

**TRADE RELATIONS CONFLICT
A CASE STUDY OF INDIA AND PAKISTAN**



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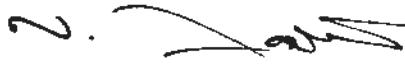
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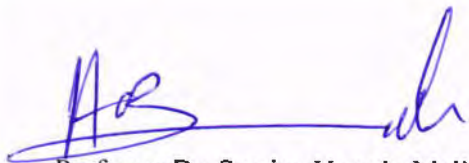
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List of Abbreviations:

SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trade Agreement
MFN	Most Favourite Nation
WTO	World Trade Organization
QIZ's	Qualifying Industrial Zone
CBM's	Confidence Building Measures
SAARC	South Asian Association for Regional Co-operation
NIC	National Intelligence Council
IPRYLI	India Pakistan Regional Young Leader Initiative
ASEAN	Association of South East Asian Nations
EU	European Union
CA	Central Asia
SEA	South East Asia
IMF	International Monetary Fund
WB	World Bank
ITC	International Trade Centre
NAFTA	North American Free Trade Agreement
MEFTA	Middle East Free Trade Agreement

PBS	Pakistan Bureau of Statistics
GATT	General Agreement on Tariffs and Trade
SDPI	Sustainable Development Policy Institute
CISAC	Centre for International Security and Co-operation
SBP	State Bank of Pakistan
NTB's	Non-Tariff Barriers
TRQ's	Tariff Rate Quota's
TBT	Technical Barriers to Trade
SPS	Sanitary and Phytosanitary Measures
QCA	Quality Control Authority
MFCA	Ministry of Food and Consumer Affairs
RBI	Reserve Bank of India
NBP	National Bank of Pakistan
SBI	State Bank of India
UBL	United Bank Limited
PNB	Punjab National Bank
FBS	Federal Bureau of Statistics
ESP	Economic Survey of Pakistan
LOC	Line of Control

CBT	Cross- Border Terrorism
BIT	Bilateral Investment Treaty
PILDAT	Pakistan Institute of Legislative Development and Transparency
IPCC	India-Pakistan Chamber of Commerce
CSP	Civil Service of Pakistan
CSIS	Centre for Strategic and International Studies
RCCI	Rawalpindi Chamber of Commerce and Industries
EABER	East Asia Bureau of Economic Research
ICRICE	Indian Council of Research and Information on Collective Economy
DOC	Department of Commerce
FTPA	Foreign Trade Performance Analysis
MOCP	Ministry of Commerce Pakistan
WDI	World Development Indicator
IPO	Import Policy Order
EPO	Export Policy Order
NDMA	Non-Discriminatory Market Access
<i>et al,</i>	and others

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Dedication

This thesis is dedicated to my Caring Parents

Loving Brother

And

Sisters

Declaration

This thesis is submitted as a requirement of MS degree in International Relations to the Department of Politics & International Relations. I solemnly affirm that this research is originally my work and none of the facts and data has been plagiarized. Any material cited from a secondary source is given with proper source and citation.

Acknowledgement

With the name of Allah, the most Gracious, the most Merciful.

All praises to Allah, the One, Who is the Creator of all the worlds, the most beneficent, the most compassionate, who bestowed us the sight to observe and mind to think and judge. At the end of this work, I would like to pay my gratitude, thanks and credit to **Allah Almighty** for giving me the strength and courage and for His ultimate blessing to accomplish this thesis.

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May Allah Almighty bless them all (Ameen).

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Abstract

India and Pakistan are known as a historic arch-rivals still after 70 years of their independence. The relations between both are based on long-standing history of rivalry, mistrust, misperception, misbelieves and misunderstandings. That is why, still after 70 years, they are unable to direct their relations in a positive way. The plant of rivalry, mistrust and hostility, that seeds were sowed long before their independence in history, has become a huge tree of misunderstanding an due to that, both the states are unable to direct their relations in a proper way. Both the states fought many battles and keep indulged in many cross-border conflicts and issues. In this research, the researcher has tried to find out a way forward as many scholars and theorists in international relations gave many examples from international community and believe that conflicts and issues can be resolved through bilateral trade and bilateral co-operative measures. Trade can play a positive role in reducing and minimizing the long standing conflict between India and Pakistan and it will ultimately lead towards prosperity and peace. So, peace and stability can be achieved between both through more co-operation and intensive inter-connectedness.

Chapter 1

1. Introduction

India and Pakistan are the two historic arch-rivals of today's century. The relations between both the states are based on misperceptions, misbeliefs and uncertainty. Both got independence from British rule and having the shared history. The long standing rivalry of both started under British rule and still remaining after almost 70 years of their independence having same issues and conflicts between them. Now, after many eras of their independence and in 21st century, when states are becoming more inter-dependant and inter-connected in this interest prone world, still the relations between India and Pakistan are moving to find a proper way.

The relations between India and Pakistan saw many ups and downs in this whole period of 70 years. They have fought many battles and remain engaged in many conflicts. Now in 21st century, when states are becoming closer and closer because of shared values of economy and becoming more connected to each other in economy and through Trade, the relations between the two is seriously putting question mark for the leadership and governments of both the states. The world today is the world of economy and states try to get their interests through economic means. In this situation, both the states are also trying to smoothen their relation that can promote peace and stability through economic and trade relations, so to lessen the threat of conflict by signing agreements and accords and by developing institutions that can promote economy, peace and stability throughout in the region as well as between India and Pakistan. "A lowering of barriers to formal trade will not only result in formalisation of current informal trade but also encourage hitherto unengaged players" (Mehta, *et al.* 2010).

But the main fact in relations between India and Pakistan is that their relations are also defined by the military and it always gained a dominant position in their conduct of relations. Both the states always try to resolve their conflicts and issues militarily rather than talks and negotiations at government level. So, this is now a very debateable topic that, whether both the states in their future relations would try to solve their issues, conflicts and problems through talks and negotiations or military would remain the dominant perspective in their conduct of relations.

In this research, the researcher would also define the relation between trade and conflict in context of India and Pakistan. The factors of conflict that are effecting negatively the trade and Interdependence would also be discussed and how much trade can be helpful in countering the threat of conflict between both would also be discussed. At the end, the researcher would define and discuss the future prospects in relations between India and Pakistan that what perspective would be dominant in future relations between India and Pakistan.

2. Rationale of the Study

The basic rationale behind this study is to analyse the trade and conflict relation between India and Pakistan and to find out that what is the more dominating factor in their relations and what are the future Possibilities in their relations, Either both would remain the conflict prone or they would go for Trade interdependence and interconnectedness and leave their conflicts for the betterment and prosperity of their state and people.

3. Statement of the Problem

India and Pakistan, the long arch-rivals are still watching to direct their relations in a smooth way. The relations between both are still conflict prone although interdependent somehow, on each other economically and on trade basis. Conflict and Trade, side by side, remained the major elements between India and Pakistan in their relations with each other. And it seems that in future along with Trade and Interdependence of both the states, Conflict would remain the dominant perspective in their relations.

