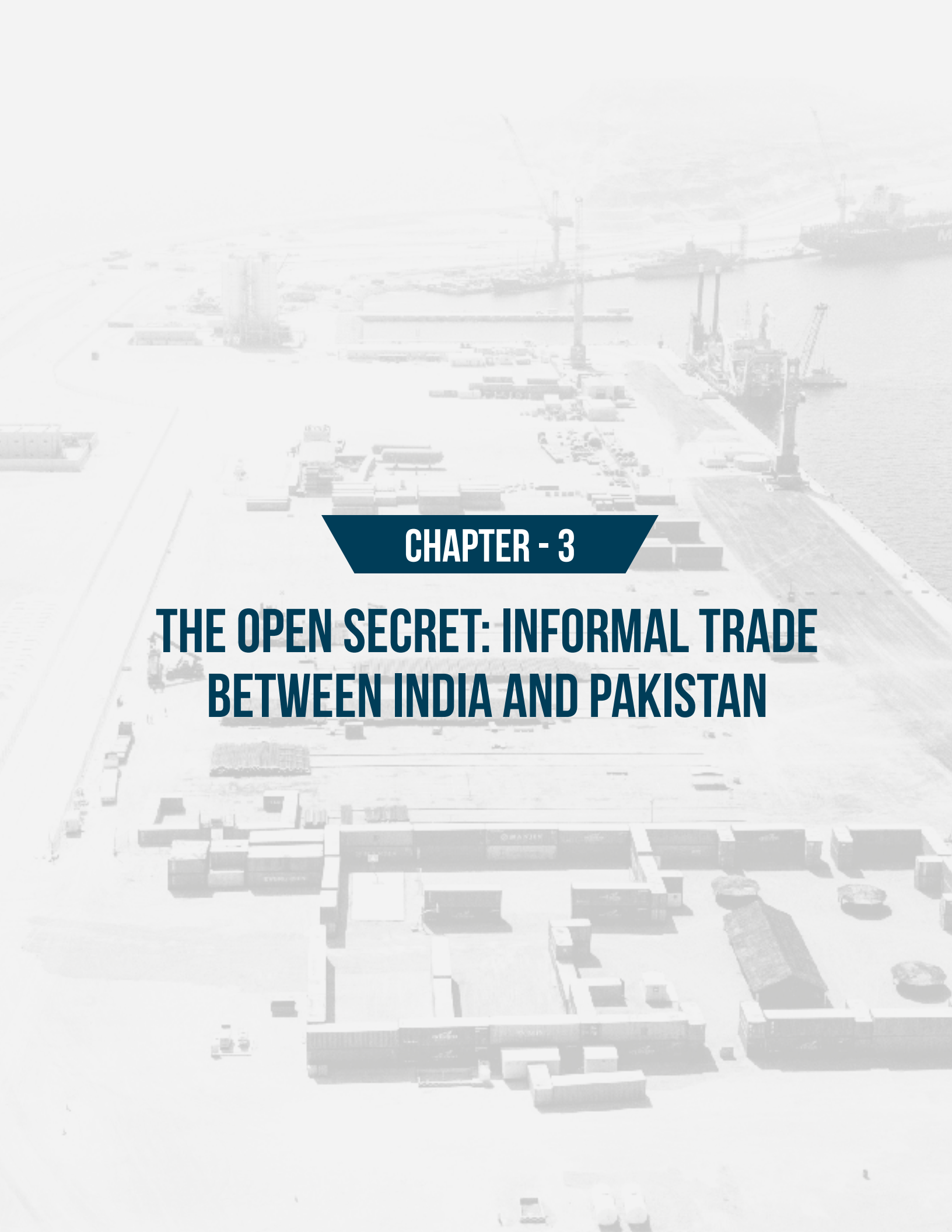
Figure b: Pakistan's imports from India and the UAE (USD million)

HS code -3402



Source: Ministry of Trade and Commerce, India and UN Comtrade

Source: Singla, Nikita. Arora, Priya. Going Vocal for Local: The Case of Localized Regional Supply Chains in South Asia. Outlook. 2020. https://www.outlookindia.com/website/story/opinion-going-vocal-for-local-the-case-of-localized-regional-supply-chains-in-south-asia/352745



CHAPTER - 3

THE OPEN SECRET: INFORMAL TRADE BETWEEN INDIA AND PAKISTAN

It is an open secret that the most dominant route for informal trade between India and Pakistan is via the UAE, mainly Dubai. Previous studies have estimated that almost 88 per cent of informal trade between India and Pakistan occurs via third countries.[27] It has also been estimated that of the total informal exports from India to Pakistan, 68 per cent is routed through Dubai.[28] The trade route via Dubai is also estimated to be 2.75 times more efficient in terms of transaction cost as compared to the direct route.[29] Since the traders in India and Pakistan face restrictions in their home countries, Dubai is considered to be a great intermediary because it offers security and freedom to trade. There are various ways/routes through which trade takes place between India and Pakistan, some of them listed below.

Table 3: Routes of Trade, other than direct, between India and Pakistan

Route			
Informal[30]	Indirect	India- Dubai-Pakistan	
		India-Hong Kong - Pakistan	
		India-Malaysia-Pakistan	
		India-Oman-Pakistan	
		India-Singapore-Pakistan	
		India-Sri Lanka-Pakistan	
		India-Thailand-Pakistan *and others*	
	Informal	India- Dubai -Iran (Bandar Abbas)-Pakistan	
		India- Dubai- Pakistan (Karachi port)- Afghanistan-Pakistan	
		India- Dubai-Pakistan *(by air)*	**Khepias**[31]
		Samjhauta Express *(by rail)*	

3.1 The Dubai Angled Triangle: the most formalized informal route

The UAE, especially Dubai, has emerged as a leading trading hub, serving many countries across the globe including the South Asian countries. With over 2 million Indians and 1.2 million Pakistanis, the two largest expat communities form around 40 per cent of the UAE population. This acts as the foundation for Dubai becoming the transit hub for trade between India and Pakistan, expat community creating trust, managing demand and supply value chains, and offering a medium for financial transactions. This along with supporting infrastructure like being easily accessible by sea and air for traders from both India and Pakistan, its business friendly environment, relaxed trade policies like no

[27] Kugelman, Michael.Hathaway, Robert. Pakistan-India Trade: What Needs To Be Done? What Does It Matter?. Wilson Center. 2013.

[28] Taneja, Nisha. Bimal. Samridhi. India's Informal Trade with Pakistan. ICRIER. EconStor. 2016.

[29] Ibid.

[30] In this report, for the purpose of nomenclature, indirect trade refers to goods traded via a third country leading to bilateral misallocation of trade and informal trade refers to trade that goes completely unrecorded because goods are exchanged informally, or are mis-declared /under-declared even if exchanged through formal channels. Any broad mention of informal trade includes both indirect trade and informal trade.

[31] Khepias are professional informal traders who travel frequently in the guise of normal passengers and carry large quantities of items, from one country to another.

personal and corporate tax (except on oil concessions and branches of foreign banks),[32] hundred per cent foreign ownership, presence of free zones (special economic zones), quick approval procedures are among some of the advantages which make Dubai a prime destination to route trade. Free Zones which are essentially free from normal regulations play an important role in increasing trade between the UAE and the world. Free Zones are normally located near seaports or airports, and mostly offer exemptions from national import duties on items that are re-exported.[33] The UAE's free zones are a significant contributor to its economy as they attract a huge amount of foreign investment and create many jobs for people across the globe. Free zones constitute a majority of the UAE's non-oil exports and are also the reason for making it one of the largest re-export center in the world.[34] There are over 40 free zones in the UAE, out of which around two dozen are in Dubai alone, focusing on a number of economic activities with bare minimum exchange controls and trade barriers. This makes it easy to link buyers and sellers across the world.[35]

Jebel Ali Free Zone, built in Dubai in 1985, is one of the largest free zones at the Jebel Ali Port which is the largest man-made port in the world. Jebel Ali is home to more than 7,000 companies which include manufacturing, warehousing, trading and distribution companies. The port has onsite chamber of commerce, international banks, and insurance companies to make the shipment process efficient. Facilities provided at Dubai's Airport Free Zone (DAFZ) are also an attractive incentive for the traders. DAFZ is a prime location for many companies dealing in high-tech products, luxury items and jewelry items.[36] Dubai's efficiency in handling cargo makes it one of the largest sea-air hubs in the world. For instance, at the Jebel Ali Free zone, the cargo brought in by sea, gets cleared, transported to the airport and loaded onto a cargo plane in only a couple of hours.

For all these reasons, the World Bank, in 2020, has ranked the UAE as the 16th easiest place to trade across borders out of a list of 190 nations, in which India stands at the 63rd position and Pakistan at 108th position.[37] Though traders usually compare the cost, ease of doing business and market access for conducting business, it's the convenience that primarily lures traders of India and Pakistan to trade via Dubai.

UAE A Clandestine Route for Indian Exports to Pakistan

BSCAL
Last Updated at January 27, 2013 21:32 IST

Dubai Detour for Pakistan Exports

Trade through third countries is currently estimated to be worth about $5-10 billion

By Our Special Correspondent in New Delhi

Published 11.08:19, 2:23 AM • Updated 11.08.19, 2:23AM

32 Doing Business in the United Arab Emirates. 2017. https://www.bakermckenzie.com/-/media/files/insight/publications/2017/05/doingbusinessuae/bk_uae_dbi_2017.pdf?la=en
33 Free Zones: Benefits and Costs. OECD Observer. http://oecdobserver.org/news/archivestory.php/aid/3101/Free_zones:_Benefits_and_costs.html.
34 Dawer, Anshu. Jain, Akanksha. Policy Comparison of US and Indian Re-exports: Suggestive Lessons for India. Asia Pacific Institute of Management. 2015.
35 Free Zones in the UAE. PKF. 2018. https://www.pkf.com/media/10038961/free-zones-v5-digital.pdf.
36 Ibid.
37 Doing Business 2020, Comparing Business Regulation in 190 Economies. World Bank Group.

3.1.1 Role of re-exports in Dubai's Trade

Re-exports play an important role in Dubai's international trade as they earn a significant amount of foreign exchange. In 2018, the total value of re-exports from the UAE stood at USD 214 billion,[38] out of which USD 61 billion was from Dubai.[39] Dubai is the third largest re-export center in the world, one-third of its imports are re-exported outside Dubai. In 2018, the share of re-exports constituted 31 per cent of Dubai's total external trade.[40] Re-exports is a procedure in which a country imports manufactured or unmanufactured goods from another country and re-exports the goods to the same country or a different country by adding value (or not adding value) in the form of repacking, relabeling etc. Re-exports take place in situations when:[41]

- The exporting country doesn't have access to trade through the available direct routes with the importing country, then goods are re-exported via an intermediary country
- There are no trade agreements between the exporting and the importing country
- The direct trade route between the exporting and the importing country is long, cumbersome and expensive, making it cheaper to involve a third country
- The goods are exported for testing reasons (like for machinery) and then re-exported to the same country which sent it for testing
- The goods exported earlier do not meet the required quality standards and are thus exported again

Trade which is based on re-exports is beneficial for countries having geographical advantage from where the transshipment of cargo to other countries is easily possible. The host country trader acts as a consignee - importing goods and then re-exporting it to the third party. For the host country consignee, the client can be the exporter or the final importer to whom the goods are re-exported or both, in which case, the host country trader can earn twice the profit. There are multiple benefits for the trader (consignee) in the host country as they do not have to pay any import duty and they can earn from the value addition in terms of repackaging and relabeling which occurs at their warehouse facilities in the free-zones. Additional foreign exchange is also earned by simply re-exporting at higher value which is known as the re-export mark-up.

In case of Dubai, in 2018, three product categories namely Machinery, tools, equipment and electronic and electrical appliances (54 per cent), Precious and semi-precious stones, minerals and imitation jewelry (12 per cent), and Transport equipment (8 per cent) - accounted for more than 70 per cent of Dubai's total re-exports in the free trade zone.[42]

The UAE is among the top trading partners for India and Pakistan. **In 2018, the UAE was India's second largest destination for exports after the USA and Pakistan's second largest supplier of goods after China.** The average exports from India to the UAE for the period 2012-2018 were USD 31.8 billion accounting for 11 per cent of India's total exports, while Pakistan's imports from the UAE

[38] UN Comtrade
[39] Dubai Statistics Centre
[40] Dubai Customs. Government of Dubai. 2018. https://www.dubaicustoms.gov.ae/en/TradeStatistics/Pages/TradeStatistics2018.aspx
[41] Dawer, Anshu. Jain, Akanksha. Policy Comparison of US and Indian Re-exports: Suggestive Lessons for India. Asia Pacific Institute of Management. 2015.
[42] Dubai's Foreign Trade. Dubai Economic Report. 2018. http://www.dubaided.ae/StudiesAndResearchDocument/Dubai-Economic-Report-2018-Full-Report.pdf

averaged USD 7.1 billion constituting 15 per cent of Pakistan's total imports in the same period.[43] This is how the Dubai-angled triangle remains at the core of the bilateral trade relations between India and Pakistan.

Dubai: Foreign Trade by Type of Zone

In Dubai, foreign trade transactions take place mainly via two economic zones – Dubai's Main zones and the Free Trade zones. The rules, procedures and the regulations vary between the two zones. The regulations in free zones are highly flexible as compared to the main zones, hence, the indirect commercial exchange between Dubai and the world occurs via the free zones and the direct trade transactions are conducted via the main zones. Trade via Customs Warehouse constitutes a very small share in Dubai's overall foreign trade. The table below shows the percentage share of Dubai's trade via the type of zone. In 2018, 58 per cent of the trade occurred via the main zone, 41 per cent via the free zone and 1 per cent via the customs warehouse.

Table 4: Share of Dubai's Foreign Trade Transactions by Type of Zone

Year	Main Zone (Direct Foreign Trade)	Free Zone (Indirect Foreign Trade)	Customs Warehouse Trade
2012	65%	34%	1%
2013	64%	35%	1%
2014	62%	37%	2%
2015	63%	35%	3%
2016	65%	32%	3%
2017	64%	33%	3%
2018	58%	41%	1%

Source: Dubai Statistics Center

[43] UN Comtrade Database

3.2 Triangle Shipments for Re-routing Cargo

In indirect trade shipments, the seller may not know the final buyer, or may not want the buyer to know the actual country of origin of the cargo. In many cases, indirect trade shipments can be costlier and more time consuming than the direct trade because the transportation of the shipment takes a much longer route and in most cases the goods are double handled, thereby increasing the time and cost in the supply chain. Triangle shipments involve three parties from three different countries. They can be of two types - in the first type, goods are exported from the country of origin to an intermediary country where a shipping or a freight forwarding company arranges for warehouse storage and the goods are then re-exported from the intermediary country to the final destination. In the second type of shipments, the goods are directly shipped from the country of origin to the final destination, and the intermediary country is used only for switching the bill of lading, which remains a trade secret between the parties involved. The main purpose of triangle shipments is to hide the details of the ultimate supplier (or the ultimate buyer).

Bill of lading is the most important document in the entire process of any shipment whether it's direct or indirect. Generally after the vessel sail-off, the shipping agent issues the bill of lading to the exporter. The bill of lading is the contract of the shipment containing details of the cargo. The exporter sends the original bill of lading along with below documents to the importer which enables the importer to clear the cargo with the custom authorities of the importing country.

Certificate of origin – stating the country of origin of goods which is approved by the country's Chamber of Commerce.

Commercial invoice – containing the details like total quantity, description of goods, and value of the items, addressed to the importer from the exporter of goods.

Packing list – list containing weight, method of packing and HS code, individually for each article in the shipment.

The freight forwarder plays an important role in indirect trade, to ensure that the shipment goes according to the plan. They have to maintain good contacts with shipping lines[44], transport companies and other parties involved in shipment process. Freight forwarders need to have a complete understanding of clients' requirements which may include change of documentation, repackaging of goods and removal of labels and tags, with a goal to smoothly transport the goods from the port of loading to the destination port. In most cases a freight forwarder handles the complete logistics, starting from the port of loading to the port of discharge, hence optimizing the supply chain efficiency.

For instance, for trade to flow from India to Pakistan via the UAE, the first type of triangle shipment would include the exporter of goods in India, the freight forwarder or a logistics company located

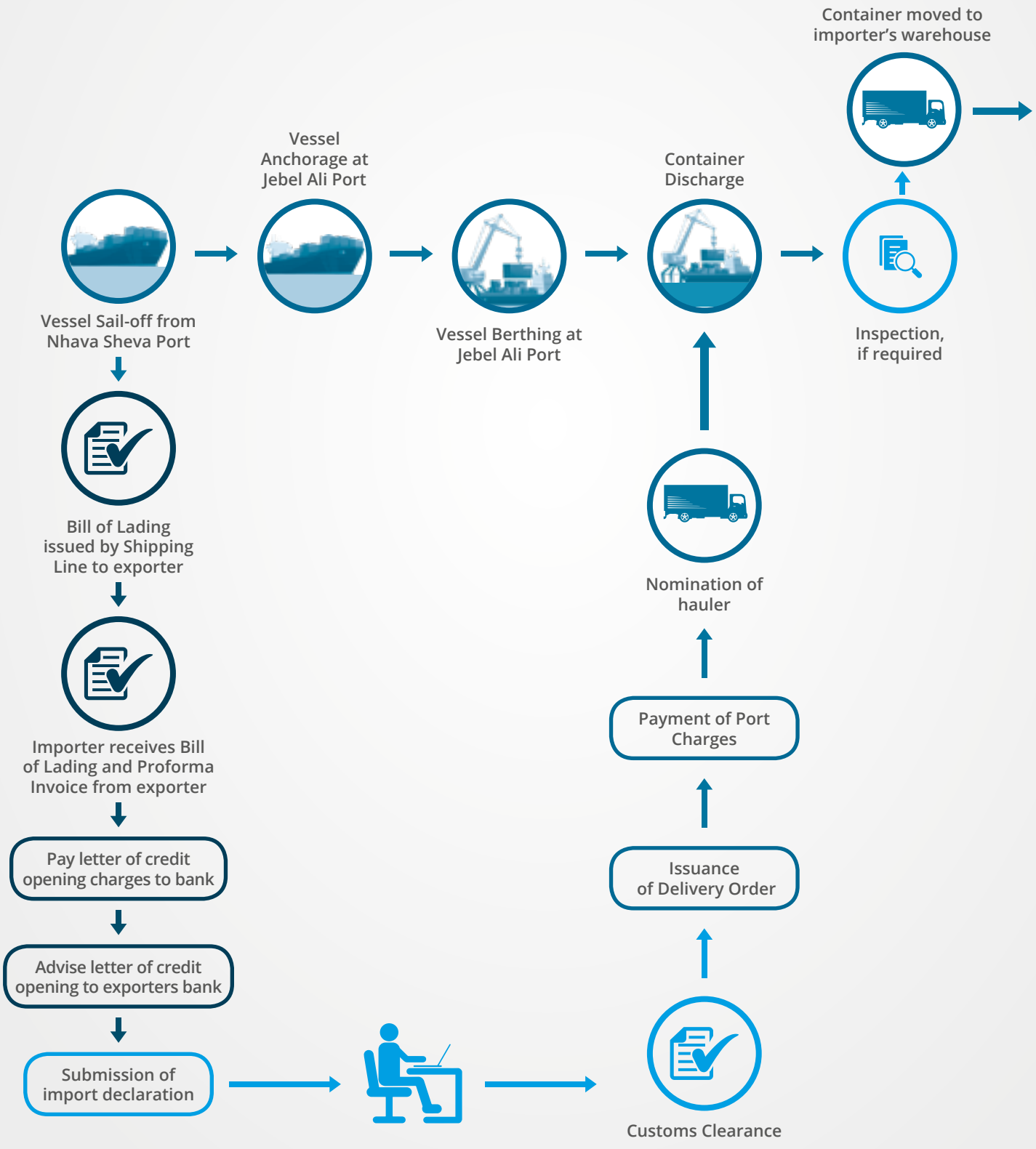
[44] A shipping line is a company which operates the cargo vessel and ensures the delivery of goods from port of loading to port of destination.

in Dubai and the consignee in Pakistan. After the exporter of goods in India sends the shipment from, for example, Nhava Sheva Port in Mumbai to Jebel Ali Port in Dubai, the freight forwarder at Dubai Port takes delivery of goods, warehouses them, and takes care of changes in documentation, repackaging of goods and in some instances, the removal of labels and tags and, stuffing and de stuffing of goods. Then on a fresh bill of lading, the goods are transported from Dubai to the consignee in Pakistan, say to the Port of Karachi - in the same container or a different container.

However, in the second type of triangle shipment, the goods are directly shipped from Nhava Sheva Port in Mumbai to the Port of Karachi through the process of Switch Bill of Lading, where a third party, for example a logistics company in Dubai, issues a SBL showing the port of origin as Dubai and port of destination as Karachi and also changes the shipper's details on SBL, keeping the rest of the details same.

Efficient role of free zones, freight forwarder, and warehouse in the intermediary country, in Dubai in this case, is critical to the success of the triangle shipment.

Shipment from India to the UAE (eg: Nhava Sheva to Jebel Ali port)



Shipment from the UAE to Pakistan (eg: Jebel Ali Port to Karachi Port)

De-Stuffing

Nomination of container, in case goods are not exported in same container

Removal of label, re-packaging of goods and issuance of certificate of origin (if required) and issuance of Bill of lading

Stuffing

Nomination of Hauler

Generate commercial invoice & packing list (optional)

Submission of export declaration

Customs Clearance

Payment of Port Charges

Container stacking at yard

Container loaded onto vessel

Bill of Lading issued by Shipping Line to exporter

Exporter sends Bill of Lading to importer

Exporter verifies and sends documents to importer's bank and receives payment from bank

Vessel Sail-off from Jebel Ali Port

Vessel Anchorage at Port of Karachi

Vessel Berthing at Port of Karachi

3.3 Trade Transactions in Tatters

Before 1947, many Indian banks had operations in Pakistan. In fact, the registered office of Punjab National Bank was in Lahore before partition and Oriental Bank of Commerce was established there in 1943. Even after independence, banks like State Bank of India and Bank of India had branches in multiple cities of Pakistan like Karachi and Lahore. In 1965, nine branches of six Indian banks were operating in Pakistan, and Habib Bank of Pakistan had a branch in Mumbai. After 1965, the banking/financial relations began deteriorating between the two neighbours.[45] Much later, in 2012, when the trade relations started improving, both the countries agreed to issue full banking licences to select banks after which many Indian and Pakistani banks showed interest to setup branches in each other's country.[46] Nevertheless, there was no development on this front afterwards.

The eligible direct trade transactions usually take place through an arrangement known as Asian Clearing Union (ACU). ACU has eight member nations - India, Iran, Bangladesh, Bhutan, Myanmar, Nepal, Pakistan, and Sri Lanka, to settle international payments using the Asian Monetary Unit as the unit of account. The system involves netting of payments and receipts for export-import transactions which are settled among the participating banks on a multilateral basis.[47] Many traders in India and Pakistan use the ACU arrangement to make payments to each other. In some cases, traders prefer to make these financial transactions via a third party in a third country. Given the large expat community of Indians and Pakistanis in the UAE, there is no dearth of such third parties in the form of middlemen, agents, or active traders, who offer an enabling medium for such financial transactions.

Since Dubai is the most formalized informal route of trade between the two countries, the emirate has a number of Pakistani and Indian banks. Out of a total of 52 banks in Dubai, there are four Pakistani banks (Muslim Commercial Bank, Habib Bank Limited, United Bank Limited and Bank Alfalah). Among the Indian banks, Bank of Baroda is one of the oldest banks in the UAE and provides financial assistance to expats as well as the UAE nationals. Bank of Baroda has 15 branches in the UAE and at least 6 branches in Dubai.[48] There are other Indian banks which have branches in Dubai but provide limited services. Many Indians have an account in the Pakistani banks in Dubai and vice-versa.

The risk and uncertainty of receiving goods and payments is significantly high in international trade transactions as compared to domestic transactions. Though trust between the trading parties is crucial, a good relationship between the banks of two countries is also very important to close the financial side of a deal. A bank active in trade finance needs to have good relationship with many other banks around the world in order to provide a variety of international commercial activities to its customers. To facilitate international trade, banks maintain Relationship Management Application (RMA) – a service provided by SWIFT (The Society for Worldwide Interbank Financial Telecommunication) to

[45] 4-5 Pakistani banks keen to open branches in India. Deccan Chronicle. 2016. https://www.deccanchronicle.com/business/in-other-news/200316/4-5-pakistani-banks-keen-to-open-branches-in-india.html

[46] Pakistan, India allow two banks each to operate across border. The Express Tribune. 2012. https://tribune.com.pk/story/424993/pakistan-india-allow-two-banks-each-to-operate-across-border/

[47] Naqvi, Fatima Zarin. Schuler, Philip. The challenges and Potential of India Pakistan Trade. The World Bank Group. 2007.

[48] https://www.mymoneysouq.com/financial-blog/indian-banks-in-dubai-uae/

manage the business relationships between financial institutions. SWIFT functions as a worldwide financial messaging network in which messages are exchanged securely and reliably between banks and other financial institutions. The correspondent relationships between banks are conducted via SWIFT's global network using RMA keys. RMA which is a SWIFT-mandated service enables banks to define which counterparties can send them messages. When banks communicate with each other, they often use special codes to let the other bank know about important information regarding specific accounts and also when dealing with bank guarantees and letters of credit.[49] They exchange messages to verify the transaction. Two such type of messages classified by SWIFT as free format messages are MT799 and MT999.[50] MT799 is an authenticated SWIFT message which is sent with a test code and used by banks to securely communicate with other banks regarding proof of funds or deposits.[51] On the other hand, MT999 is an unauthenticated message which is sent without test code and considered as less secure. MT999 messages are meaningless unless confirmed with a separate test key. When RMA is cancelled between two banks, the only option left with the banks is to exchange MT999 message - which is an unauthenticated message exchange. For this reason, some banks are reluctant to engage.[52]

Post Pulwama (February 2019), it is not just the trade which has amplified via the indirect routes but also the flow of money to the banks in the third countries. The decision to cancel RMAs between Indian and Pakistani banks by the authorities has in turn made the transactions taking place via the third country route more difficult as they do not want to take the risk of completing the transactions using MT999 where RMA doesn't exist between banks. The Indian and Pakistani bank branches in Dubai are losing a lot of money as they do not want to take the exposure and risk of completing the transactions where RMA doesn't exist between banks. This has resulted in an increase in transactions taking place via the UAE banks, shifting the flow of money from the Indian/ Pakistani banks to the UAE banks. Cancelling RMAs between banks has shook the confidence of banking community as well as the traders in both the nations. At the same time, banks of Sri Lanka have been requesting for RMAs with the Pakistani banks which shows the inclination of traders as well as the potential through other routes. Overall, the decision to cancel RMA has hampered international trade for both India and Pakistan.

