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## **Pak-India Bilateral Trade Potential: Comparative Study Analysis**

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### **ABSTRACT**

The aim of the study was to find out the trend in bilateral trade between Pakistan and India. The data were taken from World Bank specifically WDI (world development indicator) and UN Comtrade data from 1998 to 2014. Pak-India trade is taking place for decades. Although, so many researches have been made, but this is also an attempt to overthrow some light on trade between India and Pakistan This article is based mainly on three indices, which are Revealed comparative advantage index (RCA), Intra-industry Trade index and Intensity of trade index. It shows advantages and disadvantages in specific commodities and also trade deficit of Pakistan against India.

**Keywords:** International Trade; Pak-India Trade; Revealed Comparative Advantage

### **Background of the study**

Trade is a transfer of merchandise and services from one person to another in a shift of goods and services or money. At first, trade occurred in the transport of commodities and services by one individual to another, it called barter trade. A trade involving two countries called bilateral trade and trade among more countries called multilateral trade. According to Peter Watson (intellectual historian, US journalist) trade started about 15,000 years ago. A trade occurs when a country is leading in some good and services compared to others.

Trade is included in GNI of a country in net export as like other indicators. It said that South Asia was the place of the long market for product and services a few decades ago. It counted second after the European Union. South Asian country's culture is more or less alike. Issues among South Asian countries like political well, trade barriers, military disputes and showing superiority have disturbed trade a lot. Especially it has affected the bigger countries like Pakistan and India, which are the main players of South Asia.

Pak-India trade is under consideration for many years by businessmen and other stakeholders. Pakistan can benefit a lot due to their geological existence near two big economic countries like India and china. So many research studies have been undertaken on this issue. Some have shown that sector wise analysis of different sectors, some have shown that by granting MFN (Most Favored Nation) status would benefit two countries a lot and it would boost the trade between the two countries.

Some studies show that normalization of trade between two countries would decrease the cost of imports, as Pakistan imports from Japan and other countries apart from us. Pakistan and India are the major countries of SAARC (South Asian association of regional cooperation). If they are not in good terms with each other than what others can expect. Studies show there is low trade between SAARC Countries.

It has been seen that the bilateral trade between Pakistan and India is increasing year by year, except the trade barriers, border issues and customs difficulties about about trade. It said that unofficial trade between Pakistan and India occurs by involving third countries like UAE, etc.

According to the (SAFTA) South Asian free trade agreement, there is the list of positive



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goods and negative goods under which applied some constraints on some goods be traded freely while others not. Some studies say that if the MFN status is awarded to India, the positive list of goods will increase and the negative list of goods will decrease. So many meetings have organized to give MFN status to India, but still not decided.

By liberalizing trade between India-Pakistan can decrease their cost of import to a high degree. Consumers could get cheaper goods and better quality goods rather than importing from other countries. Similarly, Pakistan’s businessmen can approach Indian markets easily and can export goods in which they have more advantages over India. Also by importing more items, they can get tax benefit duties from them.

The Pak-India trade can profit both countries and so the image of south Asian countries would get better in the eyes of the world.

Although many studies have conducted to study Pak-India bilateral trade, but only a few were beneficial. This study will expose bilateral trade trends of India and Pakistan over 16 years. It shows the trade deficit of Pakistan against India, i.e. its exports are less as compared to imports from India. It is a comparative analysis of different tools involved.

At first has to summarize some important economic indicators of India and Pakistan like GDP and GNI per capita income.

Gross Domestic Product

GDP is the value of goods and services produced in a country in a period. Figure.1 below shows that Gross domestic product of Pakistan was 4.26% and that of India was 3.84 at 2000. The data show that after 2000, onwards the GDP of both countries goes on increasing year by year, but the India’s GDP was greater than Pakistan during these years. India’s GDP was 7.41 and Pakistan GDP was 5.41 in

