

Pakistan's Trade and Inward Investment, Reference to India: Issues and Prospects

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Introduction

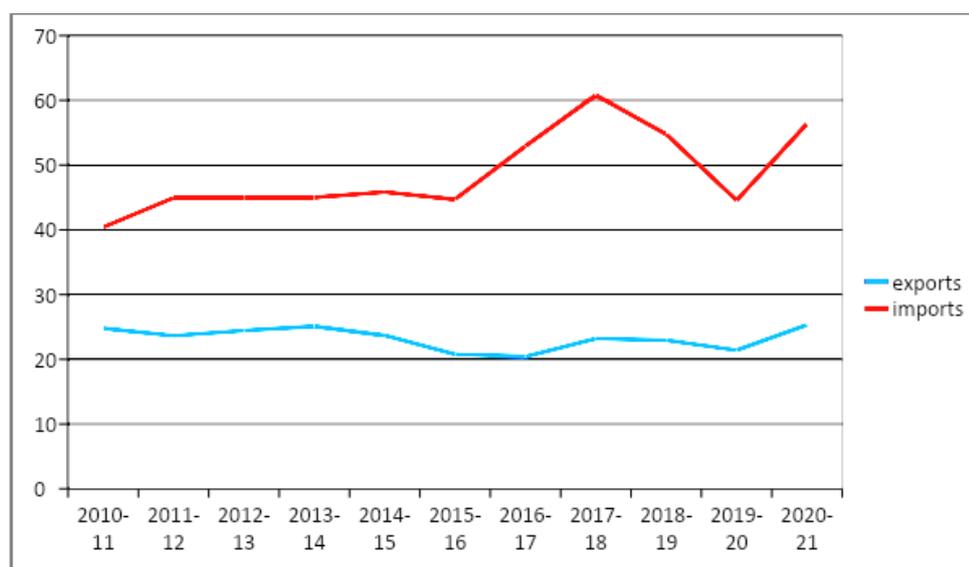
Pakistan is one of the member states of SAARC. Its population stood at 222.59 million in 2021; the second largest populous country in South Asia after India (1, 369. 00 million). The per capita Gross National Income of Pakistan has remained at US\$ 1270 while this data for India remains at US\$ 1920 with inflation of 5.4 percent and 8.9 percent for these countries respectively in 2021 (ADB, 2021). Pakistan remains a lower middle-income economy as per the World Bank's classification, according to IMF; in 2021 it was the 26th largest economy in the world in terms of GDP (WTO, 2022).

Pakistan's economy is on the verge of crisis now. Double-digit inflation, devaluation of its currency, and gradual drop in its foreign currency reserves, etc.; has affected its economy. Furthermore, the prolonged Afghanistan war and poor state of governance in the country are also other factors that have fueled further to retard its economy. Its foreign currency reserves have now dropped to the precariously low level of US\$ 4.3 billion, enough to cover only one month's worth of imports (Afzal, 2023). In 2022, climate change led to severe floods in the country and Russia's invasion of Ukraine has further affected food and energy supply chains. Both these events exacerbated Pakistan's economic difficulties (Nawaz, 2023). International Monetary Fund (IMF) has slashed the growth outlook for cash-strapped Pakistan and its economy will grow just 0.5 percent this year, down from 6 percent in 2022(Aljazeera, 2023). With poverty, inflation, and unemployment soaring; Pakistan is facing one of the worst economic crises, jeopardizing millions of people's right to health, food, and an adequate standard of living (Human Rights Watch, 2023).

Pakistan's Foreign Trade and Inward Investment

Country's engagement in foreign trade; especially export trade brings prosperity and increases more foreign currency reserves needed for their development. International trade is a source of resource exploitation for a better standard of living across trading partners. Advances in information and communication technologies have helped increase the volume of international trade to a great extent (Hanif, 2018).

Figure 1: Pakistan's Import and Export Trade



Pakistan's foreign trade is gradually increasing over the years. Its total trade in 2010-11 was US\$ 65.21 billion which increased to US\$ 81.68 billion in 2020-21. Pakistan has more import trade than export trade. Pakistan's export trade was US\$ 24.80 billion in 2010-11, which increased to US\$ 25.30 in 2020-21. By this time, its import trade rose from US\$ 40.41 billion to US\$ 56.38 billion. Pakistan is facing a trade deficit problem in its international trade. Its trade deficit stood at US\$ 31.08 billion in 2020-21 from that of US\$ 15.61 billion in 2010-11 (See, Annex 1 and 2). Pakistan's export consists of food items, textiles, coal, petroleum, sports goods, leather goods, footwear, chemicals and pharmaceutical products, engineering goods, etc. Its import from the international market consists of petroleum products, agricultural and other chemical products, machinery goods, metal products, fertilizer, palm oil, iron and steel, gold, dry fruits, mobile phones, etc.