49 Wolfsberg Guidance on SWIFT Relationship Management Application (RMA) Due Diligence. The Wolfsberg Group. 2016. https://www.wolfsberg-principles.com/sites/default/files/wb/pdfs/wolfsberg-standards/7. per cent20SWIFT-RMA-Due-Diligence.pdf

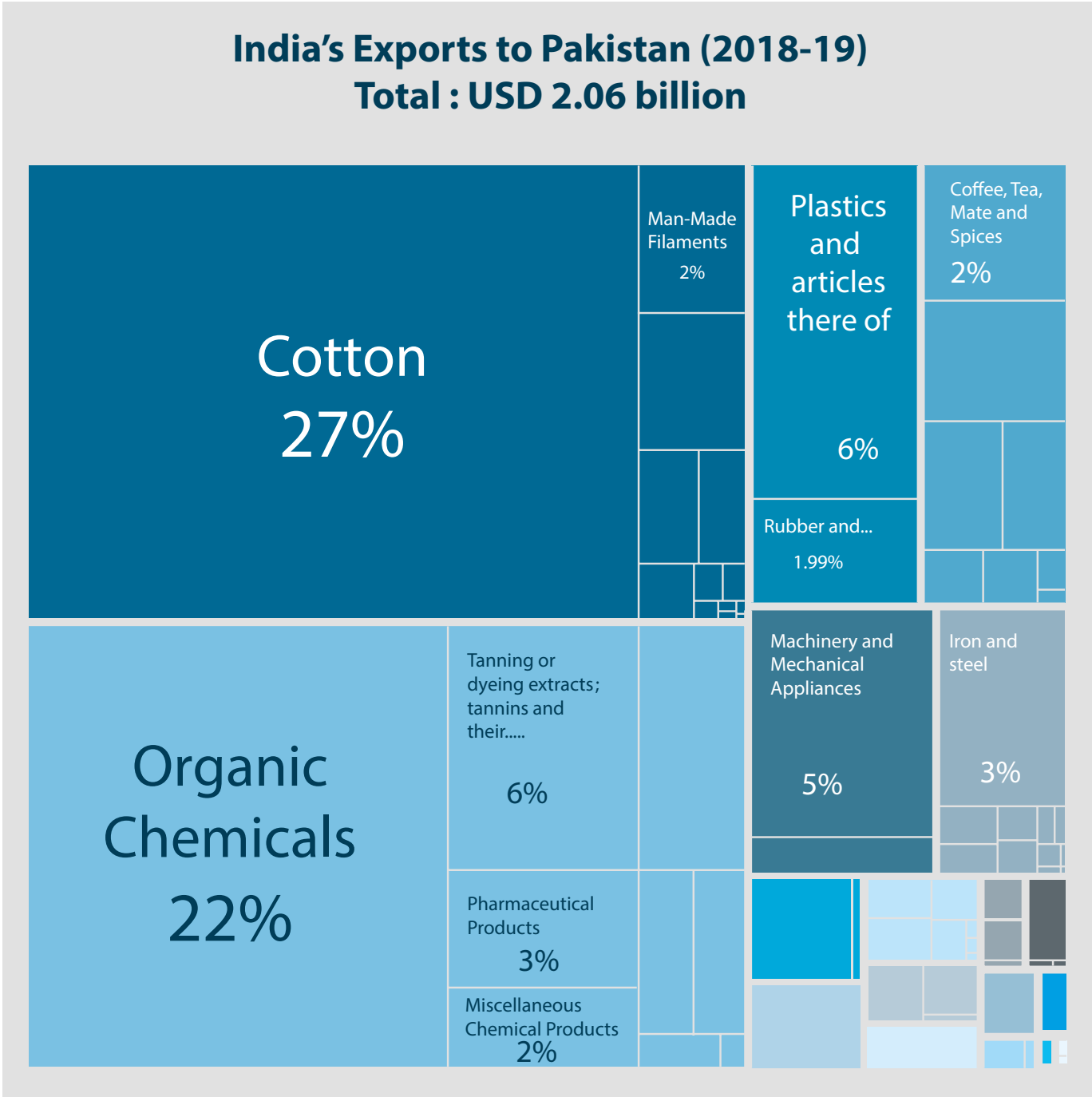
50 Bank Swift Messages like MT799, MT999 and MT199 Simple Explanation. Pottergates Consultancy. http://www.pottergates.com/?p=298

51 MT799 – What is SWIFT MT799? .Trade Finance Network. 2017. https://medium.com/@tradefinancenetwork/mt799-what-is-swift-mt799-ade17dbbce0c

52 Banking at a Glance. 2015. http://www.kalily.com.br/mt999.html

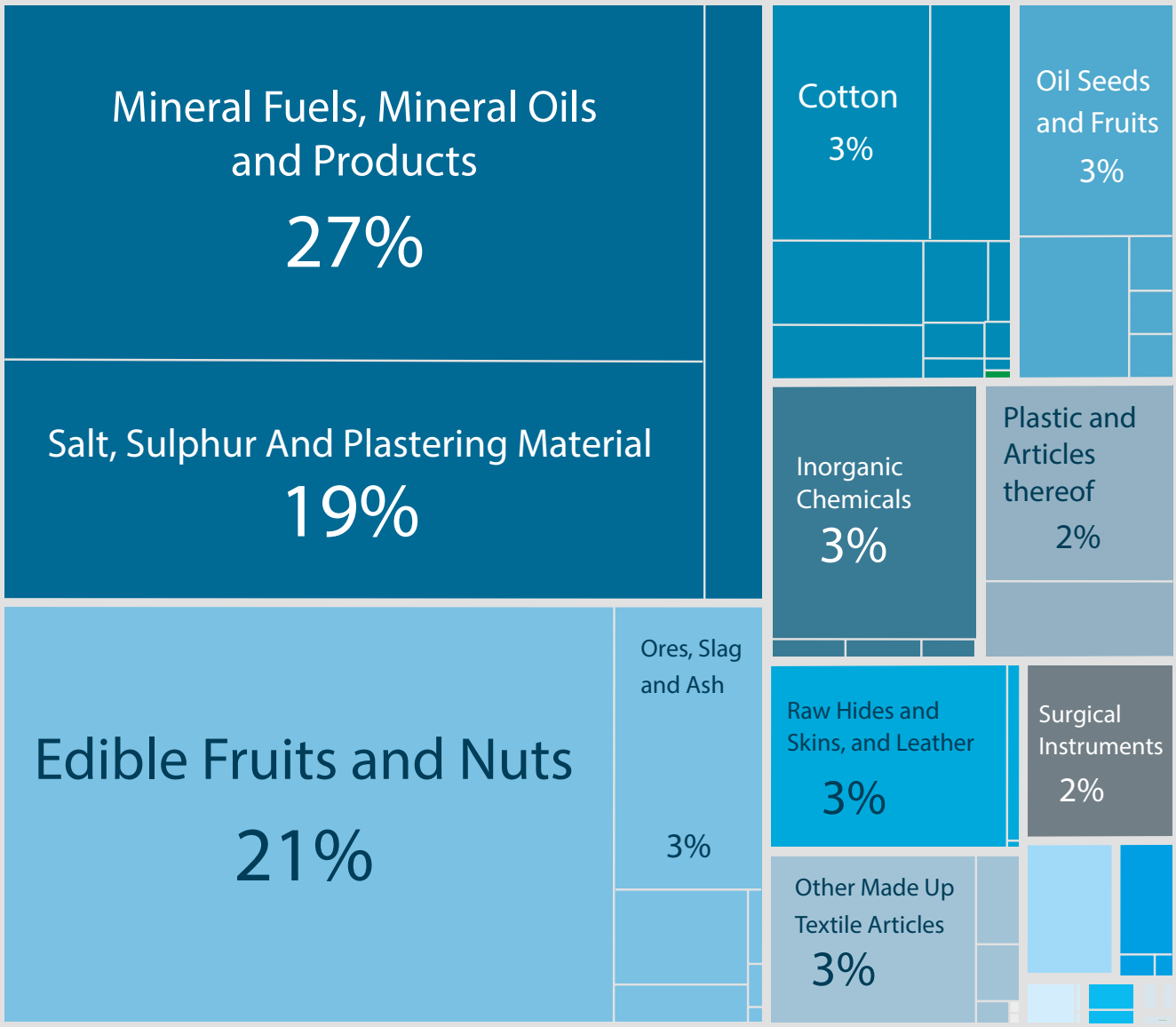
3.4 The Products Traded: Testing the Hypotheses

In the year 2018-2019, the total exports from India to Pakistan were USD 2.06 billion, which is 0.6 per cent of India's total exports. Cotton (USD 550 million), organic chemicals (USD 458 million), plastics and articles (USD 131 million), tanning or dying extracts (USD 114 million), machinery and mechanical appliances (USD 95 million), pharmaceutical products (USD 60 million), iron and steel (USD 52 million), man-made filaments (USD 51 million), miscellaneous chemical products (USD 50 million) and, coffee, tea, and spices (USD 48 million), formed around 78 per cent share of India's exports to Pakistan.



In the same year, India's imports from Pakistan were worth USD 494.8 million, which is around 2.1 per cent of Pakistan's total exports. Minerals majorly cement (USD 131 million), edible fruits and nuts (USD 103 million), salt, sulphur and plastering material (USD 93 million), cotton and textiles, readymade garments (USD 29 million), ores, slag and ash (USD 18 million), raw hides and skins and leather (USD 16 million), oil seeds, grain seeds and medicinal plants (USD 16 million), inorganic chemicals (USD 13 million), plastics and articles (USD 12 million) and, surgical instruments (USD 9 million), formed around 90 per cent share of India's imports from Pakistan.

India's Imports from Pakistan (2018-19)
Total : USD 494.8 million



Besides the formal trade, rerouting via third countries has continued in parallel. The UAE is the most predominant third country route for informal trade between India and Pakistan.In order to determine this, co-movement has been analyzed between India's exports to the UAE and the UAE's re-exports to Pakistan between 2012 and 2018. A similar exercise was done for trade in the direction of Pakistan to India. For this period, overall trade data and the trade of product categories at the two digit and six digit HS code[53] has been studied. The starting point of the analysis is taken as 2012 because of the normalization initiatives taken between India and Pakistan in this year and the changes in trends of bilateral trade 2012 onwards.

Given the use of small sample of data *.i.e.* from 2012 to 2018 in this report, correlation technique[54] is used only to identify the co-movement of product categories. In this analysis, though coefficient of correlation has been used only to measure the strength of association and the direction of relationship between two variables, there are limitations to this approach:

- By its nature, correlation analysis only looks at linear relationships between two variables and is sensitive to outliers.
- Correlation between two variables does not establish causality.
- Correlation results obtained from a small sample size are susceptible to spuriousness. A large sample size reflects the true correlation of the population. All other things being equal, the larger the sample size, the more stable the obtained correlation results.[55]

An important point to note is that the correlation technique is not a decisive assessment of existence of a relationship between two variables but rather a general assessment that there could be some relationship between two variables, potentially a significant degree, and as mentioned already, correlation between two variables does not establish causality. For future work on this subject, multivariate regression modelling could be considered with independent variables like lack of trust, politics, conflict etc., taking inspiration from the book *"Regional economic integration in South Asia: trapped in conflict?".*[56]

The following hypotheses have been evaluated based on the analysis of co-movement of data using correlation technique. This has also been complemented with the findings from the field research conducted for this report.

Hypothesis A: India's exports to the UAE and the UAE's re-exports to Pakistan are positively correlated

Hypothesis B: India's exports to the UAE and the UAE's re-exports to Pakistan show a high degree of correlation for products that are in Pakistan's negative list of imports from India

Hypothesis C: India's exports to Pakistan and the UAE's re-exports to Pakistan are negatively correlated; similarly Pakistan's exports to India and the UAE's re-exports to India are negatively correlated

Hypothesis D: Pakistan's exports to the UAE and the UAE's re-exports to India are positively correlated

[53] Banking at a Glance. 2015. http://www.kalily.com.br/mt999.html ames and numbers to classify the traded goods/commodities. The HS is organized into 21 sections, which are subdivided into 99 chapters. The 99 HS chapters are further subdivided into 1,244 headings and 5224 subheadings.

[54] A correlation coefficient is a numerical measure of the strength of association between two variables. The value of correlation varies between -1 and + 1. A correlation of (+-) 1 indicates a perfect relationship, while a correlation of 0 shows no relationship between the movement of two variables.

[55] Eight things you need to know about interpreting correlation. Research Skills One. Correlation interpretation. Graham Hole v.1.0. http://users.sussex.ac.uk/~grahamh/RM1web/Eight%20things%20you%20need%20to%20know%20about%20interpreting%20correlations.pdf

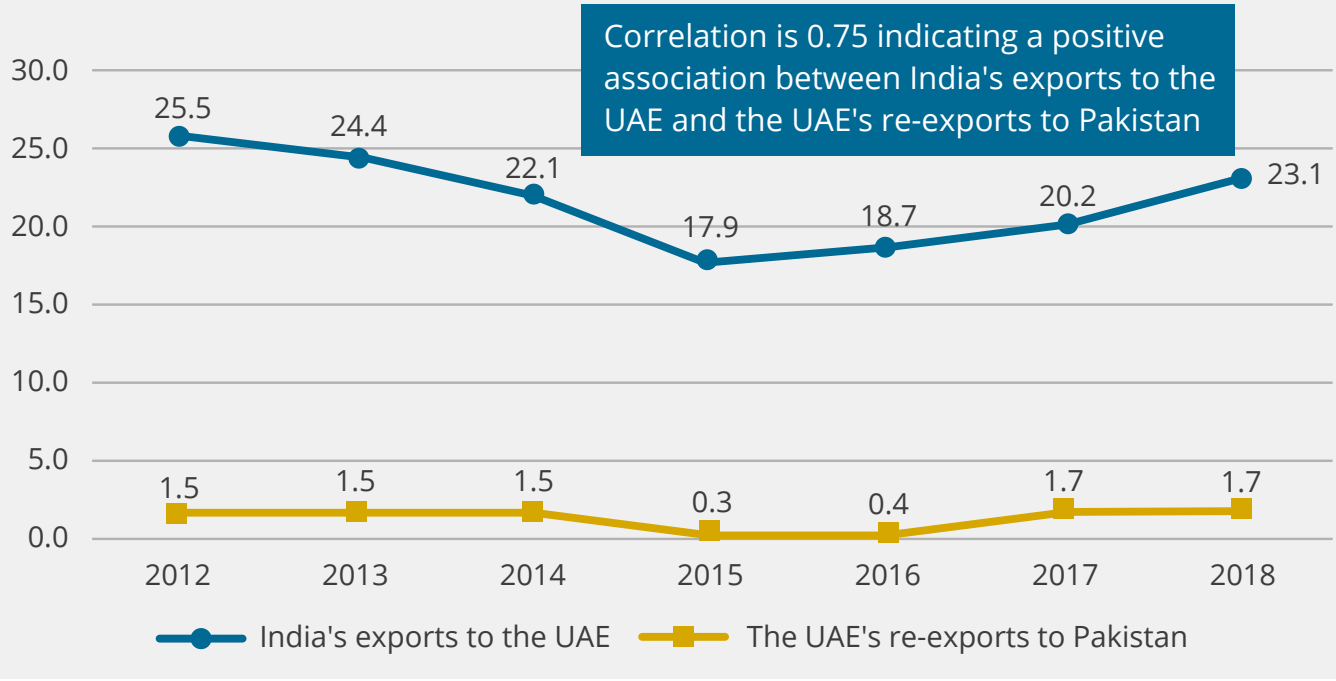
[56] Batra, Amita. Regional Economic Integration in South Asia: Trapped in Conflict? New York: Routledge. 2013

Hypothesis A: India's exports to the UAE and the UAE's re-exports to Pakistan are positively correlated

In 2018, around 80 per cent of the bilateral trade between India and Pakistan was accounted by India's exports to Pakistan. The formal trade between the two countries has mostly been in the direction of India to Pakistan. This also holds true for informal trade between the two neighboring countries. This section is only used to test a hypothesis, the quantum of informal trade is estimated based on the quantitative analysis, field research and interviews conducted in India, Dubai and telephonic interviews with stakeholders in Pakistan.

The data for India's exports to the UAE[57] and the UAE's re-exports to Pakistan from 2012 to 2018 is plotted in the figure below. The correlation between the two data series is 0.75, indicating a positive association between India's exports to the UAE and the UAE's re-exports to Pakistan, which is evident from the movement of both the data series.

Figure 5: Movement in India's exports to the UAE and the UAE's re-exports to Pakistan, 2012-2018 (USD billion)



Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

The interviews conducted with various stakeholders indicate a huge demand for Indian goods in Pakistani markets including those products which cannot be traded directly between the two countries (because of the presence of Pakistan's negative list of imports from India). In order to test for the products identified in the field survey, correlation coefficient has been calculated for exports from India to the UAE and the re-exports of similar product categories from the UAE to Pakistan from 2012 to 2018, separately for each product category at the two digit and six digit HS code levels.[58]

[57] In this report, mirror data for India's exports to the UAE .i.e. the UAE's imports from India has been used.
[58] Detailed in annexure B.

According to the analysis, a total of 25 product categories out of 99 categories at the 2 digit level, exported from India to the UAE are positively correlated (correlation coefficient >= 0.60) with the values of re-exports from the UAE to Pakistan.

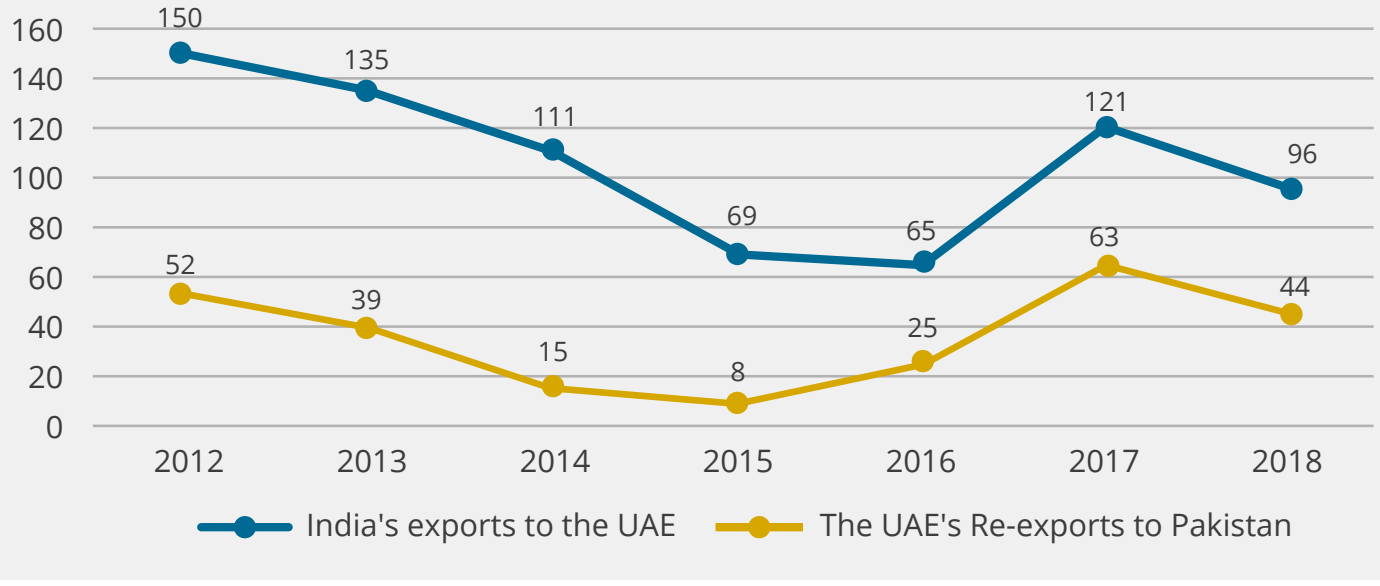
Table 5: Product categories (at 2 digit HS code) for which India's exports to the UAE and the UAE's re-exports to Pakistan are positively correlated, 2012 - 2018

Product code	Product Category
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...
08	Edible fruit and nuts; peel of citrus fruit or melons
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...
21	Miscellaneous edible preparations
24	Tobacco and manufactured tobacco substitutes
29	Organic chemicals
30	Pharmaceutical products
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...
38	Miscellaneous chemical products
39	Plastics and articles thereof
40	Rubber and articles thereof
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard
54	Man-made filaments; strip and the like of man-made textile materials
55	Man-made staple fibres
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles there
60	Knitted or crocheted fabrics
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags
72	Iron and steel
73	Articles of iron or steel
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...
96	Miscellaneous manufactured articles

Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

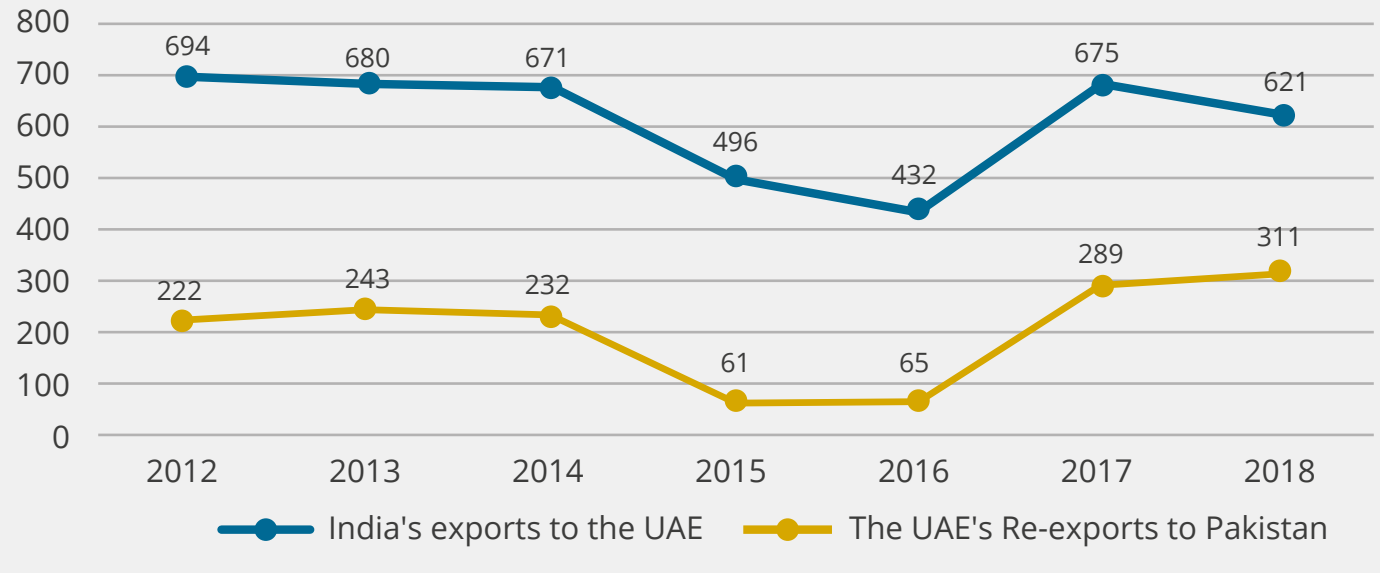
For example, the following figures for product categories such as Rubber and articles thereof (HS Code 40) and Machinery and Mechanical Appliances (HS Code 84) clearly show high co-movement between the two data series.

Figure 6(a): Movement in India's exports to the UAE and the UAE's re-exports to Pakistan for Rubber and articles thereof (HS Code 40), 2012-2018 (USD million)



Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

Figure 6(b): Movement in India's exports to the UAE and the UAE's re-exports to Pakistan for Machinery and Mechanical Appliances (HS Code 84), 2012-2018 (USD million)



Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

Hypothesis B: India's exports to the UAE and the UAE's re-exports to Pakistan show a high correlation for products that are in Pakistan's negative list of imports from India

According to the findings from evaluating Hypothesis A, of the 25 product categories which have a positive correlation (correlation coefficient >=0.60) between India's exports to the UAE and the UAE's re-exports to Pakistan, a total of 22 product categories overlap with the negative list of Pakistan's imports from India (see highlighted product categories in Table 6).

Pakistan maintains a negative list for imports from India which bars 1,209 items from being imported from India. The list is at 8 digit level of HS code. For the 22 product categories mentioned in below table, which overlap with Pakistan's negative list, the share of number of items in the negative list of the total items in that product category, has been calculated. For example, the product category - Plastics and articles thereof (HS code 39), has 418 items, of which 83 are in the negative list, forming almost 20 percent of the share which is not allowed to be imported from India. According to the correlation analysis, this product category (HS code 39) has a correlation coefficient of 0.97 between India's exports to the UAE and the UAE's re-exports to Pakistan.

However, it should be noted that this analysis may not be a conclusive evidence of indirect trade of the below 22 product categories between India and Pakistan via the UAE, but provides a significant degree of possibility of indirect trade of items from these product categories. The year wise exports from India to the UAE, re-exports from the UAE to Pakistan for the period 2012 to 2018 - their correlation and Pakistan's negative list for imports from India, are detailed in Annexure B.

Table 6: Product categories (at HS code 2 digit) for which India's exports to the UAE and the UAE's re-exports to Pakistan show a high correlation for products that are in Pakistan's negative list of imports from India (highlighted in blue), 2012 – 2018

Product code	Product Category	Items in the Negative list[59]	Total Items in the Product Category	Share of Negative list Items of Total Items
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere...	1	46	2%
08	Edible fruit and nuts; peel of citrus fruit or melons	0	103	-
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	0	114	-
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	4	122	3%

[59] Pakistan maintains a negative list for imports from India which bars 1,209 items from being imported from India; this list is at HS Code 8 digit level.

Product code	Product Category	Items in the Negative list[59]	Total Items in the Product Category	Share of Negative list Items of Total Items
21	Miscellaneous edible preparations	0	42	-
24	Tobacco and manufactured tobacco substitutes	9	46	20%
29	Organic chemicals	31	860	4%
30	Pharmaceutical products	24	224	11%
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial...	3	59	5%
38	Miscellaneous chemical products	5	186	3%
39	Plastics and articles thereof	83	418	20%
40	Rubber and articles thereof	47	169	28%
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles...	19	62	31%
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	95	214	44%
54	Man-made filaments; strip and the like of man-made textile materials	31	216	14%
55	Man-made fibres	17	178	10%
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles there	2	51	4%
60	Knitted or crocheted fabrics	4	47	9%
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	9	115	8%
72	Iron and steel	98	507	19%
73	Articles of iron or steel	52	257	20%
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	25	98	26%
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	99	1,088	9%
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	26	71	37%
96	Miscellaneous manufactured articles	24	89	27%

Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

List of items not importable from India. Ministry of Commerce. Government of Pakistan; Central Board of Indirect Taxes & Customs, Department of Revenue, Ministry of Finance, Government of India.

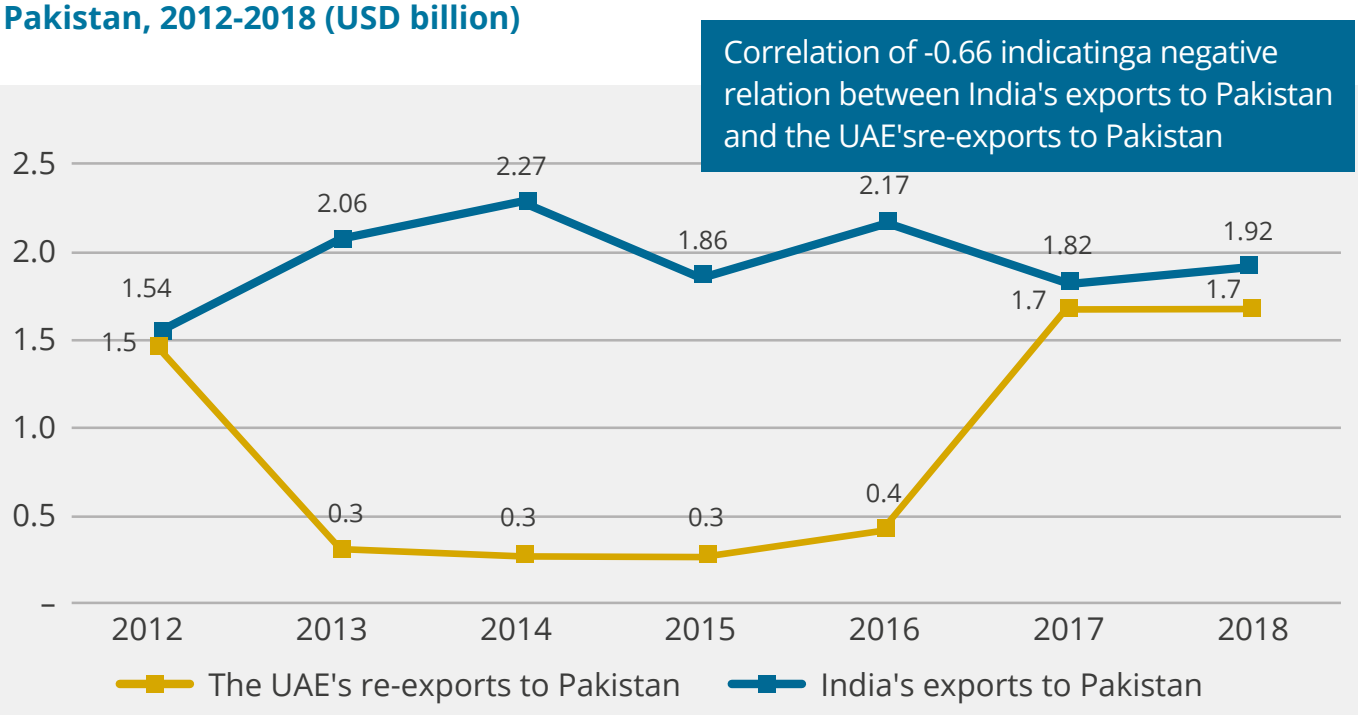
[59] Pakistan maintains a negative list for imports from India which bars 1,209 items from being imported from India; this list is at HS Code 8 digit level.

Hypothesis C: India's exports to Pakistan and the UAE's re-exports to Pakistan are negatively correlated; similarly Pakistan's exports to India and the UAE's re-exports to India are negatively correlated

Negative correlation signifies an inverse relationship between two variables in which the value of one variable increases as the other decreases, and vice versa. According to the analysis of data between India's exports to Pakistan and the UAE's re-exports to Pakistan for the period 2012 to 2018, a negative correlation of 0.66 exists between the two variables which means that as India's exports to Pakistan increase, the UAE's re-exports to Pakistan decrease and vice-versa (see figure 7(a)). A similar trend is seen between Pakistan's exports to India and the UAE's re-exports to India for which negative correlation of 0.41 exists, indicating an inverse relationship between the two (see figure 7(b)).

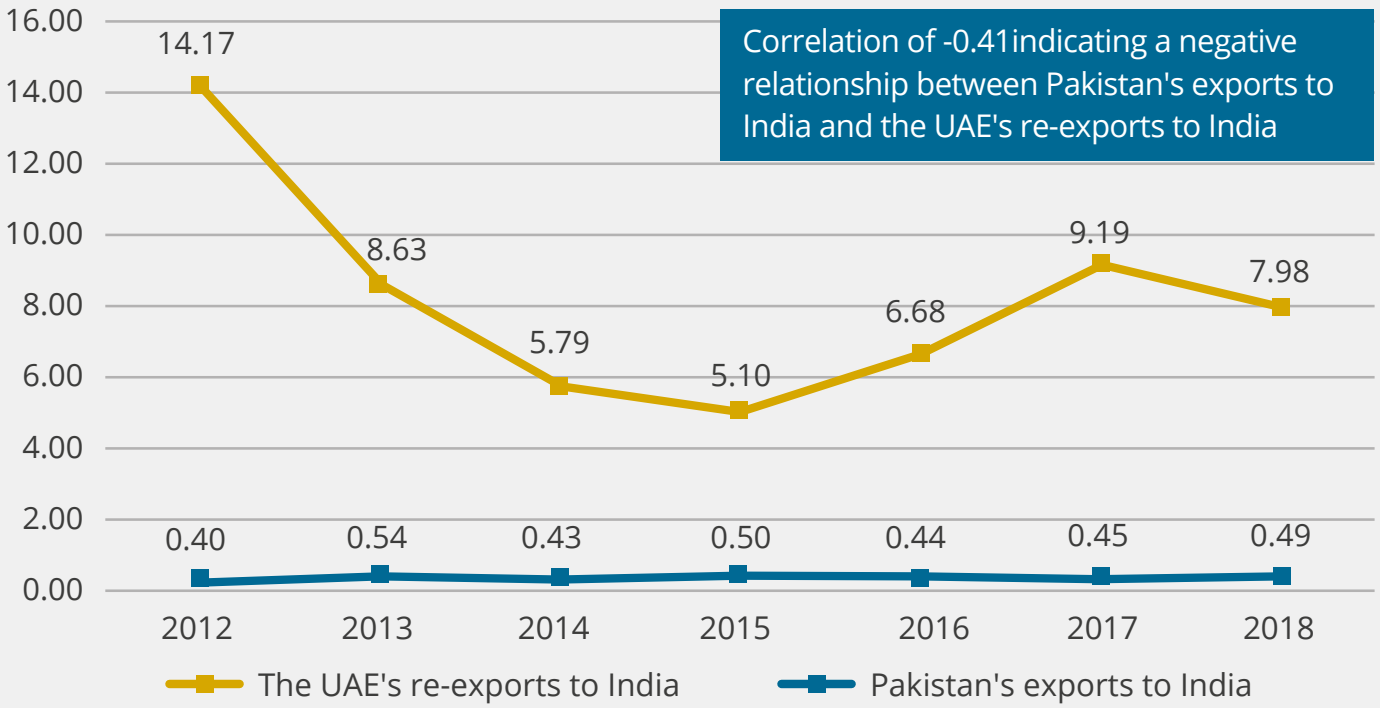
The inverse relationship is evidently visible 2012 onwards, which could be attributed to the steps taken by both countries towards normalizing trade. An increasing trend in the bilateral trade between the two countries was reflected in the behavior of traders and the overall trade environment of the two countries after 2012. In 2011, the 5th and 6th rounds of talks on Commercial and Economic Co-Operation between Commerce Secretaries of India and Pakistan pushed for speedy normalization of bilateral trade, development of associated infrastructure, new commerce initiatives, more business-to-business interactions and dismantling of non-tariff barriers. It was accompanied by other measures as well, such as setting up of the Integrated Check Post (ICP) at the Wagah-Attari border; transition from Pakistan's positive-list import regime to a more trade-enabling negative-list scheme; and building traders' confidence and dispelling misapprehensions over cross-border trade through comprehensive dialogue between business chambers and associations in India and Pakistan.

