

**Most Favored Nation Status and Trade between Pakistan & India:  
Opportunities and Challenges for Pakistan**

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**Submitted by:**

**Neelum Javed**

**Reg. No 96-FSS/MSPSIR/F11**

**Supervisor:**

**Dr. Noor Fatima**



**Department Politic and International Relation**

**Faculty of Social Science**

**International Islamic University Islamabad**

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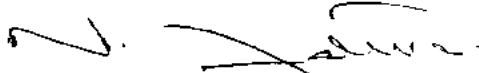
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## Certification

Certified that contents and form of thesis entitled "Most Favored Nation Status and Trade Between Pakistan & India: Opportunities and Challenges for Pakistan" submitted by Neelum Javed Req#96-FSS/MSPSIR/F11, have been found satisfactory for the requirements of the degree of MS/M.phil Politics and International Relations.

Supervisor:



Dr. Noor Fatima  
Assistant Professor  
Department of Politics and International Relations,  
International Islamic University, Islamabad

Internal Examiner:




Dr. Amna Mehmood  
Assistant Professor  
Department of Politics and International Relations,  
International Islamic University, Islamabad


External Examiner:



Dr. Noman Omar Sattar  
Director Area Study Centre  
Quaid-e-Azam University, Islamabad



Dr. Noor Fatima  
Chairperson  
Politics and International Relations  
International Islamic University Islamabad



Professor Dr. Nabi Bux Jumani  
Dean  
Faculty of Social Sciences,  
International Islamic University Islamabad

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## **List of Abbreviations**

<b>BPO</b>	<b>Business Process Outsourcing</b>
<b>FDA</b>	<b>Food and Drug Administration</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>FICCI</b>	<b>Federation of Indian chamber of commerce and industry</b>
<b>FTA</b>	<b>Free Trade Agreement</b>
<b>GATT</b>	<b>General Agreement on Tariffs and Trade</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>IPI</b>	<b>Iran-Pakistan-India</b>
<b>IT</b>	<b>Information Technology</b>
<b>LOC</b>	<b>Line of Control</b>
<b>MFN</b>	<b>Most Favored Nation</b>
<b>MMA</b>	<b>Muttahida Majlis-e-Amal</b>
<b>MoU</b>	<b>Memorandum of Understanding</b>
<b>NATO</b>	<b>North Atlantic Treaty Organization</b>
<b>NTB</b>	<b>Non-Tariff Barrier</b>

OTRI	Overall Trade Restrictiveness Index
PPP	Pakistan People's party
PTA	Preferential Trade Arrangement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trading Agreement
SBL	Securities Borrowing & Lending
SDPI	Sustainable Development Policy Institute
TAPI	Turkmenistan-Afghanistan-Pakistan-India
USD	United States Dollars
US	United States
WTO	World Trade Organization

## **Declaration**

None of the material (except expressed) is of the thesis writer, material has been extracted from citations in footnotes and bibliography.



## **Dedication**

To My Beloved Parents and Sister Afshan

## **Acknowledgement**

First and foremost I would like to thank Almighty Allah for His blessings, courage and strength to complete my research. I would like to thank my thesis supervisor Dr. Noor Fatima for her constant guidance and encouragement that have been instrumental towards the completion of my thesis.

I would like to express my deep and humble thanks to my family, for their love, guidance and encouragement. I am thankful to my parents with core of my heart for their tremendous support and motivation and Dua. Thank you for supporting me throughout.

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## Abstract

*Pakistan trying to normalize its neighborly relation with India because Pakistan knows that it would be helpful for Pakistan to achieve its economic interest. India and Pakistan conflict is one of the major factor which directly effecting the regional trade and economic integration. Peace between India and Pakistan would have positive political and economic implication. This study examines trade potential between India and Pakistan in greater details and also analyzes and studies the contemporary India and Pakistan's relation and its economic implication for Pakistan. This study also review the impact on official trade of granting Most Favored Nation Status to India and highlights the emerging opportunities and challenges during this process. This study also identify those sectors in which, India and Pakistan can Invest. There is an integral link between trade and investment in order to improving relation between two south Asian countries, Pakistan and India and by integrating major sectors in the two economies trade relation can be enhanced between them. Foreign direct investment could be a source of Pakistan economic development and growth. India and Pakistan have come a long way to rebuild their economic and political relations. A liberalized India-Pakistan trade and investment regime would strengthen the economic relationship and regional integration.*

## **Chapter 1**

### **Background and Theoretical Framework**

#### **1.1 Introduction**

The South Asian region has strategic significant for Asia and rest of the world. But this region also suffers from a lack of economic integration with political difference between India and Pakistan. South Asia has low regional trade in comparison with other such region in the world.

After 9/11 event, Pakistan and India joined the war against terrorism. Now idea of normalization of relation between India and Pakistan was become a world's agenda. Pakistan seeks to normalize it neighborly relation with India because Pakistan knows that it would be helpful for Pakistan to achieve its political and economic interest. Pakistan get realize that India and Pakistan conflict as one of major factor which effecting the process of regional trade and economic integration.

The first visible step was Agra summit in July continuation of the Composite Dialogue process beginning with the 12th SAARC Summit as an outcome of one to one meeting between President of Pakistan and Prime Minister of India, as a first step toward normalization, certain CBMs were initiated. To grant MFN status to India will bring opportunities and potential benefits for both countries (India and Pakistan) and it will improve and normalize trade relation. The future global geopolitical scenario would be dominated by three economic zones, namely the American Economic Zone, Chinese Economic Zone and Indian Economic zone. Positive and constructive trade relation between them is necessary.

Trade linkage and foreign direct investment play very important for one countries economic development and investment provide market access of the host country and home country in global and domestic market. Investment inflow in India has been increased quickly from US \$ 9 billion in 2005/06 to US \$ 46.6 billion in 2011-12.

External as well as the regional powers wants to maintain peace process between both countries for the South Asian peace and security. The international community force India and Pakistan to establish peace because both are nuclear power and any conflict and dispute could escalate to nuclear war.

In second chapter history of trade relation between India and Pakistan will be discussed. From the last six decade showed that Pakistan and India bilateral trade was the lowest level. Pakistan and India are two major players in South Asia and for the prosperity of the entire region there is need to maintain peace between both countries. India and Pakistan trade has been fluctuating since its beginning in 1947 and the value of informal trade is more than formal trade. According to SDPI survey 2013, the value of Pakistan and India informal trade is approximated US \$ 1 billion.

In third chapter researcher will identify those sector which have potential and highlight those threats which both countries face to normalize their bilateral trade. The trade normalization process between India and Pakistan will certainly open new trade opportunities. There is need to identify those sectors in which trade has more and largest potential. Textile, cement, steel, sugar, fertilizer, electric goods, mining and information technology industry are major industries in Pakistan. Pharmaceuticals, textiles, transport, and energy are a few sectors that offer investment potential for both countries investors (Taneja, 2011).

In fourth chapter researcher will evaluate the significant of most favored nation status and its impact on Pakistan and India bilateral trade. Enhanced economic cooperation between the two major regional players would not only result in potential advantages for both the countries but also for South Asian region inactive growth. Today regional integration calls for more economic cooperation and Pakistan poor economic conditions have forced policy makers to open up their markets to Indian competitors (Prabir, Raihan & Ghani, 2013).

## **1.2 Literature Review**

The literature review provides information of the work done in the related area and theoretical framework proposed solution of the problem. This research has focused on the question that the MFN Status and trade normalization between Pakistan and India is the important factor for Pakistan economic development. The brief review of the literature has been given below.

PR Chari in his article “India-Pakistan relation: Are they ripe for normalization?” expressed that the day of armed wars between India and Pakistan are now over. He further states that armed conflict between them is no longer an available option to resolve their differences. According to him the normalization process between India and Pakistan should continue (Chari, 2004).

Shahid M. Amin in his book “Pakistan’s Foreign policy: A Reappraisal” expressed his opinion that both India and Pakistan desperately need more energy to maintain their economic growth. Hence, these energy interests could become generators of peace and cooperation between the two countries.

The author further described in his book that in Pakistan, better ties with India are supported by the mainstream political parties, the Pakistan People Party (PPP) and the Muslim League by the religious alliance Muttahida Majlis-e- Amal (MMA) in Pakistan (Amin, 2010).

“India-Pakistan trade possibilities and non-tariff barriers” written by Nisha Taneja (2000) analyzed trade and economic relations between India and Pakistan and focuses on identifying bilateral trade possibilities and identifying non-tariff barriers to Indo-Pak trade. The study shows that there is large untapped trade potential between the two countries of US \$11.7 billion. The export potential from Pakistan to India is US \$ 2.2 billion while that from India to Pakistan is to the tune of US \$ 9.5 billion (Taneja, 2000).

Amita Batra (2004) in his study “Indian’s global trade potential: The gravity modal approach” estimated the augmented gravity model. The study shows that the potential for India’s trade with Pakistan is the highest in the SAARC region. She further explained in her article that adverse political relationship between two countries could create hurdle and challenges to establish liberalized bilateral trade relation, but countries can engage themselves in trade, people to people contact and cross border investment without giving up their principle stand on differences and disputes. Pakistan and India liberalized trade would enhance economic growth, productivity and would be a good example for South Asian nations (Batra, 2004).

Rupa chanda in her article indicate trade potential in services sector. She mentioned in her article that services sector in India is more strong and consistent than in Pakistan. Services sector of India constitutes more than 30 percent of India total export; this sector occupied more than half of India GDP. In India services exports come from Information services, Business services and computer. In Pakistan transportation, business, information, communication,

computer services have potential but there are barriers in services trade between both countries. Services sector is getting significant in both countries and India share 54 per cent of its GDP and Pakistan share 54 percent of its GDP (Chanda, 2013).

Tariq Asghar (2011) in his article Indo-Pakistan trade relation: Problems and prospects, examined Indo-Pak trade relation May 1948 and March 1960, during this period, the two countries signed 14 agreements. All these agreement were regarding indo and Pak trade and payment. In spite of these agreements, the bilateral official trade between India and Pakistan has declined year by years like in 1948 to 49 the volume of bilateral trade was 184.06 crore (Indian rupee) to 13.63 crore in 1958 and to 10.53 crore in 1966. After 1965 war Between India and Pakistan bilateral trade was at lowest level ever and it was continued till 1974 ( Asghar, 2011).

Badar Alam Iqbal and Iqbal Tabish (2012) in his study “Are Indo-Pakistan trade relation really improving?” mentioned that, in 2011 Pakistan and India restart its economic dialogue and 27-28 April 2011, fifth round of talk on commercial and economic cooperation was held in Islamabad. To explore mutual cooperation they decided to setup some working group and sub groups. After all these positive development, Pakistan decided to grants most favored nation status to India in order of normalize trade relation. India welcome this decision as well as India increased its positive list and allowed 1950 items which Pakistan could imports from India (Iqbal & Tabish, 2012).