4. Objectives of the Study

- To define the relationship between Trade and Conflict in context of India and Pakistan.
- To explain the factors of Conflict that are effecting negatively the relations between India and Pakistan and how Trade can be used to counter this threat.
- To elaborate Trade Interdependence as a way towards Peace and Stability.
- To figure out the future prospects in relations between India and Pakistan and finding out the future dominant perspective in relations Between India and Pakistan.

5. Research Questions

- 1: What is the co-relation between trade and conflict?
- 2: How far Trade can be helpful in countering the conflict between India and Pakistan?

3: What are the future prospects of the relations between India and Pakistan? Or what would be the dominant perspective in relations between India and Pakistan. Conflict or Trade?

6. Significance of the Study

Today, the world is going towards economic integration and all the states are becoming inter-dependent and inter-linked economically. In this context, the relations between India and Pakistan are questionable. The relations between both are still trying to move in a proper and smooth way. India and Pakistan are the historic arch-rivals, having shared history of long standing rivalries and conflicts. Both also always try to counter their conflicts through military means. So in this world of economy and Trade, India and Pakistan are still trying to counter their conflicts in a positive manner but the military always remained dominant in their relations.

This study will be helpful for the researchers and students of IR in improving their understanding of this topic of trade and conflict relation in context of India and Pakistan.

This will also provide a guide line for policy makers to make policies according to the situation and change the policies in accordance with the changing situation. And make such policies that would be helpful in smooth running of relations between Pakistan and India and to avoid Conflict.

7. Operational Definitions of the Major Terms

Trade Interdependence

It is the relationship between two or more nations or entities in which each one is dependent on other for necessary goods and services. This can be measured through the nation's relationship, bindings and dependence.

Conflict

A serious clash, struggle or disagreement typically a protracted one. It is a difference that prevents agreement, disagreement between ideas, feelings etc. conflict can be measured through clash, fight and struggle of a group for something.

Security

It is the ability of a state to protect its integrity and territory from any external threat or disruption. It is the protection of a person, building, organization or country against threats such as crime or attacks by foreign countries. It can be measured through freedom and certainty.

Stability

The quality of a state that is not easy to change or move and that is stable and consistent in nature. It is the ability to remain unchanged over time. It the condition that support equilibrium. This can be measured through reliability, consistency, solidity and secureness.

Rivalry

A situation in which people, states and businesses compete with each other for the purposes, things, profits and rewards. It is the competition for the same objectives or for superiority in the same field. This can be measured through competition, contention, conflict and strife.

8. Theoretical Framework

India and Pakistan are having the historic relations as both got independence from the British rule. From the day of independence till date, both are known as arch-rival because of their long-standing history, their cultural norms and behaviour and still the sense of unacceptability of each other is there. In these 70 years of independence, the relations between both remained unpredictable because of many conflicts, public attitudes and government behaviours. They mostly indulge in conflicts, wars and other issues rather than co-operation, stability and peaceful settlement of their conflicts. Now, as the world is more prone towards economic integration, interdependence and interconnectedness of states, States are now more likely to depend on each other to solve their issues and problem and for the economic purposes. In this situation, India and Pakistan are still trying to give a smooth way to their relations. This is still uncertain that in which way the relations between both would go on. Either the conflict or the Trade would take a lead in their bilateral relations in future.

This research would use the theory of "Neo-Liberalism". Neo-Liberalism is the theory emerged after the cold war. This theory is known as a revival of traditional Liberalism. The main proponents of this theory were Fukuyama and Immanuel Kant. This theory is also known as economic liberalism as talked about the economic liberalisation policies.

Neo-Liberalism basically talked about the liberalisation of market without any bound or restriction by the government or state. They talked about the openness of the market and on trade and investment. They talked that political and economic development of states would ultimately lead toward western capitalist democracy. They also talked about Privatization, Deregulation of government. Most important of all this

theory discussed that these all things make a society a 'Progressive Society' and a progressive society can only be made if the conflicts would be eliminated. The Neo-Liberal thinks that war is a disease and it is rationally unthinkable for a state. War only brings destruction and it can lead a state to its death. So war and conflicts must be avoided for the co-operation and collaboration and for the betterment of the people and society.

This theory can best explain this whole scenario between India and Pakistan. India and Pakistan are having the economic ties and trade relations but now the conflict and military is the dominant perspective in their relations and that is also the reason of their unsmooth and complex relation. This situation can't be handle until they make a proper way to run their relations and that way can only be achieved through trade and economic ties that can bound both the states firmly. So it is very necessary for both the states to think rationally while making policies for each other and the policies that would lead them in the line of prosperous and healthy societies.

9. Literature Review

The relations between India and Pakistan are always remained uncertain because of the long standing history, misperceptions, misbelieves and misunderstanding in resolution of bilateral issues. They both believed on serving their interests and intentions rather than mutual benefits. 1998 was the time when both the states faced a huge change became in the verge of war on Kargil Issue. India always blamed Pakistan on Kashmir issue for assisting the infiltrators and providing them with arms. In this issue, this whole scene was tackled by international community. India also accused of entertaining the Taliban's for creating unrest in different parts of India. In 2001, the relations between India and Pakistan again became worse after an attack on

Indian parliament. Indian government made a charge sheet and handed over to Pakistan in which they demanded for the twenty individuals who were involved in this attack. Musharraf government denied the allegation of India. Along with this both the states also remain engaged on some actions to promote peace and stability in the region including CBM's, Mediation, Trade talks and security assistance. Now along with the militarized conflicts, both the states are trying to come on the talk table and they got this that peace can be attained only through the positive attitude. And both the states also trying to stabilize their internal condition and situation so to gain mutual peace and stability at broader level. (Bashir 2013)

The Idea of promoting peace and stability in Sub-continent is based on the idea of Trade and co-operation. Trade relations between Pakistan and India are vague and unsmooth because of many long standing historic issues and rivalries. Both the states are going towards the right policies of cooperation although there are many problems in foreign policies of both. Although there is a historic rivalry going on between both the states but both states have tried to conclude many economic and trade agreements including SAFTA and SAPTA. The increase in trade volume between India and Pakistan can enhance the stability and peace not only within both states but also within the region. Now both the states are moving towards stability and peace through bilateral talks and negotiations and joined many trade organizations and agreement. The status of MFN to India by Pakistan can improve the trade and bilateral relations between both the states. And it would be beneficial for both in long run (Ali, 2015).

India and Pakistan are the two very main countries having the potential to change the geopolitics of South Asia through their bilateral relation, also made many efforts to do so, though considered as historic arch-rivals. At the time of Independence

both were heavily dependent on each other in imports and exports but with the growing complexities in their relations, it went down with the time. The trade between India and Pakistan is still going on in many sectors. India also gave the MFN status to Pakistan under WTO agreement for the normalisation of bilateral trade relations of both. This whole peaceful process is also supported by the stakeholders of both countries. They both have also many agreements including (customs co-operation agreement, mutual recognition agreement, preferential tariffs under SAFTA and SAPTA). Both the states still need to improve their intra-industry trade which is standing at the low level despite of their geographical contiguity and cultural binding. Now, both are realising the great need of mutual co-operation and interdependence on all the fields including Visa liberalisation, transaction and transportation, pharmaceuticals, textile, food etc. so to enhance the benefits of the people of both sides and for the peaceful and harmonious bilateral relations (Mehta, 2012).