Figure 7(a): Movement in India's exports to Pakistan and the UAE's re-exports to Pakistan, 2012-2018 (USD billion)



Source: International Trade Centre Database (Data as of May 2020); Ministry of Trade and Commerce, Government of India
* Data for India's exports to Pakistan is based on financial year and data for the UAE's re-exports to Pakistan is based on calendar year

Figure 7(b): Movement in Pakistan's exports to India and the UAE's re-exports to India, 2012-2018 (USD billion)

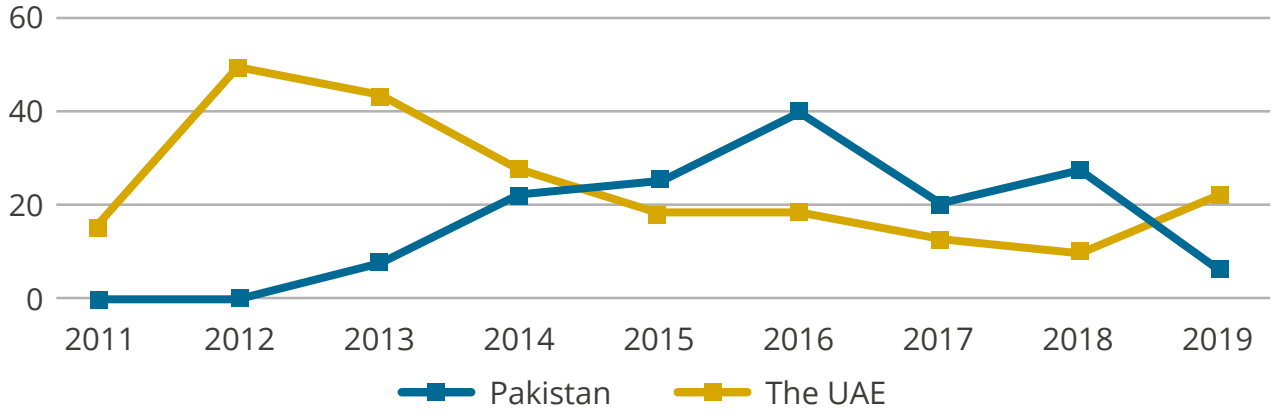


Source: International Trade Centre Database (Data as of May 2020), Ministry of Trade and Commerce, Government of India
* Data for Pakistan's exports to India is based on financial year and data for the UAE's re-exports to India is based on calendar year

The overall trend was reflected in the trade of individual items like in the case of imitation jewelry. India's exports of imitation jewelry to Pakistan increased from 2012 to 2016. During the same period, India's exports of this product to the UAE declined, indicating a preference amongst traders to trade via direct routes, if available.

Figure: India's Exports of Imitation Jewelry to Pakistan and the UAE, 2011 – 2019 (USD million)

HS code 7117



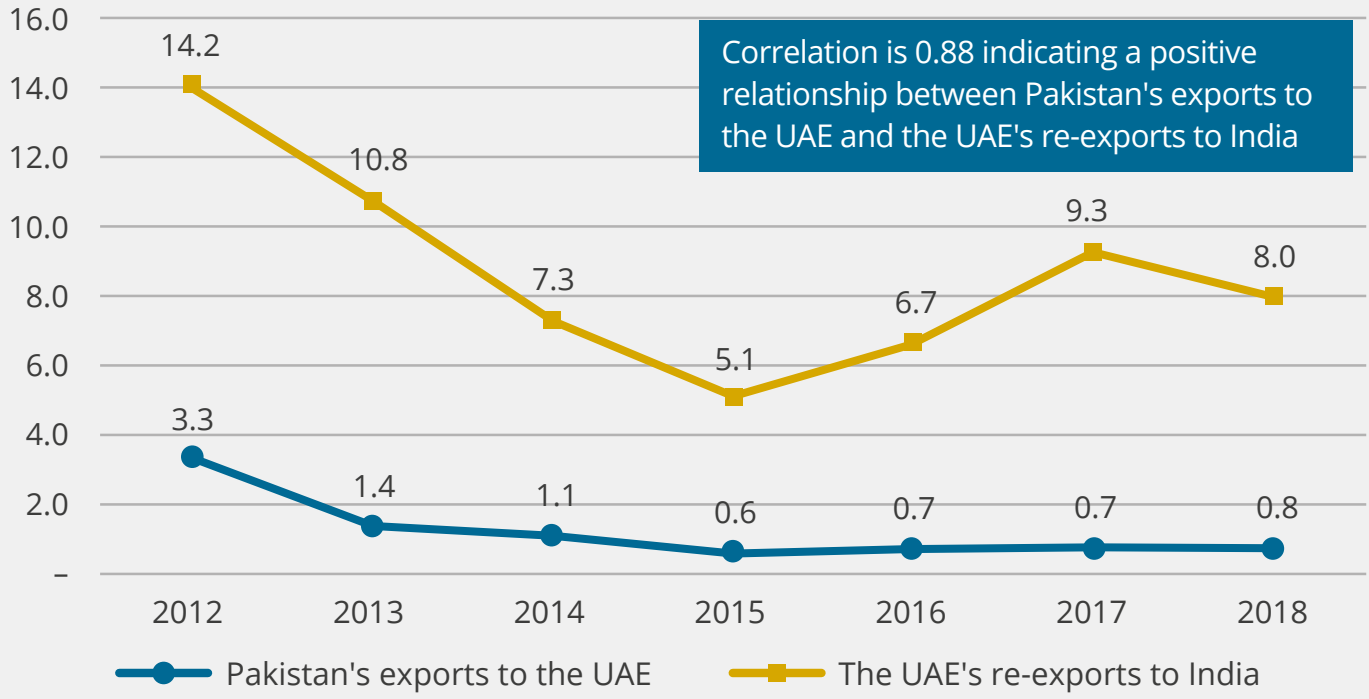
Source: Ministry of Commerce and Industry, Government of India

Hypothesis D: Pakistan's exports to the UAE and the UAE's re-exports to India are positively correlated

Though the overall direction of formal trade is from India to Pakistan, trade through Wagah-Attari land route is mainly from Pakistan to India. In the last two years, India's imports from Pakistan accounted for 82 per cent of the total trade through this land route. India majorly imports dry dates, cement and gypsum from Pakistan via the land route. However, there are other items which are imported via the indirect routes from Pakistan to India. In general, the value of re-exports from the UAE to India is much higher than the value of exports from Pakistan to the UAE. The purpose of calculating correlation is to determine the product categories which have an association in the movement of the variables (Pakistan's exports to the UAE[60] and the UAE's re-exports to India). The value of exports and re-exports, supplemented with findings from the field survey, are then used to identify the major product categories which are conceivably traded indirectly between the two countries.

The overall correlation between Pakistan's exports to the UAE and the UAE's re-exports to India for the period 2012 to 2018 is 0.88 indicating a positive association between the two data series. Below figure depicts the movement between Pakistan's exports to the UAE and the UAE's re-exports to India from 2012 to 2018.

Figure 8: Movement in Pakistan's exports to the UAE and the UAE's re-exports to India, 2012-2018 (USD billion)



Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

[60] In this report, mirror data for Pakistan's exports to the UAE .i.e. the UAE's imports from Pakistan has been used.

Based on the correlation analysis, out of 99 product categories at the 2 digit level, 20 product categories exported from Pakistan to the UAE are positively correlated (correlation coefficient >=0.60) with the values of re-exports from the UAE to India.

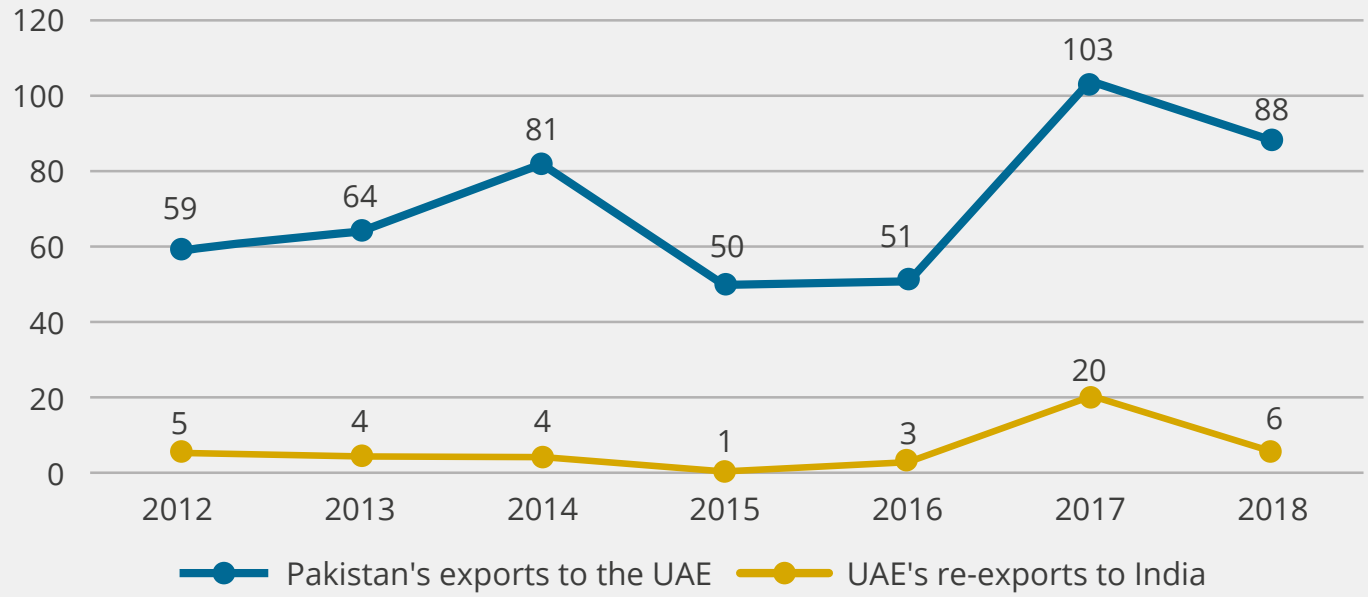
Table 7: Product Categories (at 2 digit HS code) for which Pakistan's exports to the UAE and the UAE's re-exports to India are positively correlated, 2012 – 2018

Product code	Product Category
13	Lac; gums, resins and other vegetable saps and extracts
18	Cocoa and cocoa preparations
21	Miscellaneous edible preparations
22	Beverages, spirits and vinegar
30	Pharmaceutical products
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...
40	Rubber and articles thereof
45	Cork and articles of cork
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn
57	Carpets and other textile floor coverings
61	Articles of apparel and clothing accessories, knitted or crocheted
62	Articles of apparel and clothing accessories, not knitted or crocheted
70	Glass and glassware
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...
74	Copper and articles thereof
75	Nickel and articles thereof
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof
95	Toys, games and sports requisites; parts and accessories thereof
99	Commodities not elsewhere specified

Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

For example, the following figure for the product category - Articles of apparel and clothing accessories, not knitted or crocheted (HS Code - 62) clearly depicts co-movement between the two data series.

Figure 8(a): Movement in Pakistan's exports to the UAE and the UAE's re-exports to India for Articles of apparel and clothing accessories, not knitted or crocheted (HS Code - 62), 2012-2018 (USD million)



Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

The Products Traded: Key Findings

Indirectly Traded Products from India to Pakistan via the UAE

Machinery and mechanical appliances

Vehicles; Aircraft; Vessels & Associated Transport Equipment

Textiles and articles thereof

Natural or cultured pearls, precious or imitation jewellery

Rubber and articles thereof

Plastics and articles thereof

Iron and steel, and articles thereof

Pharmaceutical products

Essential oils and resinoids; perfumery, cosmetic or toilet preparations

Mineral fuels and oils

Furniture

Product code	Product Category	Product Description
271012	Mineral fuels and oils	Light oils and preparations, of petroleum or bituminous minerals which >= 90 per cent by volume
300490	Pharmaceutical products	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes
330499	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments)
390690	Plastics and articles thereof	Acrylic polymers, in primary forms (excluding poly "methyl methacrylate")
401120	Rubber and articles thereof	New pneumatic tyres, of rubber, of a kind used for buses and lorries
540710	Textiles and articles thereof	Woven fabrics of high-tenacity yarn, nylon, other polyamides or polyesters, incl. monofilament
540752		Woven fabrics of yarn containing >= 85 per cent by weight of textured polyester filaments, incl. monofilament
711319	Natural or cultured pearls, precious or imitation jewellery	Articles of jewellery and parts thereof, of precious metal other than silver
720851	Iron and steel, and articles thereof	Flat-rolled products of iron or non-alloy steel, of a width >= 600 mm, not in coils
731815		Threaded screws and bolts, of iron or steel, whether or not with their nuts and washers
840991	Machinery and mechanical appliances	Parts suitable for use solely or principally with spark-ignition internal combustion piston
843143		Parts for boring or sinking machinery of subheading 8430.41 or 8430.49, n.e.s.
848180		Appliances for pipes, boiler shells, tanks, vats or the like
850440		Static converters
851712		Telephones for cellular networks "mobile telephones" or for other wireless networks
854449		Electric conductors, for a voltage <= 1.000 V, insulated, not fitted with connectors, n.e.s.
870323	Vehicles; Aircraft; Vessels & Associated Transport Equipment	Motor cars and other motor vehicles principally designed for the transport of persons
870422		Motor vehicles for the transport of goods, with compression-ignition internal combustion piston
870899		Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons
940360	Furniture	Wooden furniture (excluding for offices, kitchens and bedrooms, and seats)

India - the UAE – Pakistan: Indirectly Traded Products

Based on the analysis of India's trade with Pakistan via the UAE, Pakistan's negative list and interviews conducted with various stakeholders in Dubai, the overall inference is that majority of the indirect trade between the two countries flows in the direction of India to Pakistan via third country routes like Dubai. The products which reach Pakistan from India via this route mainly fall under the negative list of items. For example, for product category 84 (Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof), 99 products fall under the negative list, forming 8 per cent share of the negative list which has a total of 1,209 products. India's strong engineering base, substantial capacity and availability of cheap raw material give it an edge in manufacturing of machinery in the region. Other than this, Indian companies also have an advantage in manufacturing of textile machinery products, spare parts and accessories like equipment for spinning, weaving preparatory and of other accessories. Due to the increasing production of textiles and clothing in South Asia, there is a huge demand for textile machinery particularly from countries like Bangladesh which import 70 per cent of their total requirement of textile parts from the world, majorly from India.[61] Similarly, Pakistan's dependence on import of textile machinery from other countries is also high, and textile manufacturers in Pakistan import the required machinery from India through a third country, mostly the UAE.

Additionally, industries of Organic chemicals (HS code 29) and Pharmaceuticals (HS code 30) in India are among the largest and the most developed in the world, having access to cheap raw materials and various other institutional advantages. Many companies in Pakistan import pharmaceutical raw material, equipment, machinery and other lifesaving drugs from India through indirect routes like the UAE because they are either costly to manufacture in Pakistan or are in the negative list.

Plastic goods (HS code 39) from India are also imported in Pakistan via Middle Eastern countries. Many plastic goods' manufacturing companies are located in the Indian state of Punjab. If it was easy to trade directly between India and Pakistan then such products could simply be procured by Pakistani traders from the units located near the Wagah-Attari border.[62] In an interview conducted during Dubai's field research, it was discovered that plastic beads manufactured in India which are used widely in the garment embroidery are transported from Dubai to Pakistan through carriers in flights (khepias).

According to our analysis, another category which is indirectly exported is Man-made filaments (HS code 54). Though both India and Pakistan have a strong base in the textile sector, India's production of manmade fibres is the second largest in the world after China.[63] Amidst fast moving fashion trends, the demand for textile products made from man-made filament is increasing globally; Pakistan's imports from India via Dubai are also taking place in this product category.

[61] Dsouza, Henry. India's Textile machinery Exports Rose 31 per cent in Q1FY'19. Textile Excellence. 2018. https://www.textileexcellence.com/featured/indias-textile-machinery-trade-grew-6-58-in-2018/; The Rising Export in Industrial Machinery Spare Parts. 2018. https://bookmyparts.com/blog/international-demand-textile-machinery-spare-parts-looks-positive/

[62] Trade of Industrial Goods with India: Opportunities and Challenges for Pakistan. European Union Trade Related Assistance Programme. 2011.http://www.indiapakistantrade.org/pdf/Trade per cent20of per cent20Industrial per cent20Goods per cent20with per cent20India per cent20Opportunities per cent20and per cent20challenges per cent20for per cent20Pakistan.pdf

[63] Global Shifts in Textile Industry and India's Position. FICCI. 2016. http://ficci.in/spdocument/20817/3-FICCI-TAG-2016-Whitepaper.pdf

Articles of Iron and Steel (HS code 73) are also traded via the UAE to Pakistan, as iron and steel industry is one of the industries in which India has abundant raw material, technically skilled manpower and competitive labor. Other product categories include Tobacco and manufactured tobacco substitutes HS code 24), Rubber and articles thereof (HS code 40), Paper and paperboard, articles of paper pulp (HS code 48), and soap, organic surface-active agents, washing preparations (HS code 34) which have high correlation between India's exports to the UAE and the UAE's re-exports to Pakistan, and a substantial number of items in the negative list of Pakistan.

For products like essential oils and resinoids; perfumery, cosmetic or toilet preparations (HS code 33), and Vehicle parts and accessories (HS code 87) - the trade values for India's exports to the UAE and re-exports from the UAE to Pakistan do not seem to be very well associated. This could be due to small size of sample or any errors in the database. However, according to the interviews conducted in Dubai, items from these product categories are also exported from India to the UAE to be re-exported to Pakistan. This is evident, for example, from the availability of perfumes, deodorants, skin and hair products (Cosmetics - HS code 33) of Indian brands in Pakistani markets.

Export of deodorants from India to Pakistan

Indian deodorants - spray, stick and roll-ons are easily available in Pakistani markets. They are sold in the markets of Pakistan after a complete makeover with changed packaging and branding. Markets like Jodia Bazaar in Karachi, Pakistan, are flooded with Indian deodorants, even after the suspension of trade between the two countries. Based on the interviews conducted in Dubai and the trade data, it is understood that the UAE is one of the top destinations for exports of personal deodorants and antiperspirants (HS code 330720) from India. Also, the export of deodorants from the UAE to Pakistan is also very high. For example, in 2018, 22 per cent of deodorants from India were destined to the UAE and 64 per cent of total imports of deodorants in Pakistan were from the UAE.

Figure a: India's exports of personal deodorants and antiperspirants

HS code - 330720

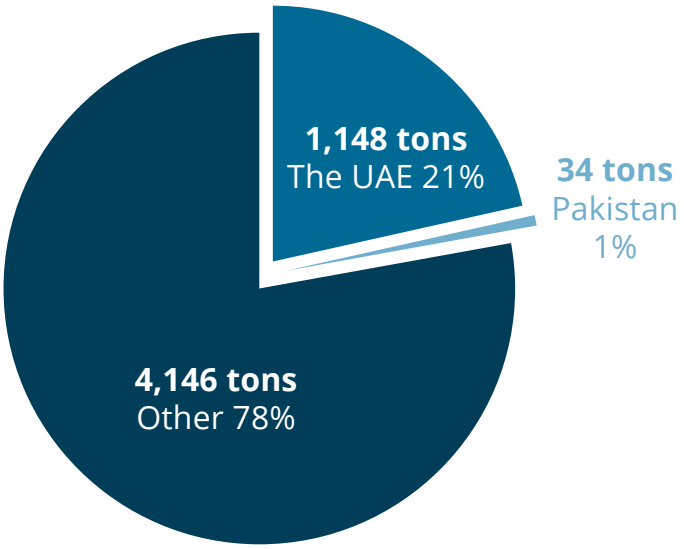
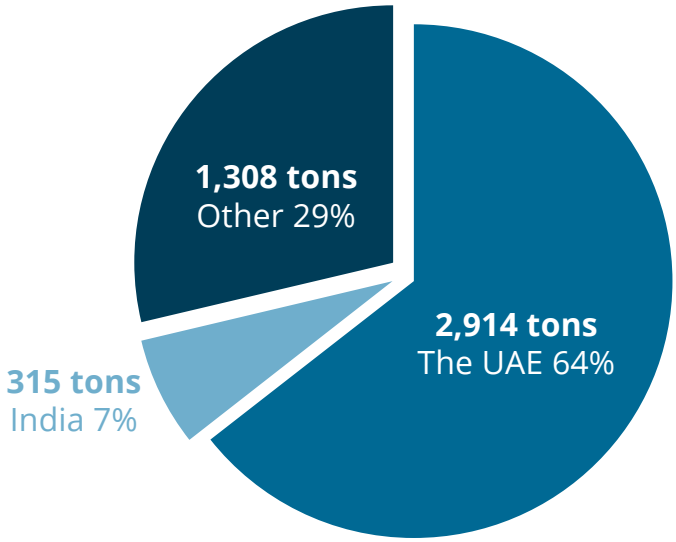


Figure b: Pakistan's imports of personal deodorants and antiperspirants



Source: International Trade Centre Database

Indirectly Traded Products from Pakistan to India via the UAE

Textiles and articles thereof

Natural or cultured pearls, precious or imitation jewellery

Essential oils and resinoids; perfumery, cosmetic or toilet preparations

Miscellaneous edible preparations

Medical and surgical Instruments etc

Plastics and articles thereof

Copper and articles thereof

Vehicles; Aircraft; Vessels & Associated Transport Equipment

Toys, games and sports requisites

Mineral fuels and oils

Product code	Product Category	Product Description
210690	Miscellaneous edible preparations	Food preparations
271019	Mineral fuels and oils	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel
330129	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	Essential oils, whether or not terpeneless, incl. concretes and absolutes
330499		Beauty or make-up preparations and preparations for the care of the skin (other than medicaments)
392690	Plastics and articles thereof	Articles of plastics and articles of other materials of heading 3901 to 3914
540752	Textiles and articles thereof	Woven fabrics of yarn containing >= 85 per cent by weight of textured polyester filaments, incl. monofilament
610510		Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts..)
610910		T-shirts, singlets and other vests of cotton, knitted or crocheted
611020		Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted
611120		Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)
620342		Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton
630900		Worn clothing and clothing accessories, blankets and travelling rugs, household linen and articles
631090		Used or new rags, scrap twine, cordage, rope and cables and worn-out articles thereof
710812	Natural or cultured pearls, precious or imitation jewellery	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes
711319		Articles of jewellery and parts thereof, of precious metal other than silver, whether or not
740400	Copper and articles thereof	Waste and scrap, of copper (excluding ingots or other similar unwrought shapes, of remelted
870899	Vehicles; Aircraft; Vessels & Associated Transport Equipment	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons
901890	Medical and surgical Instruments etc	Instruments and appliances used in medical, surgical or veterinary sciences
950662	Toys, games and sports requisites	Inflatable balls

Pakistan- the UAE – India: Indirectly traded products

On the basis of the quantitative analysis and field research, it has been found that the items which are majorly exported from Pakistan to India via the UAE are from the textile industry, particularly cotton based garments, home textiles and fabrics. Based on the correlation analysis on Pakistan's exports to the UAE and the UAE's re-exports to India, the product categories from textile and clothing sector which are positively correlated include articles of wool, fine or coarse animal hair (HS code 51), Other vegetable textile fibres (HS code 53), Carpets and other textile floor coverings (HS code 57), articles of apparel and clothing accessories - knitted or crocheted (HS code 61) and articles of apparel and clothing accessories - not knitted or crocheted (HS code 62).

Another product category, Natural or cultured pearls (HS code 71) forming a major part of value of Pakistan's exports to the UAE and the UAE's re-exports to India, is also indirectly traded from Pakistan to India. According to a study by the Ministry of Commerce of Pakistan, a wide range of jewelry items are manufactured in Pakistan which are highly distinctive from the Indian designs. Jewelry manufacturers from Pakistan are successfully exporting chains and bangles to Dubai and other markets in the UAE, where the exporters from Pakistan have also established offices. The manufacturers from Pakistan hallmark their products to comply with the UAE regulations. Despite the fact that India's Gems and Jewellery sector is one of the largest in the world, the differentiated Pakistani designs are desired in the Indian markets.[64] Other categories which are positively correlated include rubber articles (HS code 40) and copper and articles (HS code 74). For other products like optical and medical or surgical instruments (HS code 90) - the trade values for Pakistan's exports to the UAE and re-exports from the UAE to India are not very well associated. This could be due to small size of sample or any errors in the database.

Since Pakistan has a comparative advantage in cotton textiles and lawn suits, many of the textile items are re-exported from the UAE to India which originally come from Pakistan. From the interviews conducted in Dubai, it was revealed that a large proportion of the items being re-exported to India or Pakistan are transported by air through khepias. For the trade between India and Pakistan via the UAE, some of it goes unrecorded from the foreign trade data of all three countries, which explains that the official trade statistics are massively under-reported.

[64] Kamran, Sohail. Sectoral Analysis of Gems and Jewelry of Pakistan, Trade Development Authority of Pakistan; Ministry of Commerce Government of Pakistan. 2017.

3.5 Quantifying the Trade

3.5.1 The Indirect Estimate

Indirect trade between two countries is recorded in their respective national accounts but is misallocated bilaterally. Informal trade refers to trade that goes completely unrecorded because goods are exchanged informally, or are misdeclared/underdeclared even if exchanged through formal channels. Given the nature of informal trade, it is very difficult to give a true estimate of the quantum of informal trade taking place between the two countries based on the trade data provided by international trade data portals like the UN Comtrade. However, despite the lack of information on informal trade between India and Pakistan, this section attempts to estimate it.

Our estimation is divided in two parts (1) Indirect trade which is based on the trade data of India, Pakistan and various third countries (2) Informal trade which is based on extensive field survey conducted in different export clusters of India, in the areas around the border between India and Pakistan, in Dubai, and through telephonic interviews with stakeholders in Pakistan and quantification of this trade based on data. The stakeholders interviewed included traders, clearing and forwarding agents, shipping companies, logistic suppliers, warehouse managers, wholesalers, retailers, etc. Based on the range of estimates received from the survey, an upper and lower bound of the informal trade (via various routes) was obtained. The estimates by stakeholders were further verified by analyzing the trade data for third country routes between India and Pakistan.

Table 8: Stakeholder Interviews and Market Surveys, 2019-2020

Location	Category	Details	Number of people interviewed
Amritsar	Stakeholder Groups	Traders (Dry Date, Cement, Gypsum and Rock Salt Importers)	13
		Customs House Agents (CHAs)	4
		Stakeholders at Integrated Check Post Attari	12
	Market Survey	Majith Mandi	7
	Subtotal		36
Delhi	Market Survey	Chandni Chowk	8
		Lajpat Nagar	6
	Subtotal		14
Hyderabad	Stakeholders Group	Textiles Importers, Gems and Jewellery Exporters	17
	Market Survey	Madina Market,	4
		Lakdi ka Pul Market	2
		Afzal Gunj	4
		Abids Commercial Centre	5
	Subtotal		32

Location	Category	Details	Number of people interviewed
Indore	Chambers	Soyabean Processors Association of India (SOPA)	3
	Market Survey	Siyaganj	7
		Choithram Mandi	9
	Subtotal		19
Mumbai	Stakeholders Group	Traders	9
		Customs House Agents (CHAs)	6
	Market Survey	Crawford Market	4
		Mohammed Ali Road	7
	Subtotal		26
Surat (Telephonic Interviews)	Stakeholder Groups	Traders and Customs House Agents (CHAs)	3
Dubai	Stakeholder Groups	Traders	11
		Clearing and forwarding agents	5
		Shipping Companies	4
		Warehouse Managers	3
		Logistics Suppliers	4
		Stakeholders at the Jebel Ali Free Zone	7
		Banks	4
		Wholesalers and Retailers	8
	Market Survey	Meena Bazar	4
		Alras	2
		Textile Souk	6
		Pakistan and India Pavilions at Global Village	8
	Subtotal		66
Pakistan (Telephonic Interviews)	Stakeholder Groups	Traders and Customs House Agents (CHAs)	11
Total Respondents			207

The information gathered from the field survey was combined with the trade data. The estimation is based on the following assumptions:

- Some of the trade taking place between India and Pakistan via third country routes is estimated based on the data of re-exports or exports (where re-exports is not available) from the third country. This is referred to as indirect trade. While estimating the share of indirect trade from the re-export data, the share of exporting country in the imports of intermediary country has been used. For example, to estimate the share of indirect exports from India to Pakistan, the re-exports data from the UAE to Pakistan has been used taking the share of India in the UAE's imports.
- The gap between mirror trade statistics reported by trading partners is used as a proxy of informal trade. The working paper 'Can mirror data help to capture informal international trade?'[65] explains how the gap between the declared and mirrored disaggregated bilateral data could be used to capture informal cross border trade. Between the matched partners, the cost insurance and freight (CIF)/free on board (FOB) ratio technique compares the valuation of the same flow reported by both the importer and the exporter. While the imports reported include the cost insurance and freight, the exports are net of these charges, and the difference between the two trade flows should yield a difference that can be a proxy of the transport costs.[66] In reality, this difference is much higher than any realistic estimate of the transport cost. In order to take care of this issue, we have adjusted the exports by an approximate CIF/FOB ratio of 10,[67] the difference post adjustment is then used as a proxy of informal trade.
- In some cases, majority of the trade data is dominated by top few products (at 6 digit HS code). For example, in the data for the UAE's re-exports to Iran – almost 50 per cent of the value of trade is covered by top 50 products out of a total of around 4,500 products. In this case, we have used India's average share in the UAE's total imports of these top products to estimate the informal trade for the route India-the UAE-Iran-Pakistan. A similar technique is followed for estimation of Pakistan's informal exports to India via the UAE and India's informal exports to Pakistan via the UAE and Afghanistan.
- Lastly, the trade taking place via Khepias or carriers as luggage in flights/trains is also a part of informal trade, that has been estimated based on direct interviews with Khepias in Dubai and in Amritsar.