Sustainable Development Policy Institute (2013) survey was conducted to indicate that the informal trade relation between India and Pakistan. The study shows that total value of informal exports from India to Pakistan estimated at US\$ 1.79 billion for the year 2012-13. Main items informally imported into Pakistan from India include textiles, auto parts, jewellery,



pharmaceuticals, cosmetics, tobacco, spices and herbal products. Textiles emerge as the single largest commodity being informally imported into Pakistan from India - constituting 75.8 percent of the total estimated informal inflows.

According to SDPI survey 2013, informal flow in textile sectors from India to Pakistan is 1356.40 USD Million, automobile sector is 175.70 USD Million, tobacco items is 44.40 USD Million, jewelry items is 76.66 USD Million. Total informal flow in all items is 1788.89 USD million (SDPI, 2013).

Nisha Taneja (2013) in her study "Enhancing India-Pakistan trade" examined Indo-Pak trade relation with respect to different items of the exports and imports estimate the mutual gains and explore the possibility of the regional cooperation. It was opined that the strengthening of the mutual cooperation could help in big way to ease tension between two countries and both the countries could play a good role in strengthening the regional cooperation in south Asia (Taneja, 2013).

"India and Pakistan textile sector" by Saon Ray, Mishita Mehra and Prithvijit Mukherjee in 2013, analyzed the bilateral trade between India and Pakistan and identify the items which have trade potential. This study is a comparison of Pakistan's exports with Indian imports which indicates various potential sectors that can be explored in case trade between the two countries is liberalized. They also mentioned that textile and clothing are very important sector which share 22 percent of the both countries total trade. Pakistan textile sector share 54 percent of its total export and this sector play important role in Pakistan industrial development. Presently, both countries trade in this sector is very limited (Ray, Mehra & Mukherjee, 2013).

This study examines trade potential between India and Pakistan in greater details and also analyzes and studies the contemporary India and Pakistan's relation and its economic implication for Pakistan. This study also review the impact on official trade of granting most favored nation status to India and highlights the emerging opportunities and challenges. This study also highlight those sector in which, India and Pakistan can Invest and increase its FDI. However, during the process of research this fact came to my notice that Pakistani researcher are more optimistic about Pakistan and India trade relation than Indian researcher.

### **1.3 Theoretical Framework**

In a research, application of the certain IR theories depends on which perspective or angle the topic will be explained. Every IR theory has both strengths and weaknesses and cannot fully explain the trade relation and its potential between Pakistan and India, but they may clarify the state of affairs to a certain affair. The study is conducted by one of the major theory of liberal economy theory.

Adam Smith, founder of economic liberalism, maintained theory of free trade and economic liberalization and criticized the doctrine of mercantilism, which aims to increase wealth of state by imposing trade rules in order to promote exports and reduce imports. In 1920s and 30s world major economies still practiced mercantilism and economic nationalism. A policy that mercantilist states opted to protect local industries from foreign competition by imposing tariffs and quotas on imports, so economic nationalism and mercantilism destabilized trade and economic efficiency. According to the Smith,

“Free trade contributes to the distribution of economic prosperity and tends always towards balanced trade; economic interaction is a positive-sum game contributing to peace and stability”.

Smith and Ricardo's theory of free trade is based on two simple concepts;

1. Division of labor and comparative advantage. Some people are specialized in production of certain commodities and they exchange them with others who are proficient in producing some other commodities, which they can't. Thus free trade is necessary to address people's demands and needs.
2. The interests of consumer are given central importance in free trade theory. Consumers are given opportunity to buy things at the lowest possible prices regardless of where they are produced. If the interest of individual is satisfied in best possible way it implies that interests of state as a whole are satisfied. Ricardo remarks that 'the pursuit of individual advantage is admirably connected with the universal good of whole, as free trade gives benefits to all, brings harmony and prevent conflicts.

Question arises here that why trade should be free from barriers like tariffs, taxes and quotas? David Ricardo answers in his "Theory of Comparative Advantage" that if states want to fulfill the needs and desires of their people; they have to specialize in the production and trade of certain commodities because complete self-sufficiency is not an economical option. Each state possesses different assets and resources, which lead them towards different comparative advantages, and free trade, enable them to get profit from their different comparative advantages. Adam Smith argued "that foreign countries can supply us with a commodity cheaper than we ourselves can make it, better buy it of them."

Hence international trade is not a zero sum game, in which advantages of one consumer or state becomes loss of other one rather it is a positive sum game, in which all can be benefited simultaneously. Although free trade has been keystone of post-world war liberal economic order,

but the idea could not be materialized fully. Countries kept on imposing tariffs on the sale of goods and services among nations. Whereas liberal economic theory or liberalism or commercial liberalism is an economic philosophy that encourages laissez fair economics and opposes government interference in market economy.

Pakistan specializes in producing textile and agricultural products. As David Ricardo argues in his Principle of political economy and taxation to favor of free trade policy among nations that free trade allows nations and consumers to benefit from their different comparative advantages. A state should produce whatever it can produce most efficiently and cheaply, and trade it with others in which they have an edge or specialization.

Agricultural items and textiles share 60 percent of Pakistan's entire exports and 17 percent of India. Pakistan has potential of relative comparative advantage in agricultural and textiles products over India and can develop 'niche' in Indian market. But excessive usage of NTBs and discriminatory policy against Pakistan kept it deprived of its even relative advantage. If India wants to normalize its trade relation with Pakistan it has to change discriminatory policy and reduction in non-tariff barriers.

Several studies demonstrate that increasing trade facilitation measures may bring greater economic and trade gains for both states than reduction in tariffs. If Pakistan and India are really want to increase volume of bilateral trade, greater focus needs to be given on trade facilitation measures. A Land border station such as Wagah Attari border has potential to become a trading hub, especially due to lower freight costs. It would be essential to reduce the restricted access through regulatory measures in order to draw real benefits by opening up trade ( Naqvi & Tahira, 2014).

Trade facilitation measures that can be practiced unilaterally, includes of simplification of processes and coordination of clearance processes, advance processing of documents, automation of processes and facilities for payment of taxes in advance.

Some scholars confessed the idea that free trade between India and Pakistan would bring stability in region and they are also optimistic about Pakistan image in international community if it extends MFN status to India.

There is no doubt that relations between India and Pakistan have been controversial for entire period of history but global trends show that countries having hostile political relations, have engaged in bilateral trade agreements without moving on their principal stand on disputes and differences for example, trade between United States and China, China and Taiwan, China and Japan, India and China provide impetus and evidence to both states to normalize relation by liberalization of trade.

But now it has become a widespread perception in business community on both sides of the border that if economic engagement is augmented and picks up steam as a result of trade liberalization with India, it would encourage new stakeholders, who would benefit from such engagement. Investors, traders, bankers, transporters, and business groups who will be working for Indian firms in Pakistan, and vice versa, will perform as strong lobby groups to foster, preserve, and advance peaceful bilateral political relations between the two countries.

Political objectives should be settled according to economic objectives so that economic activities like trade may not suffer because of political disputes. Trade with neighboring countries should be increased as lower transportation costs may lead to an increase in demand for exports and imports. Pakistan should take initiative to increase its trade with great economies.

## **1.4 Objective of the Study**

The aim of this study is to analyze and study the contemporary India and Pakistan trade relation, MFN status to India and its economic implication for Pakistan.

1. The researcher also wants to highlight all those trade agreements, which have been signed between both countries.
2. To identify those sectors which have trade potential between India and Pakistan
3. This study also review the impact on official trade of granting Most Favored Nation to India and highlights the emerging opportunities and challenges.

## **1.5 Scope of the Study**

The South Asian region has strategic significance for Asia and rest of the world. But this region also suffers from a lack of economic integration with political difference between India and Pakistan. South Asia has low regional trade in comparison with other such region in the world. Pakistan is important country in South Asia because of its geo-strategic location and India consider important in world politic because of its economic and political power.

Cooperation in energy area would give greater benefits if both countries normalize its trade. To fulfill energy need and get access to Iran and Central Asian states, India needs Pakistan help. If Pakistan provides a transit route to those countries then India could get an opportunity to strengthen its economy and it will also facilitate goods and energy trade between India and Central Asia.

Pakistan trying to normalize it neighborly relation with India because Pakistan knows that it would be helpful for Pakistan to achieve its political and economic interest. India and Pakistan

conflict is one of the major factor which directly effecting the regional trade and economic integration. Peace between India and Pakistan would have positive Political and economic implication.

## **1.6 Research Question**

The following questions will be address in the study.

1. Evaluate the formal and informal trade between Pakistan and India?
2. Which sectors have trade potential between Pakistan and India?
3. What are the significant of MFN status and its impact on Pakistan-India bilateral trade?
4. How does trade normalization between India and Pakistan influence Pakistan economic development?

## **1.7 Methodology**

In this study, the researcher will rely on primary and secondary data. Primary source consists of the interview and statements. The secondary sources would take from the most current literature and arguments regarding economic trade relation of Pakistan India. It is basically a qualitative research. The methodology of this research has been based on “content analysis” descriptive and analytical. The means of data collection has been number of books and e-books, papers by various prominent Pakistani and foreign authors, newspapers, articles, journals and many other wide ranging arrays of sources. Various internet sites have also been browsed for data collection. Books and websites consulted are listed in the bibliography.

The study is divided into four chapters with every chapter focused on one or two questions at the most. In chapter two history of trade relation between India and Pakistan will be discussed. In chapter three researcher will identify potential sectors of bilateral trade between the two countries and threats which create hurdle to normalize both countries trade. In last chapter researcher will evaluate the significant of most favored nation status and its impact on Pakistan and India bilateral trade.



## **Chapter 2**

### **India-Pakistan Trade History**

In this chapter history of trade relation between India and Pakistan will be discuss. The last six decade showed that Pakistan and India bilateral trade was the lowest level. Pakistan and India are two major players in South Asia and for the prosperity of the entire region, there is need to maintain peace between both countries.

There are two types of trade between Pakistan and India presently: the formal and informal trade. Formal trade is the one allowed by the two governments under a very restricted policy, controlled by a discouraging set of rules and restrictive regimes and including very discouraging tariff barriers. The informal trade, the more dynamic is in the form of smuggling or trading through a third country.

In this chapter India-Pakistan trade relation are divided into two Phases.

1. Phase one: covering Period from 1947 to 2000.
2. Phase two: covering period from 2000 to 2013.

#### **2.1 Pak-India Trade Relation**

##### **2.1.1 Phase One: 1947 to 2000**

Trade between India and Pakistan has been fluctuating since its beginning in 1947. But during 1948-49, the two countries were largest trading partners. Pakistan and India export and Import were significant for several years after independence; seventy percent of Pakistan export went to India was recorded, while 63 percent India's export went to Pakistan.

May 1948 to March 1960, during this period, the two countries signed 14 agreements. All these agreements were regarding Indo-Pak trade and payment. In spite of these agreements, the bilateral official trade between India and Pakistan has declined year by year, like in 1948-49 the volume of bilateral trade was 184.06 crore (Indian rupee) to 13.63 crore in 1958 and to 10.53 crore in 1966 (Asghar, 2011).