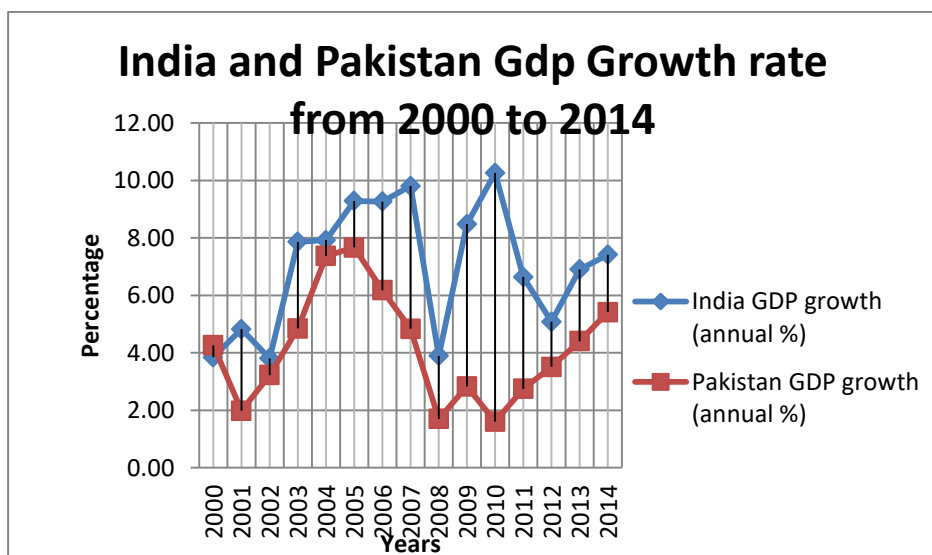


Figure.1

Source: World Bank data and then specifically WDI (world development indicators).

Gross National Income

GNI is a product produced by the citizens of a country anywhere in the world, whether in his own country or abroad.

Figure.2 below shows that the GNI of Pakistan from 2000 to 2010 is greater than India, but in 2011 and onwards India gets preference. It means that the owners of Pakistan up to 2010 were producing more and owned more than India, but after 2010 India got superiority of Pakistan. It also means that India is investing more as compared to



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Pakistan. In 2000 Pakistan GNI was \$2740 and that of India \$1980. In 2014 Pakistan GNI was \$5110 and that of India was \$5640.

Per capita income calculated by dividing the total GNI by the total population for a period.

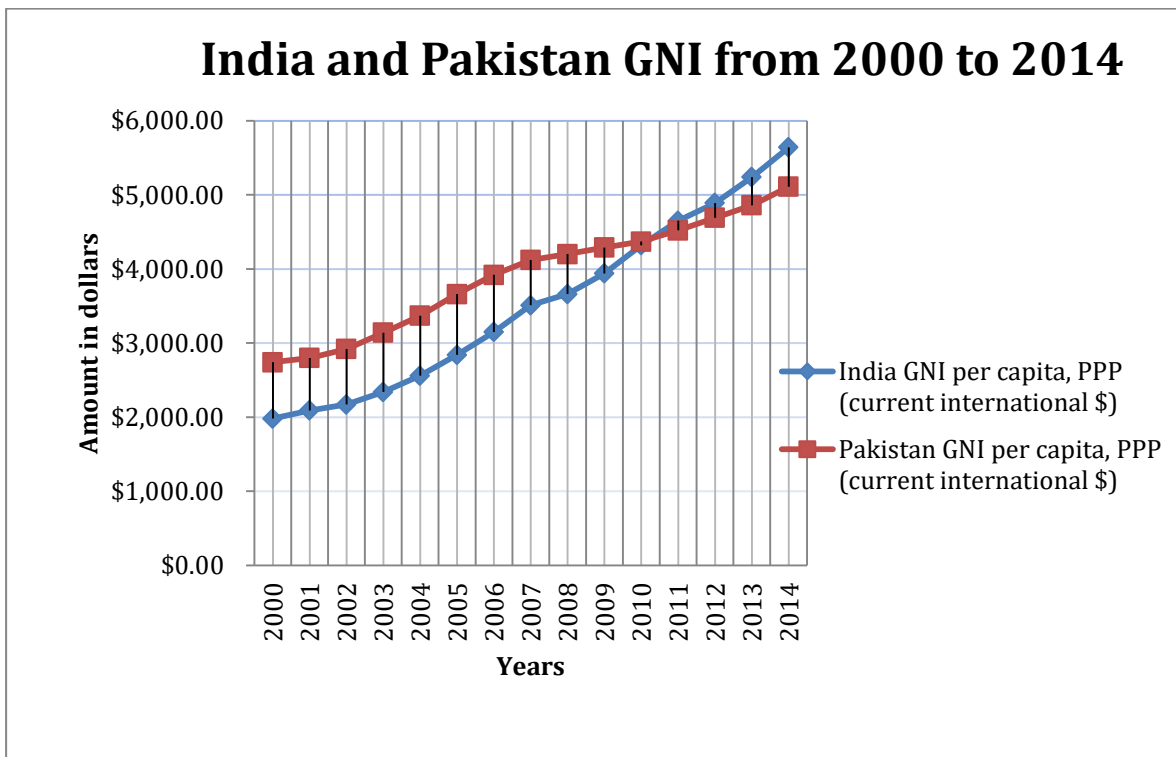


Figure.2 Per capita income of Pakistan and India

Source: World Bank data and then specifically WDI (world development indicators).

India ranks by 14 in the ranking of imports from Pakistan; this data were taken from the World Top Exports website. It is comparative studies on Pak-India trade from 1998 to 2014. The results the trade pattern between Pakistan and India. Even India is closer to Pakistan, but still, Pakistan is exporting more to the USA, UAE and UK and other countries. Similarly, India is also exporting more to the USA, UAE, and China etc. They have certain trade barriers also; there are so many issues at the border like checking of goods and no modern facilities for checking the goods. Despite the concern issues, they are still trading with each other formally and informally. During these years the trade has increased many folds.