However, there are certain limitations in this approach as there can be many reasons for misreporting of the data which could explain the huge difference in the bilateral exports from one country with the reported imports of its partner country.[68, 69]

- Possibility of overvaluation of imports or misclassification when importers try to shift profits from countries with a strong capital control or with high corporate taxes.
- Misreporting trade values and destination to take advantage of reductions or duty drawback or to receive specific export subsidies.

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65 Carrere, Celine and Crigoriou, Christopher. Can Mirror Data Help to Capture Informal International Trade?. Fondation Pour Les Etudes Et Recherches Sur Le Dévelopement International. 2015.

67 Marco, Marini. Dippelsman, Robert. Stanger, Michael. New Estimates for Direction of Trade Statistics. IMF Working Paper. 2018.

68 Carrere, Celine and Crigoriou, Christopher. Can Mirror Data Help to Capture Informal International Trade?. Fondation Pour Les Etudes Et Recherches Sur Le Dévelopement International. 2015.

69 Fisman, Raymond. Wei, Shang-Jin. Tax Rates and Tax Evasion: Evidence from "Missing Imports" in China. Journal of Political Economy. 2004; Kellenberg, Derek. Levinson, Arik. Misreporting Trade: Tariff Evasion, Corruption, and Auditing Standards. 2017.

- Other factors like higher tariffs, income tax, and corruption and accounting standards also lead to trade misreporting.

This section tries to limit the limitations by adjusting the data and taking conservative ratios/shares in the calculations.

Of the informal[70] trade between India and Pakistan, the majority takes place via the UAE. **According to our estimates, the value of total informal trade between India and Pakistan stood at USD 2.34 billion in 2018, with USD 1.76 billion in the direction of India to Pakistan, USD 528 million from Pakistan to India and USD 52.5 million worth of trade via khepias.** These estimates could be understated as informal trade, by its nature, goes unrecorded. Yet, the estimated trade values are similar to the trade recorded through the formal channels implying that the informal trade is at least as high as the formal trade in either direction.

The total value of informal trade between India and Pakistan is USD 2.34 billion in 2018 and USD 2.49 billion in 2019[71]. There is a jump of only 7 per cent in the informal trade numbers from 2018 to 2019 despite the suspension of formal trade between India and Pakistan in August 2019, and restrictions on imports from Pakistan to India post February 2019. This means that direct trade cannot be substituted with indirect trade for all the products. In general, items demanded in India and Pakistan from each other, are traded via the indirect route only if it is logistically feasible and the items are usually low in volume but high in value (like jewelry, machinery, medicines and chemicals etc.). In such cases traders can afford to take a longer route like via Dubai, as the increase in cost can be passed on to the consumers directly. However, the nature of products traded directly between the two neighbors is either time sensitive or logistics sensitive such that the traders cannot bear an increase in cost or delay in the delivery time of the products (perishable items like fruits and vegetables, freight sensitive items such as cement, gypsum and glass). Hence, for majority of the goods which are directly traded, direct routes are unlikely to be replaced with circuitous indirect or informal routes.

	2018	2019
Informal Trade between India and Pakistan (Indirect and Informal)	USD 2.29 billion	USD 2.46 billion
Share via the UAE	92 per cent	93 per cent
Trade via the Khepias	USD 52.5 million	USD 35.3 million
Total Informal Trade between India and Pakistan	USD 2.34 billion	USD 2.49 billion

[70] In this report, for the purpose of nomenclature, indirect trade refers to goods traded via a third country leading to bilateral misallocation of trade and informal trade refers to trade that goes completely unrecorded because goods are exchanged informally, or are mis-declared /under-declared even if exchanged through formal channels. Any broad mention of informal trade includes both indirect trade and informal trade.

[71] It should be noted that the trade data for 2019 is not updated on different international trade portals for every route between India and Pakistan. Hence, estimates have been used based on the assumption that the 2019 trade flow will be at least as much as 2018.

Table 9: Informal[72] Trade Estimation between India and Pakistan via the UAE and other routes for 2018 and 2019 (USD million)

Route	2018	2019
India-the UAE-Pakistan	854	867
India-the UAE-Afghanistan-Pakistan	308	308
India-the UAE-Iran-Pakistan	441	452
India-Hong Kong- Pakistan	16	15
India-Malaysia-Pakistan	39	32
India-Sri Lanka-Pakistan	24	17
India-Singapore-Pakistan	27	29
India-Thailand-Pakistan	25	19
India-Oman-Pakistan	32	40
Pakistan-the UAE-India	436	581
Pakistan-Afghanistan-India	30	37
Pakistan-Hong Kong-India	3	3
Pakistan-Malaysia-India	8	12
Pakistan-Sri Lanka-India	23	23
Pakistan-Singapore-India	2	3
Pakistan-Thailand-India	7	8
Pakistan-Oman-India	19	17
Total *(excluding khepias)*	**2,294**	**2,463**

Source: International Trade Centre Database, UN Comtrade Database. Data as of May 2020.
Note: The data used for this calculation is presented in Annexure B

[72] In this report, for the purpose of nomenclature, indirect trade refers to goods traded via a third country leading to bilateral misallocation of trade and informal trade refers to trade that goes completely unrecorded because goods are exchanged informally, or are mis-declared /under-declared even if exchanged through formal channels. Any broad mention of informal trade includes both indirect trade and informal trade.

[73] Naqvi, Fatima Zarin. Schuler, Philip. The challenges and Potential of India Pakistan Trade. The World Bank Group. 2007.

3.5.2 Khepias between India and Pakistan

Khepias are professional informal traders who travel frequently in the guise of normal passengers and carry large quantities of items, from India to Pakistan and vice versa. In case of travel via Dubai, the khepias travel by air to transport goods between India and Pakistan and the cost of their trip along with the commission is mostly borne by the agents[73]. Once the goods reach the destination country, they are then taken to the wholesale markets from where the goods are distributed to the retail markets or transported to other cities.

According to interviews conducted with traders and middlemen in Dubai, goods worth USD 60,000 – USD 80,000 are exchanged between India and Pakistan, through khepias, on a daily basis. These goods include consumer products like plastic beads, artificial jewelry, balms like tiger and zandu balm, surgical products like syringes, cannula and dental instruments, textiles (Pakistani lawn suits and Indian sarees), cosmetics including deodorants from India and face masks from Pakistan, tobacco products like Pan Parag and Rajnigandha, among others. Hand sanitizers were the most recent addition to this list.

Similar form of khep trade also takes place between India and Pakistan via the Samjhauta Express across the Wagah-Attari border. According to interviews, goods worth INR 50,000 (~USD 714) are carried per passenger across the border via this rail route. Amritsar Customs reports that 13,859 passengers traveled from India to Pakistan, and 14,233 from Pakistan to India, in the year 2018-19 via this route. In 2019, with deteriorating relations between India and Pakistan, these numbers fell to 4,665 and 4,175 respectively. Based on this information, goods worth USD 20 million were exchanged across the border in 2018 through passengers traveling on Samjhauta Express.

Additionally, according to reports[74], 5000 Pakistani Ahmadis make the journey across the border to come to Qadian in Gurdaspur district of Indian Punjab, for the community's annual convention. This contributes to exchange of goods worth nearly USD 3.5 million.

Via Dubai (by air)	Via Samjhauta Express (by rail)
An average of USD 29 million per year	USD 23.5 million in 2018 and USD 6.3 million in 2019
Consumer products like plastic beads, artificial jewelry, balms like tiger and zandu balm, surgical products like syringes, cannula and dental instruments, textiles (Pakistani lawn and Indian sarees), cosmetics including deodorants from India and face masks from Pakistan, tobacco products like Pan Parag and Rajnigandha, among others. Hand sanitizers were the most recent addition to this list.	

[73] Naqvi, Fatima Zarin. Schuler, Philip. The challenges and Potential of India Pakistan Trade. The World Bank Group. 2007.
[74] Ahmad, Usman. A Glimpse Into the Ahmadis' Jalsa in Punjab's Qadian. 2018. https://thewire.in/society/photo-essay-ahmadis-jalsa-punjabs-qadian

Khepias from India to Pakistan via the UAE: Plastic beads

India is home to different shapes and designs of beads made from glass, lac, plastic and other elements. Small and colorful plastic beads can be used in innumerable ways to create fashion outfits and elements of accessories in jewelry, shoes and bags. They can be embroidered on to garments like dupattas, skirts, kurtis and lehengas.

In Pakistan, there is huge demand for plastic beads that is met through khepias or carriers carrying them to Pakistan via flights in hand luggage. Since plastic beads come under Pakistan's negative list of imports from India, they are exported via Dubai to Karachi. The carriers travel solely for this purpose from Dubai to Pakistan, exporting an average of 500-700 kilograms of beads every day. The demand for these beads in Pakistan increases during the wedding season in winters and Ramazan, but slows down in other months. The value of trade which is taking place from Dubai to Pakistan by carriers is not recorded anywhere.

The final cost of beads increases by 120 per cent when they reach the retail markets of Pakistan compared to the export price in India.

Table: Plastic Beads – India's Exports to Pakistan via Dubai and the Increase in Cost

Category	PKR
Export price of one kg of beads from India	1,600
Commission/Fee charged by the carrier to transport the goods from Dubai to Pakistan	1,000
Selling price of one kg of beads in wholesale market of Pakistan	2,800
Selling price of one kg of beads in retail market of Pakistan	3,500

Source: Direct interactions with traders in Dubai

3.5.3 The Trade Friction

Trade friction can be defined in different ways. According to the Economic Planning Agency of Japan, trade friction is defined as a phenomenon which arises when trade protectionism or the customs of major countries themselves collide. The Organization for Economic Co-operation and Development defines trade friction as one arising from competition laws and market regulations designed to protect domestic markets.[75] A recent trade friction example that took the form of a global trade war is that between China and the US - resulting in raised tariffs on about USD 50 billion worth of each other's goods in the first wave of the trade war in 2018.[76] There are several factors which jointly contribute in creating an environment which leads to trade friction. In some cases, trade-friction can arise due to inconsistent trade policies, domestic protectionism, illegal trade, infringement of intellectual property rights, lack of trust between the trading countries and political tensions.

In 2019, escalating political tensions between India and Pakistan led to an increase in already high trade friction between the two countries. Between 2018-19 and 2019-20, India lost USD 1.2 billion worth of exports to Pakistan and Pakistan lost USD 481 million of exports to India.

Table 10: Lost Trade between India and Pakistan

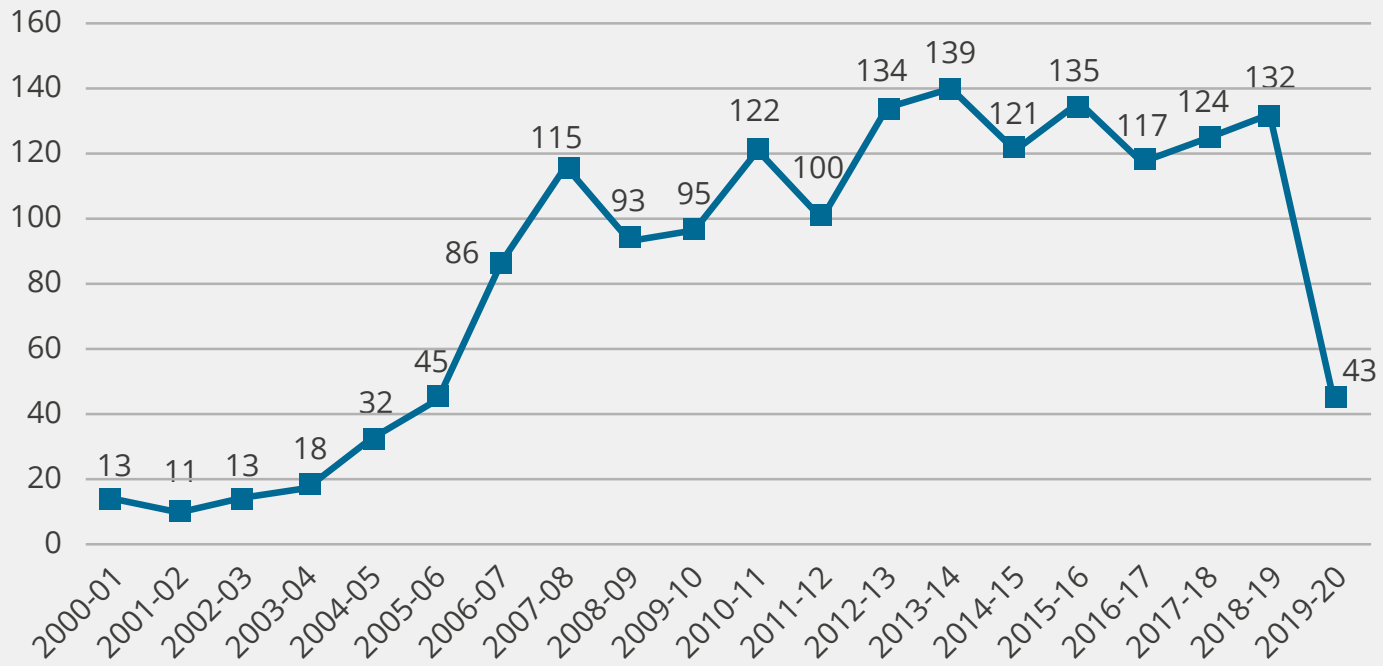
Year	India's Exports to Pakistan (USD million)	Pakistan's Exports to India (USD million)	Total Trade (USD million)
2018-19	2,067	495	2,562
2019-20	817	14	831
Loss	*1,250*	*481*	*1,731*

Source: Ministry of Commerce and Industry, Government of India

Trade and more general economic relations between India and Pakistan have always become a casualty of their continued political differences. However, the current impasse between the two nations can be seen as a new benchmark (low) in over fifteen years. The series of unilateral decisions taken by both the nations post February 2019 have had a substantial impact on the bilateral trade. The bilateral trade between India and Pakistan has decreased from USD 2.5 billion to USD 831 million from 2018-19 to 2019-20. The chart below shows the trend of bilateral trade between India and Pakistan in last twenty years, indexing at 2011-12 to help analyze the changes in trade data with respect to trade in 2011-12 (see figure 9).

[75] Wei, Libing. A Perspective on the Impact of Trade Friction on Customs Performance. World Customs Journal.
[76] Nicita Alessandro. Trade and Trade Diversion Effects of United States Tariffs on China. UNCTAD. 2019

Figure 9: India-Pakistan Total Bilateral Trade, Indexed at 2011-12



Source: Ministry of Commerce and Industry, Government of India

The cost to trade varies greatly between the direct and indirect routes. This section attempts to estimate the transaction cost incurred on direct routes vs. indirect routes for various product categories which are extensively traded between India and Pakistan (identified from primary and secondary analysis). The estimates are based on the interviews conducted with freight forwarders, logistics companies and traders in Dubai, and data retrieved from world freight rate estimate portals for a container of 20 feet.

The shipment cost not only includes transportation cost but also other costs like bill of lading, storage cost, freight, insurance, document processing fee, inspection fee and clearing-agent fee. In indirect trade, some cases require a change of certificate of origin by the shipping parties, which adds to the shipment cost. The logistics company or the freight forwarder helps in arranging any missing documents to complete the shipment to the final destination. For instance, if a new certificate of origin needs to be issued, it can be generated at a cost of USD 68 (AED 250) in Dubai. However, in order to generate such documents, the freight forwarding or logistics company (or shipping line) should be registered at the Port in Dubai (Jebel Ali in this case) and charge nearly USD 60 as service fee per transaction. In case of re-exports, the VAT (5 per cent) and the duty (5 per cent) paid in Dubai are refunded if both the import and re-export happened via the free zone. For cases where a change of container is needed, an additional cost of up to USD 500 is incurred.

Based on this, a comparison is drawn between the total transaction cost incurred for trade via direct sea route – Mumbai to Karachi, indirect sea route – Mumbai to Dubai to Karachi, and direct land route – Delhi to Lahore.

Table 11: Route wise Comparison of Cost and Trade Friction

Route		Distance (Km)	Cost per Container/ Truck (USD)	Cost per Container/Truck per Km (USD)	Cost per ton per Km (USD)	Friction
Direct	Delhi to Lahore	409	771	1.89	0.08	1.00
Direct	Mumbai to Karachi	883	772	0.87	0.04	0.56
Indirect	Mumbai-Dubai-Karachi	3,153	1,779	0.56	0.03	0.36
	♦ Mumbai to Dubai	1,953	756			
	♦ Dubai to Karachi	1,200	893			

Source: Data from World Freight Rates[77] and Interviews conducted in Dubai

Note: The estimation for sea route (Mumbai-Karachi, Mumbai-Dubai, and Dubai-Karachi) is based on a Full Container Load (FCL) Twenty-foot Equivalent Unit (TEU) and for land route (Delhi-Lahore) on a truck of 24 tons. The cost per container estimated in the above table is for the product categories which are traded the most between India and Pakistan (directly and indirectly) such as textiles, machinery, automobile and motor cycle parts, beauty and personal care and chemicals.

The numbers indicate that if the direct land route has a friction of 1, the direct sea route has a friction of 0.56, and the indirect sea route has a friction of 0.36, thereby, explaining the lack of adequate infrastructure at border points like Wagah-Attari. This holds India and Pakistan from reaping the benefits of proximity offered by a land border. Despite less friction, indirect route is overall more expensive. The higher shipment cost still makes financial sense to both the buyer and the seller, passing on the increase in cost directly to the consumers.

[77] https://www.worldfreightrates.com/en/freight

Kabuli Chana – Deal or No Deal?

India has been one of the top producers of chickpeas in the world. In 2017, out of the total world production of 14 million tons, 9 million tons was produced in India.* Kabuli Chana, which is one of the varieties of chickpeas, grown mainly in the state of Madhya Pradesh in India, is in high demand in the UAE and Pakistan. In 2018, the UAE and Pakistan were among India's top importers of Kabuli Chana, ranking at 4th and 5th positions respectively.

India's exports of Kabuli Chana, 2018-19 (USD million)

HS code- 07132010

The UAE	9.57 USD million (8 per cent of total)	Total Exports from India	123.1 USD million
Pakistan	6.4 USD million (5 per cent of total)		

Source: Ministry of Commerce and Industry, Government of India

Since direct trade was not an option after the trade suspension between India and Pakistan, traders began exploring the option of re-routing Indian Kabuli Chana to Pakistani markets via Dubai. This had a direct impact on the price of the product which increased by more than 30 per cent, from USD 660 per MT to USD 875 per MT when it reached the importer in Pakistan. Below is the detailed break-up of cost per metric ton of Kabuli Chana as it reached Pakistan's market from India via Dubai. The important point to note here is that even after a significant increase in the cost of Kabuli Chana via Dubai, the import of this commodity still made financial sense to the Pakistani importer with the increased cost passed on to the consumers as they are the ones ultimately impacted by the interrupted supply of goods.

Table: Export of Kabuli Chana from India to Pakistan, Direct Cost vs. Indirect Cost

Direct Trade		Indirect Trade**	
Indian Exporter's Selling Price	630 USD/MT	Indian exporter's Selling Price	630 USD/ MT
		Agent's Commission in Dubai (10 per cent)	63 USD/MT
		Deal Closed	700 USD/ MT
Final Price for Pakistani Importer	660 USD/MT	Freight and Port charges paid on actuals by Pakistan's importer	175 USD/ MT
		Final Cost to Pakistan's importer	875 USD/ MT

Source: Direct interactions with traders in Dubai

* Production volume of chickpeas worldwide in 2017, by country. Statista. https://www.statista.com/statistics/722203/chickpeas-production-volume-by-country-worldwide/

**Because of confidentiality of trade, the numbers quoted in the table are from a deal that eventually did not take place.

CHAPTER - 4

ROLE OF ECONOMICS, POLITICS AND THIRD PARTIES IN BILATERAL TRADE DYNAMICS

This section elaborates on the role of economics, politics and third parties through product specific case studies of textiles, dry dates and soy meal.

4.1 Case Study 1

Economics shifting some indirect trade to direct routes: The textiles story

Fashion doesn't understand political boundaries, it flows across borders. The Pakistani lawn fashion is one such example which crossed boundaries and became immensely popular in India in a short span of time. Indian women, particularly in the northern part of the country, found the lawn designs and fabric very refreshing, elegant and comfortable to beat the summer heat. Pakistan's global export of suits of cotton stood at USD 11 million in 2017.[78] Over the years, Pakistani lawn gained popularity not just in India, but in many other countries including the UK, Italy, the USA, Netherlands and the UAE.

Lawn: Pakistan's Niche and India's Demand

Lawn designer suits collection was launched in mid 2000s in Pakistan, manufactured primarily in Faisalabad and Karachi. It was for the first time a designer collection of apparels was introduced through large scale marketing, not only for the high profiled customers but also for the masses. Big investments went into glamorous marketing of lawn — which involved shooting of the catalogue at foreign locations, advertisements using multiple online platforms and celebrity endorsements. There was a vast variety of designs and styles for everyone including men, women, family collection etc. The lawn fashion consisted of designers, lavish prints, exhibitions, brand outlets, catalogues and advertisements which influenced buyers' choices and decisions. According to London-based Edbiz Consulting – the estimated annual size of the lawn market in Pakistan is around PKR 50 billion[79], making it one of the most demanded seasonal consumer items every year.

In the initial years after the entry of lawn fabric, the Indian market witnessed an incredible demand for Pakistani suits. The bilateral trade for textile and clothing between India and Pakistan paced up in the mid-2000s. The period from 2009 to 2015 witnessed an increase in direct export of cotton suits from Pakistan to India that peaked in 2015 at USD 247,800 from USD 4,100 in 2009. Since the India-Pakistan trade ban in 2019, the supply of these Pakistan-made garments was once again re-routed via Dubai; India imported USD 68,100 of cotton suits via the UAE in 2019, jumping significantly from USD 3,600 in 2018[80] (see figure 10). According to interviews conducted by SDPI, barriers such as delays in custom clearance at the Wagah-Attari border (in some cases delays of up to 45 days), high apparel tariffs (21 percent before February 2019), and strict visa rules (after 2016) are some of the major reasons for the use of third country routes for apparel trade between India and Pakistan.

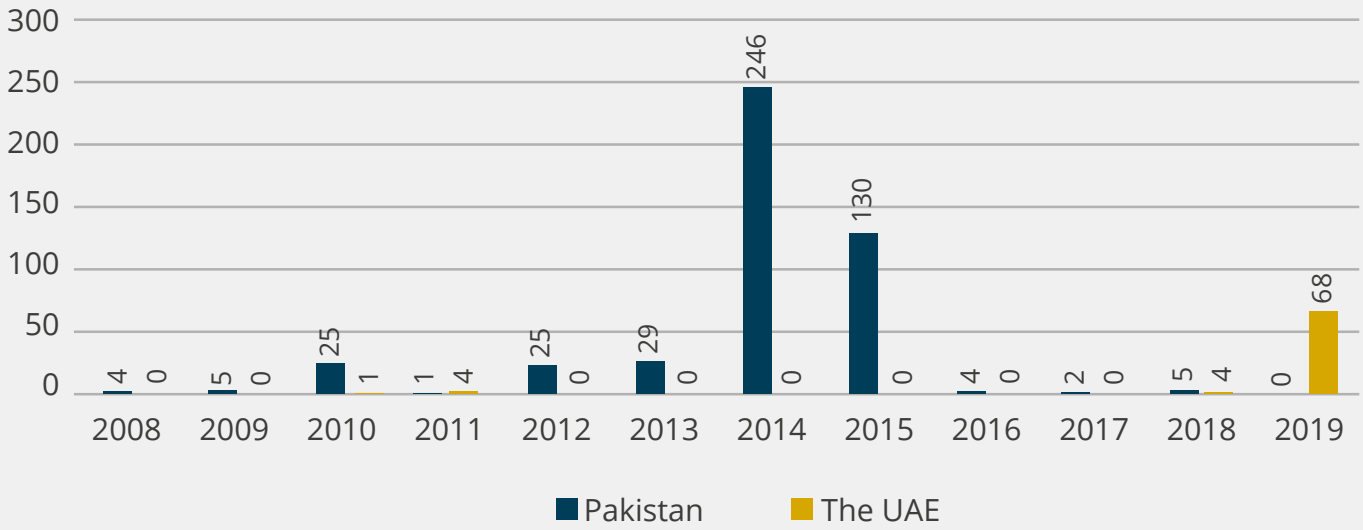
78 ITC databasefor HS code 620412

79 Jamal, Nasir. Lawn Wars in Apparel Market. Dawn. 2017. https://www.dawn.com/news/1321673

80 Singla, Nikita. Arora, Priya. China Pakistan FTA-2: A New Regional Hub for Cotton Garments in the Offing. Outlook. 2020. https://www.outlookindia.com/website/story/news-analysis-china-pakistan-fta-2-a-new-regional-hub-for-cotton-garments-in-the-offing/348942

Figure 10: India's Imports of Suits of Cotton from Pakistan and the UAE, 2009-2019 (thousand USD)

HS code - 620412



Source: UN Comtrade (Data as of June 2020)

When Surat became a replica hub and customers potential competitors

Pakistan's styles and designs from design houses like Sobia Nazir, Sana Safinaz, Gul Ahmed among others became popular in India. Soon after their introduction, they became the fastest moving stocks in the Indian ethnic wear market. The growing appetite for Pakistani designs and styles in India led to the development of a huge parallel industry in India, where manufacturers in Surat, Gujarat took inspiration from the Pakistani designs and patterns and replicated them on to the domestically produced fabrics.

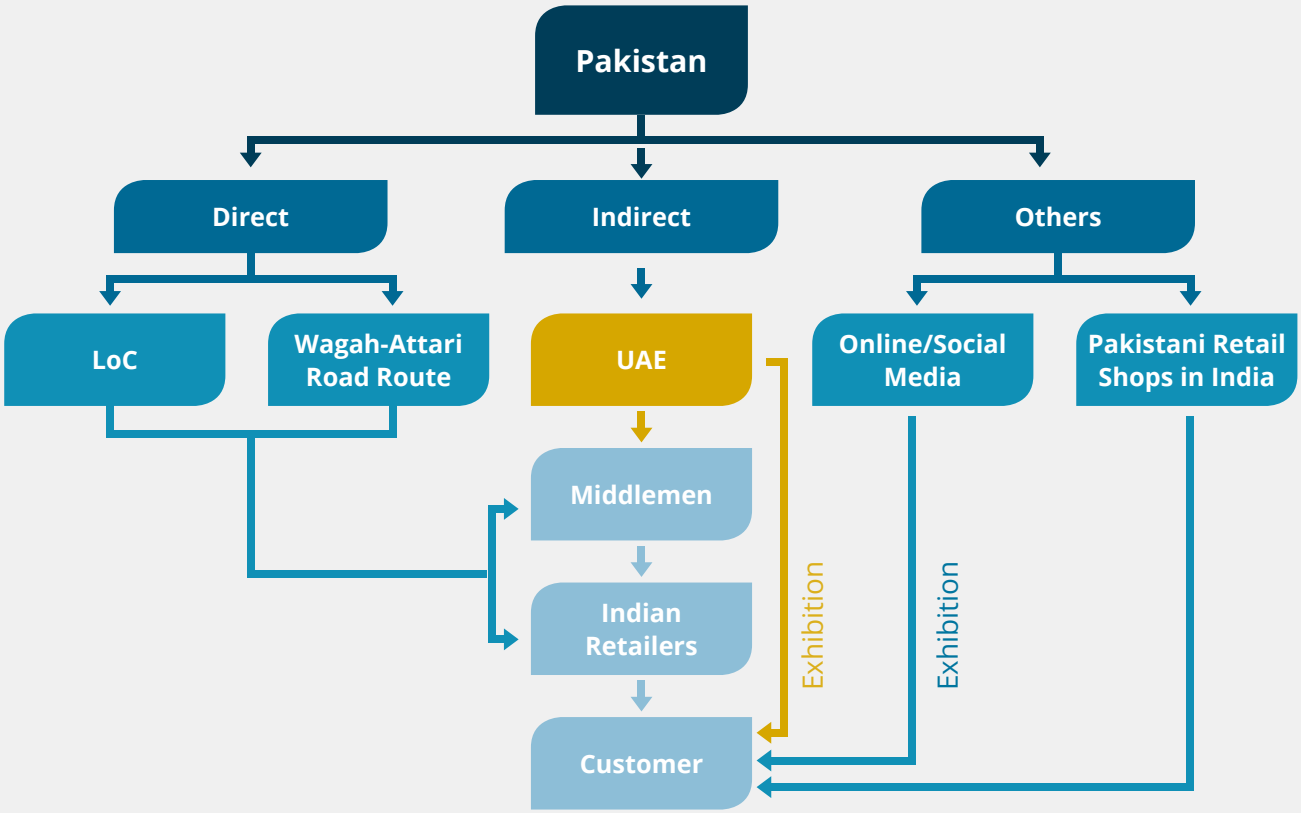
India's markets got flooded with Pakistani cotton suits – both originals and first copies - for tag-conscious and price-conscious customers respectively.