States are not only challenged by its capabilities and interests but also by its neighbouring countries. Pakistan and India are considered to be the historic arch-rivals with a complex historical relationship. They have fought many battles, faced many issues and conflicts. Both are very much possessive about the peace and stability (as the major actor of the world politics as well as the region) that would ultimately lead peace and prosperity in the region. The peace process between Pakistan and India faced many ups and downs, started from 1997 till date sometimes by the political changes in the governments and sometimes by the conflicts and problems that are mostly countered militarily rather than politically or by peaceful means. Both the governments are needed to resolve their issues such as Kashmir, Sir Creek, Siachin, Border conflicts, Drug Trafficking and most importantly the Terrorism with peace, talks and negotiations that

can ultimately lead them towards peace and stability. So in this advanced century of fast communication, information and technology, they would also take part in this advancements (Adnan, *et al.* 2016).

It is defined in history by many examples that no neighbouring countries especially the contiguous ones, can live and survive in a long belligerent relations. The relations between Pakistan and India are also followed by conflicting long history. Both the states are trying to coup up with these issues of conflict through bilateral relations and ties. A move is taken by the Pakistan's government recently, by increasing in positive list of tradeable products from 773 to 1075 under SAFTA. It is defined that peace can only be achieved through bilateral economic relations and ties as happened in many parts of the world. Different states have signed QIZ's for free bilateral and regional free trade agreements. Pakistan and India have also signed many agreements under SAFTA and SAPTA for harmony in relations, peace and stability. Through these means, conflicts and issues between states can be resolved and if not fully diminished, the intensity of the conflicts can be lessen (Mehta, *et al.* 2006).

In almost 65 years of their independence, Pakistan and India still unable to resolve their conflict and not become a friendly and good neighbours. But still, the process of maintaining peace is going on in a way that it would make prosperous the people of both sides. There are several attempts and recommendations that lead Pakistan and India towards a peaceful, happy and friendly relationship. The main issues of conflict between Pakistan and India are the long-standing history, their inability to resolve their historic rivalries, Kashmir dispute, border issues (Siachin and Sir Creek) and most importantly, the water issue between them. Both the states used many times the military power to resolve their conflict but still unable to make a proper solution of

that. Both the states also possess nuclear capability. They are very much concerned about Afghanistan. The issue of Non-State Actors is also very hot topic and brought many times to the verge of war to both the states. Beside all these factors, there are many things of common interest between both the states that can ultimately help both to lead their nations towards peace and harmony including economic developments, trade and socio-cultural relations of both. Both the states have optimistic attitudes towards bilateral trade and peace. They are making many CBM's and trying to give a smooth way to their relations for future harmony, peace and stability within them and in the region also (Salik, 2013).

The world today has witnessed a huge range of regional and preferential trade agreements from last two decades. From 1990, the number has consistently increased at global, regional and bilateral level of states. The main drivers of these agreements are mostly economy, political, social and cultural forces. And these are also used as a mean to bring peace, stability prosperity and equality within and between states and in the world as a whole. The fact here is that all these agreements either regional or preferential are failed to promote peace and stability in the region of south Asia. The conflicts between and within states are so overwhelming that they almost suppressed the process of bringing peace, prosperity, security and stability in the region. It also defined the theoretical underpinnings of the trade and conflict relation. As defined by the classical theory of trade and international theory. As trade theory define trade as a prominent prospect to bring benefits for the states through economic purposes. And this can only be possible through providing the channels for the non-military resolution of disputes. On the other hand, international theory gave an opposite perspective to trade theory. The main findings of the study suggests the reverting to SAARC's mandate that

is co-operating of states for the betterment of their own people and for the prosperity at the state and ultimately at the world level (Khan *et al.* 2007).

According to the recently published study of National Intelligence Council, *Global Trends 2030: Alternative Worlds*, Pakistan and India must expand their bilateral trade if they wanted to be peaceful over next 20 years. Pakistan must boost its economy in order to get rid of its internal issues because of unemployment and inflation. And the only way for Pakistan to boost it up is to make trade with India. It is notified that trade is the only way between both the countries to forget their old enmities. But Pakistan also wanted to resolve their political issues along with trade that India is slightly unwilling to do. Both the governments also showed a courage by giving MFN status. India gave this to Pakistan in 1996 and Pakistan is also thinking of doing the same. In recent years also, despite of having issues along Line of Control, both tried hard not to interrupt their trade. They also have to coup up with the political and psychological barriers of the public and state. But for the trade with each other, most importantly both would have to satisfy their national security concerns and damage to local economic interests. At the end, the benefit would be magnificent (Engelken, 2013).

Trade will be the only reliable mean of peace and stability for India and Pakistan that was discussed in India-Pakistan Regional young Leaders Initiative (IPRYLI) held in Islamabad. They decided that the trade is the only way through which the governments of both the states can change the livelihood of billions of people and this will also be a mean to curb the conflict between the both. The trade between India and Pakistan saw many ups and down because of many incidents of history and of present political conditions and that remained the main reason of fluctuation of Indo-Pakistan trade. Many breakthrough came in their trade relation after the start of 21st century

including the land and sea trade routes that really facilitated the traders of both the sides and brought the marked changes in their relations. Still, there are some constraints in their trade relations including (infrastructure, Transit rights, financing and banking facilities for the traders of both the sides and limitations on goods that can be traded). Sector wise trade between both the countries is very important. Trade is not only belongs to numbers and statistics but it is used to effect the livelihood of the people. If the trade relations between both the countries are normalised, both countries will be able to get access to a bigger markets and it will also lead to more employment opportunities and will maintain peace and stability between both the countries. The most influential examples for these two countries are ASEAN and EU (Kumar, 2013).

10. Research Methodology

10.1 Research Design

The Research methodology will be based upon secondary sources from the most current literature, researches and arguments regarding the relationship and future possibilities of Trade and conflict relation between India and Pakistan. The methodology of this research would be based upon “Content Analysis” that is also descriptive and analytical. If research required, we will also get data from primary resources by conducting Interviews from analysts, Ambassadors and Diplomats.

10.2 Data Collection

Data will be collected from secondary sources as Scholarly Journals, Articles etc. In this, research qualitative analysis will be done on the basis of qualitative data. All research finding are aimed to understand the relationship between Trade and Conflict and future possibilities in relations between Pakistan and India.

10.3 Data Analysis

While processing Data, first of all developed data will be paraphrased and then sum up with mentioned sources in the references. Data Analysis used in this research in based on collection, validation and use of multiple secondary sources of data collection.

11. Organization of the Study

India and Pakistan are the historic arch-rivals, share the common history and similar in their systems. The relations between both are such unpredictable that even after the 70 years of independence, they are still trying to make them smooth and peaceful. The military power has gain an upper hand in both the states and direct them militarily. So, this is the reason of their, sometimes cold, smooth and sometimes conflicting relations. So, the First chapter will deal with the Introduction of the area, Research Questions, Theoretical Framework and Literature Review.

The Second chapter will deal with the Introduction of India and Pakistan in context of Trade and Conflict Relationship. This would discuss the relationship of trade and conflict and introduce this area of discussion.