Pakistan's major export trade partners are USA, UK, Germany, Netherlands, and China followed by Spain, UAE, Italy, Afghanistan, Bangladesh, etc. Similarly, its major import trading partners are China, UAE, Indonesia, Saudi Arabia, Qatar, Kuwait, USA, Malaysia, Japan, Thailand, etc. From July 2022 to September 2022, USA's stake in Pakistan's export trade remained at the highest, i.e., 20.09 followed by UK, Germany, and Netherlands at 6.89 percent, 6.42 percent, and 6.16 percent respectively. Likewise, from July 2022 to September 2022; China remained the premier importer country for Pakistan. Its stake in Pakistan's total import trade stood at 21.76 followed by UAE, Indonesia, and Saudi Arabia at 11.25 percent, 8.58 percent, and 6.39 percent respectively (See, Annex Table No. 3).

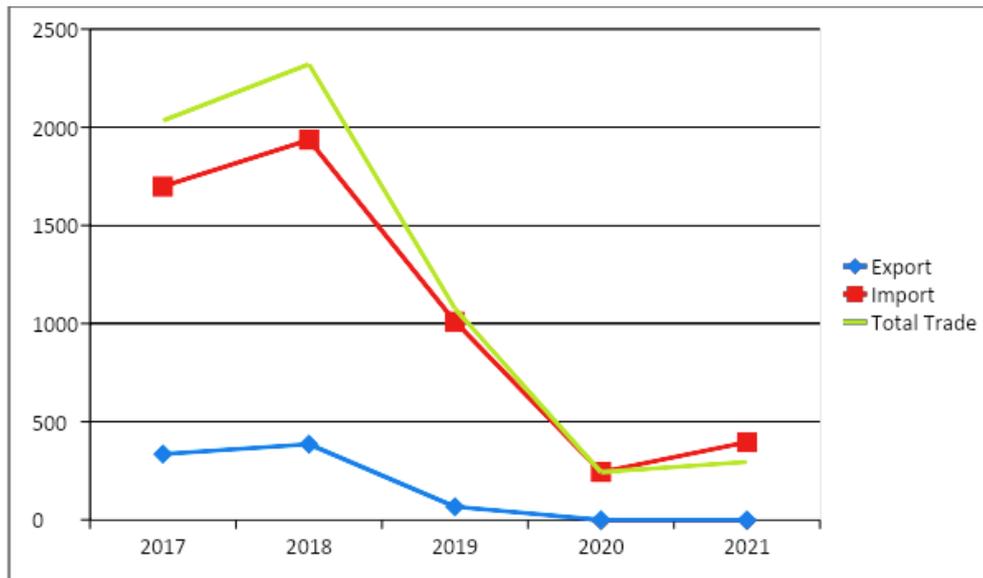
FDI stock inflow to Pakistan stood at US\$ 32.9 billion in 2021 from US\$ 33.2 billion in 2014. However, its outward FDI was minimum, which is an outward FDI stock stood at a mere US\$ 2.0 billion in 2021. According to the data released by the State Bank of Pakistan, the country attracted FDI amounting to US \$ 1.86 billion in Fiscal Year 2022 (Lloyds Bank, 2023). China, Netherlands, UK, USA, UAE, Norway, etc., are the major investor countries in Pakistan (See, Annex Tables 4 and 5). The financial sector is the primary recipient of FDI in Pakistan followed by the chemicals industry and construction. Political instability coupled with rising security concerns and the stagnant nature of its economy etc.; are the main causes of the slow pace of its inward FDI flow. Pakistan's export is found

to be stagnant due to incompetence and a lack of value addition and innovations in service and goods (Awan & Mukhtar, 2019). Additionally, Pakistan's chronic power shortage has seriously affected its growth and foreign trade (Ahsan, Irshad, Abdullahi, & Khan, 2021).