With the rising popularity of the Pakistani lawn suits in India, some of the cotton lawn manufacturers from Pakistan started exploring opportunities for joint ventures with Indian partners to open retail outlets. Indian women began to see a business opportunity in Pakistani suits. The culture of online shopping and social media gave many a platform to do business without having to invest in brick and mortar shops or even stock up goods. Many women turned into entrepreneurs and their smartphones into shopping gateways. Beating the border controls, catalogues of designer outfits traveled to and across India, swiftly and smoothly, through social media groups, like Whatsapp. Orders began to be placed and deliveries began happening from dealers to customers directly. These women-led online businesses through social media platforms gave a tough competition to the established retailers in the market. Customers started comparing the prices between products sold on social media platforms and in traditional markets. Entry of more competitors through social media platforms disturbed the stability of the lawn market in India and led to ruining of profit margins for the lawn traders. Thus the demand for lawn suits which gained momentum in India in the initial years, started declining later.

The demand for original lawn suits from Pakistan got restricted to the brand conscious urban middle class customers who prefer to purchase the product from designer outlets from third countries, mainly the UAE. The stock gets imported into Dubai from Pakistan. The re-routing of lawn from Dubai to India makes them expensive in the Indian markets, so they become out of reach for the price-conscious customers, whose demand gets fulfilled by the replicas of these suits manufactured in Surat.

The below distribution network depicts the ways through which lawn suits from Pakistan reach the Indian markets/customers.

Lawn's Distribution Network from Pakistan to India



With the suspension of India-Pakistan trade in 2019 and the outbreak of COVID-19 pandemic in 2020, many existing supply chains got challenged. Pakistan's competitiveness in cotton-based readymade garments got hurt as cotton became pricier. While Pakistan grows cotton domestically, an average of 37 per cent of its cotton imports came from India in 2018. After the trade ban between India and Pakistan in 2019, Pakistan began sourcing cotton/yarn from the US and Vietnam, thereby witnessing a rise in cotton prices, amid low production and higher import tariffs (11 per cent from the US and Vietnam, compared to 5 per cent from India for cotton yarn (HS Code 520524), one of Pakistan's major imports from India).

Despite the changing trends of trade, Pakistan's government has set the target of raising the country's textile and clothing exports from USD 13.5 billion in 2018 to USD 25 billion by 2025. How can Pakistan achieve this target?

China Pakistan FTA-2: a new regional hub for cotton garments in the offing?

In January 2020, China and Pakistan entered into the second phase of China Pakistan Free Trade Agreement (CPFTA2), under which China has eliminated tariffs on 313 priority tariff lines of Pakistan's export interest. In return, Pakistan has offered China market access to raw materials, intermediate goods and machinery.[81]

Of the 313 high-priority products that Pakistan can now export without duty payments to China, 130 are from textiles and clothing sector. Reduced tariffs, an expected surge in Chinese investment into Pakistan and potential shift of production base from China to Pakistan, may change the regional dynamics of textiles trade. The numbers explain how.

Under the CPFTA2, many Pakistani textile products will now enjoy duty-free access to China, which has extended similar tariff reductions to other trading partners - Bangladesh, Thailand and Vietnam among others - under the ASEAN-China FTA. Tariffs on readymade cotton garments (HS codes 61, 62 and 63), have been massively reduced.[82] For example, men's ensembles of cotton (HS code – 62032200), Pakistan's top world export, was traded with China at 17.5 per cent (MFN rate) which reduced to 12 per cent under phase I of FTA and has dropped to 0 per cent in the phase II of FTA. This places Pakistan at a more than equal footing with Bangladesh, and ahead of India which faces a tariff rate of 8 per cent on export of this product to China.[83]

With the second phase of the CPFTA, there is a possibility of relocating production of international brands, many of which have facilities in China that import cotton fabric from Pakistan as raw material—to Pakistan itself. The inflow of Chinese investment in machinery and technology in order to setup production bases in Pakistan will drive innovation and economies of scale, thereby making Pakistan regionally competitive in cotton-based garments. In addition, Pakistan will garner a favorable position for exporting to other markets that have so far been trading primarily with China as well as potentially to other Regional Comprehensive Economic Partnership (RCEP) members. Pakistan is likely to be preferred over Bangladesh given the former country's comparative advantage in producing cotton fabric (nearly 25 per cent of Pakistan's total cotton exports in 2018 were to China); ease of doing business (Pakistan ranks at 108 compared to Bangladesh at 168 and India at 63 under the World Bank's Doing Business 2020 study); ease of trading across borders (Pakistan ranks at 111 compared to Bangladesh at 176 and India at 68) and ease of starting a new business (Pakistan ranks at 72 compared to Bangladesh at 131 and India at 136).

As China has the world's largest textile industry—in terms of both production and export—it is an inevitable trading partner for Pakistan to meet its 2025 target of USD 25 billion.[84] For Pakistan to

[81] Protocol to Amend the Free Trade Agreement between the Government of the People's Republic of China and the Government of Islamic Republic of Pakistan. Ministry of Commerce, Government of Pakistan. 2019. http://www.commerce.gov.pk/protocol-on-phase-ii-china-pakistan-fta/

[82] Afraz, Nazish. Mukhtar, Nadia. China Pakistan Free Trade Agreement Phase 2, A Preliminary Analysis. The Pakistan Business Council and The Consortium and Development Policy Research (CDPR). 2019.

[83] Singla, Nikita. Arora, Priya. China Pakistan FTA-2: A New Regional Hub for Cotton Garments in the Offing. Outlook. 2020. https://www.outlookindia.com/website/story/news-analysis-china-pakistan-fta-2-a-new-regional-hub-for-cotton-garments-in-the-offing/348942

[84] Mustafa, Khalid. Textile Policy 2020-25: Pakistan to Increase Textile Exports to $25.3 billion by 2025. Jan 2020. https://www.thenews.com.pk/print/603201-textile-policy-2020-25-pakistan-to-increase-textile-exports-to-25-3-bn-by-2025

fully reap the benefits of the CPFTA2, access to cheaper imported inputs will be crucial to its export competitiveness for cotton-based readymade garments. The question is what an agreement like CPFTA2 can lead to, given the current circumstances. There can be two scenarios – one, shifting away to sourcing raw material via routes that are not as cost-effective, could hurt Pakistan's export competitiveness vis-à-vis other trading partners, like China in this case, or two, Pakistan, despite the disruption of cotton supply from India, could manage to produce/source cotton at competitive prices, and emerge as a regional hub for cotton-based garments.

4.2 Case Study 2

Political impasse of February 2019 shifts some direct trade to indirect routes: The story of Dry Dates

The last few years saw an encouraging shift from indirect to direct trade. There was a new hope amongst the trading community in both the countries to trade smoothly with each other. However, India's imposition of 200 per cent customs duty on Pakistani imports in February 2019, and later Pakistan's decision to completely suspend its bilateral trade with India in August 2019, changed all dynamics of this trade, when the option to trade formally was no more available even to the traders who were ready to go through all that is needed to trade across the border directly. The commodities which were traded directly from the beginning started taking the indirect routes. The story of trade of dry dates is a perfect example of this shift from direct to indirect trade.

Dry dates *(chhohara or kharek—HS Code 08041030)* had been one of the principal commodities India sourced from Pakistan, its imports from Pakistan almost entirely meeting India's requirements; data from India's Ministry of Commerce and Industry indicates that the share of India's imports from Pakistan was 99 per cent of its total imports from the world for fiscal years 2017-18 and 2018-19.

Date palm is the third-largest produced fruit crop in Pakistan, after mango and citrus. The fruit is grown in all four provinces of Pakistan, and over 160 varieties of date palm are found in the country.[85] Pakistan's Balochistan and Sindh provinces contribute to most of the country's production of dates. Aseel, a popular date variety from Sindh province—largely produced and dried in its Khairpur district—is exported majorly to India.

Other countries exporting dry dates to India include Oman, Iraq, Israel, Iran and the United Arab Emirates (UAE).

Table 12: India's Imports of Hard Dry Dates (USD million)

HS Code – 08041030

Exporters	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
World	100.92	89.70	127.44	112.13	101.23	28.55
Pakistan	98.27	87.84	125.80	111.30	100.50	0.82
Oman	2.44	1.84	1.64	0.82	0.70	5.9
Iraq	0.16	0.02	-	-	0.01	0.05
Israel	0.03	-	-	-	0.01	0.00
Iran	0.01	-	-	-	0.00	6.37
United Arab Emirates	-	-	-	0.01	-	15.41

Source: Ministry of Commerce and Industry, Government of India

[85] Menon, Ahmed, Noor. India Major Importer of Pakistani Dried Dates. 2018. Dadabhoy Institute of Higher Education. http://foodjournal.pk/2018/PDF-January-February-2018/Dr-Noor-Dates-2018.pdf

The commodity—comprising a fifth of India's imports from Pakistan[86]—has been sourced over the years through the Wagah-Attari route. However, India's imposition of a 200 per cent customs duty on dates from Pakistan—a substantial hike from the erstwhile rate of 5 per cent— has adversely affected their bilateral trade. Interviews with traders located in Khari Baoli market in Delhi and Majith Mandi in Amritsar indicated that nearly 500 traders across India sourced dry dates from Pakistan, and were heavily dependent on trade of this single commodity. They have been deeply affected by the halt in India-Pakistan trade, and most of them have gone out of business.[87]

"I was sourcing dry dates worth INR 1 crore per month from Pakistan, and became jobless overnight. I need something to sustain my business."
— Trader, Khari Baoli, Delhi, India

"About 70 per cent of Majith Mandi was dependent on dry dates. Customers coming to buy dry dates would also buy other stuff. Now the mandi looks like a barren land. Moreover, we can't afford to retain the rental warehouses for stocking dry dates."
— Trader, Majith Mandi, Amritsar, Punjab, India

The earnings of traders, their staff, clearing agents, freight forwarders, labourers and truck operators have been hit by the deterioration in India-Pakistan ties since mid-February 2019. The most severely affected appear to be the numerous women from slums around Amritsar that had scrimped together a living from this bilateral trade; ***nearly 1,000 of them were dependent on hand-cutting of dry dates to make a living.***[88]

"One woman typically made around INR 150/day from hand-cutting of dry dates coming from a single trader. All women catered to multiple traders, a living of close to INR 300-400/day per woman has been lost." —Dry-date importer, Majith Mandi, Amritsar, Punjab, India

As per a survey in the retail markets in Delhi and Amritsar, the dry-date variants priced at INR 30/kilogram and INR 70/kilogram soared to INR 100/kilogram and INR 250/kilogram, respectively. The table below shows how the customs-duty hike pushed up the final retail price for Sukkur dry dates—the most commonly imported variant via the Wagah-Attari route, from Sukkur, a city in Sindh.

86 The share of dry dates in India's overall imports from Pakistan has been 23 per cent and 20 per cent in 2017-18 and 2018-19 respectively, as per data from Export Import Data Bank, Ministry of Commerce and Industry, India.

87 Hussain, Afaq. Singla, Nikita. Unilateral Decisions Bilateral Losses. Bureau of Research on Industry and Economic Fundamentals (BRIEF). 2020.

88 Ibid.

Table 13: Costing and pricing of Sukkur dry dates imported via Wagah-Attari (INR/kilogram)

	Pre-Feb 2019	Post-Feb 2019
Invoice value	60 cents[89] (INR 43.20)	60 cents[90] (INR 43.20)
Enhanced value for duty calculation	67 cents (INR 48.24)	67 cents (INR 48.24)
Basic customs duty	5 per cent (INR 2.41)	200 per cent (INR 96.48)
Cess	10 per cent (INR 0.24)	10 per cent (INR 9.65)
Integrated goods and service tax	12 per cent (INR 6.10)	28 per cent (INR 43.22)
Total duty	8.75	149.34
Other charges (Central Warehousing Corporation/Clearance)	1.50	1.50
Landing price	53.45	194.04
Margin	1-2	1-2
Wholesale price	55-56	195-196
Retail price	60-70 *(depending on freight rate to destination)*	240-260 *(sourced from market survey; further price hike because of lack of availability)*
Total duty / Truck *(1 truck is 24 tonnes)*	**INR 2.10 lakh**	**INR 35.85 lakh**

Source: Direct interactions with dry-date importers in Amritsar

In this way, the Indian government's hike in customs duty levied on goods imported from Pakistan, to 200 per cent, actually translated into a hike of ~1600 per cent for a truck of 24 tonnes of dry dates. Most dry fruits in the Indian market are priced at INR 800-900 per kilogram. However, dry dates, usually sold at INR 30-100 per kilogram, offered a more economic option, and were thus renowned as the poor man's dry fruit. Post-February 2019, prices of dry dates have increased by almost 250-300 per cent in Amritsar as well as in the Indian cities of Delhi, Lucknow, Kanpur, Indore - the main markets for the commodity. This has also affected the prices of other products dependent on dry dates. For example, the price of a betel-leaf *paan* had shot up by 50 per cent, from INR 20 to INR 30 as of November 2019, because the betel nut (commonly referred to as *supari*) used in the preparation became pricier, increasing from INR 100/kilogram to INR 220/kilogram. Based on a survey conducted in November 2019, the dry-date stocks in the Indian markets had become unaffordable and, in most cases, there was no stock in these markets, as the duty hike led to its non-availability.[91]

89 USD 1 has been taken as INR 72 for this calculation

90 For comparison, same invoice value and same exchange rate has been used

91 Hussain, Afaq. Singla, Nikita. Unilateral Decisions Bilateral Losses. Bureau of Research on Industry and Economic Fundamentals (BRIEF). 2020.

The harvesting season for fresh dates in Pakistan starts in July and runs till September, hence August—January is the main season for dry dates. Dry dates produced in Pakistan only have a few markets, the biggest being India (98 per cent of Pakistan's dry-dates exports go to India) followed by Bangladesh and Sri Lanka. Dry dates are mainly used for religious rituals in India, and are also consumed as a dessert and sweet, given they are free of cholesterol and fat. In the wake of the current escalation of India-Pakistan tensions, dry-date stocks have accumulated in Pakistan, and farmer prices—paid usually by middlemen who buy in bulk—have decreased up to 40 per cent[92]. This leaves Pakistani exporters with two options: find substitute markets or alternate routes to reach the Indian market.

a) Substitute markets: Pakistan was exploring exporting dry dates to Sri Lanka[93] as of August 2019, when a delegation of dry-date importers from Sri Lanka arrived in Sukkur on invitation of the Pakistan government's agency for promoting international trade, the Trade Development Authority of Pakistan (TDAP). Sri Lanka may not be able to replace India, but is a potential market for Pakistan. Moreover, catering to Sri Lanka's demand for dry dates could potentially allow Pakistan to reroute exports into India, given that the island country is a transshipment hub to India, and prior studies[94] have revealed Sri Lanka as an indirect trade route between Pakistan and India.

The Express Tribune Business

Pakistan turns to Sri Lanka for dry date exports

By Usman Hanif Published: August 6, 2019

b) Alternate routes: As per official data and our interactions with traders, we gathered that the Indian government's imposition of 200 per cent duty on Pakistan has led the Pakistani traders to reroute dry-date exports through countries such as Oman. In early September 2019, Directorate of Revenue Intelligence (DRI) Mumbai zone officials arrested four local businessmen for allegedly importing over 400 tonnes of dry dates—worth nearly INR 9 crore—illegally to the Jawaharlal Nehru Port Trust (JNPT), located in the Indian state of Maharashtra.[95] Following the arrest, Indian authorities issued an alert across all ports in the country regarding illegal import of dry dates from Pakistan via Oman.

Govt alerts ports over illegal imports of dates from Pakistan

Before the Pulwama attack, the duty on import of dry dates was around 30% to 50%, which increased up to 200% afterwards. The move caused a huge loss to Pakistani as wel as Indian traders of dates.

Mumbai – Updated: Sep 21, 2019 05:20 IST

92 Hanif, Usman. Pakistan turns to Sri Lanka for dry date exports. 2019. The Express Tribune. https://tribune.com.pk/story/2028954/2-pakistan-turns-sri-lanka-dry-date-exports/

93 Ibid.

94 Taneja, Nisha. Enhancing India Pakistan Trade. Indian Council for Research on International Economic Relations. 2013

95 Yadav, Kumar, Vijay. Govt alerts ports over illegal import of dates from Pakistan. 2019. Hindustan Times. https://www.hindustantimes.com/cities/govt-alerts-ports-over-illegal-import-of-dates-from-pakistan/story-iprUgAEVhXJBtvlFGodUKN.html

An assessment of India's import of dry dates and Pakistan's export of dates shows the shift from direct to indirect routes. As mentioned in Section 2.2.2 Hypothesis A, India's import data from February-December 2019 (see figure 3(a)) shows that while some dry-date imports began coming from/via Oman, after the duty hike in February 2019, most of the dry-dates starting coming from the UAE. The UAE supplied no dry dates to India in 2018, but its dry date supplies witnessed a progressive increase April 2019 onwards; for example, the value of India's dry-date imports from the UAE increased from USD 20,000 in April 2019 to USD 3,040,000 in December 2019. Similarly, a month on month analysis of Pakistan's exports of dates by country (see figure 3(b)) suggests a shift in exports to countries like the UAE and Oman in 2019 as compared to 2018 wherein a significant portion reached India through direct channels. While some of the Pakistani dates reached India via other routes in 2019, Pakistan's total exports of dates decreased post February 2019.

The Indian government's imposition of incremental duties on Pakistan—and eventual ban on bilateral trade by Pakistani government—led to a drastic decrease in the overall trade of the dry dates, as per official data and trader interviews. However, it must be noted that there are no immediate substitutes to imports from Pakistan as far as dry dates are concerned. As the trade ban is in place, traders on both sides continue exploring indirect trade routes, keeping the Dubai-angled triangle intact.

4.3 Case Study 3

Third party disrupting bilateral trade: the soya trinity of India-Pakistan-the US

Economic relations between India and Pakistan have remained a casualty of their continued differences. However, at times, politics cannot be blamed for losing a trade partner for certain products. External factors other than political and institutional, like role of a third country, can also affect trade between two countries. The soy story between India, Pakistan and the US is one such example.

The soybean trade is particularly interesting to look at as on one hand, China is the largest importer of soybean in the world and on the other hand, the US is the world's largest producer. Friction between the largest buyer and the largest supplier, in the form of trade war between China and the US that began in 2016, disrupted the soybean trade flow in other markets of the world. China's efforts to reduce dependence on the US soy was seen as a great opportunity for the Indian soybean meal exporters to resume soybean meal trade with China.[96]

India's average annual production of soybean is about 8 to 10 million tons, which constitutes nearly 4 per cent of the world's production.[97] Only 10-12 per cent of the soybean in India is directly consumed, while the rest of it is crushed to derive soybean meal and soybean oil. Soybean meal is used as a source of protein in animal feed; end users including poultry, aqua, livestock and shrimp producers. Majority of world's production of soybean is genetically modified (GMO), whereas India produces non-genetically modified (non-GMO) soybean. Indian soybean meal has high protein content and it is considered as one of the finest soybean meals by many European and Asian countries.[98]

India's top markets for soybean meal have been Pakistan, Vietnam, Japan, Thailand and China.[99] Pakistan was ranked among the top 10 markets for Indian soybean meal till it peaked in 2015 when 16 per cent of Indian soybean meal was going to Pakistan alone, making Pakistan India's number one trading partner for soybean meal. Majority of Pakistan's demand for soybean meal was met through imports from India (see figure 11). A huge share of soybean meal (approximately 90 per cent) is consumed in the poultry industry of Pakistan.[100] The total value of soybean meal exported from India to Pakistan increased from 7.8 million USD in 2001 to 213 million USD in 2013.[101] However, the flourishing trade between the two nations reduced substantially and dropped to almost zero after 2016, when the trade war between the US and China began.

[96] Singla, Nikita. Arora, Priya. Changing Trade Dynamics and South Asia's Soya Saga. Livemint. 2019. https://www.livemint.com/opinion/columns/opinion-changing-trade-dynamics-and-south-asia-s-soya-saga-11573116499169.html

[97] The Soybean Processors Association of India.https://www.sopa.org/soybean-program/.

[98] Malukani, Bharti. Export Potential of Soybean in India: A trend Analysis.Prestige e-Journal of Management and Research. 2016.

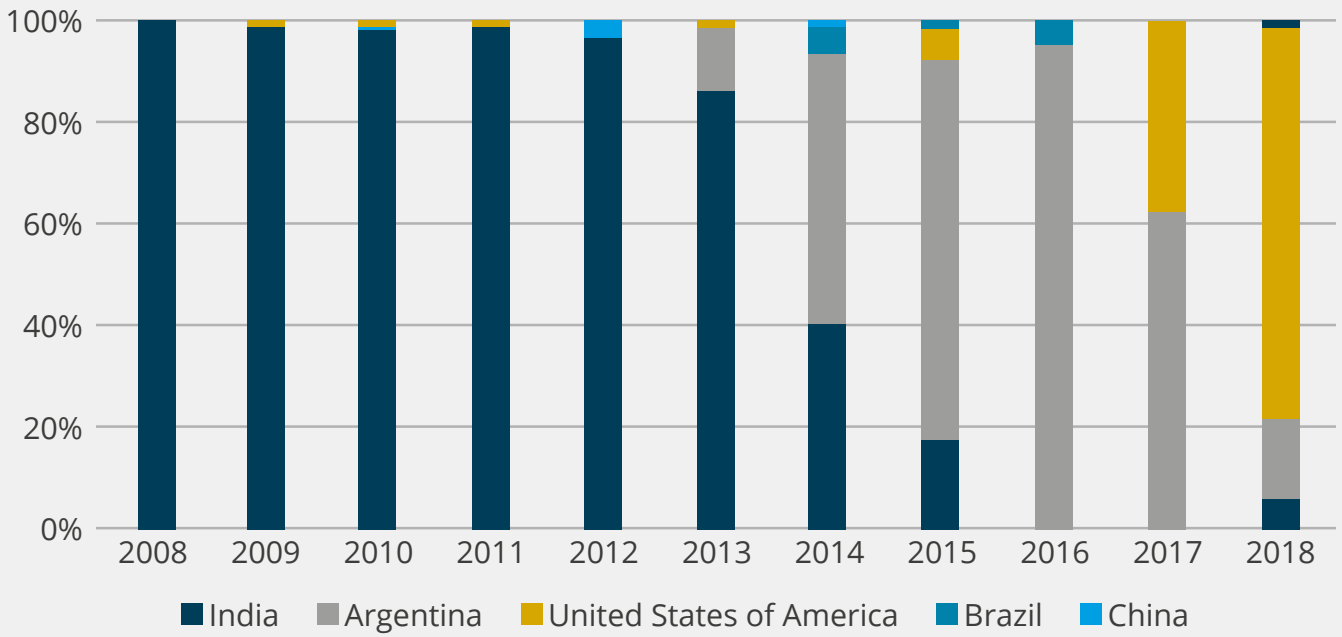
[99] Based on data from International Trade Centre.

[100] Pakistan- a Growing U.S. Soy Market. USSEC. 2018.

[101] Based on data from International Trade Centre.

Figure 11: Country Wise Percentage Share of Pakistan's Imports of Soybean Meal, 2008-2018

HS Code:2304



Source: International Trade Centre Database

Chinese Demand, American Supply and the US-China Trade War

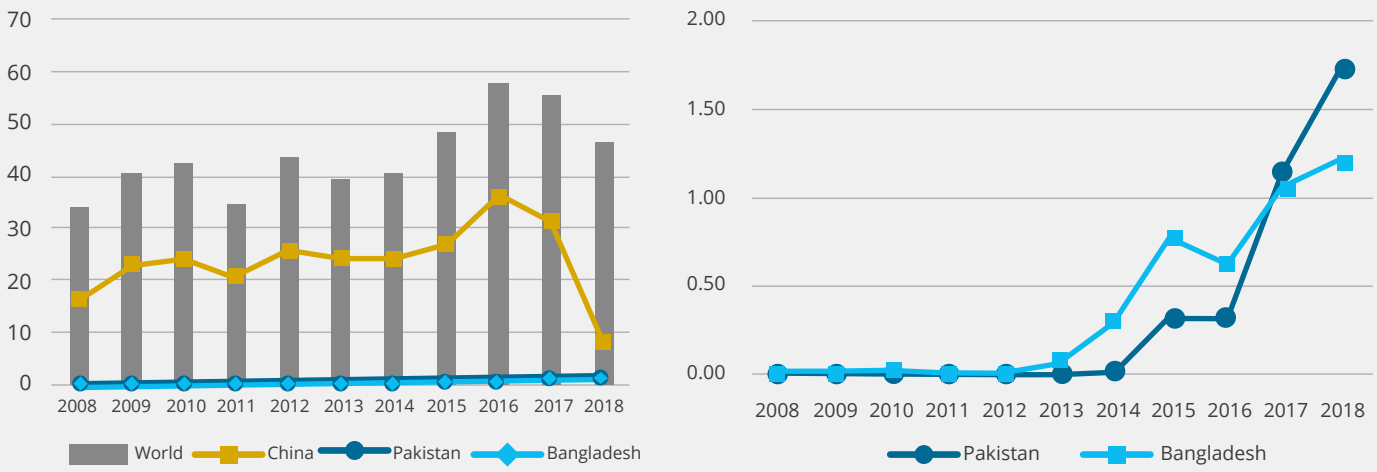
China is one of the world's primary consumer of soybean. In the last two decades, China's demand for soybean has way surpassed its production. For instance, in 1995, there was a perfect balance between the Chinese production and consumption of soybean, which was around 14 million tons.[102] However, in 2011, production of soybean remained the same, but the consumption increased to a staggering 70 million tons.[103] As high as 40 per cent of China's imports of soybean used to come from the US.[104] With the onset of the trade war between China and the US, China imposed a 25 per cent tariff on soybean imports from the US. This led to a substantial drop in soybean exports from the US to China from 36 million tons in 2016 to 8 million tons in 2018.[105]

The US is the world's second largest exporter of soybean after Brazil. The US started losing share in China's soybean market 2016 onwards, but it was already targeting other markets in the South Asian region including Pakistan and Bangladesh.[106] The figures below depicts a sharp decline in the US soybean exports to China 2016 onwards and a steep rise in exports to Pakistan and Bangladesh in the last few years. Before 2014, US soybean exports to Pakistan and Bangladesh were insignificant, nearly zero. However, 2014 onwards, purchases of the US soybean by the two SAARC countries started rising. For example, Pakistan's purchases of the US soybean increased from 0.31 million tons in 2015 to 1.73 million tons in 2018. In four years, there is a jump of 450 per cent in Pakistan's imports of soybean from the US.

[102] Brown, Lester. R. China and the Soybean Challenge. Earth Policy Institute. http://www.earth-policy.org/mobile/books/fpep/fpepch9
[103] Ibid.
[104] Based on data from International Trade Centre.
[105] Ibid.
[106] Asia Subcontinent Market Analysis and some Forecasts. US Soybean Export council. 2016.

Figure 12: The US Exports of Soybean, 2008 - 2018 (million metric tons)

HS Code: 1201

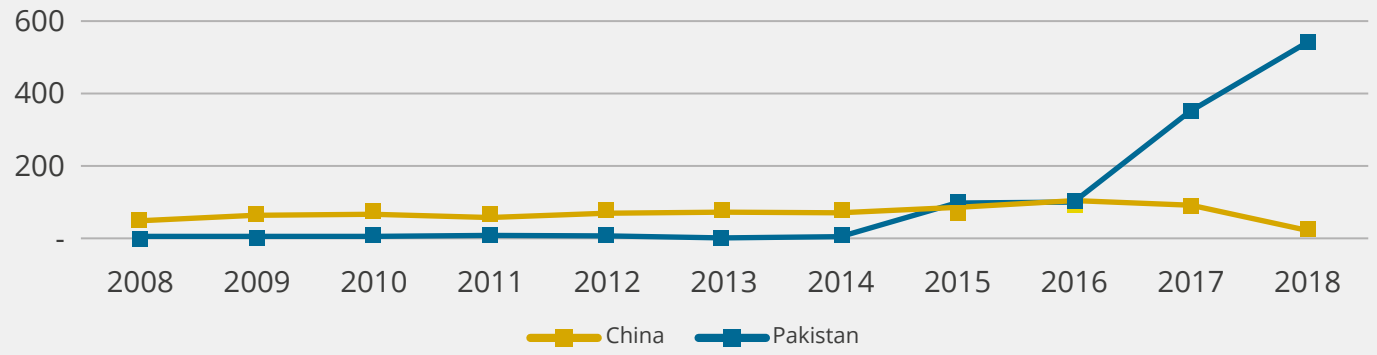


Source: International Trade Centre Database

The figure below demonstrates the changes in exports of soybean from the US to China and Pakistan, indexed with respect to the base year 2016 (when the trade war between the US and China began). A market shift in the last few years for exports of US soybean from China to countries like Pakistan can be clearly seen in the figure.

Figure 13: The US exports of Soybean to China and Pakistan indexed to the base year 2016

HS Code: 1201



Source: International Trade Centre Database

Before the US entered Pakistan's soybean market, India and Pakistan were major soybean meal trading partners. India accounted for more than 90 per cent of Pakistan's soybean meal imports.[107]

[107] Based on data from International Trade Centre.