The third chapter will discuss the factors of the conflicts between India and Pakistan that are effecting negatively the trade process and interdependence of both the states. This will also discuss the trade as a helping factor to counter the threat of conflict between both the states. It will also discuss trade as a factor or main variable in making the region stable and peaceful. As these two states are the very main states of the region. So, it will be discussed as a main variables.

The Fourth chapter would discuss the future prospects and possibilities in relations between India and Pakistan. It will discuss that what prospects of their relations either trade and interdependence or military and conflict would remain dominant in their relations.

In the Fifth chapter the recommendations would be given and conclusion will be discussed in the last chapter.

Chapter 2

Co-Relation between Trade and Conflict

1. Trade

Trade, a basic concept of economy is also known as Commerce. Trade involves the exchange or transfer of goods and services either locally or internationally. It mainly deals with the buying and selling of different goods and services. The difference between trade and commerce is that trade only deals with the buying and selling of goods and services but the commerce includes other activities also as banking, advertising, transportation etc. The medium of exchange in trade or economy is money but this can also happen with the exchange of goods with other goods or services. Trade can happen between two people or parties and it may also involve many people and parties. So it can be bilateral or multilateral (Postlethwayt, 1971).

Trade is defined by many authors and writers as:

Trade refers to buying and selling of goods and services for money or money's worth (Akrani, 2011).

International trade also refers to the transfer of goods and services which include capital goods from one country to another (Hassan *et al*, 2014).

Trade is very important for the economy building of the states. States cannot get success in the world if they are less developed in economy. Through trade and exchange of goods and services, states can get income that is very much important for their survival. Trade that includes many states in it is called International Trade where a state sell its goods and services across border. International trade is known as a backbone for

the survival of the states. In international trade between states, the producers of one state can get an expanded market where they can sell their goods and services to the buyers of the other states in affordable and less prices. And this can also increase their business and expand their productions. It increases the productivity of the producers too. International trade may happen for many reasons as to get closer with other states and nations, to increase the productivity and it is also happen when a state lack the productivity, resources or capacity to make their own products for their domestic market. Now, Trade has a long history that can be traced from ancient times (Heakal, 2015).

1.1 Historical Background

Trade, originally was known with the system of barter where people and communities used to exchange goods with other goods and used to fulfil their needs and demands. Trade, at that time was the only and major mean of communication and used for a meeting place. It also gave market as a platform to people for meeting and communicating with others. The medium of exchange was also different of the people of old times as they used the goods in exchange or used the precious metals in exchange of the goods for their survival and fulfilment of their needs before the invention of the paper money. Trade has a vast history of it that how it get started and how it evolves through different time periods. The trade history revolves around the different time periods from Ancient to Modern ages. It can be divided in many ages including:

Pre-Historic

Ancient Times

Middle Ages

Modern Times

Post War Time

Globalization and Trade

1.2 From Historic to Modern Times

The history of trade and communication of people dated back to pre-historic time period when the modern-day currency was not invented and people used to exchange goods and services with each other in a system of barter. This time can be dated back to approximately 150,000 years ago investigated by Peter Watson, the famous journalist and researcher (Dorobat, 2015).

Trade also went on the Ancient times or in stone ages, where people used to buy the things of their needs in exchange of the stones and metals. Most common of those metals was Obsidian that was formed, when the felsic lava of a volcano cooled down rapidly. This metal was used to make utensils and other tools. The time of Ancient History is about 100,000 BCE. The people of this time used to trade things for about 900 kilometres in the Mediterranean region and South West Asia (Whipps, 2008).

In this time period, long trading routes were discovered from Mediterranean Sea to South East Asia and South West Asia. Mesopotamia was the most common trader at that time and then Britain, Greeks and Romans also came and travelled for long distance places for the trade. They used to trade the materials used for making jewellery in exchange for spices, food, wheat, tea, weapons and other products of their use. This long distance trading also discovered the new routes and transportation system and networks for trade. At the same time, Greeks and British paved their ways for colonization and made many areas their colonies. So, till this time, almost most of the

regions of the world came together in trade including Europe, Africa, Asia and China and the west (Whipps, 2008).

During middle Ages, Central Asia and South East Asia remained the main trading areas. European states traded food, spices, clothes, groceries, paper, perfumes, pearls and thousands of very precious metals from these regions. European states especially England prospered much in this period made many colonies and expended their area. They also made revolutionary invention in shipping and trading and discovered new routes for trade. They were also the first one who made long distant voyages for trade. The most important trade at that time was the spices imported from the Asian states especially from East Indies. Trade in East of the Indies was dominated and ruled by Portugal, Dutch and British IN 16th, 17th and 18th century relatively. The Spanish developed regular and direct trade links in Pacific and Atlantic Oceans (Helpman, 2012).

Till the modern times in 18th, 19th and half of 20th century, the means and ways of trade changed much and a very complex system of trade had developed with the course of many centuries with the development of human history. Till that time, the states started trading for long distances through sea and developed many trade routes. So, till that time, states got connected and linked in trade. In modern times, many scholars, intellectuals and theorists of economics developed many theories regarding trade, market and labour. They also gave theories and rules about the fixation of prices in market and talked about the terms and rules of trade and tariff. During this time, states organized themselves and made many trade agreements and they became economically interdependent. They made complex economic networks that allowed

them to trade on many terms and to entertain others for their mutual economic benefits (Cloud, 2014).

After WW1 and WW2 in 20th century, the world saw a huge expansion in economy and the trends of the world trade had changed much. After the worldwide destruction caused by the world wars, states started thinking for mutual interests and talked about making a world organization that would be responsible for maintaining the world peace and regulate the behaviour of the states. So, states organized themselves and a huge expansion happened in world trade. The states including the Eastern European states and the states of Asia experienced the high growth in economy. During this time, even the states who severely suffered by the wars including Japan, Italy, France, Germany and Greece also increased their economy and advanced themselves in economy (Terborgh, 2003).

1.3 Globalization and Trade

After the emergence of globalization, when states became more dependent and inter-connected with each other, trade also expanded its sphere. Globalization connected the states and linked them as a web. States started their international relations in every aspect of human life and influenced each other. This also affects the trade aspect. Now, trade and business is more commonly affected by the globalization. Many international trade and economic organizations are formed due to globalization. It also developed the sense of regionalization and this ultimately leads to the regional economic organizations. Most important International economic and trade organization are World Trade Organization (WTO), International Monetary Fund (IMF), World Bank, and International Trade Center. These all Trade and economic organizations

enhance the economic activities across the world and make the trade and economic rules and regulations for their member states (Suvral *et al.*, 2015).

Many regional economic organizations are also formed due to this process of globalization across the world regions. The very large economic organization is formed in Europe known as European Union that is responsible for all the trade and economic activities of its member states. North American Free Trade Agreement (NAFTA) is the largest trade agreement of the world by area that include US, Canada and Mexico. Middle East Free Trade Area Initiative (MEFTA), South Asian Free Trade Agreement (SAFTA), Regional Trade Agreements of Africa are also these agreements that are working for the regional integration of the trade, to facilitate the states on trading activities and to make the economies of developing countries more prosperous (Suvral *et al.*, 2015).