Pakistan's Trade and Investment Relations with India

India and Pakistan are two big and populous countries in South Asia. They have large domestic markets and economically they are the least economically integrated countries to each other yet. Both countries share a common history, culture, and administrative setup (Amir, Dey, Jamali, & Muluk, 2021). The political rivalry between Pakistan and India has been the key barrier to establishing substantial economic relations; nonetheless, these countries are involved in bilateral trade (Ashraf, 2020).

Figure 2: Pakistan's Import and Export Trade with India



Pakistan's export trade with India was US\$ 335.3 million in 2017, which decreased to US\$ 0.2 million in 2021 due to the prevalence of COVID-19 and the intensification of the Kashmir border conflict. Similarly, its import trade with India was US\$ 1,698.4 million and US\$ 395.1 million respectively by this time (See, Annex Table 6). Pakistan has been facing a trade deficit with India. In 2019, Pakistan suspended bilateral trade with India after New Delhi revoked the special status of Jammu and Kashmir (PTI, 2023). The major exported items to India from Pakistan are photographic equipment, medicinal and surgical equipment, rawhide and skin, leather goods, sulfur, salt, lime, cement, Iron ores, etc. Likewise, major imported items by Pakistan from India are pharmaceutical products, organic chemicals, ships, and boats, precious metals, rare earth materials, chemical products, etc.

There is no significant Pakistani investment in India yet due to the prolonged political conflict between these two countries. India had granted the Most Favored Nation (MFN) status to Pakistan in 1990, which granted it non-discriminatory access to the Indian market. New Delhi withdrew Pakistan's MFN status in 2019 after an attack in India-controlled Kashmir that nearly sparked a full-blown war (Ahmed, 2021). Due to conflict, the movement of people along the border of India and Pakistan is

restricted yet. This means there is less business transaction or barter trade between the people of both countries residing along the border areas despite their socio-cultural proximities.

Issues and the Way Forward

Pakistan is facing a growing trade deficit in its international trade regime. Intensification of the Kashmir issue between India and Pakistan particularly after 2019 has retarded bilateral trade commerce and investment activities with India, the highly populated country of South Asia despite having its larger internal market. Political instability coupled with rising security concerns and the stagnant nature of the economic activities of Pakistan did not facilitate much on the inflow of more inward FDI in Pakistan. Besides its chronic power shortage has further affected the growth of export trade as well. Additionally, Pakistan's export trade remained stagnant because of its inefficiency, lack of value addition, and innovations in services and goods.

World Bank's report says that "Pakistan has managed to attract foreign investment only in industries with a low level of sophistication, which has done little to increase its competitiveness (Rocha & Varela, 2018). The unpredictable security situation, lengthy dispute resolution processes, poor Intellectual Property Rights (IPR) enforcement, and lack of harmonization of rules across Pakistan's provinces have contributed to lower FDI inflow in Pakistan as compared to regional competitors (ITA, 2022).

Economic integration between Pakistan, India along with South Asian countries facilitates meaningful trade, investment, and other commercial activities. Intra-regional trade between South Asian countries is less than five percent yet. Through SAARC and SAFTA, these countries are endeavoring to the promotion of intra-regional trade and thereby economic integration. The high cost of intra-regional trade, and poor trade facilities along the border among South Asian countries, are still hindering further on trade expansion initiatives. The cost of trading within South Asia remains high at 114 percent of the value of the goods being exported, making trading with neighboring nations more expensive or less competitive(ESCAP, 2021). Additionally, several non-physical barriers that hamper goods shipments across borders still pose significant challenges to regional integration. The prevalence of a good transportation network among South Asian nations along with the lessening of policy barriers to trade and investment from the part of each South Asian country could facilitate the meaningful economic transaction and involvement of more people in the trade and commercial activities in the future. Healthy trade relations around the world are grounded in mutual trust. In South Asia, however, a conflict-ridden history has eroded trust between countries. This has given rise to negative stereotypes which are exacerbated by a lack of people-to-people contact (Kathuria, 2019).