**Literature Review**

In the past, all studies done on economic, political relations and developments of both countries, but now studies specifically done on trade mostly, as it is also the main source of an economy reflection. Also, the developing countries are striving to become economically active.

A study by Naqvi, Philip and Kaspar, (2007) has pointed out the issues of Pak-India from the perspective of SAPTA, SAFTA, formal Trade, agriculture sector and textile sector. In another study between China and India trade (Samar, 2014), he investigates bilateral trade by the methods of intra-industry trade, intensity index and revealed comparative advantage. His findings showed a deficit in the India trade against china.

By using a gravity model approach by (Nazia & Yasin, 2011), they used panel data for



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25 years and their findings were that Pakistan has a lot of trade potential with ASEAN (Association of southeast Asian nations) countries, European countries, and SAARC countries, but low trade with the SAARC (South Asian Association for Regional Cooperation) countries, especially with India.

Noshina, Sadia, Sonia, Mian (2014) have premeditated the trade relations between Pakistan and India, and they examined by analyzing 37 articles that by good bilateral relations the trade can increase. Hassan (2000) from Bangladesh also studied the trade between Bangladesh and India and his results were insignificant, i.e. exports are less and imports are more.

Nisha (2001) measured informal trade between SAARC countries and found there is a huge amount of informal trade between India and other SAARC countries. He further disclosed that with the increased use of SAFTA would increase formal trade and there would be clear figures of import and export. In another study by Sadiq and Sattar (2004) on the impact of trade liberalization in Bangladesh, they considered that trade can be increased by skillful labors and allow materials imports from other countries and specifically focusing on the garment industry.

In one more study by Amita (2006), he also used the gravity model approach and took 146 countries. He found there is a strong trade potential between china and India and Pakistan if barriers and other restrictions are managed.

An additional study Nisha and Sanjib have again conducted a study on India- Pakistan trade and established that the event there are more restrictive still the trade between Pakistan and India has doubled during the last decade. They further say that the Attari and Wagah border inauguration would increase the flow of trade. They say that India and Pakistan bilateral trade is only 1% of their whole trade. They also say that India has given permission to invest in Pakistan and they have decreased the list of negative items and increased the list of positive items to be imported.

Dushni (2007) of Sri Lanka has calculated that enactment of SAFTA by the SAARC countries has not shown a substantial increase in trade. Although, it was expected that the trade between SAARC countries would get higher, but it didn't happen, as these countries have applied certain barriers to each other.

A research paper written by Ishrat (2104) revealed that Pakistan is the only contributing. 5 to world trade, but the developing countries are gaining market as like china that has become the most exporting countries in the world. Pakistan is lying closer to these two big economies in the future. He further suggests that by an increase in trade with India can bring income and employment opportunities. He says that the culture and traditions of both countries are same and so both countries can benefit. He further says that Pakistan can decrease his cost by importing from nearer countries rather than from further countries. He extended his study to sectorial analysis and showed that Pakistan has a potential in textile and agriculture sector over India.

In yet another study by Ishrat (2014), he unearths that Pakistan and India are the two big economies of South Asia. South Asia was the market for traders' years ago, but the relations and issues between these countries have never let them to potentially trade with each other. He says that India can benefit from the cheaper products of Pakistan. He says India has a big economy, but they have still some negative list of items from export side of Pakistan and also their barriers are heavy for certain products like agriculture and textile etc. he further suggests there is always one winner and one loser in a market. So, if Pak-India trade is left free, it will benefit both countries eventually.

Nisha et al., (2014) presented a study on normalization of a trade involving Pakistan and India. They used TPA and RCA. They found that by using the trade possibility approach



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bilateral trade would increase from \$2 billion to \$18 billion in which the export potential of India would be 16 billion and the import potential would be \$4 billion. By using revealed comparative advantage the trade would increase to \$11 billion in which export potential of India is \$8 billion and import potential 3 billion. He states that the items having the prime export potential to Pakistan from India are textiles, chemicals and machinery products. Items with the major export potential in India from Pakistan are textiles, jewelry and precious metals.

A study by Ejaz (2013), on Pakistan's trade potential and the proposed regional comprehensive economic partnership (RECP) by using the gravity model and revealed comparative advantage suggests that Pakistan should be included in the RECP members' countries. He suggests that if Pakistan is left out from the RECP member countries, it would suffer a lot because all these countries in Asean+6 countries are the direct or indirect competitors of Pakistan in exports worldwide. He further conveys that if Pakistan has become the member of RECP, all the countries would benefit from it. Pakistan would get ways to countries and so the Middle East, East Asia, West Asia and South Asia would be interconnected with each other, as a result all the countries can benefit from it.