Before 1965 war, there were 11 border crossing routes where India and Pakistan conducted trade. Eight of these crosses were located in the province of Punjab, while three connected Sindh, (Pakistan) with Rajasthan, (India). After 1965 war between India and Pakistan, bilateral trade was at the lowest level ever and it was continued till 1974. After a long gap in cross border trade, on 30 November 1974 a trade protocol (Shimla Agreement) was signed between India and Pakistan to re-establish commercial relations at government level. In 15 July 1976 Pakistan government took a very good decision to expand Pakistan trade and allowed Pakistan private sectors to trade with India (PHD Research Bureau, February 2013).

Later on Pakistan joined the Delhi International Trade Fair (ITF) in November-December 1981. After that both countries Pakistan and India decided to establish a Joint Business Commission (JBC). In June 1983 the commission was established, the main purpose of this commission was to suggest new items for bilateral trade. In June 1986 Pakistan and India became members of South Asia Association for Regional Cooperation, which was established on 8 December 1985. This regional organization was established to promote prosperity, peace and wellbeing of the people of South Asia. It was a view that South Asian social, economic and political situation would be improved because two major and rival powers India and Pakistan became signatories of this organization, but this regional organization did not play its role efficiently.

In July 1989 Pakistan agreed to import 322 items from India. In 1990s bilateral trade between India-Pakistan has improved again with Pakistan's export average reaching 85 million dollars, which was doubled the figure for the past two decades (Asghar, 2011). When Nawaz Sharif Government came in power in 1991, the trade volume was boosted and bilateral trade reached US \$ 132 million till 1995. But trade still remains at an insignificant level US \$ 132 million till 1995 (Tabish & Khan, 2011).

An integrative trading arrangement in the region has been introduced in December 1995, when South Asian Preferential Trading Agreement (SAPTA) concluded. After three rounds of trade negotiations 5550 tariff lines have been incorporated for tariff concession. India granted Most Favored Nation Status to Pakistan in 1996, from this year bilateral trade volume was higher than before which reached US \$ 180 million and Pakistan also increased its positive list which could be imported from India from 562 to 600 items. But the level of export and import from India was very low although India granted Pakistan MFN status (Asghar, 2011).

### **2.1.2 Phase Two 2000 to 2013**

From 2000 Pakistan and India bilateral economic and Political relation is not satisfactory. The first thing which deteriorated the whole situation that was a terrorist assault on Indian parliament on 13 December 2001. Both India and Pakistan deployed their forces on international border as well as the Line of Control and their forces in an eyeball to eyeball confrontation and they remained locked in an standoff until October 2002. There were no improvement has been seen throughout the period of this deadlock until December 2002. That also becomes a reason to suspend their trade relation both air and land routes. There were no trade relation between them during 2001 and 2004 (Effendi, 2006).

Pakistan and India made a significant diplomatic move in April 2003. The two sides stepped towards the peace of normalization through dialogue. In 2004, all the members of the South Asia Association for regional Cooperation (SAARC) decided to sign a agreement which was called South Asian Free Trade Area ( SAFTA) and SAFTA was like all other regional agreement which come under the World Trade Organization and compulsory for member to offer MFN treatment to member countries. The member of South Asian Free Trade Area (SAFTA) were Pakistan, India, Srilanka, Bangladesh, Maldives, Nepal and Bhutan in which Pakistan, India and Srilanka consider non- least developed countries and other four consider least developed countries.

Later on in 2006 SAFTA was ratified but Pakistan did not give MFN status to India, however trade relation was still continues. All the member countries of SAARC agreed to decrease the tariffs to a 0-5 percent level by 2013. As a consequence of this agreement and the trade talks initiated by General Musharraf in 2005, the trade volume was reached \$ 2.2 Billion in 2010 which was \$ 1.5 Billion in 2006 (Memon, Rehman, & Rabbi, 2014). Since then, the issue has received special attention, trade talks between Pakistan and India are being carried out in academic, business and diplomatic circles.

## **2.2 Composite Dialogue and Bilateral Trade**

Composite Dialogue had been started between Pakistan and India in 2004 to improve its bilateral relation and this dialogue has also enhanced its bilateral trade relation. This was the first time when both side agreed to solve their issues on table. Trade play very significant role to improve relationship between countries. To discuss various suggestions and in order to enlarge their commercial and economic connection both countries (Pakistan-India) commerce secretaries

decided to meet on 11 to 12 August 2004 in Islamabad. On 22-23 February 2005, Pakistan and India Joint Study Group constituted to discuss trade and economic issues in a detailed manner.

Within the framework of the Composite Dialogue, the three round of India and Pakistan talk on commercial and economic cooperation has been completed. On 31 July to 1 August 2007 the fourth round of economic and commercial cooperation meeting was held in New Delhi and Pakistan and India commerce secretary headed the delegation. Both commerce secretaries Shri G.K Pollai from Indian side and Syed Asif Shah from Pakistan side were very optimistic about this meeting and to monitor and coordinate they took a decision to constitute a Joint Group which heads by Pakistan and India Joint Secretaries of Commerce (Padder, February, 2012).

The two sides agreed on the following points during 2004 to 2007:

1. To facilitate trade, both countries emphasized to open bank branches in each other countries.
2. Both countries should expand the items of the positive lists.
3. After three round of talk in 2005 first time both countries opened their road routes.
4. The new shipping protocol should be discussed on the purity bases.
5. For cooperation in capital markets both countries should work on memorandum of understanding (Batool, 2013).
6. The Indian side ensured Pakistan they would complete all legal certification related formalities in order to make easy import of cement from Pakistan.
7. Pakistan import tea from India, both were agreed to support and facilitate the tea trading through rail.

8. To facilitate each other, Pakistan and India hold trade exhibition in each other country.
9. Pakistan organized Made in Pakistan trade fair in India (Research Bureau, February 2013).
10. Both countries agreed to developed Wagah-Attari border at the both sides and both ensured each other that they would exchange the information on the development of integrated check post (ICP). After that they allowed cross border movement of trucks at Wagah-Attari border.
11. Later on Pakistan and India agreed to open Munabao-Khokrapar route for freight movement in order to reduce pressure on Attari-Lahore route.
12. Between India and Pakistan there was an issue of imbalance in bilateral trade. In order to address this issue Indian invited the Pakistan to identify twenty products of its export interest so that India could inform Pakistan about the detailed import regime on these products with a view to facilitating their import into India (Joint Statement on the Fourth Round of India-Pakistan talks on Economic and Commercial Cooperation, August, 2007).

All these measure which Pakistan and India took to enhanced the Pakistan and India trade volume, like in 2005-06 total bilateral trade of both countries was US \$ 1.5 billion only (Naqvi, 2009), then in 2007-08 trade volume reached on US \$ 2.5 billion but after Mumbai attack November 26, 2008 the trade volume was turn down 60 percent in 2009-10. It was declined from US \$ 2.1 billion to \$ 900 Million (Batool, 2013).

Mumbai attack detoriated India-Pakistan trade relation and the trade between both countries were not as much satisfactory as it should be. But there is a hope in future may be both

countries have good trade relation after grant MFN status to India. Pakistan consider as an important country in South Asia. Pakistan has to do a lot to better its economic condition, for this Pakistan have to established good economic and trade relation with all the South Asian states. The main development since 2011 was the elimination of a positive list. Instead, a negative list was introduced and numbers of products to be traded by road was increased from 40 to 137 (Taneja, 2013).

Here are mention some policy development from 2004 to march 2012.

#### **Policy Developments Since 2004**

<b>Year's</b>	<b>policy changes</b>
<b>2004</b>	Positive List comprising 757 items allowed to be traded
<b>2006</b>	Positive list expanded to 1075 items
<b>2009</b>	Positive increased to 1934 items
<b>Feb 2012</b>	Positive list was abolished
<b>March 2012</b>	Negative list comprising of 1209 items was introduced .137 items were allowed to be traded via land (Memon, Rehman, & Rabbi, 2014).

In 2011 both countries (Pakistan-India) resumed its economic dialogue and 27-28 April 2011, fifth round of talk on commercial and economic cooperation was held in Islamabad. To explore mutual cooperation they decided to setup some working group and sub groups. Later on,

from 29 September to 3 October 2011 Pakistan Federal Minister of Commerce Makhdom Muhammad Ameen Fahim visited to India. During his visit he met with Indian commerce and industry minister and he also addressed with Pakistan and India business community, this session was organized by Federation of Indian Chamber of Commerce and industry (FICCI) in Delhi and Mumbai and both sides agreed to enhance their bilateral trade within three years, cooperate under the framework of the South Asia Free Trade Agreement (SAFTA) and remove all non tariff barriers and have to normalize bilateral trade relation (Iqbal & Tabish ,2012).

After all these positive development, Pakistan decided to grants most favored nation (MFN) status to India in order of normalize trade relation. India welcome this decision as well as India increased its positive list and allowed 1950 items which Pakistan could imports from India. All these initiative gave a way to improve more its bilateral trade relation, then 13 to 17 February 2012, India commerce minister Shri Anand Sarma visited Pakistan. It was the first official visit from Indian side and his delegation accompanied by more than hundred representatives of India trade and industry sectors.

India also exhibit India specific trade exhibition in Lahore, Pakistan in which 150 representation of India exhibition in Pakistan got very positive response. Later on March 2012, Pakistan also decided to organize lifestyle Pakistan exhibition in India, so Pakistan minister of commerce visited India and from 12 to 14 April 2012, Pakistan lifestyle exhibition held in New Delhi. More than 650 participants and 100 exhibitors participated from Pakistan and product which showcased in this exhibition was jewellery, leather good, designer furniture and textile products (Padder, 2012).



Trade regulation, labeling, standards and marketing requirements are the major issues which create barrier to fully normalize its trade to solve this issue and to build confidence of business community on both sides, Pakistan and India trade regulatory bodies, representative of chamber and commerce and industries met time and again and discussed matters pertaining to trade regulations, standards, labeling and marking requirements. All these visits during 2011 and 2012 played significant role to normalize Pakistan and India bilateral trade relation

The two countries have initialed three Agreements:

1. Customs Cooperation Agreement,
2. Mutual Recognition Agreement and
3. Redressal of Trade Grievances Agreement (Saket, August 2012).

### **2.3 Pakistan-India Informal Trade**

With all these developments, informal trade between India and Pakistan going on side by side. Although all these effort which India and Pakistan did to normal and formal its bilateral trade played significant role but both countries have to do some serious efforts to formalize its informal trade. According to SDPI, the current trade volume between both countries in 2012 was US \$ 1.9 billion which is less than of its potential. The potential of trade is US \$ 15 to 20 billion and this gap has provide a way to trader to informal trade. The value of Pakistan and India informal trade is approximated US \$ 1 billion (SDPI, 2013).

India and Pakistan trade takes place through three different ways:

1. Official Trade
2. Non- Official Trade. (Which take place through third countries)

3. **Illegal Trade.** ( which goes on through smuggling via their porous land, border and through Afghanistan)

There is a huge gap between actual and potential bilateral trade at official level and there is an underground market for unofficial trade (Asghar, 2011).

### **2.3.1 Informal Trade Routes**

Pakistan and India informal trade takes place via five major and six minor routes as shown in Figure 1.