The most influencing fact of globalization is the food of different areas can be found everywhere in the world. The international food chains are formed and found anywhere and everywhere around the world. This is the impact of globalized world and enormous advertising techniques used by these food chains as McDonalds and Coca-Cola can be found anywhere in the world. The budget of these food chains are now even more huge than many of the states of the world. So it is also one of the impact of globalization that enhance the trade and economic activities that open the world markets and make all these economic activities possible (Beacham, 2014).

All these activities are the impact of globalizations that states are becoming more inter-dependant and inter-connected to each other through their economy and trade. And this integrated economy will ultimately lead them towards democratic values, good societies, prosperity and well-being of the people.

1.4 Types of Trade

Trade is the exchange of goods and services and it involves the buying and selling in it. Trade has a whole chain of working, where the producers produce a thing and from passing through a whole supply chain it comes in the hand of consumers. Trade is very much important to fulfil the needs and demands of the people. It is not only important for earning profits but also important to satisfy the wants for the people. So it is an essential social activity (Akrani, 2011).

Mainly, trade has two types:



Source:<http://kalyan-city.blogspot.com/2011/03/what-is-trade-meaning-and-nature.html>

1.4.1 Internal Trade

Internal Trade is also known as National, Domestic or Home Trade. It happens within the boundaries of a state and included the exchange of goods and services. This can happen on different level as local, regional or national. This trade include the buyers and sellers of the same locality. Internal Trade is very much important for a country because it facilitates the needs and demands of the domestic market and consumers and profits are gained by the local producers. Through this process the local productivity level is increased and the consumers can best be able to get benefits of the local

products. This can also increase the energy level of the local producers and they can enhance their productivity as well as their quality of the products. This can also boost the economy of the country. A country can be self-sufficient in its products and this can also lead to the improved standard of living with high employment rate of the local people of the state. Then they can further enhance their business to the international level (Nikhil, 2015).

Internal trade can further be classified into two categories. As:

1.4.1.1 Wholesale Trade

Wholesale is also known as a backbone of the internal, domestic or home market. The people who deals with the whole sale are known as wholesaler. They work as a direct chain between the producers of the products and the consumers. They store the different things and then they provide it to the consumers. Wholesalers require a huge amount of money to run their business and then they used to store one or different things. They get huge quantity and then sell in small quantities to retailers and consumers. They get the cash payments sometimes that directly profitable for the producers also. They are specialists of a particular item or general ones. They invest a large amount of money in their business. They are also involved in packaging and advertising market. Wholesalers are important for both producers and consumers or retailers as both are dependent on this. Wholesalers make producers able to reach in the market and work as a chain between retailers and producers. They also fixed and equalize the prices of the products. They also advice the producers about the ins and outs of the product as they know the taste of the consumers in the market. So they are very much important in the domestic market (The Daily, 2015).

1.4.1.2 Retail Trade

Retail Trade is the trade that has a direct link with the consumer. The people who do retail business are known as retailers. They are known as the last chain in the market. They link the consumers to the wholesalers work on a small or large scale but sell small quantities to the consumers for daily uses. They worked mainly in the main area of the market and directly linked with the consumers that is why they have to face a huge competition in the market. Retailers may deal with the same products or a huge range of the products. As booksellers may only deal with the books and stationary related material but a medical shop or a medial store may contain the medical related all material and other things related to cosmetics also(Epstein, *et al.* 1934).

1.4.2 External/ Foreign Trade

External Trade is also known as International or Foreign Trade. As domestic trade is known as the trade links within the borders of state, international/ external or foreign trade deals with the exchange of goods and services across the border of a state or it happens internationally includes two or many states in it. It includes Imports, Exports and Entrepot trade in it. International or foreign trade is very much important for the economy of the states. And it is also known as a backbone for the economy of the states (Akrani, 2011 & Heakal, 2015). Because the producers and manufacturers always try to expand their business not only in one market area but also across borders that is not only very much important for them but also very significant for the economic growth and prosperity of the sates. This trade usually happens for the mutual satisfaction of the needs and demands of the different products and resources. The importance of the foreign trade arises with the fact that no state in the world is self-sufficient in making or producing all the goods and services for themselves or less

sufficient for the requirements so they depend on other states for their fulfilment of the needs (Siddiqui, 2006).

Foreign trade can also be bilateral and multilateral as trade agreements between two countries is known as bilateral trade and trade agreements between more than two countries is called multilateral trade.

Foreign trade is important for many reasons as it gives the costumers a huge choice of the products. They are batter be able to choose the good products that are better in quality. This also equalise the prices in the market. It generates the employment opportunities for the people and also very much important for the economic development and growth. It is also important for the world peace and stability because the states become interdependent and inter connected with each other through trade and development. So they are more prone towards peace and stability (Gonnelli, 1993).

International trade can further be divided in three categories.

1.4.2.1 Import Trade

Import trade happens when a thing (goods or services) is purchased by one country from another or the inflow of trade from a foreign country to home country. This is the only way to bring that products in home which a country lacks and to get rid of those which are not needed or abundant in the land. So it is important for the fulfilment of the needs and demands of the people and customers of the state. Import trade is very much important for the small or developing countries as they can easily get the products that they need, that are not easily available to them or they are less efficient to make those products at home. Through importing of trade, the individual

customers are the most beneficial as they can get the products of high quality with cheaper rates. So they are happy with them. Through imports, customers can get a better thing of their own choice with fewer prices that can increase their standards of living.

1.4.2.2 Export Trade

Export trade happens when a country sell its domestic products (services and goods) which is abundant to its land or more than its domestic needs to another country for the purpose of gaining profits. The countries that export their product, goods and services are known as exporters. Countries always try to be in the list of exporters rather than importers because this gives a huge benefit to their economy and very much important for their economic growth and development. Exporting of domestic products to other countries gives a direct access/ reach to the domestic markets of other countries and through making good and cheaper products they can get huge profits. This makes the environment of international market more healthy and competitive in good manner.

The exporters always make good products in cheaper rates for international market that can compete with the same products of other countries and that are more pleasing for the customers. So, the main target of the exporters are the customers. This ultimately is very much beneficial for the exporting countries. Through exports, they can expand their sphere of market, can get rid of the extra resources which are abundant in their land, can boost up their economies, generate profits for domestic market and economy, get access in different and diverse markets, to excel their businesses, gain experience and knowledge about international market culture, know about the new technologies and can exceed their business and livelihood of their people through the economic boost.

1.4.2.3 Entrepot Trade

Entrepot is also known as re-export of trade. It refers to a trade in which an imported thing is again exported after some processing or packaging. In this process, a state import something from another state for doing some process on the thing and then it is again exported to the particular state. Entrepot is also known as a transshipment city where different trading things are imported and stored usually for the sake of exporting again. Entrepot trade also refers a system in which a state import some trading product from one state and then export it to another one because of inaccessibility for the importing country to reach in the market of exporting country because of long destination or other reasons. Having no direct link between the importing and exporting countries, inadequate banking system of the importing state and no trade agreement can also be the other reasons of this kind of trade. So, entrepot can also be called as indirect trade.

1.5 Significance of Trade

International market provides an important place for trading activities where states can trade with each other. Trade is very much important now and it has almost fall the concept of borders in states. States are now more prone to each other in trade and borders became less important. States mostly trade (import and export) the products which are either unavailable in their own land or not enough to satisfy their needs and demands or when some products are abundant in a particular land. So, the states export that products to other states. This is how the international trade is going on in the whole world. There are many other reasons too of why international trade become so much important in today's world (Gay, 2014).