A paper written on what trades MFN mean for Pakistan and India by Prabir et al., (2013). Examines that India and Pakistan can improve and increase their bilateral trade, as they have a lot of potential in certain commodities, he finds out that the per capita income of Pakistan and India in border areas is low, e.g. in Pakistan the border area of KPK and in India the 12 states have lower per capita income. So, by giving MFN to one another status would give prosperity in these areas and so a common person can benefit from it. He used the GTAP model and the gravity model in his study.

Dilip (2007) in his study on South Asian Free Trade agreement uncovers that even so, many working has been done with the integration and cooperation between South Asian countries, but there is still of trade relations among South Asian countries. There is a lack of FDI's (Foreign Direct Investment) attraction in these countries. Even by shallow regional integration, still, these countries can boost their economies and open their doors for trade.

Tubagus (2005), in his research paper describes with the intention of the creation of Preferential trade agreements (PTA) in Asia pacific region would profit the ASEAN countries and also other south Asian countries. If these countries, promise to set free these trade barriers, then there would be a serious advantage to all these countries.

In another research paper presented by Shafqat et al., (2012), they came across to the exports of a country having a high hand in the economic growth of a country like the GDP of a country. They discover the exports of Pakistan to SAARC countries and their contribution to their economic growth.

A study by Zafar (2013) concludes that Pakistan and India started from 1947 by signing the GATT the general agreement on tariff and trade and he stated that Pakistan and India have done so many things for the improvement of trade conflicts, but there is still a lot to be done.

Even so, many studies being done, but this paper will give an accurate picture of Pak-Indian trade. This paper will use some indices and show it from different angles by using accurate data from UN Comtrade.

### Methodology

The data taken from the World Bank (world development indicators) for GDP, and GNI per capita income from 2000 to 2014 Data for bilateral trade between two countries was



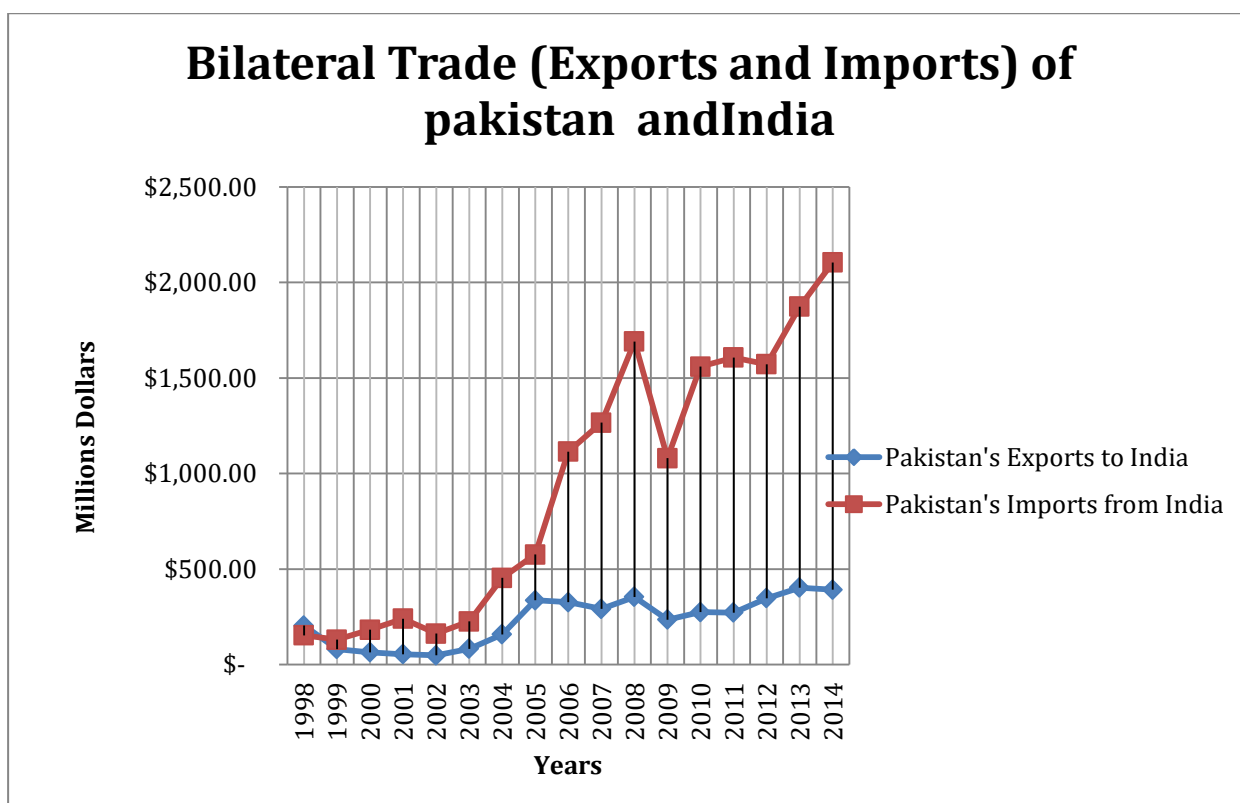
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taken from UN Comtrade for 1998 to 2014 by using SITC (Standard International Trade Classification) revised 3. For Composition of trade and calculation of the Trade intensity index, Intra-industry trade, Revealed Comparative Advantage, data also taken from UN Comtrade (1998-2014) for 16 years. We would use comparative analysis for these 16 years from 1998 to 2014 to compare between two countries.