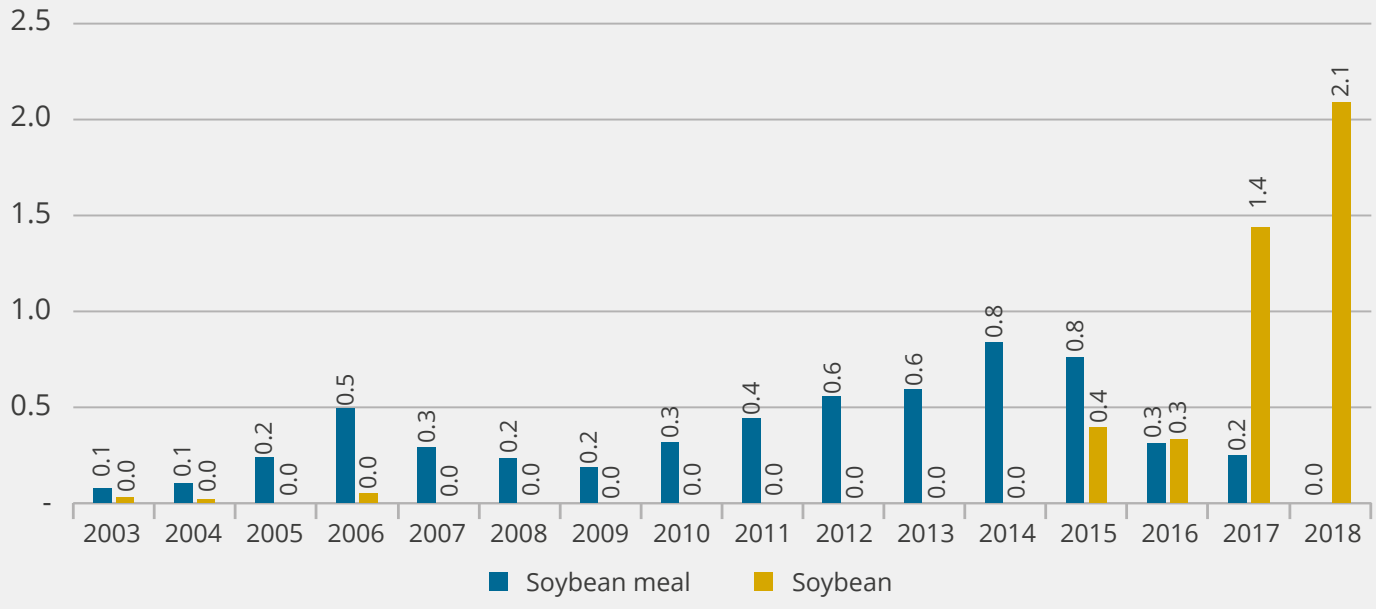
The bigger picture – How the US crushed the Indian Monopoly

India was the major supplier of soybean meal to its neighboring countries including Pakistan and Bangladesh. During the peak export period (2011), India supplied more than 0.4 million tons to each of the two countries which constituted around 16 per cent of India's total soybean meal exports.[108] Further, the combined share of exports to Pakistan and Bangladesh increased to 29 per cent in 2015. However, in 2018, this number dropped to zero in case of exports to Pakistan, and to half of what was exported in 2011 in case of Bangladesh. In the last four years, India started losing a share of its soybean meal exports to the US. Americans strategically entered the South Asian markets by adopting a direct marketing strategy to demonstrate the preference for the US soybean in countries where demand for Indian soybean meal was high.[109]

Based on interviews with Soybean Processors Association of India (SOPA) and other soybean producers in Indore, Pakistan informally restricted soybean meal from India on the premise that it contained pork pieces. Denied clearance by the Pakistan Standard and Quality Control Authority, Indian soybean meal couldn't make its way into the Pakistani market. Though Pakistan's Poultry Association still had a preference for the Indian soybean meal due to its quality and high protein content, the local processing plants began to revive in Pakistan, preferring imports of soybean from the US followed by in house processing into soybean meal (see figure 14). As the soybean meal trade stopped between India and Pakistan, a tussle between the Pakistan Poultry Association and the processing industry over imports of soybean meal and soybean, began.

Figure 14: Shift in Pakistan's imports (from the world) of soybean meal to soybean, 2008 - 2018 (Million metric tons)

HS Code: 2304 (soybean meal) and HS Code: 1201 (soybean)



Source: International Trade Centre Database

[108] Based on data from International Trade Centre.
[109] Asia Subcontinent Market Analysis and some Forecasts. U.S Soybean Export council. 2016.

In addition to this, the US tried to reduce exports of Indian soybean meal by increasing the internal consumption in India. According to a report published by USSEC in 2016, one of the US strategy in the South Asian region was to help increase new feed businesses. More than 250 new poultry and aqua businesses came up in India which led to an increase in soybean meal demand.[110] Further, the US soybean has an edge in terms of prices over the Indian soybean meal. The US soybean is cheaper compared to the Indian soybean meal, which resulted in increased exports of soybean from the US to India's neighboring countries and a shift from import of soybean meal to soybean in those countries.[111]

The soy story between India, Pakistan and the US is an example of a third country taking advantage and leveraging factors other than bilateral - political and institutional – to change the dynamics of trade between two countries

[110] India Soybean meal Demand and Supply. USSEC.

[111] Singla, Nikita. Arora, Priya. Changing Trade Dynamics and South Asia's Soya Saga. Live Mint. 2019. https://www.livemint.com/opinion/columns/opinion-changing-trade-dynamics-and-south-asia-s-soya-saga-11573116499169.html

CHAPTER - 5

CONCLUSION

Tensions between India and Pakistan escalated once again in 2019. Like in the past, these tensions trickled down to impact the trade relations between both countries, and it was expected that the trade volumes will bounce back giving overall trade an upward trajectory.

In the last decade particularly, various initiatives have been taken prompting the trade community of India and Pakistan to come together for improvement of bilateral economic relations. For instance, post the 5th and 6th round of talks in 2011 on Commercial and Economic Co-Operation between Commerce Secretaries of India and Pakistan, the trade increased from USD 1.9 billion in 2011-12 to USD 2.6 billion in 2012-13. This was accompanied by other initiatives like amendments in the maritime protocol providing impetus to sea trade, setting up of the Integrated Check Post (ICP) at Wagah-Attari border, Pakistan replacing its positive list of 2,000 goods with a negative list of about 1,200 items for trade with India and comprehensive dialogues jointly led by business chambers/associations in India and Pakistan, which helped build traders' confidence and dispel misapprehensions to engage across the border. Yet, India and Pakistan remain far from realizing their full trade potential.

Though India-Pakistan ties seem to have been pushed to a new low in the wake of the attack in Pulwama district of Jammu and Kashmir, in February 2019, the appetite for trade engagement remains, despite the withdrawal of Most Favoured Nation (MFN) status to Pakistan by India and subsequent imposition of 200 per cent customs duty on all Pakistani goods by India. It must be noted that the major flow of trade was happening from India to Pakistan, which did not take place under the ambit of MFN. The complete suspension of bilateral trade, later in August 2019, has only led to an increase in the share of indirect trade, routed through third countries like the UAE, Oman, Iran, etc.

Trade through third countries has been flourishing and goods from each other's countries have been entering the markets successfully through informal and indirect routes as the mechanisms of these routes are more organized than the mechanisms of formal trade. This reflects a continuous inclination of the trade fraternities on both sides towards doing business with each other.

The transportation of goods through informal and indirect route increases the final cost of the product. Goods exported via a third country become more expensive for the importer due to the increase in cost of shipment and transportation which is ultimately passed on to the final consumer. The restrictions on trade between India and Pakistan – like the negative list of imports from India to Pakistan, restricted positive list of commodities allowed for trade via the Wagah-Attari border, sensitive lists and paratariffs that are a barrier to SAFTA's functioning, lack of adequate infrastructure and logistics support for trade between the two countries etc. – have over the years pushed the informal trade further up.

However, this by no means undermines the significance of the formal trade. Be it in Punjab or Jammu and Kashmir, the ripples of the India-Pakistan face-off have been felt by stakeholders across social and economic fronts on both sides of the border/LoC. The Indian government's imposition of 200 per cent duty hurt Pakistan's exports to India, which fell from an average of USD 45 million per month in 2018 to USD 2.5 million per month in March-July 2019. According to interviews conducted in Amritsar,[112]

[112] Hussain, Afaq. Singla, Nikita. Unilateral Decisions Bilateral Losses. Bureau of Research on Industry and Economic Fundamentals (BRIEF). 2020.

more than 9,000 families were directly affected because of their breadwinners' dependence on bilateral trade; and every month, two-thirds of nearly INR 30 crores that was being added to the local economy was lost.

After the face-off between India and Pakistan in 2019, even the most optimistic traders on both sides have learnt it the hard way that betting livelihoods on politics was much riskier than assumed. But business never stops. Even after all the restrictions and barriers, traders found their way through the informal routes and created a parallel economy to do business – what can be called a twin account of trade.

It is an open secret that the most dominant route for informal trade between India and Pakistan is via the UAE, mainly Dubai. Since the traders in India and Pakistan face several restrictions in their home countries, Dubai is considered to be a great intermediary because it offers security and freedom to trade. There are various ways/routes through which trade takes place between India and Pakistan via Dubai which are - sea, air and hand luggage by carriers. Besides being easily accessible by sea and air, for traders from both India and Pakistan, its business friendly environment, relaxed trade policies like no personal and corporate tax, hundred per cent foreign ownership, presence of free zones (special economic zones), quick approval procedures are among some of the advantages which make Dubai a prime destination to route trade. Dubai is the third largest re-export center in the world; in 2018, the share of re-exports constituted 31 per cent of Dubai's total external trade.

Trade gets re-routed via a third country not only for commodities that are not allowed under direct trade rules but also for commodities that are allowed, simply because of the ease of trading via a third country. In indirect trade shipments, the seller may not know the final buyer, or may not want the buyer to know the actual country of origin of the cargo.In many cases, indirect trade shipments can be costlier and more time consuming than the direct trade because the transportation of the shipment takes a much longer route and in most cases the goods are double handled, thereby increasing the time and cost in the supply chain. Yet, more often than expected, these triangle shipments make financial sense for the seller as well as the buyer.

Post Pulwama attack of February 2019, it is not just the trade which has amplified via the informal routes but also the flow of money to the banks in the third countries. The decision to cancel Relationship Management Applications (RMAs) between Indian and Pakistani banks by the authorities has in turn made the transactions taking place via the third country routes more difficult. The Indian and Pakistani bank branches in Dubai are losing a lot of money as they do not want to take the exposure (and risk) of completing the transactions where RMA doesn't exist between banks. This has resulted in an increase in transactions taking place via the UAE banks, shifting the flow of money to the UAE banks. Cancelling RMAs between banks has shook the confidence of banking community as well as the traders in both the nations.

Based on quantitative research and direct interactions with stakeholders in Dubai, it was found that like direct trade, the majority of the trade between India and Pakistan via Dubai is also in the direction

of India to Pakistan, with products indirectly traded mainly falling under the Pakistan's negative list of items for imports from India. Some of these products include machinery used in the auto industry and vehicle manufacturing, textile machinery products, spare parts and accessories like equipment for spinning, weaving preparatory and of other accessories, organic chemicals and pharmaceuticals, plastic and rubber articles, essential oils and resinoids, perfumery, cosmetic or toilet preparations, among others. The items which are majorly exported from Pakistan to India via the UAE are from the textile industry, particularly cotton based garments, home textiles and fabrics.

According to our estimates, the value of total informal trade between India and Pakistan stood at USD 2.34 billion in 2018, with USD 1.76 billion in the direction of India to Pakistan, USD 528 million from Pakistan to India and USD 52.5 million worth of trade via khepias. These estimates could be understated as informal trade, by its nature, goes unrecorded. Yet, the estimated trade values are similar to the trade recorded through the formal channels implying that the informal trade is at least as high as the formal trade in either direction.

The total value of informal trade between India and Pakistan is USD 2.34 billion in 2018 and USD 2.49 billion in 2019[113]. There is a jump of only 7 per cent in the informal trade numbers from 2018 to 2019 despite the suspension of formal trade between India and Pakistan in August 2019, and restrictions on imports from Pakistan to India post February 2019. This means that formal trade cannot be substituted with informal trade for all products. In general, items demanded in India and Pakistan from each other, are traded via the indirect route only if it is logistically feasible and the items are usually low in volume but high in value (like jewelry, machinery, medicines and chemicals etc.). In such cases traders can afford to take a longer route like via Dubai, as the increase in cost can be passed on to the consumers directly. However, the nature of products traded directly between the two neighbors is either time sensitive or logistics sensitive such that the traders cannot bear an increase in cost or delay in the delivery time of the products (perishable items like fruits and vegetables, freight sensitive items such as cement, gypsum and glass). Hence, for goods which are directly traded, direct routes are unlikely to be replaced with circuitous indirect or informal routes.

After suspension of trade between India and Pakistan in 2019, a few products, relatively less freight sensitive, earlier traded directly, have now begun to use indirect routes to make their way into each other's market, like is the case of dry dates. It is also possible that due to the trade suspension and all the restrictions, India might lose Pakistan as a trading partner for commodities traded directly or indirectly. For instance, 37 per cent of Pakistan's cotton imports are supplied from India. After the trade ban between India and Pakistan in 2019, Pakistan began sourcing cotton/yarn from the US and Vietnam, thereby witnessing a rise in cotton prices, amid low production and higher import tariffs. Pricier cotton can hurt Pakistan's competitiveness in cotton-based readymade garments. However, the new agreement between China and Pakistan (CPFTA2) can help Pakistan emerge as a regional hub for cotton-based garments. Reduced tariffs, an expected surge in Chinese investment into Pakistan and potential shift of production base from China to Pakistan, may change the regional dynamics of textiles trade.

[113] It should be noted that the trade data for 2019 is not updated on different international trade portals, for every route between India and Pakistan. Hence, estimates have been used based on the assumption that the 2019 trade flow will be at least as much as 2018.

While CPFTA2 is a relatively new phenomenon, there has been ample research highlighting the substantial untapped potential for India-Pakistan trade, and how facilitating direct trade can benefit industries of both India and Pakistan, and benefit the consumers offering them competitive pricing. The question is if converting informal trade to formal routes is actually feasible.

Over the years, though informal trade continued simultaneously with the formal trade, there was some shift from informal to formal trade between the two countries, as was witnessed in case of textile importers and exporters in Surat, India. This trend, while difficult to set, is much easier to reverse. Trade, time and again, becomes a casualty of the continued political tensions. Despite the political tensions, technical barriers and bottlenecks to trade, informal trade makes economic sense for many, benefitting many traders in the two countries, providing employment in sectors of logistics, warehousing, transportation and shipment, and to khepias who earn commission on this trade. There are additional benefits to the third country transshipment hubs, mainly on account of the whole value chain of re-export transactions.

With all these factors, the Dubai-angled triangle for trade between India and Pakistan continues to exist as the mechanisms of informal trade remain more organized than those of formal trade. However, the current suspension of formal trade could be seen as a window of opportunity to revive this trade in a stronger and more organized manner, through:

- **Re-initiating the dialogue:** Re-initiating the dialogue on economic cooperation by expanding stakeholder constituency through multi-level interactions and engagements with decision makers, policy influencers and most importantly, trade related stakeholders.
- **Promoting sector-specific collaborations:** Collaborations between national level business chambers as well as local sector-specific associations on both sides are crucial to implementing sector-specific value chain linkages, for example, between Surgical Instruments Manufacturing Association of Pakistan in Sialkot and Association of Surgical Instruments Manufacturers and Suppliers in Jalandhar. Similar collaboration between the automobile manufacturers on both sides of the border can help improve communication, boost cross-border investment and lower informal trade of automobile products via third country.[114] Facilitating such collaborations is key to establishing direct contact at individual trader level and enhancing transparency with respect to key business processes (including payments, logistics, compliance aspects, clearance mechanisms, etc.).
- **Facilitating a joint business chamber:** The creation of a joint chamber of business between India and Pakistan can act as a platform for generating necessary awareness among stakeholders, establishing communication between traders and facilitating cross-border business collaborations along with streamlining trade processes, strengthening payment mechanisms and conducting grievance redressal among others.
- **Eliminating tariff barriers:** Though tariffs had reduced to a maximum of 5 per cent under SAFTA, India's sensitive list of 614 items and Pakistan's sensitive list of 969 products are exempted from this tariff liberalization. High paratariffs further undermine the effectiveness of SAFTA. A plan for phasing out of the sensitive lists is crucial to availing the true benefits of SAFTA.

[114] Batool, Samavia. Ahmed Vaqar. Perspectives from the Automobile Sector in Pakistan. ICRIER. 2015.

- **Addressing non-tariff barriers:** Cumbersome customs clearance involving physical examination of goods, restricted visa regime, sanitary and phytosanitary measures, and technical barriers to trade negatively impact the bilateral trade. India and Pakistan impose non-tariff barriers more than what is the general norm for a country pair, for instance, Pakistan allows only 138 items to be imported from India over the Wagah-Attari route - the only land trade route between the two countries, forcing traders to use the less efficient sea route. Pakistan's long negative list which bars 1,209 items from being imported from India, leads to diversion of trade through informal routes.

- **Re-establishing MFN and NDMA:** The presence of a trade agreement facilitates trade, but the absence of an agreement does not necessarily restrict trade. This is evident as indirect routes like the UAE continue to exist to reroute India's trade with Pakistan, despite the suspension of direct trade. Over the years, there were concerns around non-reciprocity of MFN status by Pakistan, which has been met with resistance from Pakistan, fearing flooding of Indian goods in Pakistani markets affecting its domestic industry. However, "not allowing India non-discriminatory market access seems naive when Pakistan has given a far more liberal entry to China almost a decade ago".[115] The current suspension of trade offers a window of opportunity to re-establish MFN/NDMA on an equal footing.

- **Lowering the connectivity cost:** Inadequate infrastructure at border points like lack of scanner at Attari, insufficient wagons for rail cargo, and cumbersome customs clearance procedures make it more expensive to trade. Better and seamless connectivity across border points can lower the cost to trade within the region.

- **Creating alternate connectivity:** The situation in Amritsar, Punjab owing to the suspension of trade, stands testimony to the sufferings of the border economies as traders lost business and local livelihoods of those dependent on trade were affected. So, until bilateral trade resumes, stakeholders have proposed faster execution of the Patti-Makhu rail project[116]—a 25.47-kilometer-long rail link across Punjab, between the Patti area in the district of Tarn Taran and the Makhu region in Ferozepur district—that would reduce the distance travelled to Mumbai from Amritsar by 240 kilometers, thereby opening a new array of economic opportunities.

- **Reducing information asymmetry:** Addressing technical and operational knowledge gaps amongst traders is critical to identify what and how of trade, and who to trade with. This can be achieved through more direct interactions, proactive role of high commission on both sides, addressing knowledge gaps and building capacities of traders, and facilitating direct cross-border traders and association-level interactions. Also, the academic bodies and think tanks can work together on reducing information asymmetry among the trade community on both sides. Strengthening institutional arrangements for research based policy formulation is crucial.[117]

- **Building trust and enabling people to people connect:** There is a virtuous cycle between trade, people-to-people connect and trust, one leading to another. Increasingly tapping the soft power afforded by people-to-people connections through platforms like Lifestyle Pakistan – Pakistan's first-ever lifestyle exhibition in India in 2012 and PITEX – annual Punjab International Trade Exposition;

[115] Batool, Samavia. Ahmed Vaqar. Trading with India: Lessons Pakistan must learn from Bangladesh and Sri Lanka. Criterion Quarterly. 2014. https://criterion-quarterly.com/trading-with-india-lessons-pakistan-must-learn-from-bangladesh-and-sri-lanka/

[116] Hussain, Afaq. Singla, Nikita. Unilateral Decisions Bilateral Losses. Bureau of Research on Industry and Economic Fundamentals (BRIEF). 2020.

[117] Ahmed, Vaqar. Pakistan's Agenda Economic Reforms. Oxford University Press. 2018

initiatives like border haats that have witnessed success along the India-Bangladesh border, regional platforms such as the South Asia Economic Summit for discussing and analyzing economic and development issues and challenges faced by South Asian countries; and positive role of media in shaping the right narrative can help address the overall trust deficit and misapprehensions between India and Pakistan, at multiple levels.

When the governments of India and Pakistan decide to begin talks over trade, the above-mentioned measures will be key to re-strategizing and re-initiating the trade between India and Pakistan. The new world order post Covid-19 will demand overlooking bilateral tensions and building on existing cross-border production and distribution networks – regionally as well as bilaterally between neighbors.

Afterword

Trading in the Name of the People

When there are compelling reasons for it, trade will occur, one way or another. The report 'The Dubai Angled Triangle' diligently and creatively establishes this in the case of India-Pakistan trade, and, among other things, provides one of the most robust quantitative estimates of informal trade. It is a very valuable addition to the India-Pakistan trade literature.

Where is the problem, you might ask? Is it a problem if trade is informal, as long as it occurs? Should Pakistan care? Should India care?

Yes, it is a problem, because there are major costs involved. Informal trade is not ideal for consumers or the concerned governments. Consumers often pay more for circuitous trade, or, in the case of illegal trade, are less assured of the quality of the product. Government revenue, to the extent trade is illegal, also suffers. As shown in this report, informal trade cannot be a substitute for many types of formal trade. Perhaps most important in a dynamic sense, informal trade cannot be the basis for potential value chains between India and Pakistan, examples of which include sectors such as garments and textiles; automobiles and parts; and drugs and medical devices.

Assume, extrapolating backwards from the numbers in this report, that informal trade in 2015 was about USD 2 billion. Adding that to formal trade in 2015 gives a total trade number of USD 4 billion. This represents less than 11 percent of the total potential trade of USD 37 billion between India and Pakistan, based on 2015 calculations. Informal trade can only do so much of the hard work. The rest has to come from chipping away at policy barriers. The 89 percent of trade that does not take place represents significant welfare losses for the people of India and Pakistan (since the restrictions on bilateral trade imply that it has to be substituted by less efficient alternatives), and potential loss of customs revenue to the governments.

The bottom line is that there are significant possibilities of creative and dynamic economic engagement between these two large neighbors, and even the pre-2019 policy regime barely allowed the surface of those possibilities to be scratched. I will offer a few thoughts on what a more people-centered trade policy regime might look like, whose objective should be an open trading regime, with increasing degrees of integration over time between the two economies. Discussions between India and Pakistan to achieve this objective should embrace one basic principle: as the larger and relatively more advanced economy, India should allow Pakistan more time to adjust—i.e., the liberalization should be asymmetric, as has indeed been the case historically.

The first step could be to resume cross-LoC trade, which has always operated under restricted conditions, and is as much a means to sustain relationships as it is to trade. As detailed in the report 'Unilateral Decisions Bilateral Losses', concerns around transparency have negatively impacted this trade over the last decade. The lack of transparency needs to be addressed in the complete ecosystem which includes the standard operating procedure, invoicing, goods and services tax norms, and trader registration. This could be accompanied by an intent to start a "border haat" on, say, the Wagah-Attari border, once

COVID-19 has been seen off. A border haat is a weekly market that enables low-value trading through face to face contact between communities. Operating at four locations so far on the India-Bangladesh border, these markets have enabled people to people contact and renewal of cross-border relationships, provided economic opportunities for vendors, porters, transporters, buyers, etc., and reduced smuggling. If the border haat experience is positive, it can encourage the opening of an increasing number of haats along the India-Pakistan land border.

Along with these relatively small steps, trade officials could agree on a date to start tariff-based trade, supplanting the pre-2019 regime. On the agreed date, India could offer a full MFN import regime to Pakistan. In turn, Pakistan could abolish its pre-2019 negative list for India, and put those 1209 items on the negative list plus the 936 items on its current SAFTA sensitive list under a revised India-specific sensitive list, with MFN tariffs on the 936 items, and MFN or higher tariffs (with a mutually agreed maximum tariff) on the 1209 items. This new regime, which would be fully tariff-based, would offer the starting point for further liberalization. To save face on both sides, this agreement could be touted as a conditional opening, with annual certification by both parties, to the effect that the other party has not taken steps "prejudicial to its neighbor's interest."

The next step would be to dig deeper into tariffs, building on SAFTA and agreements reached between the two countries in 2012. Pakistan could offer a five-year timeline to put all its products on MFN tariffs, and an additional five years to provide SAFTA preferences on these products, with the exception of 100 tariff lines that would stay sensitive beyond the ten-year period. It would also open the Wagah border to trade in all products, and not restrict it to the 138 products that were allowed prior to 2019. In return, India would immediately offer SAFTA preferences to all products from Pakistan except for 100 sensitive products. The tariff rate on those 100 products would be the MFN rate. The maximum rate under SAFTA preferences would be 5 percent for both countries.

These trade negotiations could, in time, enable even more ambitious discussions on transport connectivity, land transit, and investment, where the possibilities are fascinating. I will leave that discussion for another day.

For now, let me conclude by stating that the specific suggestions on tariffs and the timeline are of course indicative. I have offered what I consider to be relevant ways to move forward. The exact path can only be determined through talks and negotiations. The idea is to have a dialogue, resume trade, and use the opening of trade to catalyze further liberalization in trade as well as other economic areas.

Initiating talks is not a sign of weakness. It is a sign that people, whose livelihoods are at stake, matter more than politics. Both sides need to appreciate this. Perhaps the negotiations can be labeled as "Trade Talks for the People of India and Pakistan."

Sanjay Kathuria
Senior Visiting Fellow, Centre for Policy Research, and former Lead Economist and Coordinator, South Asia Regional Integration, The World Bank

[1] See Sanjay Kathuria, ed, A Glass Half Full, The World Bank, 2018, for details.

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ANNEXURES

FINANCIAL EXPRESS
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Trade trouble

NIKITA SINGLA & PRIYA ARORA

Singla is associate director and Arora is senior research associate, BRIEF, New Delhi

WHILE TRADE BETWEEN India and China has been in public focus of late, trade with Pakistan seems to have fallen off the policy charts. The February 2019 Pulwama terrorist attack has further limited the already low level of trade between the two countries. The direct impact of a disruption in border trade is felt most in Punjab, especially among more than 9,000 families in Amritsar dependent on this trade. A handful of Afghan trucks crossing the border are not enough to keep porters and traders near the check-posts economically engaged. Our recent study, Unilateral Decisions, Bilateral Losses, shows that Amritsar's local economy has suffered a net loss of nearly ₹ 30 crore earned every month from this border trade.

On July 15, Pakistan re-opened the Wagah-Attari border for Afghanistan's exports to India, suspended due to the Covid-19 lockdown. The decision seemed timed to coincide with the tenth anniversary of the signing of the Afghanistan Pakistan Transit Trade Agreement (APTTA)which enabled Afghanistan to export to India via the Wagah-Attari border. However, trucks returning to Afghanistan go empty since APTTA does not allow Indian goods to be transported across the border.

On a visit to the Attari border, one would generally witness the vibrancy of a border economy—where trucks moved consistently, tea stalls and dhabas remained busy, majority of porters unloaded cement and gypsum off Pakistani trucks and others offloaded dry-fruit from Afghan trucks. As the Pakistani trucks got reloaded and Afghan trucks prepared to return empty, a unique camaraderie amongst Afghans, Indians and Pakistanis would be seen. This was all before February 2019.

In February 2019, on one hand, Wagah-Attari saw trade become a casualty of Indo-Pak relations, and on the other, Afghanistan was preparing its first export shipment to India through Iran's Chabahar Port. The face-off between India and Pakistan in 2019 also included barring each other from respective airspaces, hitting Afghanistan's exports to India. Trade between India and Afghanistan has remained vulnerable to the volatilities in the region.

APTTA has been enwreathed with repeated concerns around its asymmetric nature. The proposals to allow the transit of Afghanistan's imports from India have been met with resistance from Pakistan, fearing flooding of Indian goods in Pakistani markets affecting its domestic industry. However, studies indicate that restrictions in APTTA have not been able to limit the informal trade between India, Pakistan and Afghanistan. The presence of a trade agreement facilitates trade, but the absence of an agreement does not necessarily restrict trade. Our new report, The Dubai Angled Triangle (2020), provides evidence of informal trade between India and Pakistan. For example, a gap in the mirror data between the UAE's exports to Afghanistan and Afghanistan's imports from the UAE, supported by interviews on the ground, shows re-routing of Indian goods into Pakistani markets while they are destined to reach Afghanistan from the UAE.

Indirect routes like the UAE and Iran will continue to exist to reroute India's trade with both Afghanistan and Pakistan. But the border economies in Wagah and Attari are paying the highest price. Facilitating trade—direct and transit—could support the ecosystem of border economies, where people are heavily dependent on trade. The pandemic can perhaps remind us that the payoff from collaborative growth and development will far exceed the stall backs owing to pending political issues between our countries.

Outlook

14 May, 2020

Going Vocal For Local: The Case of Localized Regional Supply Chains in South Asia

With a population of 1.8 billion, South Asia, naturally has the domestic demand but needs value chains intact to keep supplies from drying.

Countries around the world are witnessing the rapid spread of the novel Coronavirus (Covid-19). As reported by the World Trade Organization (WTO), trade of the 'new essentials'—products described as critical and in severe shortage in Covid-19 crisis—totaled about USD 597 billion, 1.7 per cent of total world trade in 2019.

On one side, the companies used this opportunity to boost production and exports (For example, in case of India, the production of Personal Protective Equipment kits skyrocketed from zero to 2 lakh daily). On the other side, it led to a vicious cycle where consumers kept buying and retailers kept procuring – creating a sense of scarcity. The Indian government has already put hand sanitizers and masks (2 layered and 3 layered surgical masks, N-95 masks) under Essential Commodities Act, 1955, empowering state governments to regulate production, distribution and prices of these items and also crackdown on hoarding and black marketing.

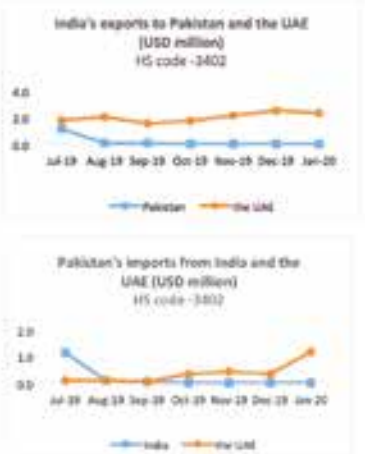
The Covid-19 cases continue to surge and the demand for essentials continues to rise. With the WTO rules allowing for temporary export restrictions "applied to prevent or relieve critical shortages" in the exporting country, countries across the world have put export restrictions, limiting trade of key supplies, and leading to supply disruptions. In the recessionary aftermath of 2008 global financial crisis, countries did not resort to widespread protectionism. In fact, global economic leaders jointly committed to refrain from new trade and investment restrictions for a year. This helped limit, to some extent, deepening of trade restrictions and the 'beggar-thy-neighbor' policies – where countries address their economic woes worsening it for other countries - that became widely popular during the Great Depression of the 1930s.