#### **2.3.1.1 Major Routes**

The five major routes of informal trade are

1. Dubai-Bandar Abbas-Herat-Kabul-Jalalabad-Bara
2. Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Chaman
3. Dubai-Bandar Abbas-Herat-Kandahar-Wesh-Noshki-Chaman-Quetta
4. Sindh Cross-Border
5. India-Dubai-Karachi.

Trade through the first three channels is containerized. The containers are shipped to Dubai and from Dubai to Bandar Abbas, and then transported overland by truck to Jalalabad, and from Jalalabad to Bara. On the Jalalabad route, about 4,000 to 8,000 mules and donkeys are used to bring goods across the border (PILDAT, 2012). The second overland route to Chaman and Noshki in Balochistan and then Bandar Abbas-Herat-Wesh. Dubai-Karachi is the main channel for quasi-legal trade. Dubai-Karachi is the main channel for quasi-legal trade.

On the Sindh cross-border route, informal trade is not containerized and takes place in three ways. The size of the trade takes place in areas where the border is not fenced; the rest is conducted through trenches dug by the local population and on “Kekras,” which travel weekly across the border (Asghar, 2011).

### **2.3.1.2 Minor Routes**

The six minor routes of informal trade are

1. Delhi-Amritsar-Lahore.
2. Mumbai-Karachi (boats, launches)
3. India-Singapore-Karachi.
4. India-Hong Kong-Karachi.
5. Mumbai-Kabul-Bara.
6. Afghan Transit Trade.
- 6.1 Karachi-Chaman-Afghanistan.
- 6.2 Karachi-Peshawar-Afghanistan.

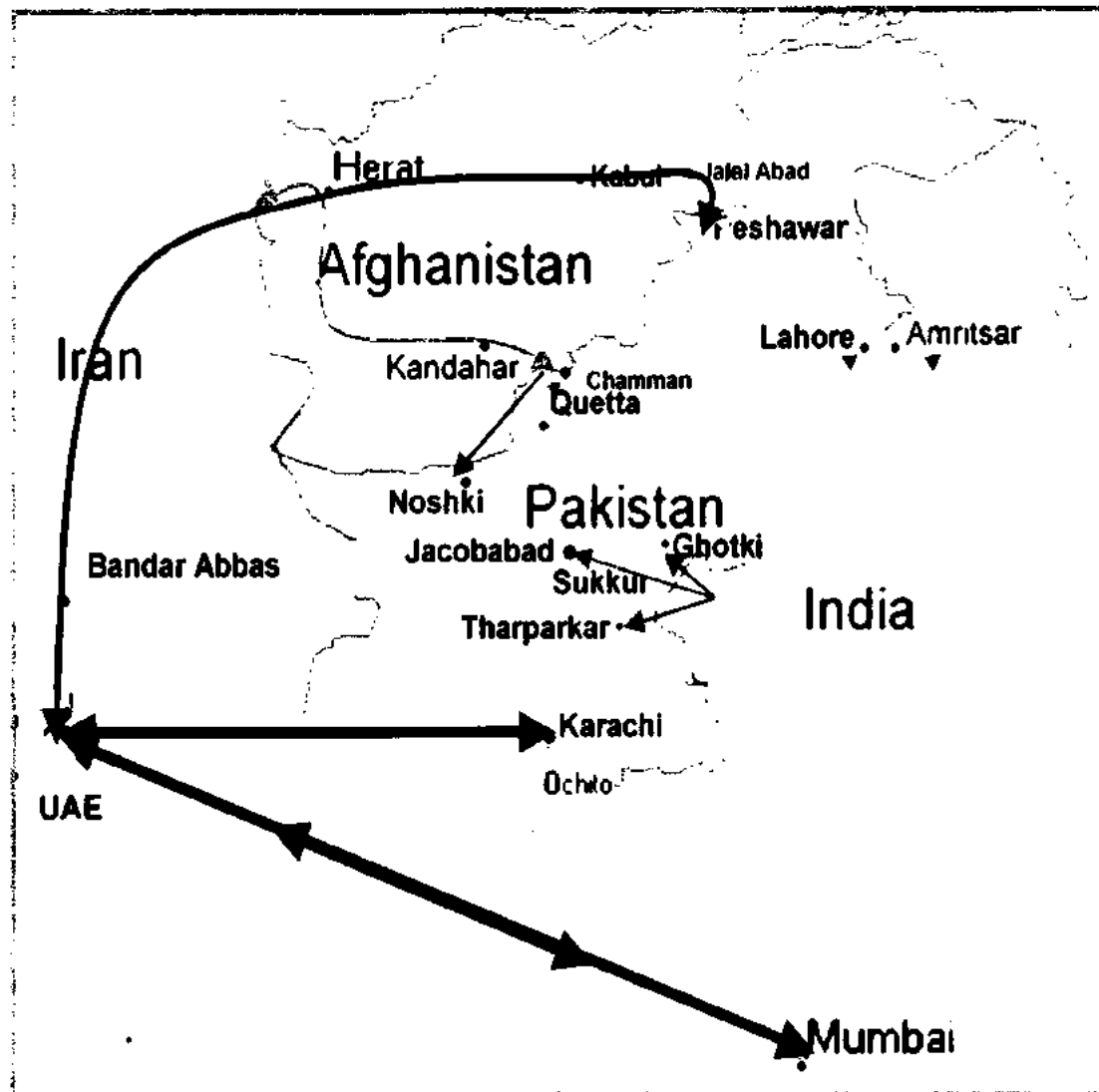
The minor routes include several places in the adjoining border region. SDPI report shows that the value of this informal flow from India to Pakistan is US \$ 1.79 billion annually. Trade through the Amritsar-Lahore route is noncontainerized. On the Lahore route, informal trade is conducted via the “Samjhauta Express” train, which operates twice a week. Informally traded items are brought by genuine passengers looking to cover the cost of their trip or by professional informal traders.

The dynamics of the India-Singapore-Karachi and the India-Hong Kong-Karachi routes are identical to the India-Dubai-Karachi route. Indian goods travel to Pakistan via Singapore or Hong Kong, with their origins changed to the respective ports. These items then show up as official trade between Pakistan and Singapore and Pakistan and Hong Kong, respectively.

In an extreme minority of cases, the bill of lading is switched, as in the case of ships scheduled to travel from Mumbai to Karachi via Dubai. The rate of Securities Borrowing & Lending (SBL) on the Singapore and Hong Kong routes is even lower than on the Dubai route (Khan, Yousuf, Bokhari & Aziz, 2013).

The main items are textile, fruits and vegetables, cosmetic, auto parts, jewellery, tobacco, herbal products, spices and pharmaceutical products. (Ahmad, Suleri, Wahab & Javed, 2013). According to SDPI survey 2013, informal flow in textile sectors from India to Pakistan is 1356.40 US \$ million, automobile sector is 175.70 US\$ million, tobacco items is 44.40 US \$ million, jewelry items is 76.66 US \$ million. Total informal flow in all items is 1788.89 US \$ million (SDPI, 2013).

**Figure 1: Pakistan-India Informal Trade Routes**



Source: SDPI Survey Unit 2013

Blue sky- Dubai–Bandar Abbas–Herat–Kandahar–Wesh–Chamman

Green- Sindh Cross-Border

Red- Mumbai–Dubai–Karachi

Brown- Dubai–Bandar Abbas–Herat–Kandahar–Wesh–Noshki

Period Green- Afghan Transit Trade (Chamman)

Feroze- Afghan Transit Trade (Peshawar)

Merjanda- Dubai–Bandar Abbas–Herat–Kabul–Jalalabad–Bara

Yellow- Mumbai – Karachi (SBL)

Orange- Delhi–Amritsar–Lahore

## 2.4 Reasons for Informal Trade

A variety of factors have given rise to informal trade between India and Pakistan.

1. For formal trade, there are high tariffs on certain commodities.
2. There are the inadequacies of infrastructure and transportation for formal trade.
3. The lengthy procedure of clearance is the part of formal India and Pakistan trade and procedure of clearance involving clearance in shipment and documentation process. These unnecessary delays in the customs process become a reason for informal trade.

All these factors give a reason to Pakistan and India traders to use informal routes to get more benefits. The current volume of official trade between the two largest South Asian countries is not encouraging. Pakistan and India trade policy and institutional factors does not encourage its bilateral official trade.

Pakistan government has to remove trade barriers and adopt measure that lead to formalize the India and Pakistan trade. The rising consumer demand for India commodities would give incentives to trade informally, so Pakistan government needs to formalize of these channels of trade.

As Smith mentioned in his liberal economic theory that the interest of consumers are given central importance. Consumers are given opportunity to buy things at the lowest possible prices regardless of where they are produced. If the interest of individual is satisfied in best possible way it implies that interests of state as a whole are satisfied. He remarks that 'the pursuit of individual advantage is admirably connected with the universal good of whole, as free trade gives benefits to all, brings harmony and prevent conflicts. Informal trade is favor for trader and

consumers in Pakistan because they get substantial gains in the form of lower prices and better quality. Informal inflow in Pakistan is getting harm to domestic sectors and the loss to government of tariff revenues.

There will be new trading opportunities for both countries, if they move toward normalizing their bilateral trade. There is need to identify those sectors in which trade has more and largest potential. In next chapter researcher will identify opportunities and threat which Pakistan face and also identify those sectors which have largest trade potential.

## Chapter 3

### Potential of Pakistan-India Bilateral Trade

The trade normalization process between India and Pakistan will certainly open new trade opportunities. In this chapter researcher will assess the significant of bilateral trade, identify sectors which have potential trade between the two countries and threat which Pakistan have in order to normalize trade.

#### 3.1 Significant of India-Pakistan Bilateral Trade

There is a link between productivity, trade and economic growth and by integrating into the world economy and opening up their economies, countries which have large internal markets also get benefits. Through bilateral trade, Pakistan and India can increase domestic production and both countries could offer the biggest immediate gains from trade because they share large and more accessible common border.

Indian national economic interest dictate that India should expand its trade to a neighboring countries, it would also creates the possibility of transit trade beyond Pakistan to Afghanistan and Central Asia and reduce the cost of trade. On the basis of India, Pakistan, Afghanistan and central Asia comparative advantage, India needs to increase its trade with these countries (Singh, 2009).

Liberal economic theory indicates that relaxation of restrictions in a way of bilateral trade would benefit both countries and Pakistan and India trade is a win win situation. In liberal economic theory smith mentioned that free trade contributes to the distribution of economic



prosperity and tends always towards balanced trade; economic interaction is a positive-sum game contributing to peace and stability.

On the other hand gravity models also argue that international trade between any two countries related to the geographical distance between them and the size of their economies. Countries which are relative geographical close need to trade more with each other than with more distant countries. If Pakistan and India bilateral trade re-established, consumer will be the major beneficiary and it will give them low cost services and goods due to large economies and reduces cost of production. It will also enhance the saving capacity of the people.

Unpleasant political relationship between two countries could generate difficulty and challenges to establish liberalize bilateral trade relation, but countries can engage themselves in trade, people to people contact and cross border investment without giving up their principle stand on differences and disputes. Pakistan and India liberalize trade would enhanced economic growth, productivity and would be a good example for South Asian nations. It would also integrate both countries' economies and promote cooperation in South Asian countries in all areas (Batra, 2004).