### Bilateral Trade between Pakistan and India

Below figure shows the trend of rising in mutual trade between the two countries from 1998 to 2014. In 1998, the joint trade between two countries was US\$358 million and in 2014 it increased to US\$2497 million. If we look at the graph, the exports and imports of Pakistan both increased in India, but the exports are lesser than imports from India resulting in an overall deficit of trade of Pakistan. The trade deficit in 2014 is about US\$1713. After 1998 the imports from India led the exports to India.

The result in a deficit may be due to skillful human resources of India and their big economy. Another reason can be that as the imports from other countries can cost Pakistani businessmen a lot than India why they are importing more from them.



**Figure.3**

Source: Database of UN Comtrade of SITC Revision 3.

### Composition of trade

Standard international trade classification (SITC revision 3) has revised the commodities in 10 groups so people can easily recognize and interpret it. If we look at both the tables below, the trade in four commodities has occurred mostly than other commodities. These groups are SITC 0 (Food and live animals), SITC 2 (Crude materials, inedible, except fuels), SITC 5 (Chemicals and related products, n.e.s.) and SITC 6 (Manufactured goods classified chiefly by material). In 2014 these groups totaled for 93.77 percent of



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Pakistan's exports to India and 88.83 percent of Pakistan's imports from India. Both these tables show a higher increase in both imports and exports over this period of time.

Table 1: Pakistan-India trade (exports) share by commodity in selected years

SITC Code	Description	Exports to India from Pakistan				
Years		1998	2002	2006	2010	2014
0	Food and live animals	96.4	76.86	11.72	17.83	17.22
1	Beverages and tobacco	0	.002	0	0	0
2	Crude materials, inedible, except fuels	2.27	9	3.2	8.54	33.31
3	Mineral fuels, lubricants and related materials	0	0	49.6	9.6	2.02
4	Animal and vegetable oils, fats and waxes	0	0	0	0	0
5	Chemicals and related products, n.e.s.	.04	.7	10.11	20.3	11.04
6	Manufactured goods classified chiefly by material	1.02	11.10	23.26	38.8	32.2
7	Machinery and transport equipment	.1	.12	.75	1.23	.16
8	Miscellaneous manufactured articles	.15	2.22	1.4	3.71	4.04
9	Commodities and transactions not classified in SITC elsewhere	.02	.005	.02	.03	.005
Total	All Commodities	100	100	100	100	100

Source: Data from UN Comtrade database SITC Revised 3.

SITC 0 (Food and live animals) shows a higher decrease in exports from Pakistan to India from 1998 to 2014, while SITC 2 (Crude materials, inedible, except fuels), SITC 5 (Chemicals and related products, n.e.s.) and SITC 6 (Manufactured goods classified chiefly by material) show a substantial increase in exports to India.

Similarly, if we look at the table of imports from India to Pakistan, SITC 0 shows a decrease, while SITC 2 and SITC 5 show a little increase and the SITC 6 show a little decrease in imports from India to Pakistan. Others commodities also show some increase, but its increase is very minor and little trade takes place in these products.

Table 2: Pakistan-India trade (Imports) share by commodity in selected years

SITC Code	Description	Imports from India to Pakistan				
Years		1998	2002	2006	2010	2014
0	Food and live animals	38.6	7.88	45.08	30.86	27.22
1	Beverages and tobacco	0	0	0	0	.01
2	Crude materials, inedible, except fuels	15.64	15.54	12.15	25.27	19.08
3	Mineral fuels, lubricants and related materials	.004	.0145	.27	.64	1.74
4	Animal and vegetable oils, fats and waxes	.08	.0716	.034	.04	.03
5	Chemicals and related products, n.e.s.	24.07	58.7	31.45	28	30.2



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6	Manufactured goods classified chiefly by material	14.33	13.13	8.7	8.15	12.33
7	Machinery and transport equipment	5.62	3.44	1.43	6	6.7
8	Miscellaneous manufactured articles	1.4	1.12	.7	1.08	2.7
9	Commodities and transactions not classified in SITC elsewhere	.3	.114	.2	.003	.007
Total	All Commodities	100	100	100	100	100

Source: Data from UN Comtrade database SITC Revised 3.