As countries closed borders and resorted to protectionist measures, we also saw India's announcement of creation of USD 10 million SAARC Emergency Fund, reviving the notion of SAARC that was dying a slow death. Under the SAARC emergency fund, medical supplies have already been directed to various South Asian countries, for example, surgical masks, gloves and sodium hydrochloride solution (disinfectant) to Afghanistan. As SAARC revives as an institution, more regional initiatives could help create public goods for the region that can last beyond the pandemic.

In the wake of a militant attack in the Pulwama district of Jammu and Kashmir in February 2019, and enactment of the Jammu and Kashmir Reorganization Bill in August that year, tensions escalated between India and Pakistan, leading to withdrawal of Most Favored Nation status by India and imposition of 200% duty on Pakistani imports, and later complete suspension of trade by Pakistan. Amidst other trade, this also disrupted the supply of Indian sanitizers in Pakistani markets and Pakistan's ethanol – a major raw material for sanitizers – in Indian market, increasing India's dependence for ethanol on the USA. Though Pakistan opened direct trade with India for life saving drugs, its times like these which lay bare the significance of localized/regional supply chains.

The restrictions in the trade environment between India and Pakistan caused traders to find alternate routes to trade. This is where intermediaries or third countries become relatively more important to reach markets which are difficult to penetrate otherwise. Despite more circuitous routes and higher shipment cost, in crisis like the one ongoing, the increasing demand for new essentials was met via indirect trade.

For example, in case of organic surface active agents (HS Code 3402) including liquid hand sanitizers, China was Pakistan's major supplier followed by India. Pakistan's imports from China started deteriorating after November 2019 when China was first hit by the virus (the share of imports from China decreased from 44 percent in November 2019 to 26 percent in January 2020). In parallel, post suspension of India Pakistan trade in August 2019, India's exports to the UAE increased by 51 percent from September 2019 to January 2020 and Pakistan's imports from the UAE increased by nearly 2000% in the same period – implying trade of the 'new essentials' from India to Pakistan via the UAE.



Source: Ministry of Trade and Commerce, India and UN Comtrade

Facilitating exports of critical medical supplies – even if via indirect routes - translates into saving lives and livelihoods. The International Monetary Fund has called on governments to refrain from intensifying export and other trade restrictions and to work to promptly remove those put in place since the start of the year. "History has taught us that keeping markets open helps everyone". In situations where these restrictions are absolutely necessary, the measures should be temporary.

Cumulative resilience, realistically open trade policies and being 'vocal for local' as mentioned in the Prime Minister's address Tuesday, can together help towards managing the pandemic, restoring jobs, and ensuring that the markets are well supplied, stocks healthy and prices stable. Michael Larner, principal analyst at ABI Research, says it's not enough for one supplier to be up and running — the supplier's supplier also needs to do well: "A lot of the supply chain network is based on trust, if one supplier has a failure, the ramifications down the line are huge."

With a population of 1.8 billion, South Asia, naturally has the domestic demand but needs value chains intact to keep supplies from drying. The new world order post Covid-19 will demand overlooking bilateral tensions and building on existing cross-border production and distribution networks – regionally as well as bilaterally between neighbors. The response to the Indian government's initiative to revive SAARC and the vision laid out by the Prime Minister speak for the regional supply chains in South Asia that are imploring to get resurrected.

As India gears up to enter a much eased Lockdown 4.0, scrambling for an economic revival, it may well be an opportunity to reshape South Asia Free Trade Area (SAFTA) agreement, at least for the 'new essentials' of 2020.

Nikita Singla , Priya Arora

(Nikita Singla is Associate Director and Priya Arora is Senior Research Associate at Bureau of Research on Industry and Economic Fundamentals (BRIEF), New Delhi. Views expressed are personal.)

Outlook

17 March, 2020

China Pakistan FTA-2: A new regional hub for cotton garments in the offing?

Pakistan's government targets raising the country's textile and clothing exports from USD 13.5 billion in 2018 to USD 25 billion by 2025.

Nikita Singla , Priya Arora

As Coronavirus outbreak puts the globalisation into reverse and challenges existing global value chains, new supply chains continue to form behind the scenes.

In January 2020, Pakistan and China entered into the second phase of China-Pakistan Free Trade Agreement (CPFTA2), under which China has eliminated tariffs on 313 priority tariff lines of Pakistan's export interest. In return, Pakistan has offered China market access to raw materials, intermediate goods, and machinery.

Of the 313 high-priority products that Pakistan can now export without duty payments to China, 130 are from textiles and clothing sector. Reduced tariffs, an expected surge in Chinese investment into Pakistan and the potential shift of production base from China to Pakistan, may change the regional dynamics of textiles trade. The numbers explain how.

Under the CPFTA2, many Pakistani textile products will now enjoy duty-free access to China, which has extended similar tariff reductions to other trading partners - Bangladesh, Thailand and Vietnam among others - under the ASEAN-China FTA. Tariffs on readymade cotton garments (HS codes 61, 62 and 63), have been massively reduced. For example, men's ensembles of cotton (HS code - 62032200), Pakistan's top world export, was traded with China at 17.5 per cent (MFN rate) which reduced to 12 per cent under Phase-I of FTA and has dropped to 0 per cent in the Phase-II of FTA. This places Pakistan at a more than equal footing with Bangladesh, and ahead of India which faces a tariff rate of 8 per cent on the export of this product to China.

With the second phase of the CPFTA, there is a possibility of relocating the production of international brands, many of which have facilities in China that import cotton fabric from Pakistan as raw material—to Pakistan itself. The inflow of Chinese investment in machinery and technology in order to set up production bases in Pakistan will drive innovation and economies of scale, thereby making Pakistan regionally competitive in cotton-based garments. In addition, Pakistan will garner a favourable position for exporting to other markets that have so far been trading primarily with China as well as potentially to other Regional Comprehensive Economic Partnership (RCEP) members.

Pakistan is likely to be preferred over Bangladesh given the former country's comparative advantage in producing cotton fabric (nearly 25 per cent of Pakistan's total cotton exports in 2018 were to China); ease of doing business (Pakistan ranks at 108 compared to Bangladesh at 168 and India at 63 under the World Bank's Doing Business 2020 study); ease of trading across borders (Pakistan ranks at 111 compared to Bangladesh at 176 and India at 68) and ease of starting a new business (Pakistan ranks at 72 compared to Barigladesh at 131 and India at 136).

Pakistan's government targets raising the country's textile and clothing exports from USD 13.5 billion in 2018 to USD 25 billion by 2025. As China has the world's largest textile industry—in terms of both production and export—it is an inevitable trading partner for Pakistan to meet this 2025 target.

For Pakistan, to fully reap the benefits of the CPFTA2, access to cheaper imported inputs will be crucial to its export competitiveness for cotton-based readymade garments.

While Pakistan grows cotton domestically, 37 percent of its cotton imports came from India. After the trade ban between India and Pakistan in 2019, Pakistan began sourcing cotton/yarn from the US and Vietnam, thereby witnessing a rise in cotton prices, amid low production and higher import tariffs (11% from the US and Vietnam, compared to 5 per cent from India for cotton yarn (HS Code 520524), one of Pakistan's major imports from India).

Pricier cotton can hurt Pakistan's competitiveness in cotton-based readymade garments. Our side of the world has already experienced the competitiveness of Pakistani designers and manufacturers, as their cotton suits swept the markets of India and others like the UK, the UAE and Malaysia.

The period from 2009 to 2015 witnessed an increase in direct export of cotton suits from Pakistan to India that peaked in 2015 at USD 247,800 from USD 4,100 in 2009. The growing appetite for Pakistani designs and styles in India also led to the development of a huge parallel industry in India, where manufacturers in Surat, Gujarat took inspiration from the Pakistani designs and patterns and replicated them on to the domestically produced fabrics.

India's markets got flooded with Pakistani cotton suits - both originals and first copies - for tag-conscious and price-conscious customers respectively. Since the India-Pakistan trade ban in 2019, the supply of these Pakistan-made garments was once again re-routed via Dubai; India imported USD 68,100 of cotton suits via the UAE in 2019, jumping significantly from USD 3,600 in 2018.

While pricier cotton ultimately impacts the consumers of cotton-based garments, re-routing via third country pushes the prices further up. Despite this, the Dubai-angled triangle for trade between India and Pakistan continues to exist as the mechanisms of indirect trade remain more organized than those of direct trade.

The question is what an agreement like CPFTA2 can lead to, given the current circumstances. There can be two scenarios - one, shifting away to sourcing raw material via routes that are not as cost-effective, could hurt Pakistan's export competitiveness vis-à-vis other trading partners, like China in this case, or two, Pakistan, despite the disruption of cotton supply from India, could manage to produce/source cotton at competitive prices, and emerge as a regional hub for cotton-based garments. The latter is just as likely, if not more.

(Nikita Singla is Associate Director and Priya Arora is a Senior Research Associate at Bureau of Research on Industry and Economic Fundamentals (BRIEF), New Delhi.

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Opinion | Changing trade dynamics and South Asia's soya saga

Nikita Singla , Priya Arora

If Indian soyabean meal can make little headway into the Chinese market, it will be a win-win for Indian producers and Chinese consumers

On 4 November in Thailand, India announced its decision to opt out of Regional Comprehensive Economic Partnership (RCEP), a mega Asia Pacific trade pact. While Indian Prime Minister Narendra Modi said that the deal did not address India's key concerns, many called it a failure of the 11-12 October Mamallapuram informal summit between Indian PM Narendra Modi and Chinese President Xi Jinping.

In 2018-19, India registered a trade deficit with as many as 11 RCEP member countries, trade deficit with China alone stood at $53.5 billion. In the last informal summit held in China in April last year, New Delhi conveyed to simplify the regulatory process and allow more imports of certain agricultural products including soyabean, rapeseed and non-basmati rice from India. However, Modi pointed out during the October meeting that there was no significant improvement in exports of any of these products from India to China.

The soyabean trade is particularly interesting. On one hand, China is the largest importer of soyabean in the world and on the other hand, the US is the world's largest producer. Friction between the largest buyer and the largest supplier, amidst the ongoing trade war between China and the US, is disrupting the soybean trade flow. China's efforts to reduce dependence on American soy was seen as a great opportunity for the Indian exporters to resume soybean meal trade with China. Only a few years back, China was among India's top importers of soybean meal, but China restricted India's access to the Chinese market in 2012 due to non-compliance with food safety norms.

In the last two decades, China's demand for soybean has way surpassed its production. While in 1995 China's production managed to match its demand—14 million tonnes at the time, its consumption increased to a staggering 70 million tonnes in 2011, while production of soybean remained the same. China was dependant on the US for 40% of this great modern-day staple that sits on the third rung on the Chinese food hierarchy. The trade war triggered China to impose a 25% tariff on imports, including soybean. And imports of American soybean dropped from 36 to 8 million tonnes from 2016 to 2018.

As the US, the world's second largest exporter of soyabean after Brazil, started losing share in China's soyabean market, it was already targeting other markets in the Asia Subcontinent like Pakistan and Bangladesh. As a result, Pakistan's purchase of the US soyabean witnessed a jump of 450% from 2015 to 2018.

Before the US entered Pakistan's soyabean market, India was the major supplier of soyabean meal to its neighbouring countries, Pakistan and Bangladesh. In 2015, Pakistan was India's number one trading partner for soyabean meal. However 2016 onwards, Indian soybean meal was denied entry into Pakistani market on the premise that it contained pork pieces.

Though Pakistan's Poultry Association still had a preference for the Indian soybean meal due to its non-GMO nature and high protein content, the local processing plants began to revive in Pakistan, preferring imports of soyabean followed by in house processing into soyabean meal for animal feed. Thus began a tussle between the Poultry Association and the Processing industry in Pakistan.

This was because Americans were strategically entering South Asian markets by adopting a direct marketing strategy to demonstrate the preference for the US. soyabean in countries where demand for Indian soyabean meal was high. Pakistan began importing huge quantities of soyabean from the US and processing it locally to generate soyabean meal for its animal feed. All of this led to a fall in demand for India's soyabean meal to its major markets.

In overall terms, India's soyabean meal exports have decreased from 6.06 million tonnes in 2008 to 1.95 million tonnes in 2018. India lost some of its traditional markets and the share in exports in certain markets declined due to shift in demand from soyabean meal to soyabean.

At the onset of US-China trade war, India hoped that it could get the opportunity to resume soyabean meal trade with China. China was among India's top soyabean meal trading partners before the ban was imposed. Despite the former trade relations and logistic benefits with India, China preferred imports of soyabean meal from Argentina and Brazil. While Indian industry continues to eye the Chinese market, it was demand from Iran that helped keep up the pace of exports in 2018.

If Indian soyabean meal can make little headway into the Chinese market, it will be a win-win for Indian producers and Chinese consumers. It will also help in the reduction of India's trade deficit with China. Does it not seem like an intuitively obvious trade phenomenon? It all depends on what India would agree to, in return.

Nikita Singla is Associate Director and Priya Arora is Senior Research Associate at Bureau of Research on Industry and Economic Fundamentals (BRIEF), New Delhi.

Annexure – B.1 India's exports to the UAE*, 2012-2018 ('000 USD)

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
01	Live animals	20,846	19,321	53,561	59,463	51,283	44,014	25,342
02	Meat and edible meat offal	197,077	198,131	196,003	193,580	188,893	182,847	193,223
03	Fish and crustaceans, molluscs and other aquatic invertebrates	104,589	92,789	181,185	140,980	159,615	203,497	184,855
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	29,276	46,819	51,903	34,315	32,964	38,854	42,403
05	Products of animal origin, not elsewhere specified or included	287	147	164	149	54	56	65
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	3,082	3,339	3,810	4,391	5,701	6,244	7,485
07	Edible vegetables and certain roots and tubers	118,085	135,485	120,767	150,237	168,414	178,348	154,834
08	Edible fruit and nuts; peel of citrus fruit or melons	199,492	231,606	265,937	284,088	316,212	343,038	283,149
09	Coffee, tea, maté and spices	172,706	163,332	151,992	128,246	116,340	164,851	186,747
10	Cereals	690,794	675,037	652,973	784,832	670,832	592,573	557,968
11	Products of the milling industry; malt; starches; inulin; wheat gluten	21,658	25,364	30,223	36,595	31,985	31,441	31,929
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	47,849	20,609	35,670	16,313	13,646	17,382	15,841
13	Lac; gums, resins and other vegetable saps and extracts	18,963	19,688	19,621	9,089	18,986	25,486	21,922
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	2,161	2,218	2,374	1,450	1,613	2,443	3,423
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	14,615	15,259	14,410	13,973	15,254	17,335	22,339
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	880	578	757	778	481	836	984
17	Sugars and sugar confectionery	271,464	84,854	120,168	57,801	45,378	59,950	39,343
18	Cocoa and cocoa preparations	5,139	6,726	15,815	20,009	18,696	25,769	21,435
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	24,741	26,577	33,024	36,121	41,377	44,320	48,036
20	Preparations of vegetables, fruit, nuts or other parts of plants	18,118	17,983	22,569	21,493	26,086	22,375	22,351
21	Miscellaneous edible preparations	35,680	38,254	37,127	31,926	32,350	39,642	44,608
22	Beverages, spirits and vinegar	17,780	25,074	10,286	3,470	4,172	8,620	9,455
23	Residues and waste from the food industries; prepared animal fodder	18,676	12,534	3,891	3,187	3,105	2,651	4,250

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
24	Tobacco and manufactured tobacco substitutes	43,908	64,190	86,511	18,179	30,833	79,727	73,803
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	65,805	65,288	52,141	44,169	52,031	54,523	76,278
26	Ores, slag and ash	15,807	12,578	15,265	13,396	4,590	10,778	33,832
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	858,181	785,492	1,137,189	70,182	50,549	1,026,070	2,574,841
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	50,325	164,809	162,647	139,336	170,491	214,689	240,692
29	Organic chemicals	234,514	172,263	254,165	126,083	130,299	212,681	197,163
30	Pharmaceutical products	28,791	30,559	38,889	27,712	37,686	62,146	196,054
31	Fertilisers	4,955	5,020	4,805	1,873	1,433	2,094	2,239
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	53,893	59,981	69,991	45,771	43,747	69,491	63,272
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	289,645	251,070	226,762	164,162	207,421	209,245	110,860
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	38,497	41,092	40,337	35,314	34,100	44,277	49,242
35	Albuminoidal substances; modified starches; glues; enzymes	17,854	21,220	25,139	21,756	22,939	30,157	32,405
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	334	719	1,396	1,267	935	1,063	1,549
37	Photographic or cinematographic goods	5,322	4,690	4,264	3,939	2,555	2,727	1,341
38	Miscellaneous chemical products	54,815	63,962	67,349	52,784	45,559	60,382	73,308
39	Plastics and articles thereof	256,294	244,995	250,961	189,096	196,058	306,051	373,085
40	Rubber and articles thereof	149,640	135,491	111,360	69,469	65,077	120,592	96,423
41	Raw hides and skins (other than furskins) and leather	5,503	4,391	5,471	6,057	1,489	1,216	962
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	57,874	50,325	58,343	35,004	31,771	38,260	36,564
43	Furskins and artificial fur; manufactures thereof	254	192	127	120	276	678	553
44	Wood and articles of wood; wood charcoal	18,615	23,020	28,490	20,752	16,560	18,477	17,893
45	Cork and articles of cork	378	1,210	729	1,076	933	901	512
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	4,381	555	640	561	585	750	926
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	926	315	1,066	1,047	1,743	51	109
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	85,592	94,646	111,251	90,214	86,290	135,384	199,580

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	23,092	27,834	17,329	20,161	15,726	14,498	13,757
50	Silk	9,597	9,617	5,678	4,954	4,289	4,113	3,298
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	3,733	4,435	4,525	1,673	1,758	1,815	794
52	Cotton	80,110	81,661	84,126	58,669	49,313	43,267	45,019
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	4,943	6,009	5,062	5,672	6,773	5,781	7,451
54	Man-made filaments; strip and the like of man-made textile materials	140,765	137,966	140,809	148,545	125,029	107,396	98,268
55	Man-made staple fibres	67,132	67,144	75,124	64,402	54,022	44,518	44,660
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	20,208	25,277	17,042	15,160	15,107	16,272	25,362
57	Carpets and other textile floor coverings	34,977	49,267	77,223	19,920	22,195	35,134	37,559
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	14,284	15,730	19,476	14,553	11,464	13,121	12,979
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	7,784	9,156	14,001	14,751	13,508	14,733	16,429
60	Knitted or crocheted fabrics	2,063	3,426	5,416	2,404	2,255	2,692	3,221
61	Articles of apparel and clothing accessories, knitted or crocheted	418,557	477,971	590,384	399,559	339,179	546,162	440,272
62	Articles of apparel and clothing accessories, not knitted or crocheted	380,178	412,741	457,771	330,589	288,178	419,289	350,515
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	91,239	92,975	109,107	71,011	66,319	100,152	96,707
64	Footwear, gaiters and the like; parts of such articles	89,288	101,396	123,173	93,816	70,381	89,180	80,326
65	Headgear and parts thereof	3,630	4,669	5,485	3,103	2,401	5,788	4,395
66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	134	122	388	212	312	295	221
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	896	625	821	1,169	625	648	639
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	76,316	88,553	89,747	74,490	78,851	75,869	80,327
69	Ceramic products	35,092	56,520	48,128	52,834	51,081	62,859	72,375
70	Glass and glassware	44,618	32,776	56,636	41,191	53,793	65,792	70,301
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	15,484,271	14,355,171	11,662,291	10,752,733	11,907,653	10,208,754	10,986,284
72	Iron and steel	606,081	653,129	690,954	348,907	295,797	705,018	683,060
73	Articles of iron or steel	466,043	596,099	362,434	317,314	414,177	430,961	429,194

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
74	Copper and articles thereof	73,504	45,093	135,614	117,101	92,718	222,979	58,561
75	Nickel and articles thereof	1,850	891	1,456	1,512	748	1,890	1,591
76	Aluminium and articles thereof	109,054	129,583	105,626	82,751	67,024	76,814	77,960
78	Lead and articles thereof	20,849	6,965	5,937	4,030	9,700	24,232	16,229
79	Zinc and articles thereof	42,032	41,677	67,489	45,855	22,005	71,757	79,756
80	Tin and articles thereof	2,209	420	242	141	353	1,473	1,025
81	Other base metals; cermets; articles thereof	652	1,269	580	824	432	136	300
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	86,761	57,544	69,805	38,754	35,628	65,157	63,520
83	Miscellaneous articles of base metal	38,840	34,356	36,928	29,070	31,464	39,767	36,475
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	693,544	680,348	671,295	496,134	431,653	674,707	620,991
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	1,333,586	1,379,130	905,176	490,677	448,080	606,733	1,427,770
86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	170	137	67	262	44	534	1,111
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	428,723	396,365	456,251	337,652	319,865	484,279	527,102
88	Aircraft, spacecraft, and parts thereof	1,541	10,182	18,254	29,856	2,861	10,665	2,054
89	Ships, boats and floating structures	1,380	11,280	1,719	248	51	103	23
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	117,634	60,721	64,831	35,451	37,692	73,520	65,568
91	Clocks and watches and parts thereof	5,089	5,321	2,797	2,523	1,444	2,679	1,494
92	Musical instruments; parts and accessories of such articles	65	312	100	59	45	81	112
93	Arms and ammunition; parts and accessories thereof	1,236	135	53	43	3	38	1
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	43,560	39,638	51,606	44,204	45,800	69,207	59,704
95	Toys, games and sports requisites; parts and accessories thereof	13,449	8,679	16,139	5,643	6,458	4,789	15,442
96	Miscellaneous manufactured articles	32,217	28,682	29,960	20,434	21,402	22,962	22,250
97	Works of art, collectors' pieces and antiques	4,120	9,740	3,260	6,663	4,159	8,096	9,102
99	Commodities not elsewhere specified	145	153	198	168	155	387	52
TOTAL	**All products**	**25,533,300**	**24,418,686**	**22,088,030**	**17,859,649**	**18,669,359**	**20,232,077**	**23,067,077**

Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.
*We have used the mirror data for India's exports to the UAE .i.e. the UAE's imports from India

Annexure – B.2 The UAE's re-exports to Pakistan, 2012-2018 ('000 USD)

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
01	Live animals	140	71	36	10	184	23	156
02	Meat and edible meat offal	1,231	269	47	495	2,396	973	1,962
03	Fish and crustaceans, molluscs and other aquatic invertebrates	72	-	-	259	470	504	439
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	5,049	5,670	8,789	3,352	4,047	6,337	7,640
05	Products of animal origin, not elsewhere specified or included	17	59	1	-	22	19	9
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	14	-	-	6	3	30	6
07	Edible vegetables and certain roots and tubers	3,165	2,818	5,152	2,691	3,786	6,500	1,543
08	Edible fruit and nuts; peel of citrus fruit or melons	10,240	3,951	6,846	23,889	47,196	40,134	16,347
09	Coffee, tea, maté and spices	3,713	5,072	13,694	9,183	9,285	14,422	8,003
10	Cereals	287	18	62	278	577	328	592
11	Products of the milling industry; malt; starches; inulin; wheat gluten	283	146	83	96	18	207	372
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	7,169	1,011	2,594	1,571	3,421	1,478	661
13	Lac; gums, resins and other vegetable saps and extracts	1,246	255	154	144	76	1,110	775
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	240	9	3	23	53	60	136
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	323	313	108	427	670	882	1,696
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	522	567	323	511	2,141	389	393
17	Sugars and sugar confectionery	1,829	1,043	902	120	548	1,359	2,091
18	Cocoa and cocoa preparations	1,141	652	1,898	789	476	2,801	5,515
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	2,663	2,044	2,533	1,382	1,453	2,989	1,729
20	Preparations of vegetables, fruit, nuts or other parts of plants	1,368	1,013	844	722	1,121	986	1,050
21	Miscellaneous edible preparations	5,807	6,044	5,566	3,073	3,642	6,646	9,661
22	Beverages, spirits and vinegar	13,354	9,297	9,501	6,909	7,648	18,127	21,985
23	Residues and waste from the food industries; prepared animal fodder	161	35	4	2	1	2,006	528

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
24	Tobacco and manufactured tobacco substitutes	7,815	14,172	9,007	900	119	20,866	11,821
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	4,743	999	233	170	322	558	544
26	Ores, slag and ash	912	250	228	129	86	126	150
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	586,200	594,119	439,616	725	16,406	424,094	237,450
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	2,655	2,811	3,554	692	844	3,076	3,984
29	Organic chemicals	25,271	26,822	31,899	1,684	2,008	13,040	19,031
30	Pharmaceutical products	1,808	1,445	2,781	227	161	5,255	5,196
31	Fertilisers	139	1,822	1,414	325	1	16,996	10,797
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	6,674	3,507	2,775	1,970	1,880	3,729	5,094
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	26,030	23,408	30,724	6,151	14,126	39,117	54,155
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	4,196	4,329	4,064	2,335	2,161	7,280	7,332
35	Albuminoidal substances; modified starches; glues; enzymes	1,074	798	803	283	386	830	2,190
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	-	1	-	-	-	-	6
37	Photographic or cinematographic goods	4,173	5,070	7,519	233	1,365	6,632	6,150
38	Miscellaneous chemical products	12,228	9,944	11,468	852	2,500	13,556	15,466
39	Plastics and articles thereof	27,700	26,149	30,835	16,301	12,999	57,425	69,671
40	Rubber and articles thereof	52,448	38,675	15,316	8,133	24,851	63,475	44,387
41	Raw hides and skins (other than furskins) and leather	1,978	4,806	2,381	1,184	343	9,834	7,155
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	1,932	1,618	1,855	484	224	1,754	1,720
43	Furskins and artificial fur; manufactures thereof	-	46	-	-	-	7	-
44	Wood and articles of wood; wood charcoal	3,171	1,816	1,558	816	685	1,601	1,754
45	Cork and articles of cork	10	204	60	-	47	28	3
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	9	10	30	4	1	5	59
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	249	80	317	123	98	-	1,281
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	2,177	2,108	1,792	931	849	1,960	2,575

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	577	682	433	697	272	828	1,520
50	Silk	994	744	-	156	22	379	467
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	823	1,196	341	-	6	5	86
52	Cotton	5,754	4,123	5,106	809	364	5,293	3,450
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	13	1,002	38	-	-	21	37
54	Man-made filaments; strip and the like of man-made textile materials	30,634	19,357	17,519	23,730	5,123	8,094	9,095
55	Man-made staple fibres	4,107	3,397	4,235	1,487	2,237	2,706	1,631
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	455	531	538	247	129	893	1,645
57	Carpets and other textile floor coverings	400	172	110	10	51	121	129
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	717	573	299	253	67	277	592
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	750	260	1,140	422	100	812	586
60	Knitted or crocheted fabrics	164	15	423	98	61	153	58
61	Articles of apparel and clothing accessories, knitted or crocheted	1,695	1,557	1,824	1,593	283	9,509	6,015
62	Articles of apparel and clothing accessories, not knitted or crocheted	1,736	3,891	1,783	371	291	8,909	3,122
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	3,778	3,981	7,232	1,363	1,899	8,508	8,646
64	Footwear, gaiters and the like; parts of such articles	2,121	1,549	1,422	808	438	5,204	7,303
65	Headgear and parts thereof	62	32	96	51	47	2,991	270
66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	2	1	2	3	-	3	29
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	63	5	2	14	31	5	44
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	2,394	1,178	1,690	889	836	2,107	2,544
69	Ceramic products	2,717	2,127	1,837	1,030	3,293	2,559	2,016
70	Glass and glassware	4,556	4,675	2,198	1,464	1,558	1,629	2,268
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	2,095	5,225	11,742	10,312	74,835	9,025	39,504
72	Iron and steel	10,893	10,752	7,274	3,032	1,660	9,358	12,040
73	Articles of iron or steel	19,562	42,445	24,240	7,461	9,404	25,376	20,000

Product code	Product label	2012	2013	2014	2015	2016	2017	2018
74	Copper and articles thereof	977	1,433	2,605	3,230	5,121	2,213	3,118
75	Nickel and articles thereof	259	119	81	12	68	593	1,106
76	Aluminium and articles thereof	1,161	1,176	3,876	1,180	2,323	1,796	3,102
78	Lead and articles thereof	39	8,822	2,060	113	303	12	167
79	Zinc and articles thereof	6,071	2,390	2,503	22	10	4,690	4,246
80	Tin and articles thereof	441	150	93	-	1	1	78
81	Other base metals; cermets; articles thereof	434	66	45	-	9	102	174
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	13,078	16,629	16,461	932	2,029	11,638	12,317
83	Miscellaneous articles of base metal	1,463	3,692	2,701	1,392	1,382	5,723	4,423
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	221,833	242,746	231,763	61,247	64,873	289,158	311,469
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	170,405	197,234	322,397	28,183	37,675	331,462	460,593
86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	112	31	4	359	-	22	897
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	56,147	48,917	32,576	10,357	13,683	32,569	39,552
88	Aircraft, spacecraft, and parts thereof	36,152	24,892	21,188	1,663	3,219	34,678	29,597
89	Ships, boats and floating structures	22	11	31	13	1,109	1,753	963
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	31,357	41,633	51,139	7,001	7,980	80,487	71,318
91	Clocks and watches and parts thereof	2,848	6,225	8,492	506	255	6,083	2,927
92	Musical instruments; parts and accessories of such articles	435	224	308	62	20	488	546
93	Arms and ammunition; parts and accessories thereof	71	-	-	-	-	11	-
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	3,756	3,150	6,467	5,556	3,855	6,915	7,498
95	Toys, games and sports requisites; parts and accessories thereof	3,208	2,048	2,256	710	1,151	3,371	2,460
96	Miscellaneous manufactured articles	3,446	3,547	2,555	1,189	1,226	2,547	2,801
97	Works of art, collectors' pieces and antiques	23	31	140	18	-	1,217	406
99	Commodities not elsewhere specified	299	301	250	125	415	8	141
TOTAL	**All products**	**1,484,724**	**1,520,304**	**1,460,882**	**280,760**	**421,408**	**1,721,855**	**1,674,260**

Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

Annexure – B.3 Correlation between India's exports to the UAE* and re-exports from the UAE to Pakistan, 2012 – 2018

Product code	Product Category	Average Exports India to the UAE 2012 – 2018 ('000 USD)	Average Re-exports the UAE to Pakistan 2012-2018 ('000 USD)	Correlation (correlation coefficient> 0.30)	P-Value	Significance
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	39,505	5,841	0.78	0.037	**
08	Edible fruit and nuts; peel of citrus fruit or melons	274,789	21,229	0.83	0.021	**
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	23,901	2,558	0.79	0.034	**
13	Lac; gums, resins and other vegetable saps and extracts	19,108	537	0.53	0.223	ns
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	2,240	75	0.31	0.495	ns
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	16,169	631	0.96	0.001	*
17	Sugars and sugar confectionery	96,994	1,127	0.36	0.423	ns
18	Cocoa and cocoa preparations	16,227	1,896	0.49	0.270	ns
21	Miscellaneous edible preparations	37,084	5,777	0.98	0.000	*
24	Tobacco and manufactured tobacco substitutes	56,736	9,243	0.80	0.030	**
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	58,605	1,081	0.39	0.386	ns
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	928,929	328,373	0.30	0.510	ns
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	163,284	2,517	0.34	0.454	ns
29	Organic chemicals	189,595	17,108	0.83	0.021	**
30	Pharmaceutical products	60,262	2,410	0.70	0.080	***
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	58,021	3,661	0.28	0.540	ns

Product code	Product Category	Average Exports India to the UAE 2012 – 2018 ('000 USD)	Average Re-exports the UAE to Pakistan 2012-2018 ('000 USD)	Correlation (correlation coefficient> 0.30)	P-Value	Significance
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	208,452	27,673	-0.34	0.458	ns
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	40,408	4,528	0.95	0.001	*
35	Albuminoidal substances; modified starches; glues; enzymes	24,496	909	0.59	0.166	ns
38	Miscellaneous chemical products	59,737	9,431	0.78	0.039	**
39	Plastics and articles thereof	259,506	34,440	0.97	0.000	*
40	Rubber and articles thereof	106,865	35,326	0.64	0.118	ns
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	44,020	1,370	0.71	0.077	***
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	114,708	1,770	0.62	0.135	**
50	Silk	5,935	395	0.73	0.064	***
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	2,676	351	0.79	0.034	**
52	Cotton	63,166	3,557	0.44	0.327	ns
54	Man-made filaments; strip and the like of man-made textile materials	128,397	16,222	0.76	0.049	**
55	Man-made staple fibres	59,572	2,829	0.65	0.114	ns
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	19,204	634	0.62	0.139	ns
60	Knitted or crocheted fabrics	3,068	139	0.71	0.071	***
61	Articles of apparel and clothing accessories, knitted or crocheted	458,869	3,211	0.46	0.299	ns
62	Articles of apparel and clothing accessories, not knitted or crocheted	377,037	2,872	0.52	0.232	ns
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	89,644	5,058	0.85	0.016	**
65	Headgear and parts thereof	4,210	507	0.58	0.173	ns
72	Iron and steel	568,992	7,858	0.89	0.008	*
73	Articles of iron or steel	430,889	21,213	0.82	0.025	**

Product code	Product Category	Average Exports India to the UAE 2012 – 2018 ('000 USD)	Average Re-exports the UAE to Pakistan 2012-2018 ('000 USD)	Correlation (correlation coefficient> 0.30)	P-Value	Significance
75	Nickel and articles thereof	1,420	320	0.45	0.312	ns
79	Zinc and articles thereof	52,939	2,847	0.51	0.245	ns
80	Tin and articles thereof	838	109	0.69	0.087	***
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	59,596	10,441	0.78	0.039	**
83	Miscellaneous articles of base metal	35,271	2,968	0.59	0.166	ns
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	609,810	203,298	0.85	0.015	**
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	941,593	221,136	0.53	0.219	ns
86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	332	204	0.86	0.012	**
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	421,462	33,400	0.56	0.194	ns
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	65,060	41,559	0.37	0.411	ns
91	Clocks and watches and parts thereof	3,050	3,905	0.35	0.439	ns
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	50,531	5,314	0.83	0.020	**
95	Toys, games and sports requisites; parts and accessories thereof	10,086	2,172	0.34	0.461	**
96	Miscellaneous manufactured articles	25,415	2,473	0.77	0.045	**
97	Works of art, collectors' pieces and antiques	6,449	262	0.38	0.396	ns
	All products	**21,695,454**	**1,223,456**	**0.75**	**0.054**	***

Source: International Trade Centre Database, UN Comtrade Database

* To estimate the correlation between India's exports to Pakistan via the UAE, we have used the mirror data for India's exports to the UAE .i.e. the UAE's imports from India

* Significant at 1 per cent level of significance; ** Significant at 5 per cent level of significance; *** Significant at 10 per cent level of significance; ns Not Significant

Annexure – B.4

Items in Pakistan's Negative List of Imports from India compared with Total Items in the Product Category

HS Code digit (2 digit)	Product Category	Items in Negative list (Pakistan)	Total Items in the Product Category	Share of Negative list items of Total Items
01	Live animals	1	44	2%
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	1	46	2%
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	4	122	3%
23	Residues and waste from the food industries; prepared animal fodder	1	64	2%
24	Tobacco and manufactured tobacco substitutes	9	46	20%
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	8	326	2%
29	Organic chemicals	31	860	4%
30	Pharmaceutical products	24	224	11%
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	8	337	2%
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	4	123	3%
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	3	59	5%
35	Albuminoidal substances; modified starches; glues; enzymes	4	38	11%
37	Photographic or cinematographic goods	2	100	2%
38	Miscellaneous chemical products	5	186	3%
39	Plastics and articles thereof	83	418	20%
40	Rubber and articles thereof	47	169	28%
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	19	62	31%
44	Wood and articles of wood; wood charcoal	4	228	1%
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	95	214	44%
52	Cotton	1	399	0%
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	1	63	2%
54	Man-made filaments; strip and the like of man-made textile materials	31	216	14%

HS Code digit (2 digit)	Product Category	Items in Negative list (Pakistan)	Total Items in the Product Category	Share of Negative list items of Total Items
55	Man-made staple fibres	17	178	10%
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	2	51	4%
57	Carpets and other textile floor coverings	4	79	5%
60	Knitted or crocheted fabrics	4	47	9%
61	Articles of apparel and clothing accessories, knitted or crocheted	4	187	2%
62	Articles of apparel and clothing accessories, not knitted or crocheted	5	206	2%
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	9	115	8%
64	Footwear, gaiters and the like; parts of such articles	7	69	10%
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	9	90	10%
69	Ceramic products	28	63	44%
70	Glass and glassware	28	106	26%
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	3	93	3%
72	Iron and steel	98	507	19%
73	Articles of iron or steel	52	257	20%
76	Aluminium and articles thereof	13	97	13%
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	25	98	26%
83	Miscellaneous articles of base metal	15	62	24%
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	99	1,088	9%
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	107	600	18%
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	181	233	78%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	27	268	10%
91	Clocks and watches and parts thereof	4	66	6%
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	26	71	37%
95	Toys, games and sports requisites; parts and accessories thereof	32	55	58%
96	Miscellaneous manufactured articles	24	89	27%
	TOTAL	**1,209**	**9,119**	**13%**

Annexure – B.5

Pakistan's exports to the UAE*, 2012-2018 ('000 USD)

Product code	Product Category	Pakistan's exports to the UAE						
		2012	2013	2014	2015	2016	2017	2018
01	Live animals	7,395	14,407	98	26	7	996	2,205
02	Meat and edible meat offal	62,546	67,046	71,740	78,071	83,479	88,359	91,028
03	Fish and crustaceans, molluscs and other aquatic invertebrates	31,268	43,081	46,385	29,577	37,728	37,783	28,691
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	499	640	1,140	1,220	1,311	1,410	1,985
05	Products of animal origin, not elsewhere specified or included	13	95	-	2	32	77	57
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	159	111	172	77	68	143	131
07	Edible vegetables and certain roots and tubers	10,271	32,661	38,223	43,283	40,021	27,844	33,722
08	Edible fruit and nuts; peel of citrus fruit or melons	32,569	45,992	51,430	47,720	55,474	35,469	40,198
09	Coffee, tea, maté and spices	4,695	5,301	7,033	8,248	10,394	12,032	10,338
10	Cereals	231,100	205,786	227,580	124,483	120,577	111,312	116,068
11	Products of the milling industry; malt; starches; inulin; wheat gluten	11,172	6,442	1,378	473	476	2,484	1,764
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	8,124	19,092	22,399	17,929	11,465	14,268	19,866
13	Lac; gums, resins and other vegetable saps and extracts	962	608	632	521	325	398	439
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	320	407	499	288	399	321	110
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	110	54	143	113	291	524	114
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	550	944	1,092	1,206	716	1,113	846
17	Sugars and sugar confectionery	9,649	20,100	8,159	3,445	2,900	5,389	17,600
18	Cocoa and cocoa preparations	86	272	328	159	146	313	451
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	1,817	1,916	3,434	2,769	3,217	2,864	3,025
20	Preparations of vegetables, fruit, nuts or other parts of plants	1,804	2,179	2,444	2,339	3,018	1,934	1,963
21	Miscellaneous edible preparations	593	560	934	464	707	830	2,337
22	Beverages, spirits and vinegar	24,242	25,481	20,631	9,188	8,301	13,155	16,515
23	Residues and waste from the food industries; prepared animal fodder	39,252	3,818	408	478	138	394	1,068

Product code	Product Category	Pakistan's exports to the UAE						
		2012	2013	2014	2015	2016	2017	2018
24	Tobacco and manufactured tobacco substitutes	6,924	8,742	5,759	57	31	3,212	6,333
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	3,067	4,485	10,311	4,511	3,643	2,063	8,879
26	Ores, slag and ash	41	1	12	1	249	19	227
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	43,785	19,817	99,118	107	372	11,653	3,063
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	6,018	4,131	2,836	594	527	783	2,714
29	Organic chemicals	8,320	2,372	8,138	28	34	2,764	148
30	Pharmaceutical products	101	2,464	491	75	32	269	524
31	Fertilisers	33	79	-	5	-	45	85
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	343	509	772	361	187	321	218
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	6,814	17,164	17,311	12,597	4,848	3,696	3,545
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	1,408	255	406	310	198	615	391
35	Albuminoidal substances; modified starches; glues; enzymes	285	340	244	248	260	258	329
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	219	290	202	105	-	34	-
37	Photographic or cinematographic goods	2	5	8	9	-	1	19
38	Miscellaneous chemical products	210	3,357	4,531	3,027	1,224	740	326
39	Plastics and articles thereof	27,502	25,760	21,426	16,591	7,869	16,837	19,709
40	Rubber and articles thereof	1,384	1,490	1,001	1,014	511	891	962
41	Raw hides and skins (other than furskins) and leather	1,278	882	820	422	180	9,356	7,548
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	10,711	12,595	13,360	10,779	8,688	10,960	9,319
43	Furskins and artificial fur; manufactures thereof	8	15	4	-	7	5	6
44	Wood and articles of wood; wood charcoal	551	483	915	2,527	2,788	581	681
45	Cork and articles of cork	2	2	20	4	18	4	2
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	88	134	232	185	154	140	204
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	470	-	96	-	1	75	40
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	2,038	975	1,542	1,455	3,973	2,497	3,326

Product code	Product Category	Pakistan's exports to the UAE						
		2012	2013	2014	2015	2016	2017	2018
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	2,118	1,827	1,915	1,815	1,041	371	303
50	Silk	460	814	559	519	208	450	469
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	24	4	16	10	24	78	80
52	Cotton	25,521	20,827	18,463	9,803	12,256	14,144	12,387
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	104	126	44	15	38	72	48
54	Man-made filaments; strip and the like of man-made textile materials	6,863	5,680	6,206	2,818	2,548	4,435	2,846
55	Man-made staple fibres	14,767	16,531	11,767	8,697	4,965	6,863	5,757
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	1,184	1,920	1,926	626	377	500	857
57	Carpets and other textile floor coverings	969	1,632	1,132	779	420	681	690
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	2,587	1,837	846	811	638	364	557
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	1,104	1,097	957	1,088	911	1,005	1,315
60	Knitted or crocheted fabrics	8,071	7,371	10,167	3,004	1,658	4,255	607
61	Articles of apparel and clothing accessories, knitted or crocheted	26,496	35,485	53,639	35,871	33,056	62,559	61,034
62	Articles of apparel and clothing accessories, not knitted or crocheted	58,835	64,395	81,370	50,283	50,726	103,190	88,333
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	65,419	73,342	69,231	38,738	40,612	44,415	47,816
64	Footwear, gaiters and the like; parts of such articles	6,517	6,160	6,169	8,151	3,696	1,880	2,073
65	Headgear and parts thereof	430	132	769	304	318	494	612
66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	12	7	11	20	11	3	4
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	22	15	33	43	161	117	9
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	2,049	2,480	2,207	1,872	1,553	1,077	1,151
69	Ceramic products	964	788	837	624	568	492	532
70	Glass and glassware	946	901	676	280	213	503	576
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	2,452,596	481,490	94,645	8,680	95,473	28,482	34,971
72	Iron and steel	619	5,112	8,216	4,071	5,564	1,999	783
73	Articles of iron or steel	3,494	4,311	5,372	3,081	1,940	2,687	1,621
74	Copper and articles thereof	9,463	7,331	4,964	475	45	1,737	543

Product code	Product Category	Pakistan's exports to the UAE						
		2012	2013	2014	2015	2016	2017	2018
75	Nickel and articles thereof	25	47	106	1	-	10	2
76	Aluminium and articles thereof	4,758	4,899	6,487	5,436	4,155	3,049	3,138
78	Lead and articles thereof	150	1	183	-	-	-	-
79	Zinc and articles thereof	35	11	1	37	387	455	271
80	Tin and articles thereof	-	35	4	-	3	-	-
81	Other base metals; cermets; articles thereof	11	-	-	-	-	9	137
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	2,122	1,795	2,075	1,625	1,642	2,230	1,762
83	Miscellaneous articles of base metal	270	375	347	311	259	308	564
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	17,376	11,366	10,885	6,556	5,092	6,241	6,353
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	1,266	2,324	3,384	3,257	2,354	3,064	2,682
86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	-	4	-	-	-	-	-
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	4,089	6,608	3,335	1,098	860	1,531	1,646
88	Aircraft, spacecraft, and parts thereof	275	38	904	11	175	13	16
89	Ships, boats and floating structures	310	1	-	2	310	-	-
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	1,100	1,171	1,080	1,243	707	829	929
91	Clocks and watches and parts thereof	8	21	24	14	42	115	34
92	Musical instruments; parts and accessories of such articles	42	13	6	15	4	20	10
93	Arms and ammunition; parts and accessories thereof	34	119	15	352	90	6	44
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	10,064	7,322	9,992	5,333	3,382	6,057	4,208
95	Toys, games and sports requisites; parts and accessories thereof	5,523	6,125	7,274	4,928	3,739	4,277	4,059
96	Miscellaneous manufactured articles	2,956	3,336	4,657	979	991	3,227	4,019
97	Works of art, collectors' pieces and antiques	71	266	629	271	15	198	126
99	Commodities not elsewhere specified	140	84	136	80	56	30	36
TOTAL	**All products**	**3,343,053**	**1,390,911**	**1,129,496**	**641,119**	**700,267**	**741,753**	**755,130**

Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

*We have used mirror data for Pakistan's exports to the UAE .i.e. the UAE's imports from Pakistan

Annexure – B.6

The UAE's re-exports to India, 2012-2018 ('000 USD)

Product code	Product label	The UAE's re-exports to India						
		2012	2013	2014	2015	2016	2017	2018
01	Live animals	35	5	2	4	1	119	10
02	Meat and edible meat offal	119	106	1,885	166	22	61	86
03	Fish and crustaceans, molluscs and other aquatic invertebrates	596	554	193	309	784	188	69
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	391	366	713	1,272	95	530	733
05	Products of animal origin, not elsewhere specified or included	153	48	3	22	18	14	17
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	160	-	-	7	91	53	-
07	Edible vegetables and certain roots and tubers	4,859	3,111	7,800	27,644	20,692	13,157	5,467
08	Edible fruit and nuts; peel of citrus fruit or melons	75,696	75,091	73,535	68,263	57,520	47,634	29,198
09	Coffee, tea, maté and spices	3,074	1,854	8,536	13,073	3,415	3,873	2,797
10	Cereals	355	1,674	2,156	1,046	312	1,359	1,984
11	Products of the milling industry; malt; starches; inulin; wheat gluten	163	46	437	1,168	198	317	148
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	4,754	12,664	2,602	1,819	3,925	2,478	2,538
13	Lac; gums, resins and other vegetable saps and extracts	4,585	1,953	320	258	229	722	1,967
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	1,520	247	-	16	42	42	34
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	431	390	88	16	139	120	317
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	23	9	8	15	40	100	273
17	Sugars and sugar confectionery	419	254	295	221	770	390	1,683
18	Cocoa and cocoa preparations	1,945	2,103	856	1,334	2,256	5,311	12,716
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	825	691	680	1,589	2,536	3,535	701
20	Preparations of vegetables, fruit, nuts or other parts of plants	1,183	454	414	705	287	1,310	406
21	Miscellaneous edible preparations	5,483	4,917	6,130	4,750	4,105	7,992	13,656
22	Beverages, spirits and vinegar	21,212	23,582	28,863	129	485	22,630	7,559
23	Residues and waste from the food industries; prepared animal fodder	98	81	68	13	42	288	1,231

Product code	Product label	The UAE's re-exports to India						
		2012	2013	2014	2015	2016	2017	2018
24	Tobacco and manufactured tobacco substitutes	2,621	151	2,915	39	622	1,334	9,591
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	2,332	979	1,884	199	158	1,094	529
26	Ores, slag and ash	10,091	8,282	1,525	175	361	621	663
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	34,236	50,397	30,344	2,968	5,687	94,206	66,011
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	15,389	26,778	30,411	734	2,482	16,470	9,628
29	Organic chemicals	15,604	20,792	31,869	15,217	23,221	87,767	72,811
30	Pharmaceutical products	131	1,987	317	504	171	373	1,319
31	Fertilisers	1,916	1,720	2,058	54	45	1,415	887
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	1,700	1,531	2,030	603	819	4,492	8,179
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	14,275	17,720	20,596	15,235	25,547	47,395	27,187
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	10,595	7,314	6,554	4,494	1,344	5,344	5,377
35	Albuminoidal substances; modified starches; glues; enzymes	602	436	679	431	366	665	820
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	114	21	-	28	42	42	-
37	Photographic or cinematographic goods	5,605	22,070	22,402	57	102	991	1,300
38	Miscellaneous chemical products	6,991	8,590	11,061	1,019	1,104	12,840	13,566
39	Plastics and articles thereof	41,996	30,042	32,614	27,636	36,687	166,178	165,453
40	Rubber and articles thereof	46,239	41,636	35,394	15,311	14,288	26,974	36,655
41	Raw hides and skins (other than furskins) and leather	3,950	3,989	8,621	6,322	1,028	894	2,226
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	21,348	6,223	14,235	336	230	6,084	4,038
43	Furskins and artificial fur; manufactures thereof	3	-	2	-	-	-	
44	Wood and articles of wood; wood charcoal	2,249	1,747	1,002	757	1,054	1,801	3,132
45	Cork and articles of cork	45	194	2,416	21	560	1,553	492
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	11	71	27	41	18	32	11
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	507	3,526	1,546	338	167	530	1,876
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	2,834	4,815	3,428	2,481	1,961	5,564	7,205

Product code	Product label	The UAE's re-exports to India						
		2012	2013	2014	2015	2016	2017	2018
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	5,555	1,999	891	3,930	2,530	31,803	5,732
50	Silk	117	58	18	80	185	25	201
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	33	209	3	218	385	438	1,050
52	Cotton	392	1,000	2,883	463	627	5,101	6,133
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	461	481	13	116	5	365	202
54	Man-made filaments; strip and the like of man-made textile materials	5,917	6,624	4,661	5,826	8,728	4,006	6,650
55	Man-made staple fibres	3,432	1,717	1,216	421	1,612	838	1,908
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	1,926	553	523	207	150	345	350
57	Carpets and other textile floor coverings	12,209	26,242	39,653	2,880	1,386	932	2,176
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	852	865	1,378	648	641	343	462
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	750	1,227	590	640	339	1,295	754
60	Knitted or crocheted fabrics	1,024	678	1,465	933	1,515	1,351	839
61	Articles of apparel and clothing accessories, knitted or crocheted	4,038	4,170	4,338	3,007	3,447	138,607	13,134
62	Articles of apparel and clothing accessories, not knitted or crocheted	5,334	4,105	4,317	1,353	3,039	20,434	5,794
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	24,463	23,341	37,909	6,342	6,990	38,711	41,095
64	Footwear, gaiters and the like; parts of such articles	1,922	1,252	2,116	1,007	600	11,175	4,863
65	Headgear and parts thereof	69	69	117	129	15	128	223
66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	355	434	143	44	1	81	9
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	15	57	28	8	50	31	589
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	2,460	2,096	1,901	3,395	1,312	1,796	2,000
69	Ceramic products	2,257	3,077	1,592	964	1,655	4,670	2,848
70	Glass and glassware	40,902	39,177	28,389	3,933	4,066	4,980	6,068
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	12,489,549	9,346,030	5,840,528	4,579,573	6,097,717	7,630,845	6,393,637
72	Iron and steel	40,927	28,339	36,045	6,122	3,387	23,900	47,234
73	Articles of iron or steel	50,693	41,346	24,831	13,568	20,362	57,562	46,685

Product code	Product label	The UAE's re-exports to India						
		2012	2013	2014	2015	2016	2017	2018
74	Copper and articles thereof	33,601	19,160	14,414	6,677	3,012	9,567	11,933
75	Nickel and articles thereof	21,787	26,163	84,814	3,993	39	7,869	12,165
76	Aluminium and articles thereof	37,559	13,468	27,152	4,995	2,473	8,538	25,178
78	Lead and articles thereof	10,873	8,092	4,404	1,869	1,082	2,975	2,162
79	Zinc and articles thereof	12,447	5,588	1,608	1,051	918	1,584	28,650
80	Tin and articles thereof	1,922	589	1,733	18	9	1,618	1,604
81	Other base metals; cermets; articles thereof	546	682	769	905	331	655	1,013
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	8,646	29,326	31,585	1,654	1,870	17,458	22,440
83	Miscellaneous articles of base metal	5,787	3,524	2,256	1,289	839	4,669	5,157
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	406,009	257,524	238,118	71,967	169,247	241,253	330,582
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	303,317	303,378	263,703	37,642	23,210	226,121	220,121
86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	245	527	203	624	148	2,888	605
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	22,613	15,326	12,535	8,055	8,540	23,014	22,926
88	Aircraft, spacecraft, and parts thereof	40,696	9,677	23,622	21,915	21,528	54,713	28,176
89	Ships, boats and floating structures	99	1,386	464	662	165	1,760	260
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	43,881	51,403	61,827	22,483	27,981	49,186	87,034
91	Clocks and watches and parts thereof	28,029	27,736	27,781	277	5,408	16,875	17,806
92	Musical instruments; parts and accessories of such articles	89	15	38	56	10	3,754	67
93	Arms and ammunition; parts and accessories thereof	14	-	-	-	-	75	-
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	8,888	8,678	5,714	4,238	5,360	10,268	7,854
95	Toys, games and sports requisites; parts and accessories thereof	31,015	11,844	22,813	1,693	545	6,081	10,718
96	Miscellaneous manufactured articles	1,401	1,719	909	1,657	2,626	7,189	7,624
97	Works of art, collectors' pieces and antiques	175	509	2,847	730	1,325	6,291	3,318
99	Commodities not elsewhere specified	84,866	53,151	68,292	47,839	26,501	46	-
'TOTAL	**All products**	**14,169,618**	**10,775,820**	**7,332,664**	**5,096,933**	**6,679,977**	**9,281,089**	**20,009**

Source: International Trade Centre Database, UN Comtrade Database. Data as of March 2020.

Annexure – B.7

Correlation between Pakistan's exports to the UAE and re-exports from the UAE to India, 2012 – 2018

Product code	Product Category	Average Exports Pakistan to UAE 2012 - 2018	Average Re-exports the UAE to India 2012-1018	Correlation (correlation coefficient> 0.30)	P-Value	Significance
07	Edible vegetables and certain roots and tubers	32,289	11,819	0.58	0.171	ns
13	Lac; gums, resins and other vegetable saps and extracts	555	1,433	0.79	0.033	**
17	Sugars and sugar confectionery	9,606	576	0.35	0.435	ns
18	Cocoa and cocoa preparations	251	3,789	0.72	0.066	***
21	Miscellaneous edible preparations	918	6,719	0.95	0.001	*
22	Beverages, spirits and vinegar	16,788	14,923	0.78	0.040	**
24	Tobacco and manufactured tobacco substitutes	4,437	2,468	0.36	0.428	ns
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	2,515	14,556	0.53	0.223	ns
30	Pharmaceutical products	565	686	0.88	0.008	*
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	512	5,860	0.78	0.040	**
40	Rubber and articles thereof	1,036	30,928	0.79	0.034	**
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	10,916	7,499	0.45	0.315	ns
45	Cork and articles of cork	7	754	0.63	0.133	ns
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	34	334	0.78	0.040	**
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	64	235	0.88	0.008	*
55	Man-made staple fibres	9,907	1,592	0.43	0.331	ns
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	1,056	579	0.31	0.504	ns
57	Carpets and other textile floor coverings	900	12,211	0.77	0.044	**

Product code	Product Category	Average Exports Pakistan to UAE 2012 - 2018	Average Re-exports the UAE to India 2012-1018	Correlation (correlation coefficient> 0.30)	P-Value	Significance
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	1,091	741	0.37	0.412	ns
61	Articles of apparel and clothing accessories, knitted or crocheted	44,020	24,392	0.60	0.155	ns
62	Articles of apparel and clothing accessories, not knitted or crocheted	71,019	6,339	0.80	0.032	**
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	54,225	25,550	0.35	0.438	ns
65	Headgear and parts thereof	437	107	0.54	0.215	ns
70	Glass and glassware	585	18,216	0.91	0.004	*
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	456,620	7,482,554	0.89	0.007	*
74	Copper and articles thereof	3,508	14,052	0.93	0.003	*
75	Nickel and articles thereof	27	22,404	0.98	0.000	*
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	1,893	16,140	0.38	0.404	ns
83	Miscellaneous articles of base metal	348	3,360	0.37	0.408	ns
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	9,124	244,957	0.66	0.105	ns
95	Toys, games and sports requisites; parts and accessories thereof	5,132	12,101	0.65	0.117	ns
	All products	**1,243,104**	**8,759,527**	**0.88**	**0.009**	*

Source: International Trade Centre Database, UN Comtrade Database

* Significant at 1 per cent level of significance; ** Significant at 5 per cent level of significance; *** Significant at 10 per cent level of significance; ns Not Significant

* We have used mirror data for Pakistan's exports to the UAE .i.e. the UAE's imports from Pakistan

Annexure – B.8

Data for Estimation of Informal Trade between India and Pakistan (USD million)

Category	2018	2019
Afghanistan imports from the UAE	124	-
Afghanistan's exports to India	359	-
Hong Kong imports from Pakistan	107	94
Hong Kong's exports to Pakistan	773	775
Hong Kong's imports from the world	627,327	578,590
India’s exports to Thailand	4,395	4,332
India’s imports from Malaysia	10,436	10,407
India’s imports from Thailand	7,672	7,034
India’s imports from Thailand	7,672	7,034
India's exports to Hong Kong	13,221	11,450
India's exports to Oman	2,294	2,107
India's exports to Singapore	10,494	10,728
India's exports to Sri Lanka	4,678	4,279
India's exports to the UAE	29,100	29,678
India's imports from Afghanistan	426	522
India's imports from Hong Kong	16,115	17,296
India's imports from Oman	3,508	3,066
India's imports from Sri Lanka	1,329	1,011
India's imports from the UAE	27,018	30,919
Iran imports from the UAE	5,706	-
Iran's exports to Pakistan	1,247	-
Malaysia’s exports to Pakistan	1,277	1,109
Malaysia’s imports from India	6,564	5,863

Category	2018	2019
Malaysia's imports from the world	217,664	204,988
Oman's exports to Pakistan	357	-
Oman's imports from the world	25,770	18,813
Pakistan's exports to Malaysia	158	232
Pakistan's exports to Thailand	227	255
Pakistan's imports from Thailand	1,436	1,061
Pakistan's exports to Oman	139	-
Pakistan's exports to Sri Lanka	357	-
Pakistan's exports to the UAE	990	1,176
Pakistan's exports to the world	23,779	20,746
Pakistan's imports from Sri Lanka	105	65
Pakistan's imports from the UAE	8,702	6,328
Pakistan's imports from the world	60,391	37,837
Singapore imports from Pakistan	64	80
Singapore's exports to India	12,342	11,442
Singapore's exports to Pakistan	951	956
Singapore's imports from the world	370,941	359,008
Sri Lanka's imports from the world	20,207	15,889
Thailand's imports from the world	251,099	240,139
The UAE's exports to Afghanistan	1,833	-
The UAE's exports to India	12,852	-
The UAE's exports to Iran	10,234	-
The UAE's exports to Pakistan	2,456	-
The UAE's imports from the world	261,511	181,430
The UAE's re-exports to India	7,981	-
The UAE's re-exports to Pakistan	1,674	-

Source: International Trade Centre Database, UN Comtrade Database

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