These reasons are:

- Trade increase the interdependency between states and states become more inter-linked and inter-connected to each other.
- Through trade, states are becoming much closer to each other that ultimately lead towards the world peace.
- Through trade, states can get the easier access to international markets and the domestic markets of the other states.
- This is very much important for the economic growth and stability of the states.
- This lead towards the openness of the markets and the customers can get a huge range of products so, can chose the best and cheaper one. So, they can get a huge variety of the products and choices.
- Through access in international markets, states can get a goodwill posture in the eyes of international community.
- Through trade, states can fight with the scarcity of resources or the non-availability of the different goods and services, in which they are not self-sufficient.
- Through trade, states can boost up their economies and know the latest technologies and developments and in the light of those developments in international world, they can bring changes in their systems and change themselves with the changing world.
- This can also generate employment opportunities for the people and raises the standards of the livelihood of the mases.

So, this is how, trade can play and is playing an important role in the current world system and that is why all the states are following this in their own systems. States are becoming more connected and now they are paying more attention to their economies rather than their militaries to make them safe from others interventions. Now, with this interdependency, they are fearless from the foreign interventions and wrongdoers.

2. Conflict

Conflict in its literal meaning can be defined as a struggle, clash or difference of ideas, interests and values between people of opposing forces. It is the opposition and disagreement between ideas of different people in a way that people feel fear or threat to their ideas and values (Nicholson, 1992). Psychologists and social scientists defined conflict differently as psychologists defined it as a psychological struggle but social scientists define it as a clash of ideas that threaten the interests of the opposing party.

Some scholars define conflict as a situation in which two or more parties strive and struggle to get the same scarce resources in a same time and to clash to get and acquire the same resources but in actual, conflict actually arise when they are unable to acquire those resources in any way. But sometimes it happens that there is no conflict but only perceived in the minds and hearts of the people and they used to feel the threat because of that. Conflict is also defined as a result of opposing interests that involves scarce resources, goal divergence and frustration (Barash, *et al.* 2002). Conflicts may include many aspects in it that can be the reasons of the conflict that are the economic perspective, historical background and issues, environment, human security etc.

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While discussing the concept of conflict, the perceptions of both the sides play an important role in the spreading or preventing the conflicts. As one party perceived one thing about its opponent and opponent perceptions and intentions are also different than those are perceived. But in all cases, conflict can be lessen and mitigate and alleviate wit rational thinking and disputes can be resolved.

2.1 Types of conflict

There are many types of conflict that define conflict from different perspectives. But I would prefer only on two types of conflict, including:

2.1.1 Intra-State Conflict

Intra-state conflict/violence is the most common type of conflict/violence in today's world. An Intra-state conflict is also known as a civil violence /war. This is very much commonly found in different states of the world where government of the state is always try to counter the violence of a non-state actors or groups who are actively involved in these thing and challenge the writ of the government. This group take control a large part of the territory and organized their activities against government from that very territory. This group is very much organized in their activities to create problems and sufferings for the people as well as for the government itself. This kind of violence is mostly found within the boundaries of a single state but it has also significant international affects and can spill over the boundaries of international states. So, international world feel threaten of this too (as the conflict of Syria and Egypt) (Dzuverovic, 2012). Intra-state conflict can be defined as:

“A conflict between government and non-government entity over contested incompatibility with use of armed forces which results in at least 25 battle related deaths (per incompatibility) in one calendar year” (Dzuverovic, 2012).

Intra-state conflicts emerge due to many reasons as sometimes because of the ideology, identity, autonomy, for the gain of political power and for the sake of economic resources.

2.1.2 Inter-State Conflict

Inter-state conflict is the kind of conflict that involves two or more states in itself that are also the part of international community and then definitely fight for their national pride and with their respective national forces. Inter-state conflicts are the direct and open conflicts or wars between two or more states. Inter-state conflicts are the severe ones as they include many states in it and include the military forces. And international community also take part either to escalate or deescalate the conflict (Miss, 2012).

2.2 Conflict Prevention and Conflict Management

Conflict Prevention and Conflict Management are very extensive terms. It means different to different people. Conflict prevention can be defined as measures that are taken to prevent or stop a possible conflict or stop an up rise of a conflict. Prevention of conflict before its arising is very much important for the states because through this way, the states can manage their relations in a good way. Conflict prevention may be divided in two categories. One is Direct Prevention and the other is Structural Prevention. Direct Prevention includes the measures that are short-term in nature and used to stop the approaching conflict but Structural Prevention includes the measures

that are long term and address the underlying problems' and issues that are causing the conflict (Melander *et al.* 2007). It also defines the factors that trigger the conflict.

Michael Lund defines preventive diplomacy as

Actions taken in vulnerable places and times to avoid the threat or use of armed force and related forms of coercion by states or groups to settle the political disputes that can arise from destabilizing effects of economic, social, political, and international change (Swanstrom, *et al.*, 2005).

Conflict Management is somehow different from Conflict Prevention. In conflict management, firstly the causes of conflict are detected and then the solutions are given to manage the conflict. So conflict management can be defined as, to limiting the negative aspects while increasing the positive aspects of the conflict (Verma, 1998).

3. Co-Relation between Trade and Conflict

The relation between Trade and Conflict is very debateable as it includes many theories and different arguments by the scholars of Trade as well as Conflict. There are different arguments as many questions arose on this topic as what is the relation between trade and politics and do political events affect the trade relationship between states? Do increased trade relations between states can stop the upraise of the conflict? Or conflicts can stop the trade relations between states? All these questions are addressed in this area of discussion and can better define the relationship between trade and conflict (Armstrong, 2010).

While answering these questions, we can say that trade is the most important factor in the relations between states in this globalized world. States do not consider their matters, issues and conflicts when there are economic benefits. States come to know

that the cost of conflict is always bigger than to cooperate in the economic sphere. The case studies of Europe, China-Japan and Germany-France can be considered as worthwhile as these states forget their differences with the passage of time and bring themselves on the talking table. So when the trade and economic benefits come, states mostly forget their political and differences and tensions. But still the scholars are divided in to two parts and defined different theories of trade and conflict. Some argued that trade brings openness and states are more likely to work together and other says that it increase the tensions between the trading partners (Smith, 2012).

There are two types of relationship between conflict and trade. The first approach is the impact that trade has on the nature of conflict and the other is the effect of conflict on trade. The second relationship is quiet easy to define that effect of conflict on trade is always negative. Whenever there is a military conflict, the trade relations always reduces and it further impact on the welfare and the prosperity of the state. On the other hand, it is quite difficult to determine the impacts of trade on conflict. In this regard, there are four approaches (Patel, 2013).

3.1 Theories of Trade and Conflict

Different scholars/theorists defined different theories of trade and conflict. There are mainly four theoretical approaches (Liberalism, Realism, Neo-Realism and Neo-Marxism). Each defined the relationship between trade and conflict followed by their own perspectives.