**Intensity of Trade**

There are so many indices for measurement of trade, the Trade intensity index is one of them (Kojima1964; Brown 1949). Trade intensity index comprises two types, Import intensity index (MII) and export intensity index (XII). They are given as:

$$XII_i = \frac{X_{ij}/X_{iw}}{M_{jw}/(M_w - M_{iw})} \dots\dots\dots (1)$$

$$MII_i = \frac{m_{ij}/M_{iW}}{X_{jw}/(X_w - X_{iw})} \dots\dots\dots(2)$$

MII<sub>i</sub> is the country i's import intensity index and XII<sub>i</sub> is the country i's export intensity index. x<sub>ij</sub> is country i's exports to country j, x<sub>iw</sub> is country i's total exports to the world, M<sub>jw</sub> is country j's total imports from the world, M<sub>w</sub> the world total imports, M<sub>iw</sub> the country i's total imports from the world, m<sub>ij</sub> the country i's imports from country j, X<sub>jw</sub> the country j's total exports to the world, X<sub>w</sub> the world total exports.

Import and export intensity indices show us the ratio of share of country i's traded with country j regarding the share of the world with country j. If the index is greater than one, then it means that the trade is greater than our expectations and if the index is lesser than one, then it means that the trade is lesser than our expectations.

Table. 3, below shows export and import intensity indices of Pak-India trade. Sometimes the trade is greater than 1 while sometimes it is less; it means that still trade is lesser than expectations. The table below shows that the export intensity index of Pakistan to India decreases and India to Pakistan increases from 1998 to 2014. Also, the import from Pakistan are round about the same, having very less change, but the import by India from Pakistan decreases with passing time. It means that the exports of India are more than their imports from Pakistan.

Table.3. Pak-India Trade Intensity

Years	1998	2002	2006	2010	2012
Export intensity index					
Pakistan to India	3.04	0.56	1.31	0.55	0.62
India to Pakistan	1.83	2.19	4.08	3.97	2.53
Import intensity index					
Pakistan from	2.63	1.86	3.66	2.81	2.50



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India						
India	from					
Pakistan		3.14	0.38	1.12	0.63	0.82

Source: Data from UN Comtrade database SITC Revision3

Figure.4 below shows a trend of export and import intensity. If we look at the figure, it shows that from 1998 to 2006 the exports of India increase, but then declines till 2014. Pakistan’s exports to India declines from 1998 to 2002, but then increase from 2002 to 2006 and then again decrease till 2010. Similarly, the import intensity index reveals that Pakistan’s imports were greater than from India and, Pakistan’s imports decrease from 1998 to 2002 and then increases from 2002 to 2006, but then declines up to 2014. India’s imports from Pakistan from 1998 to 2002 decreases, but then increase from 2002 to 2006 and then again declines till 2014. In 2014 the export intensity of Pakistan to India is .62 and the import intensity of India from Pakistan is .82 which are both less than one, so, it means there is a big perspective for Pakistan to trade with India, especially to export more. India’s exports are greater than Pakistan in different commodities.