If Pakistan and India bilateral trade would liberalize it would not only integrate of both economies but also create peaceful environment in South Asia. The potential advantages of trade liberalization for Pakistan emerge to be great. It is necessary for both to allow direct trade flow; removal of tariff and non-tariff barriers would also boost efficiency and economic growth, and promote broader regional cooperation in South Asia. Although Singapore and Malaysia broke up as partners in a political union, both countries have improved political relations because of close

economic ties. It is not right for Pakistan to start again economic relation until the bilateral political disputes are resolved (Taneja, Prakash & Kalita, 2011).

### **3.2 Trade Potential and Possibilities**

There will be new trading opportunities for both countries, if they move toward normalizing their bilateral trade. There is need to identify those sectors in which trade has more and largest potential. Services sector has also trade potential and possibilities but during trade negotiation both countries Pakistan and India have been focused only on goods sector, so they should focused on services sector as well (Husain, 2011).

Textile, cement, steel, sugar, fertilizer, electric goods, mining and IT industry are major industries in Pakistan. The largest potential items for export in Pakistan are cotton, leather items, sport goods, carpets, handicrafts and fruits and the items with largest imports goods are chemical, vehicles, steel, industrial equipment, iron, ore, petroleum, pulse and tea. For India and Pakistan, agriculture, chemicals, metals, minerals, textiles are identified main sectors which have trade potential and private sector of Pakistan also have large scope in health, information technology, energy and tourism (Taneja, 2011).

According to Muhammad Tehseen, Deputy Director of Trade Development Authority of Pakistan, (TDAP) despite the ongoing political crisis and flash floods in Punjab, the government has facilitated 150 exhibitors to showcase their products in New Delhi to access India's middle-class market of 600 million people. The four-day exhibition named 'Aalishan Pakistan', starting from September 11 to 14, 2014 and it would allow exhibitors to showcase their products in 320 stalls ranging from garments to textiles. An art exhibition for young artists, a fashion show,

business-to-business meeting of Pakistani exporters with Indian firms, and a business seminar will also be held at the sidelines of the event.

A high-profile delegation of leading businessmen will also attend Aalishan Pakistan, he added. Our government values trade diplomacy to expand exports and Pakistan earned US \$1.5 million through the Lifestyle Pakistan exhibition, 'Aalishan Pakistan', in New Delhi throughout September 11 to 14, 2014. It became clear from interview with Mr. Tehseen that subsidiary departments of the commerce ministry, including the Trade Development Authority of Pakistan (TDAP), would see a major reformation in the next couple of years. The Trade Development Authority of Pakistan (TDAP) was also encouraging all major brands to initiate efforts to open their outlets at India, he said.

### **3.2.1 Trade Potential in Goods Sector**

According to state bank of Pakistan, during July to May 2010-11 Pakistan major imports items from India were cotton US \$ 372 million, soya bean oil US \$ 122 million and cyclic with US \$ 166 million and total of all imports items were US \$ 1,367 million. But in July to May 2010-11 total of all imports items were US \$ 1,144 million which was less than previous year. Cotton import was only US \$ 75 million but soya bean oil and cyclic import increased with US \$ 202 million and US \$191 million (State bank of Pakistan report, 2012).

On the other hand Pakistan major export item to India are dates, cement and chemicals. From July to May 2010-11 the total major exports to India were US \$ 268 million and during 2011-12 total export were US \$ 311 million. Pakistan export US \$ 60 million cotton to India in 2011-12 and leather, woven cotton fabrics and medical surgical instruments are some new exports items to India which consider Pakistan's major international exports (Taneja, Mehra,

Mukherjee, Bimal & Dayal, 2013). Major agriculture import from India have been refined sugar and fresh vegetable and the main agriculture export of Pakistan to India over the last decade has been dried dates with US \$ 47.2 million in 2011 (Hussain & Khan, 2014).

For India and Pakistan bilateral trade, textile and clothing are very important sector which share 22 percent of the both countries total trade. Pakistan textile sector share 54 percent of its total export and this sector play important role in Pakistan industrial development. Presently, both countries trade in this sector is very limited (Ray, Mehra & Mukharjee, 2013).

### **3.2.2 Trade Possibilities in Services Sectors**

In services sectors, health care, information technology, business process outsourcing (BPO) and entertainment have greater trade potential. Services sector in India is more strong and consistent than in Pakistan. Services sector of India constitutes more than 30 percent of India total export; this sector occupied more than half of India GDP.

In India services exports came from Information services, Business services and computer. In Pakistan transportation, business, information, communication, computer services have potential but there are barriers in services trade between both countries. Services sector is getting significant in both countries and India this sector share 54 percent of its GDP and Pakistan share 54 percent of its GDP (Chanda, 2013).

#### **3.2.2.1 Information Technology and BPO Sector**

Indian information technology and business process outsourcing (BPO) sector have large potential for growth and expansion and in 2011-12. Revenues which India got from this section were US \$ 87.6 billion. On the other hand Pakistan IT and BPO sector is still growing. Indian IT

and BPO sector are one of the potential sectors which can be exploited by Pakistan (Taneja, 2013). In order to promote bilateral ties in IT and BPO, both countries have to take several steps, including the condition of official sanctions to business initiative and cooperation agreement in the IT and BPO sectors.

### **3.2.2.2 Health Services**

Health sector is another area in which both countries have opportunities. Health sector is the only sector in which both countries, Pakistan and India share common challenges. Medical tourism and improved telemedicine link are major which have potential for Pakistan and India bilateral trade (Chanda, 2013). Trade normalisation process between India and Pakistan bring opportunities to integrate both countries health sector.

Pharmaceutical products, medical equipment and surgical instrument are three main commodities, which have potential. Pakistan export surgical instrument and import medical equipment and pharmaceutical products from the world. India pharmaceutical industry and medical equipment are much established than Pakistan. Pakistan could import pharmaceutical product from India (Majid & Mukhtar, 2013).

The pharmaceutical sector would be an ideal segment to focus on in improving trade relations between the two countries. India's pharmaceutical sector currently spends 6 to 8 percent of its revenues; stakeholders in Pakistan recognised the benefits of collaborating with the Indian pharmaceutical industry in research and development. The Indian pharmaceutical industry has become an important hub in the production of generic drugs over the last few decades and the Pakistan pharmaceutical industry could take advantage of India's production and research and development in this segment.

### **3.2.2.3 Entertainment sector**

There are trade possibilities in the entertainment industry as well. India and Pakistan share a common culture; hence there is opportunity for trade and cooperation in the film industry. India is the world's second largest producer of movies, while Pakistan produces very few. Similarly, some Pakistanis like to watch Indian television serials and Indians like to watch Pakistani programs.

However, Pakistani entertainment channels are not broadcast in India, whereas several Indian channels are broadcast in Pakistan (Teneja, 2013). The trade potential in the entertainment industry, on the whole in films, music, and television can be tapped by encouraging joint productions. Removing movie bans would benefit both countries. Exchanging broadcasting rights to each other's television programs is another opportunity to expand trade between the two countries.

### **3.2.2 Energy Cooperation**

In order to get greatest economic benefit, energy cooperation is another area in which Pakistan and India can work together. As India is one of the most rapidly growing energy markets in the world and will be able to absorb new sources of supply as they materialise in the region. Energy cooperation between India and Pakistan acquires added significance in the context of worsening electricity deficits in Pakistan.

Although India's power generation capacity is still not sufficient to meet its own growing domestic demand for electricity, the problem is much greater in Pakistan. Given Pakistan's total electricity deficit of an estimated 6,000MW. India has an installed electricity generation capacity

of 255,681MW. Out of the total, thermal accounts for 178341MW, nuclear 4780MW, hydro 40867MW and renewable energy sources 31692 MW. The peak energy deficit of India is around 3-4 percent. Both the neighbours have huge potential of energy trade; India can supply excess energy to Pakistan whereas Pakistan can trade its huge coal reserves (Lama, 2013).

The two major projects under consideration for a very long period of time are the Iran-Pakistan-India (IPI) pipeline and Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. The TAPI pipeline project is around at a cost of USD 7.6 billion. As per the latest arrangement agreed on India will pay transit fee to Pakistan and Afghanistan to get its share of 38 million standard cubic meters a day of gas through the pipeline, while Islamabad will pay ferrying charges to Afghanistan.

Trade brings more stability to the region; every country in the market has a certain role to play. IP pipeline, which was later extended till India has been primarily named as peace pipeline to send the message that the countries in the region are concerned about stability (Mehmood, 2013). Although trade normalization between India and Pakistan bring opportunities to integrate both countries trade beside that Pakistan also face some challenges to achieve its economic goals and to normalize Pakistan and India trade relation.

### **3.3 Key Challenges**

Pakistan will have both winners and losers in result of opening of trade relations with India. There are key challenges for Pakistan in order to established normal trade relation with India. There are a number of possible reasons for the low and declining volume of exports and import with India.

### **3.3.1 Derailed Composite Dialogue**

The “Composite Dialogue” between India and Pakistan on exceptional political concerns should continue with seriousness, commitment and a constructive attitude. During 2004 to 2008, various terrorist attacks derailed composite dialogue. Those who are opposed to normalizing economic relations with India would be able to gain ground by emphasizing that Pakistan’s principled stand and core issues have been neglected for the sake of insignificant material gains (Nabi, 2013).

### **3.3.2 Transport Issues**

The movement of goods between Pakistan and India has long been undercut. Rail, air links and road routes have been cut off several times and the sea trade has operated under a very restrictive agreement. Poor infrastructure and lack of trade routes between these two states is quite insufficient for trade. There are very limited kinds of containers and trucks that are allowed to travel across the borders. These barriers have led to high transaction costs of trading (Taneja, 2013).

### **3.3.3 Visa Restriction**

One major challenge is related to visa restrictions. India granting city specific visas to Pakistani investors; the requirement of police reporting on arrival and before departure; the requirement of exit from the port of entry and delays in granting visas are some of the limitations that have limited market access for Pakistani traders.



### **3.3.4 Pakistan's Economic Performance**

Macroeconomic indicators are important determinants of FDI. However, over the past few years, Pakistan seems to be losing its macroeconomic strength. Pakistan's economy grew at an annual average rate of only 2.9 percent during the past five years. Deterioration in the power sector is a major restriction to growth and power outages have shared annual GDP growth to 2 percent.

### **3.3.5 Infrastructure**

Infrastructure facilities like Power, telecommunication and water supply are important determinants of contributing to business environment. Unfortunately, infrastructure facilities in Pakistan are insufficient and therefore, act as an obstacle to attracting investment flows. Poor infrastructure leads to an increase in transaction costs, limits access to both local and global markets and discourages FDI (Jain & Bimal, 2014).

### **3.3.6 Tariff and Non-Tariff to Trade**

Major impediments in trade liberalization are direct trade barriers and indirect trade barriers. It argues that direct trade barriers like non tariff barriers, tariff barriers, financial measures, quality control measures, para-tariff measures, visas regime, air travel restriction, sea transportation restriction, transit restriction and custom problems. However indirect trade barriers like trust-deficit, apprehensions, image and perception issue (Taneja, 2007).