The liberals argued that trade makes the conflict costly for the states and countries those are involved in trade are more likely to be peaceful (Polachek, *et al.* 1999). This theory is applicable for both internal and external conflicts. As internal

conflicts are avoided when the international trade happens because the international trade is happen in smooth and peaceful environment. The states also avoid the international conflicts because the states are more prone towards peaceful environment and conflicts always disrupt the smooth flow of the trade and economic growth. So if the states want to get the highest gains in their relations, then they never goes towards conflicts and maintain the healthy and friendly relations with each other (Russet, 1993).

Neo-Marxist believe that Trade and economic ties always reduces conflict but there is another side of the picture too that is trade is only helpful when the benefits or gains from the economic ties are equally distributed among states. And if it is not distributed equally, conflict arises. It is beneficial only when it produce equal and net benefits for all the parties that are involved in the process (Dorussen, 2004).

The Realists believe that Trade also increase the conflicts between states. It can reduce the conflicts sometimes by increasing its cost but sometimes it is problematic too. The growing level of economic ties also increases the conflicts, when states try to negotiate the different trade agreements, the political conflicts emerge. Trade is also used as an instrument of coercion. States use these to threaten the other states through economic sanctions (Stein, 2003).

There are also some scholars who believe that as the trade relations arises and concept of greater trade emerges, there arise more opportunities of conflict as greater conflict lead towards greater conflicts. In this argument, neo-Marxist also agreed that the capitalism is basically support the competition over scarce resources. And when the resources are scarce, their rise a conflict because of competition. So basically trade leads toward conflict rather than peace and prosperity (Patel, 2013).

So, trade is both reduce the conflicts and disputes as well as increase the conflicts. The relationship between trade and conflict is very debateable. And there are no clear lines between the two. Trade reduces the conflict sometimes and in some cases as in the case of India and Pakistan, China and Japan and in European states. But sometimes the political conflicts and disputes take the lead and seize the economic activities between states. So this relation between Trade and Conflict is very unpredictable.

Chapter 3

Trade: A mean of Countering Conflicts between India and Pakistan

1. Indo-Pakistan Trade Relations since 1947

The relations between India and Pakistan have seen many ups and downs throughout the course of history due to many historical and political issues and conflicts. This is the result of the bloody partition of the British India in 1947. Both the states have been involved in many bloody wars, disputes and border issues since then. So the relations between both are always remained hostile and questionable. The issues that polluted the relationship between the two as well as of the whole region of South Asia are the territorial issues, Ideological and ethno-religious differences and disputes, cross border extremism, competition over economic resources and most importantly, Pakistan's close and brotherly relations with the People's Republic of China (Azim, *et al.* 2016).

But still some areas of both the states are overlapping in the area of language, demographics, economy and geography (Paracha, 2016). Both the states never gained the momentum of cooperation because of their unresolved disputes and issues. And they always need to overcome these disputes before entering into the sphere of cooperation and collaboration (Mumtaz, *et al* 2016).

India and Pakistan got independence from the British rule on 15 and 14 August 1947 respectively. By the time of independence, both the states were highly dependent on each other in their economy. Pakistan's exports to India were 56 per cent of its total exports and imports were 36 per cent of its total imports in 1948-49 (Tabish *et al.*, 2011).

But with the passage of time, and due to many unresolved conflicts and political issues, both the states faced many challenges in the trade and economic sphere. After the partition, the trade relations were stable for some years due to the dependency of both states on each other but after the 1950's, the trade began restricted. Both the states saw many intervals in their trade relation too as a 9 year interval and blocking of relations from 1965-1974 after the war. Then in 1974 they signed a protocol to resume trade. But one of the interesting facts in this whole scenario was that, as the political disputes intensified between the two, they also began to pursue diversified trading partners and USA became the largest trading partner of Pakistan then at that time (Pasha, *et al* 2012).

Declining Share of India in Pakistan's Global Trade (1951 - 2000)

Year	% share of Exports	% share of Imports
1951-1952	19	0
1959-1960	5	3
1964-1965	9	2
1969-1970	0	0
1974-1975	0	0
1979-1980	2	0.3
1984-1985	1	0.3
1989-1990	1	0.5
1994-1995	1	0.6
1999-2000	1	1.6

Source: Pakistan Bureau of Statistics, 50 Years of Pakistan in Statistics.

This table shows that the volume of trade between India and Pakistan became very low soon after the partition. It saw many intervals when there was no trade at all between the two especially after the war times as of 1965, 1971 etc and then even after the resumption of trade and trade agreements, the volume of the trade remained very low till 1999-2000.

During this period of time, India and Pakistan also worked for the peace, cooperation and sustainability in trade between the two as well as in the region. So, to fulfil this aim, South Asian states formed SAARC (South Asian Association of Regional Co-operation, A Regional Organization) in December 1985. The forming members of this organization were India, Pakistan, Nepal, Bhutan, Maldives and Sri Lanka. Afghanistan later joined it in 2005. The SAARC declared many areas/ fields of cooperation including science, technology, biotechnology, communication, energy, environment, economy, trade and finance mechanism, social developments, people to people contact, security, human resource development, poverty alleviation and other social issues. The most important of all these was the development on economic fields and cooperation in all economic spheres (Ghuman *et al*, 2006). So under the umbrella of this organization, SAARC members founded the South Asian Preferential Trade Agreement (SAPTA) to give preference to the member states in their trade up to 20 per cent (Pasha, *et al*. 2012).

Being members of GATT (General Agreement on Tariffs and Trade) and WTO (World Trade Organization), in late 1990's, India granted MFN status to Pakistan, following the main and basic principles of this agreement that is reciprocity and non-discrimination. But Pakistan is still reluctant to give this status to India reciprocally due to many reasons (Azim, *et al*. 2016). It is believed that giving the MFN status will

enhance the trade liberalization between India and Pakistan and it will be beneficial for both the states economically and for the establishment of peace and security (Qamar, 2005).

India's MFN status to Pakistan was seen as a positive gesture that was taken by the Indian government after a very hostile and poor trade and political relations. After this and the start of 21st century saw a new phase of trade and economic relations between both the countries. Both states signed SAFTA (South Asian Free Trade Agreement) in 2004 during the 12th SAARC summit in Islamabad and agreed to reduce their trade tariffs up to 0-5 per cent by 2013. This agreement worked as a booster in their relations and the people especially the business community of both the sides was hopeful for the betterment of the trade and opening up of more opportunities. After this, the trade volume improved much and bilateral trade increased between these two countries. The positive steps were also taken by Pakistani government as progress in granting MFN status to India, removal of barriers (Maini, *et al.* 2012).

1.1 Nature of Trade Relations

1.1.1 Ways/Routes of Trade

The trade between India and Pakistan is going on through many ways. These are the formal and informal ways of trade. The formal trade was the only way that was declared by the both governments. But with the passage of time and during the hostility in relations, this trade faced many difficulties. Formal/ Legal trade faced difficulties and get restricted in these years and based on very limited item to be traded bilaterally. However, the restrictions on trade from both the sides and seizure of legal trade gave birth/ created many fresh channels of trade, that were not so legal in their nature (Durrani, 2001).