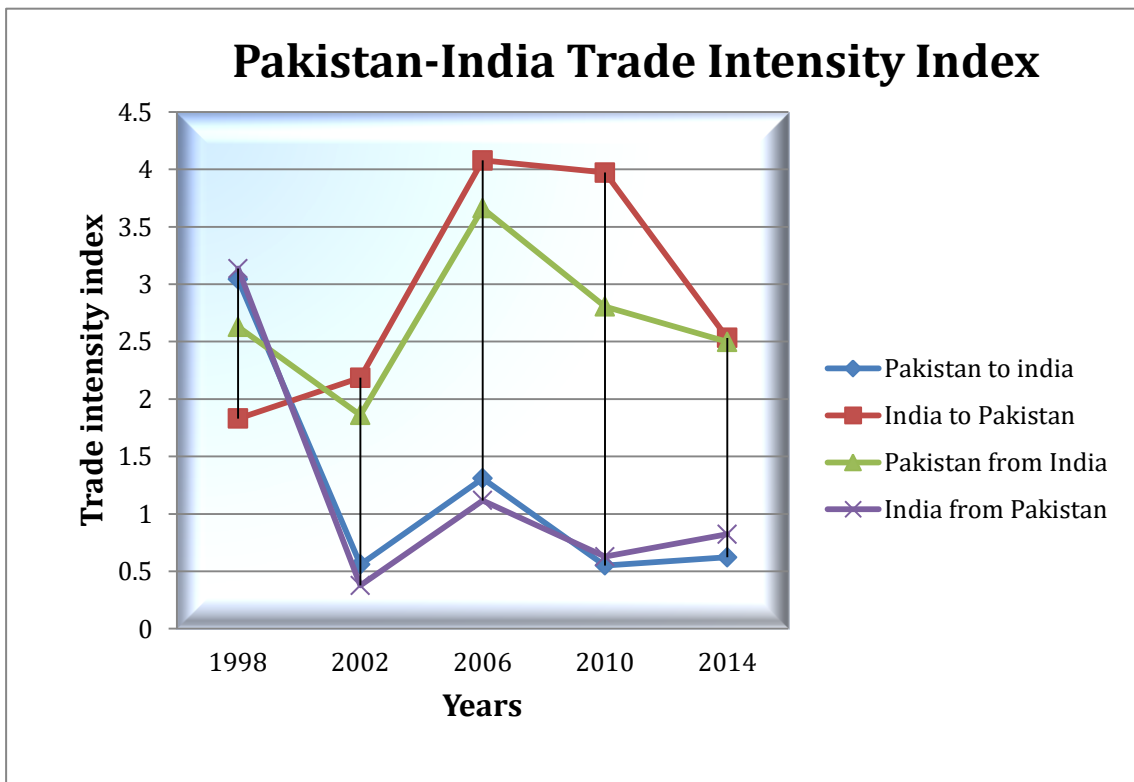


Figure.4: Pakistan and India bilateral trade intensity index

Source: Made from the values of table 3.

Intra-Industry Trade:

One statistical tool for the measurement of trade relations is intra-industry trade index presented by Lloyd and Grubel (1975). It is:

$$IITic = \frac{x_{ic} + m_{ic} - |x_{ic} - m_{ic}|}{x_{ic} + m_{ic}} \dots\dots\dots(3)$$

IITic is the intra-industry index in a product c by country i., the mic is the value of



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imports of good  $c$  by country  $i$  and  $x_{ic}$  is the value of exports of product  $c$  by country  $i$ . Its value lies between 0 and 1. If the value of intra-industry index is closer to 0, it means that a country has either an advantage in that good or complete disadvantage in that good, but if the value is closer to 1, it means that country exports and imports in that good are same.

Here we have computed intra-industry trade index for SITC 3 Revised commodities from 1998 to 2014. The table below shows us that intra-industry index changes as the time pass. In 2014 SITC 2, SITC 3, SITC 6 and SITC 8 shows high intra-industry index, which that their exports and imports are more or less equivalent, while others are closer to zero which that Pakistan is is specialized in these goods or unspecialized.

Table.4

SITC Code	Description	Years	1998	2002	2006	2010	2014
0	Food and Live Animals		0.46	0.51	0.14	0.18	0.21
1	Beverages and Tobacco		0.00	0.00	0.00	0.00	0.08
2	Crude materials, inedible, except fuels		0.32	0.30	0.14	0.11	0.49
3	Mineral fuels, Lubricants, and related materials		0.00	0.00	0.04	0.55	0.36
4	Animals and vegetable oils, fats and waxes		0.00	0.00	0.00	0.00	0.00
5	Chemicals and related products, n.e.s		0.00	0.01	0.17	0.23	0.13
6	Manufactured goods classified chiefly material		0.17	0.40	0.88	0.91	0.65
7	Machinery and transport equipment		0.05	0.02	0.27	0.07	0.01
8	Miscellaneous manufactured articles		0.26	0.74	0.73	0.75	0.44
9	Commodities and transactions not classified elsewhere in the SITC		0.15	0.03	0.06	0.10	0.24

Source: UN Comtrade database SITC Revision 3.

Revealed Comparative Advantage Index:

To compute an advantage of a country in a specific product, we calculate revealed comparative advantage index (RCA) for products of groups. Its formula is as follows

$$RCA_{ic} = \frac{x_{ic}/x_{iw}}{x_{cw}/x_w} \dots\dots\dots(4)$$

$RCA_{ic}$  shows us revealed the comparative advantage of product  $c$  by  $i$  country,  $x_{ic}$  is worth of exports of good  $c$  by country  $I$ ,  $x_{iw}$  is the rate of total exports by country  $i$ ,  $x_{cw}$  is the worth of world exports of good  $c$ , and  $x_w$  is the worth of total world exports.

If RCA is greater than 1 then that country has a comparative advantage in that commodity and if RCA is less than one, then that country has a revealed disadvantage in that commodity compared to total world exports in that commodity.

The tables below shows Pakistan and India RCA's over 16 years from 1998 to 2014. According to Table.5, Pakistan's RCA in 2014 shows it has a comparative advantage in SITC 0 (Food and Live animals), SITC 2 (Crude materials, inedible, except fuels), SITC 6 (Manufactured goods classified chiefly material) and SITC 8 (Miscellaneous manufactured articles). It means that Pakistan can increase their exports in these commodities to any country, as they have a comparative advantage in these products. Similarly, the other commodities also show that Pakistan should increase their quality and other things so Pakistan can increase their exports also in these commodities.