Despite granting Pakistan MFN status official tariff rates and transaction cost remain higher in India. Pakistan believes that India's trade barriers act as a great obstacle to trade relations. Pakistan has two major exports areas, which are textiles and agriculture (Asghar, 2011)

and it is specifically these areas where India has prohibitive rules and regulations. Pakistani business people face non-tariff barriers in accessing the Indian Markets. The official barriers, high transaction cost have forced much of the trade to flow through unofficial routes.

In a number of sectors, specific tariffs and regulatory duties dominate legal MFN tariff rates. For instance, potential textiles exports from Pakistan are subject to specific duties which can as high as 50-100 percent in equivalent tariff rates. Tariff peaks in India are common in the agricultural, automobiles, and textiles and garments sectors (Naqvi 2007).

### **3.3.7 Bring Poverty and Competition**

The third world countries are fearing that they will simply become dumping ground or material provides for the industrialize nations. Similarly, with India's strong industrial base especially in heavy metals, engineering, computers and chemicals, Pakistan would face tough competition. Trade ties with India will bring poverty from India, where per capita income in terms of purchasing power parity is 65 percent less than in Pakistan. Standard of living in India is much lower and wages are almost half of those prevailing in Pakistan. Indian industry will be flourishing at the cost of Pakistani manufacturing sectors ultimately leading to higher level of unemployment in Pakistan.

### **3.3.8 Lobby Influence:**

Opening up trade between Pakistan and India will produce some losers and some winners. While traders and importers in both countries would be happy to expand their business but inefficient manufacturing firms will be losers from this liberalization.

They may lobby the government and political parties by making noises that the onslaught of cheaper imports from the other country is destroying domestic industry and jobs. Depending on the power and influence of the lobby, it is quite possible that some countervailing measures could be taken. The substantial slow tactics would once again widen the trust deficit and hamper growing trade relations.

If Pakistan and India move toward normalizing their bilateral trade, it would bring new opportunities for the Pakistan struggling economy. After identify those sectors in which trade has more and largest potential and the challenges which Pakistan faced in order to normalize its trade relation with India. In next chapter researcher would discuss significant to grant Most Favored Nation Status (MFN) to India for Pakistan economy and also identify FDI inflow and outflow opportunities for Pakistan.

## Chapter 4

# Most Favored Nation Status and Trade between Pakistan and India

Pakistan has been a member of World Trade Organization since 1995. Most Favored Nation (MFN) status being the cornerstone of WTO, trade laws is mutually agreed upon by the organization members. This status agrees to trade on non-discriminatory basis and encourages equality in trade for every country having the MFN status. Being a signatory to it, Pakistan is entitled to provide equal trade advantages to each of its trading partner having MFN status. In 1996 India gave MFN status to Pakistan; however Pakistan still did not grant MFN status to India and debate on the issue is going on (Qamar, 2005).

In this chapter researcher will evaluate the significant of most favored nation status and its impact on Pakistan and India bilateral trade. Which advantage and risk Pakistan get after grant MFN status to India? Also try to get answer to these questions. What need to be done to get maximum benefit from the MFN? How MFN status play important role in Pakistan development if Pakistan grant MFN Status to India? How much Pakistan and India would gains from MFN?

### 4.1 Definition

Most favored Nation Status (MFN) is defined as:

“A treaty provision whereby a state undertakes an obligation towards another state to accord most-favored treatment in an agreed sphere of relations.”

MFN treatment is defined by the Draft articles on MFN as the:

“Treatment accorded by the granting state to the beneficiary state or to persons or things in a determined relationship with that state, not less favorable than treatment extended by the granting state to a third state or to persons or things in the same relationship with that third state.” (Most favored Nation Treatment, 2010).

In the context of investment, MFN treatment ensures that a host country extends to the covered foreign investor and its investments, as applicable, treatment that is no less favorable than that which it accords to foreign investors of any third country.

## **4.2 Most Favored Nation**

Both Pakistan and India joined WTO upon its formation in 1995. According to the first article of GATT, it is incumbent upon all the signatories of the WTO to trade with each other according to the MFN principle. India complied with the GATT and granted MFN to Pakistan soon after joining the WTO. However, this facility has not been reciprocated by Pakistan.

The most favored nation (MFN) treatment guarantees non-discriminatory trading terms amongst the WTO members. It guarantees that if favorable tariffs rates are given to one trading partner then all other member countries will get the same terms. The principle does not entail giving extra advantages to any partner, but rather uniform terms for trading for all member countries (Horn & Mavroidis, 2001).

However, not all countries fulfill this obligation. In addition to allowing the formation of Preferential Trading agreements, for example PTA and FTA. There are few clauses in the GATT which allow one country to discriminate against the other. For instance, the USA doesn't award an unconditional MFN status to China because of its communist inclinations.

Pakistan decided to grant most favored nation (MFN) status to India in 2011. In 2012, it was decided by Pakistan and India both will enjoy mutual MFN treatment from January 2013. Still Pakistan didn't accord MFN status to India but it was expecting that the current government will soon fulfill their promise to grant MFN status to India (Memon, Rehman & Rabbi, 2014).

One of the main reasons of not according the MFN status to India that to imposed non tariff barriers from the Indian side. These NTBs are complex and range from quality assurance, physical inspection by customs officials, to visa issuances. In the composition of the Overall Trade Restrictiveness Index (OTRI) for India, non tariff barriers hold a significant proportion.

### **4.3 Significance of MFN Status**

In South Asia the two largest countries Pakistan and India have 182.1 million and 1.252 billion population. The two neighbors are now moving towards closer economic relations in order to get their economic interest and enhancing peace and stability in the region. Both countries had overcome many significant obstructions in normalizing the trade relations in past. Trade between the two countries has not been smooth sailing in the past (Khan, 2007).

In 2011 Pakistan and India restarted trade talk and both sides have been taken some serious decision related trade which leading Pakistan and India towards building closer economic ties. Like, Pakistan decided to expand MFN status to India in 2012, and replaced the restricted positive list with a negative list. In February 2012, India permitted FDI from Pakistan and both countries have also agreed to facilitate the process of goods certification, visa liberalization and to simplify custom procedures (Talite & Taneja, 2011).

These steps have encouraged to enhancing both countries official bilateral trade. Some Pakistan new products have got higher market access in India and during April to December 2012, Pakistan exports to India increased 66 percent and its reached US \$ 461 million. There is a rich possibility of economic growth for Pakistan if both countries allow more trade with each other and India will also get benefit because it is a positive sum game.

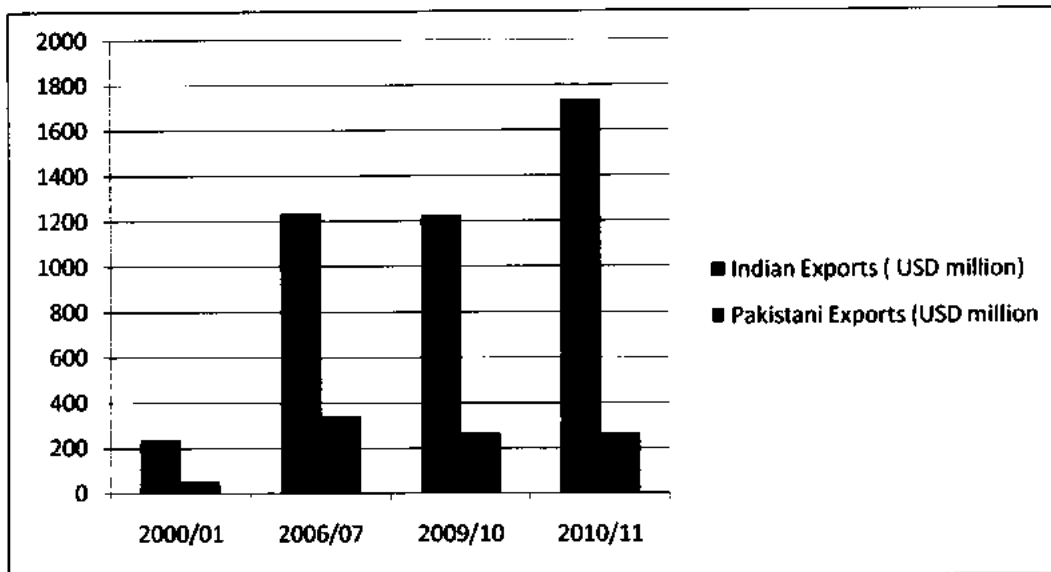
During this period, India export to Pakistan was not increased as it should be but some products of India found new markets in Pakistan, such as skim milk (US\$ 8.01 million), biscuits (US\$ 3.98 million), bangles and imitation jewelry (US\$ 4 million), and some existing products got higher market access such as cotton and polyester fabrics (US\$ 278 million). (Taneja, 2013).

#### **4.3.1 Enhanced Economic Cooperation**

To grant MFN status to India, it would liberalize India-Pakistan trade and liberalizing trade with India would have huge economic benefits for Pakistan, India and South Asian region. In 2003, the bilateral trade of both countries was US \$ 250 Million which was increased to US \$ 2.4 billion in 2013 and its annual growth rate increased 25 percent (Samavia Batool, 2013).

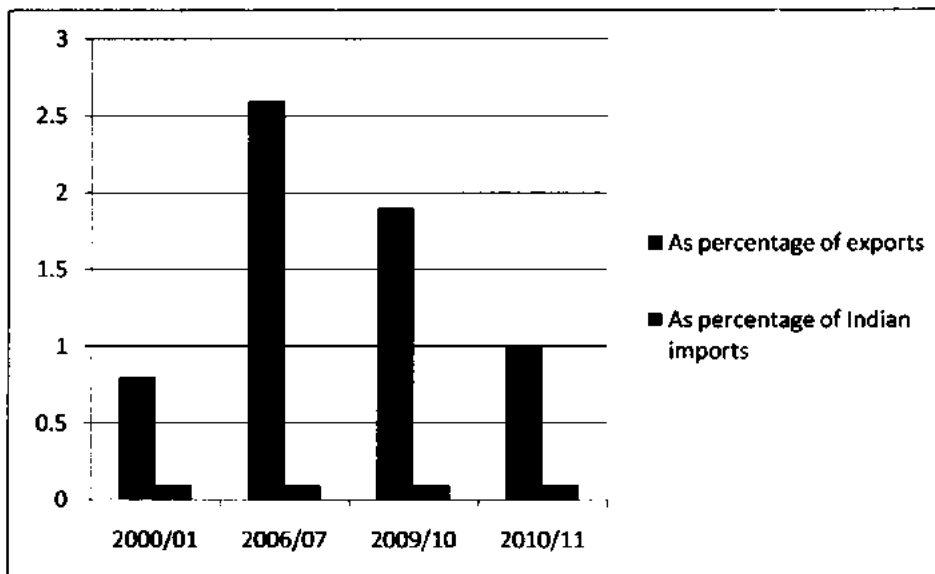
Enhanced economic cooperation between the two major regional players would not only result in potential advantages for both countries but also for South Asian region inactive growth. Today regional integration calls for more economic cooperation and Pakistan poor economic conditions have forced policy makers to open up their markets to Indian competitors (Prabir, Raihan & Ghani, 2013).