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ANNEXES

Annex Table No. 1
Pakistan's Total Trade Volume
(In US \$ in billions)

Years	Exports	Imports	Balance of Trade
2010-11	24.80	40.41	-15.61
2011-12	23.65	44.93	-21.28
2012-13	24.46	44.97	-20.51
2013-14	25.11	45.01	-19.90
2014-15	23.67	45.84	-22.17
2015-16	20.79	44.70	-23.91
2016-17	20.42	52.91	-32.49
2017-18	23.21	60.80	-37.59
2018-19	22.96	54.76	-31.80
2019-20	21.40	44.55	-23.15
2020-21	25.30	56.38	-31.08

Source: Pakistan Bureau of Statistics, (December 2021), Annual Analytical Report on External Trade Statistics of Pakistan, PP. 1-20

Annex Table No. 2
Pakistan's Exports by Major Countries
(In Million Pakistani Rupees)

Countries	July 2022 To September 2022		July 2021 To September 2021	
	(Value)	(%Share)	(Value)	(%Share)
Total	1,603,873.75	(100.00)	1,147,072.93	(100.00)
USA	322,200.39	20.09	240,268.31	20.95
UK	110,505.37	6.89	88,852.09	7.75
Germany	102,917.78	6.42	68,553.40	5.98
Netherland	98,818.76	6.16	61,656.20	5.38

China	97,959.23	6.11	111,937.25	9.76
Spain	80,280.78	5.01	45,090.68	3.93
UAE	72,358.82	4.51	44,210.34	3.58
Italy	62,112.81	3.87	38,789.33	3.38
Afghanistan	53,634.98	3.34	24,723.71	2.16
Bangladesh	48,869.39	3.05	36,931.65	3.22

Source: Pakistan Bureau of Statistics, (2023), External Trade Statistics Tables, pbs.gov.pk/trade-tables.

Annex Table No: 3
Pakistan's Imports by Major Countries
(In Million Pakistani Rupees)

Countries	July 2022 To September 2022		July 2021 To September 2021	
	(Value)	(%Share)	(Value)	(%Share)
Total	3,650,269.11	(100.00)	3,072,047.84	(100.00)
China	794,276.61	21.76	839,864.71	27.34
UAE	410,720.08	11.25	369,265.22	12.02
Indonesia	313,298.47	8.58	178,933.45	5.82
Saudi Arabia	233,242.81	6.39	187,000.67	6.09
Qatar	203,325.46	5.57	106,725.56	3.47
Kuwait	155,756.70	4.27	81,280.00	2.65
USA	152,600.31	4.18	143,638.06	4.68
Malaysia	74,072.03	2.03	63,072.27	2.05
Japan	72,946.04	2.00	88,579.67	2.88

Source: Pakistan Bureau of Statistics, (2023), External Trade Statistics Tables, pbs.gov.pk/trade-tables.

Annex Table No: 4
Pakistan's Inward FDI Stock
(In US \$ in billions)

Year	2014	2015	2016	2017	2018	2019	2020	2021
Inward FDI Stock	33.2	34.5	42.0	40.8	34.1	31.4	32.4	32.9
Outward FDI Stock	1.7	1.8	1.9	2.0	2.0	1.8	1.9	2.0

Source: Department for International Trade (2023), Trade and Investment Fact Sheet: Pakistan, Government of UK, Gov.UK Website)

Annex Table No. 5
Foreign Direct Investment Inflow in Pakistan: By Major Countries
(% of Total)

By Destination	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
China	40.2	33.7	26.3	40.6	25.2	29.3	36.0
Netherland	0.6	1.5	16.0	3.3	6.9	5.2	9.5
Hongkong, China	4.9	5.8	4.1	5.3	7.7	6.1	6.1
UK	9.3	9.0	8.0	9.1	8.1	5.5	5.8
USA	10.7	10.7	6.3	5.4	4.6	3.3	5.6
UAE	9.5	7.5	7.6	3.0	5.8	4.2	5.6
Norway	0.1	5.3	3.1	4.0	8.1	13.0	4.6
Switzerland	2.8	2.8	4.2	2.8	3.4	2.8	3.5
Germany	0.5	0.5	1.7	1.5	1.9	1.8	2.0

Source: WTO, (February 22, 2022), Trade Policy Review: Pakistan, World Trade Organization, Geneva, PP. 29-30, Table 1.5

Annex Table No. 6
Pakistan's Trade with India
(In US \$ Millions)

Years	Exports	Imports	Total Trade	Balance of Trade
2017	335.3	1,698.4	2,033.7	-1,363.2
2018	385.4	1,935.8	2,321.2	-1,550.3
2019	66.5	1,010.0	1,076.5	-943.5
2020	0.2	243.0	243.2	-242.9
2021	0.2	395.1	295.4	-394.9

Source: Federation of Pakistan Chamber of Commerce (FPCCI), (2023), <https://fpcci.org.pk>.