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Table.5 Pakistan's RCA

Source: Database of UN comrade revised 3.

SITC Code	Description	Years	1998	2002	2006	2010	2014
0	Food and Live animals		2.03	1.84	2.25	0.16	2.89
1	Beverages and tobacco		0.07	0.09	0.25	0.01	0.13
2	Crude materials, inedible, except fuels		0.67	0.61	0.55	0.05	1.02
3	Mineral fuels, lubricants, and related materials		0.06	0.21	0.36	0.02	0.20
4	Animal and vegetable oils, fats and waxes		0.20	0.46	1.60	0.04	0.89
5	Chemicals and related products, n.e.s		0.07	0.20	0.25	0.02	0.40
6	Manufactured goods classified chiefly material		3.52	3.82	3.44	0.19	3.43
7	Machinery and transport equipment		0.02	0.03	0.05	0.00	0.05
8	Miscellaneous manufactured articles		2.18	2.39	2.57	0.13	2.11
9	Commodities and transactions not classified elsewhere in the SITC		0.05	0.01	0.02	0.00	0.00

Table.6 below shows us India's RCA. If we look at the table below it shows that India RCA in 2014 is greater from one in SITC 0 (Food and Live animals), SITC 2 (Crude materials, inedible, except fuels), SITC 3 (Mineral fuels, lubricants and related materials), SITC 5 Chemicals and related products, n.e.s, SITC 6 (Manufactured goods classified chiefly material) and SITC 8 (Miscellaneous manufactured articles). So, it means that India has a comparative advantage in these groups of commodities.

Both these tables show that Pakistan and India both have a revealed comparative advantage in SITC 0, SITC 2, SITC 6 and SITC 8. It means they have competition in these commodities, but only that country would export with a greater advantage. Pakistan has more advantage in these commodities as compared to India. It clearly shows us comparative advantage.

Table.6: India RCA

SITC Code	Description	Years	1998	2002	2006	2010	2014
0	Food and Live animals		2.42	2.06	1.57	0.07	1.61
1	Beverages and tobacco		0.54	0.48	0.44	0.03	0.47
2	Crude materials, inedible, except fuels		1.23	1.51	2.08	0.10	1.05
3	Mineral fuels, lubricants, and related materials		0.08	0.52	1.07	0.07	1.48
4	Animal and vegetable oils, fats and waxes		1.00	0.88	0.75	0.04	0.60
5	Chemicals and related products, n.e.s		0.96	1.08	1.13	0.05	1.08
6	Manufactured goods classified chiefly material		2.45	2.75	2.16	0.12	1.90
7	Machinery and transport equipment		0.17	0.21	0.29	0.02	0.44
8	Miscellaneous manufactured		1.71	1.50	1.44	0.06	1.12



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articles						
	Commodities and transactions					
9	not classified elsewhere in the SITC	0.88	0.57	0.28	0.02	0.20

Source: Database of UN comtrade revised 3.

### Policy Implications and Recommendations:

Having a greater potential in certain commodities by both countries, it would be highly helpful for both countries to adopt friendly relationships by ignoring any factors becoming the bone of contention. Especially, if Pakistan gives MFN status to India, the confidence between the businesspersons of both countries would be increased and the trade between both countries would get better and better. The similarity between cultures and norms recommend that the products of countries can work in both countries. So, companies might have no challenge at all to produce certain kinds of special goods. Another area of consideration is that the border issues must be resolved and the trade at the border should be made technological rather than by checking now and then every truck and products. It should make an advance; the customs duty should be made modernize. It is the case with the seaports; it should be also made highly technologically based. There must be good scanning machines to check if the goods are free from any hazards and anything like that. Pakistan can benefit a lot if their exports are increased and if they import from India it would cost them lower as compared to importing from other countries. The political and military issues of both countries should be set aside and they should not be involved with business decisions, as these are different issues. They highly affect both country's businessmen, customers and the whole economies. By following such policies, both countries trade would increase and there would be a win-win situation on both sides.

### Conclusion

This study summarizes the Pakistan and Indian bilateral trade from 1998 to 2014. Both countries are trading whether it is formal or informal from decades and are benefiting from one another. The indices conclude that Pakistan and India have comparative advantages in certain commodities. If we look at all indices, Pakistan has a comparative advantage in manufacturing goods, Miscellaneous manufactured articles, Crude materials, inedible, except fuels and in food and live animals.

India is exporting more as compared to Pakistan and is importing less as compared to Pakistan. It may be the reason of their high skillful human resources and other things etc. Pakistan can increase their exports to India in certain commodities as it has a high comparative advantage in some special commodities, as mentioned above. Both these countries have so many issues in their relation need to be relaxed and solved so both countries can benefit from their industries. Pakistan is a closer country to India. We can say that both countries have a high potential in different kind of commodities and so they should increase their bilateral trade with each other by ignoring any political or military disputes.

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