### Trade Volume between Pakistan and India, 2000/01–2010/11



Source: Hafiz A. Pasha and Muhammad Imran, 2013.

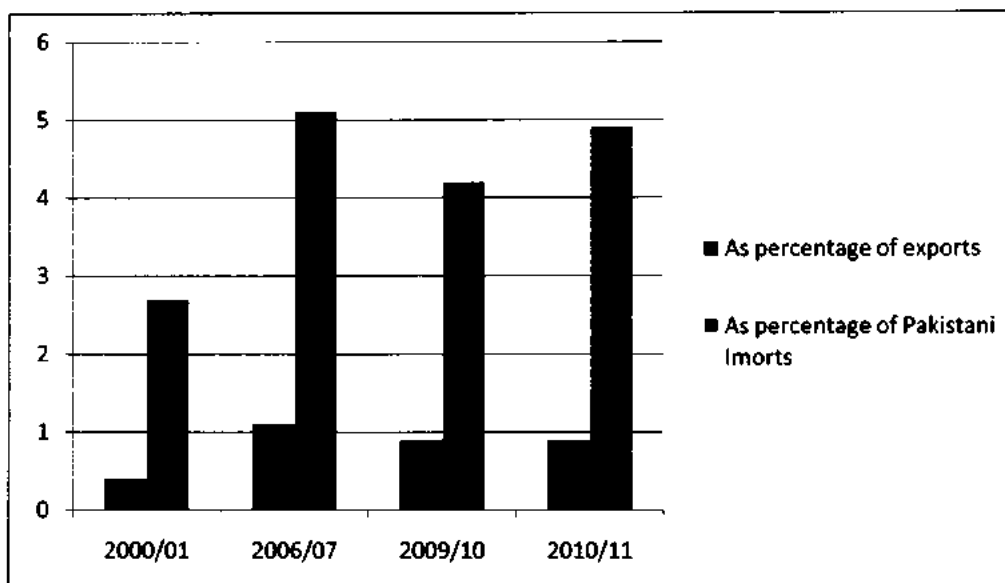
### India export and import with Pakistan in percentage



Source: Hafiz A. Pasha and Muhammad Imran, 2013



### Pakistan export and import with India in percentage



Source: Hafiz A. Pasha and Muhammad Imran, 2013

During the last decade, in spite of limited access India exports with Pakistan is growing. India export in 2000/01 which was US\$ 238 million have reached US\$ 1,734 million in 2010/11 and Pakistan export with India has also increased in 2000/01, Pakistan export was US\$ 56 million then in 2010/11 its reached US \$ 264 million. Both countries export have also shown significant growth during last decade (Pasha, & Imran, 2012).

The bilateral trade balance at present is heavily in favour of India with exports at USD 1.84 billion and imports at US \$ 0.51 billion in FY 2013. Exports have increased by 19 percent in FY 2013. Similarly Imports from Pakistan have increased by 27 percent (Taneja, 2013).

### **4.3.2 Informal to Formal Trade**

Informal trade volume between Pakistan and India is high then formal trade, if this would properly be channelized; it would increase the national income flow. Resultantly, it would also serve as a source of tax revenue for Pakistan. Because of informal trade, in 2012 the official trade between them was US \$ 2.35 billion. This formal trade was below of its potential because its potential is US \$ 15-20 billion. However informal trade taking place between both sides continued throughout from independence.

According to SDPI survey, Informal trade volume between India and Pakistan is approximately US \$ 1 billion and Pakistan informal export and import is US \$ 544.9 million. Further they mention in this survey that total informal flow of good from India to Pakistan is US \$ 1788.80 million and informal balance of trade is in Indian favor (Ahmad, Suleri, Wahab, Javed, 2013). To grant MFN to India it would increase the ratio of India and Pakistan formal trade and in term of tariff and trade regulation both countries should provide equal treatment as they offer to other WTO members.

### **4.3.3 Foreign Direct Investment**

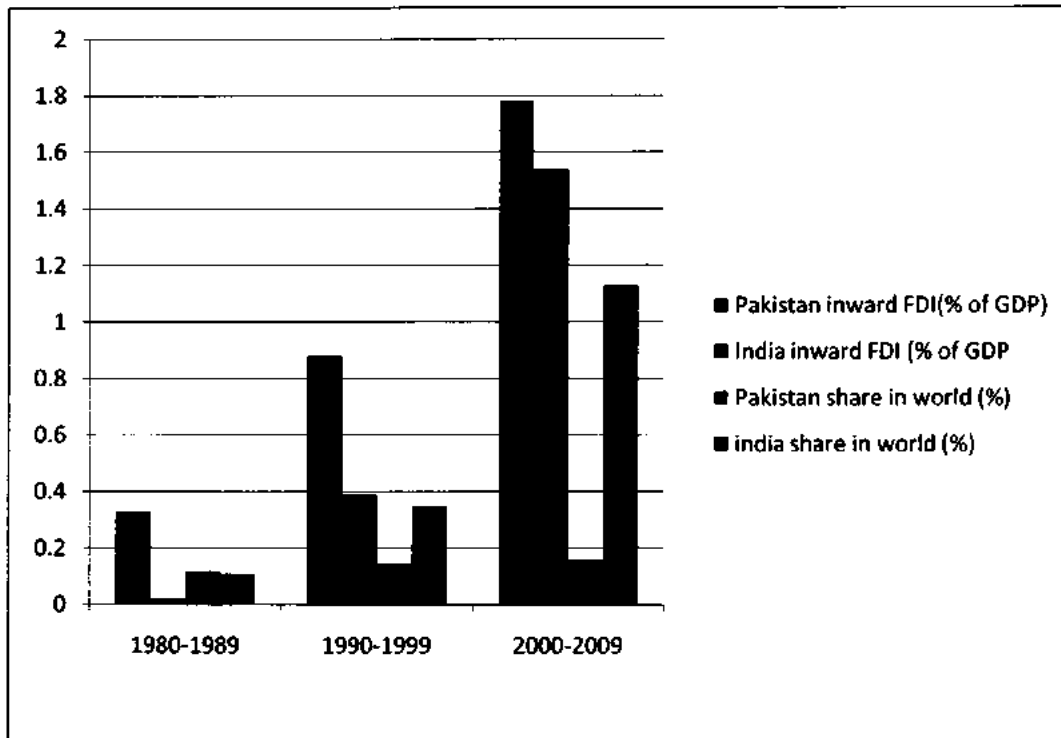
To deepening trade linkage, foreign direct investment play important role and investment provides market access of the host country and home country global and domestic market. Investment inflow in India has been increased quickly from US \$ 9 million in 2005-05 to US \$ 46.6 million in 2011-12 and US \$ 28.8 million in 2013-14. To liberalization of investment inflow into India and normalization of bilateral relation, Indian government allowed FDI from Pakistan in August 2012. They allowed Pakistani citizens and entities to invest in India through the

government in sector/activities other than defence, space and atomic energy (Jain & Bimal, 2014). The potential investment from Pakistan to India is US \$ 1.6 billion annually, if both governments allowed. Textiles, cement, hotel services and the auto parts sectors are those sectors which have investment potential. (Ahamad, Suleri & Wahab, 2013).

There is an integral link between trade and investment in order to improving relation between two South Asian countries, Pakistan and India and by integrating major sectors in the two economies trade relation can be enhanced between them. Foreign direct investment could be a source of Pakistan economic development and growth. For developing countries and emerging economies FDI is very valuable because rapid technological change and competition is getting increase in the world (Suleri, Ahmad & Adnan, 2013).

According to World Bank data which show that during July-June 2000-01, FDI inflow in Pakistan was only US \$ 322.4 million and FDI in Pakistan by countries reached to peak on US \$ 5 billion and it was 3.6 percent of GDP in 2007. During July-February 2014, FDI in Pakistan was US \$749.1 million only. To attract foreign direct investment (FDI), Pakistan has to do effort by reassurance of friendly investment climate, have to ensure the maximum benefits of the domestic market. Pakistan has to make policies which liberalize the investment regime, certainty and reliability in Pakistan economic policies and political stability is also requires attracting FDI. (World Bank, 2014).

## FDI Inflow in the Last Three Decades



Note: FDI inflows counts net inflows, and its share in world FDI inflow  
 Source: (Selim Rn & Prabir, 2013)

This graph show Pakistan and India in ward FDI and its share of its GDP and it's also show both countries FDI share in world FDI. During 2000-09, Pakistan share in world FDI was only 0.16 percent and India share was 1.1 percent in world FDI. Pakistan FDI inflow has 1.78 percent share in Pakistan GDP and India FDI inflow has 1.4 percent share in India GDP (Selim & Prabir, 2013).

**Table 1: FDI Inflows in India – Pakistan (US\$ billions)**

	Inward FDI	
	India	Pakistan
<b>2000</b>	3.588	0.309
<b>2001</b>	5.478	0.383
<b>2002</b>	5.630	0.823
<b>2003</b>	4.321	0.534
<b>2004</b>	5.778	1.118
<b>2005</b>	7.622	2.201
<b>2006</b>	20.328	4.273
<b>2007</b>	25.350	5.590
<b>2008</b>	42.546	5.438
<b>2009</b>	35.649	2.338
<b>2010</b>	24.640	2.016

Source: (Selim Rn & Prabir, 2013)

Table 1 shows inward foreign direct investment (FDI) in India and Pakistan mentioned. In 2008 inward FDI in India was on peak that was US \$ 42.55 billion, on the other hand during 2000-10 Pakistan Inward FDI was on peak in 2007 that was US \$ 5.59 billion. During 2004 to 2008, the size of FDI inflow in Pakistan and India was getting increased. This table shows in 2000 FDI inflow in India was US \$ 3.59 billion and in 2010 FDI inflow was US \$ 24.640 billion and FDI inflow in Pakistan was increased from US \$ 0.309 billion in 2000 to US \$ 2.016 billion in 2010. Although the size of FDI inflow in Pakistan was not significant from 2000 to 2010,

when we compare Pakistan and India FDI inflow. Since 2008 Pakistan and India FDI inflow was declined.

**Table 2: FDI Outward In India-Pakistan (US\$ billions)**

	Outward FDI	
	India	Pakistan
<b>2000</b>	0.514	0.011
<b>2001</b>	1.397	0.031
<b>2002</b>	1.678	0.028
<b>2003</b>	1.876	0.019
<b>2004</b>	2.175	0.056
<b>2005</b>	2.985	0.045
<b>2006</b>	14.285	0.109
<b>2007</b>	17.234	0.098
<b>2008</b>	19.397	0.049
<b>2009</b>	15.929	0.071
<b>2010</b>	14.626	0.046

Source: (Selim Rn & Prabir, 2013)

Table 2 shows India and Pakistan outward FDI and India outward FDI was high in 2008 with US \$ 19.397 billion, but decreased in 2010 and reached US \$ 14.626 billion. On the other hand Pakistan outward FDI is less than India. Here the question is important that is, which

sectors are important for foreign direct investment (FDI) in Pakistan and India? This thing makes things clear about key sector of Pakistan and India that could be attractive for both investors.

In Pakistan, communication, financial business, power, chemical, textile, construction, transport and oil and gas are those sectors in which foreign direct investment (FDI) inflow are concentrated. Communication with US \$ 7.35 billion, financial business with US \$ 4.93 billion and oil and gas with US \$ 4.45 are those sectors which occupied top positions to attract FDI in Pakistan during 2000-10. As mention earlier that FDI inflow in India is more than Pakistan and large number of sectors attracting FDI inflow in India (Jain & Bimal, 2014).

In India, telecommunication with US \$ 12.55 billion, computer software and hardware with US \$ 10.99 billion, housing and real estate US \$ 10.93 billion and construction activities with US \$ 10.24 billion occupied top 4 sectors, which attracted most foreign direct investment (FDI) during 2000-10.

Although there is wide variation in Pakistan and India foreign direct investment (FDI) inflow but there is also some similarities which have been seen during these years, like communication sector is the only sector which has top position to attract FDI inflow in both countries. Oil and gas, construction and power are other common sectors in Pakistan and India (Selim & Prabir, 2013).

There is a need to make policies and take regulatory measure to attract FDI and improve investment climate in South Asian countries because except India all other countries of South Asia attract very low amount of FDI. Although all these South Asian countries have potential to attract FDI. To strengthen the economic relationship and regional integration, Pakistan and India

have to liberalized its trade and investment regime and Pakistan and India stronger economic would help to strengthen Pakistan economic condition.

These are the sectors in which India and Pakistan can collaborate with each other.

#### **4.3.3.1 Primary Sector**

India and Pakistan are both mainly agrarian economies with agriculture contributing 13.7 percent and 21.4 percent to GDP, respectively, in the two countries in 2012-13. Agriculture is unquestionably the largest livelihood provider in both countries. Most industries also depend on this sector for their raw resources. There are substantial opportunities for Pakistan and India to investment in agriculture and processed foods. Within agriculture, there is tremendous scope for investments and joint ventures for both countries in contributions such as agricultural equipment, seeds, and technology (Hussain & Khan, 2014).

#### **4.3.3.2 Secondary Sectors**

Pharmaceuticals, textiles, transport, and energy are a few sectors that offer investment potential to Indian and Pakistani investors in the secondary sector. In the pharmaceuticals sector, there is scope for collaboration in bulk drugs and expansion of formulation and health products. Indian pharmaceutical products are cheaper than Pakistani pharmaceutical products (Majid & Mukhtar, 2013).

With energy demand rising in Pakistan, the greatest benefit could build up in the area of energy cooperation, which could act as the single most effective confidence building measure. It could result in wider participation from stakeholders and promote market integration in energy-related trade. Numerous projects involving cross-border trade in petroleum products, renewable



energy thermal energy, coal and bilateral and regional grid interconnection have the potential to cooperation (Lama, 2013). India is one of the most rapidly growing energy markets in the world and will be able to absorb new sources of supply as they materialize in the region. Pakistan can be a potential transit route for energy from Iran and Central Asia through the construction of pipelines.

This will require major capital investment. The Iran-Pakistan-India (IPI) pipeline and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline are two such ambitious projects, for which negotiations are underway. A huge transit fee and a share in gas supply on a daily basis is the direct benefit that will accumulate to Pakistan in such cases (Jain, Bimal, 2014). Trade and investment have been an integral link in improving the relations of two South Asian countries, India and Pakistan. Pakistan have to develop a strategy for transit trade, if Pakistan want to enjoy the full benefits of trade and investment flows between China, Iran, Central Asia and India.

For Investment, it will be needed to upgrade infrastructure that consist of road/railway networks. Public-private partnerships (including investors from regional trading partners) should be tie together to construct the infrastructure cost effectively. For economic well being and the promotion of regional trade there is need to improve internal governance and internal law and order situation (Nabi & Javaid, 2011).

Decision to grant MFN status to India is not only to strengthen the Pakistan-India bilateral connection but it also stabilizes the South Asia security situation. Internationally has been emphasizes that strong ties between both countries are the key to regional stability. Strengthened Indo-Pak relation is a positive development in order to achieve political and economic interests.

## Chapter 5

### 5.1 Conclusion

Trade between the two countries has not been smooth sailing in the past. Trade has been fluctuating since its beginning in 1947. During 1948-49, the two countries were largest trading partners. Pakistan and India trade were significant for several years after independence. Trade liberalization would also ease rapid normalization of broader economic relations between India and Pakistan, facilitating cross-border investments in several areas including information technology. Textile, cement, steel, sugar, fertilizer, electric goods, mining and IT industry are major industries in Pakistan. For India and Pakistan trade potential; agriculture, chemicals, metals, minerals, textiles are identified main sectors. Private sector of Pakistan also has large scope in health, information technology, energy and tourism.

Trade normalization may help to improve economic cooperation, such as electricity trade is another area where the potential and opportunities of trade are enormous. Cooperation in energy area would give greater benefits if both countries normalize its trade. To fulfill energy need and get access to Iran and Central Asian states, India needs Pakistan help. If Pakistan gives a transit route to those countries, India could get an opportunity to strengthen its economy and it will also facilitate goods and energy trade between India and Central Asia. Internationally has been emphasizes that strong ties between India and Pakistan are the key to regional stability. Strengthened India and Pakistan relation is a positive development in order to achieve political and economic interests.

## 5.2 Finding

It is a fundamental for economics that trade is beneficial for every party concerned. Liberalize trade would be beneficial for Pakistan, if Pakistan encourage self-reliance by shifting away from foreign aid to trade. Some of the finding and future prospects from liberalized trade are as follow:

1. If Pakistan grants India most favored nation (MFN) status, it would liberalize both countries trade and liberalizing trade with India would have huge economic benefits for Pakistan, India and for the South Asian region. Currently, South Asian intra-trade is the lowest among the world and trade openness would lead to a substantial increase in the GDP of South Asian region.
2. Cooperation in energy area would give greater benefits if both countries normalize its trade. To fulfill energy need and get access to Iran and Central Asian states, India needs Pakistan help. If Pakistan provides a transit route to those countries then India could get an opportunity to strengthen its economy and it will also facilitate goods and energy trade between India and Central Asia.
3. Trade liberalization would also facilitate rapid normalization of broader economic relations between India and Pakistan; they should facilitating cross-border investments in several areas including information technology. This would bring substantial benefits to Pakistan's emerging IT industry through potential partnership with the Indian IT industry. Establishing research and development facilities across the border would benefit IT and BPO industries in both countries.

4. Informal trade between Pakistan and India amounts to a huge sum and if it would be channelized, national income stream and both countries official trade volume would be increase. Resultantly, it would also serve as a source of tax revenue for Pakistan.
5. Specialization in Pakistan will also improve; it could be followed by the increased flow of technology, reduced telecom roaming charges, medical tourism, consumer welfare gains, foreign direct investment (FDI), visa liberalization by the trade liberalization and it would also increase long sought people-to-people contact.
6. Competition is the spirit of globalization and trade openness would expose Pakistani industries and markets to robust, competitive Indian markets leading to competition and competence in Pakistani market as well. Pakistan has a massive potential in intra-industry trade especially in cotton, citrus fruits, dates, cement, leather, bicycles, fans, which could also be exploited.
7. The new Silk Road would be an international web and network of economic and transit connections. Its means building more rail lines, highways, energy infrastructure, like the proposed pipeline to run from Turkmenistan, through Afghanistan, through Pakistan into India. It means upgrading the facilities at border crossings, such as India and Pakistan are now doing at Wagah. The New Silk Road would also focus on removing bureaucratic barriers and other impediments to the free flow of goods and people. Today, an Indian businessman has to import cement from Southeast Asia instead of from the flourishing cement industry next door in Pakistan. But a new silk road aims to eliminate get on your nerves for people and goods to cross borders. Such a trading structure will help an entrepreneur in Chennai to put her products on a truck that travels uninterrupted through Pakistan, through Afghanistan, to her customer in Kazakhstan. (Iqbal & Tabish, 2012).

### 5.3 Recommendations

These are key policy suggestions for India and Pakistan.

1. As there are only two operational routes for goods trade, the Mumbai-Karachi sea route and the Attari-Wagah rail link on the land border, new routes should be opened up. Poor infrastructure and lack of trade routes between these two states is quite insufficient for trade. There are very limited kinds of containers and trucks that are allowed to travel across the borders. To enhance trade both India and Pakistan should established new routes like the Khokrapar-Munabao route, to reduce transportation costs. The Srinager-Muzaffarabad and Poonch-Rawalakot routes which have been closed, it should be reopened in order to improve trade and lower the cost of transportation.
2. India and Pakistan follow an extremely restrictive visa regime. Granting city specific visa, visa for a limited number of cities, limited number of entries and for a limited period of stay, requirement of police reporting on arrival and before departure, requirement of exit from the port of entry, lack of criterion for rejection of visa, granting mode-specific visa, disregarding requested date of entry, and delay in granting visa are some of the restrictions. The most important recommendation relates to reduction visa restrictions so that trade can be carried out in a good environment. A liberal visa regime would serve as an effective channel for information exchange on trade related matters between the two countries.
3. Both countries should open direct courier services and allow opening of bank branches of the other countries.

4. Pakistan has not allowed India to access the Afghan market for its exports. Similarly, India did not give any transit rights to Pakistan to access Nepal, Bangladesh or Bhutan through its territory. In order to increase their gains from the trade normalization process. India and Pakistan must put this transit issue on their agenda. This would have huge implication for reviving India as well as Pakistan economy.
5. There is a huge information gap on items that can be imported by India from Pakistan. Government and industry bodies need to formulate a determined attempt to bridge this information gap. This can be done effectively through web-portals specifically designed to provide information about Pakistan and India trade.
6. Exhibition and fairs are an effective way of dealing with the Pakistani business people who fear entering in India markets as they are not sure their goods will be welcomed. Trade development authority of Pakistan (TDAP) should organize exhibition on annual basis.
7. Trade normalization may help to enhance economic cooperation to a great extent. Like electricity trade is another area, where the opportunity of trade is enormous. The Joint Working Groups on electricity should work on the modalities for opening up electricity trade between Pakistan and India.
8. Textiles emerge as the single largest commodity being informally imported into Pakistan from India, constituting 75 percent of the total estimates of informal inflows. This is followed by imports of auto parts and tyres (9.8 percent), jewellery items (4.9 percent) and pharmaceuticals (3.3 percent). To reduce informal trade there is need to diminish high custom duties and bans on Pakistani commodities in India and ensuring that the

tariff and non-tariff barriers on both sides fall to a level where formal trade becomes more attractive.

A combined effort towards removing the high tariffs on imports, as well as tackling the procedural difficulties of formal trade would result in substantial benefits to the farming and manufacturing community, consumers, and traders as well as to the government revenue. These policy measures are significant for the reduction of transaction costs and bureaucratic difficulties of formal trade between India and Pakistan.

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