The informal way of trade is happen through the smuggling of the items that are high priced and low-volume and that are also high duties. Another way of trade between India and Pakistan is Quasi-legal trade from India to Pakistan that are passing the borders of a third country. According to the Sustainable Development Policy Institute (SDPI) study published in 2005, the main routes for illegal imports from Indian goods are:

1. Lahore Border
2. India- Dubai-Karachi
3. Sindh-Gujarat Cross Border
4. Dubai-Bandar Abbas- Hirat-Kandahar-Chaman
5. Dubai-Bandar Abbas-Hirat-Kabul-Jalalabad-Torkham

The total volume of informal and quasi trade between India and Pakistan was estimated about USD \$528 million annually in 2003 that was get doubled in 2011 and estimated about USD \$ 1 billion. This was also equivalent to almost 50 per cent of the formal trade with India at that time (Pasha, *et al.* 2012).

1.2 Barriers of Trade between India and Pakistan

1.2.1 Pakistan's Positive and Negative Lists

There are many reasons for the informal or illegal trade between India and Pakistan that is not at all beneficial for the economic growth of both India and Pakistan as it does not include in the national income of the states. The one important reason of these is Pakistan's positive and negative lists of imports and exports with India. Initially after the independence, when the relations of both the states began to restricted, Pakistan made many restrictions on trade with India and introduced its positive and negative lists of Imports.

The Positive List

The Positive List included the items of trade that were permissible to import from India. During 1986, Pakistan declared a list consists of 42 items in which the private sector of both the states could trade. Initially, this was finalized under a trading agreement between India and Pakistan. With the passage of time, this list expanded and now it almost included almost 1870 tariff lines out of 6857. The items that were included in this list were the basic food items, raw material that was not produced in Pakistan and intermediate and capital goods. The items that were not added in the positive list were those that were of higher value and that could pose a challenge and competition to local Pakistani products. So these were only excluded to save the local market of Pakistan from the India competition. Mainly these products were textiles, footwear, metallic products, glass and paper products. SO, the trade with India was finalized in such manners that it can pose minimum competition to local Pakistani market (Maini, *et al.* 2012 & Pasha, *et al.* 2012).

This list can define that how gradually, with the passage of time, the Pakistan's list of Positive items expanded from 1986 to 2008.

(Pakistan's Items of Positive List from 1986-2008)

Year	Pakistan's Items in Positive List
1986	42
1989	577
2004	687
2005	773

2006	1075
2008	1938

Source: Pakistan Bureau of Statistics and State Bank of Pakistan

The Negative List

The negative list was formed by the Government of Pakistan on February 29, 2012. This list ensured to giving the MFN status to India. This allows Pakistan to import more than over 6,800 items from India except some 1,200 items that were still included in the Negative list. Previously Pakistan can only trade fewer than 2000 items with India that were included in the Positive list. But Pakistan is always trying to phase out the Negative list in trade with India.

As The Hindu Business Line quoted Pakistan's Commerce Secretary, Mr Zafar Mahmood said in 2012 that "This (the negative list) is only to give assurance to the Pakistan business sectors which feel threatened by Indian imports that the Government of Pakistan is making an interim arrangement where the goods they fear would destroy the industry would not be importable from India for a period of time. But we have told them very clearly that this is not a permanent arrangement" (ICTSD, 2012).

So, it is generally believed that if Pakistan removes its Positive and Negative lists of Trade with India, a much can be achieved through this open cooperation and normalisation process. As Dr Manzoor Ahmed (USAID Regional Trade Advisor) said in a press release that Pakistan's exports has gone up from just Rs. 3 million to Rs. 3 billion from 2002-2003 to 2007-2008. So, it is the practice for both the states to harmonize their trade relations for the growth of their economies (Newspaper Staff Report, 2013).

1.2.2 Reluctance of Pakistan for granting MFN Status to India

MFN is very broadly speaking term when it comes the issue of trade between India and Pakistan. MFN or Most Favoured Nation is a status according to the WTO's signatory. WTO bound all its member states to "treat all the member states equally as Most Favoured Trading Partner". This grants all the states a special favour as lower custom duty rates and low tariff rates. So, basically it gives other states with non-discriminatory status in trade with each other (The Hindu, 2016).

India granted the MFN status to Pakistan in 1996 but Pakistan is still thinking to reciprocate or not. There are many reasons behind this phenomenon including the political, economic, historical issues and general perceptions of the people of Pakistan.

Although the business community find this a huge opportunity for themselves if Pakistan opens its border for India and free trade flows between the two. This fact is also considerable here that Pakistani government itself recognised the fact that giving MFN status to India will expand the bilateral trade between the two and this would also agree both the sides to remove non-tariff barriers and other restrictive practices (Tribune, 2011). But some business sectors as agricultural, textile and other industries feel this dangerous that Indian products will destroy the local industries of the Pakistan and Pakistani industries are still not in a position to compete with India.

But one thing that we must consider in this scenario is that Pakistan's industries are not in such bad conditions that they cannot face the challenge and competition from the Indian products. They are well prepared to compete with India and also get market share in India for their products because Pakistani Industries are already in competition with the China and Germany that are relatively big markets from India. Pakistani industries are still managing to grow over the years and also competing with other world

markets successfully. So, the general perception must be changed over this issue that competition with Indian market would destroy the Pakistan's local products and bring large scale unemployment (Najib, *et al.* 2012).

1.2.3 Tariff and Non-Tariff Barriers

The barriers to International Trade are mainly of two types.

1.2.3.1 Tariff Barriers

To understand the Tariff Barriers, simply can be said that high Tariff reduce the volume of international trade and low tariff encourages the states for international trade. But when we discuss the Non-Tariff Barriers to International Trade, it's quite complicated as many non-tariff barriers are existing in international trade (Zahra, 2013).

In Trade between India and Pakistan, Pakistan, being an agricultural land, usually export agricultural and textile products to India. The tariff of India is usually 12.5%. India also has increased its tariff in agricultural, textiles, automobile and garment sector that directly pose challenge to imports from Pakistan and Pakistan is bearing a high tariff in trade with India. On the other hand, Pakistan is also kept its Positive List Approach in trade with India. These all are the things that are considered as hurdles in harmonizing trade relations between the two (Noorani, 2012).

1.2.3.2 Non-Tariff Barriers

India is one of the more restricted Import regimes in the world in terms of extensive usage of safeguard measures for its benefits. The WTO Annual Report 2006 expressed the extent of Trade safeguards used by India. India initiated 191 safeguard measures in the period of 2004-2005, while China initiated only 71 measures in the same period of

time that is a much bigger economy than India. India even initiated more actions than EU comparatively. India uses WTO as a platform to protect its local industries is the world highest after USA. The WTO report highlights that India use short-term trade policies to attain its domestic goals such as inflation and use its trade policy while trading with other countries through safeguard measures (Noorani, 2012).

Following are some of the Non-Tariff Barriers that are faced by Pakistan in Trade with India.

- Facilitation of Trade and Custom Procedure/ documentation
- Import License and Food Items
- Technical Barriers/ Sanitary and Phytosanitary Measures
- Tariff Rate Quota's
- Visa Regime and Financial Transactions

The Trade between India and Pakistan are going through Rail, Road and Sea routes. Inadequate land routes, weak transport system and bilateral transport protocols are some of the hurdles in trade between the two. Custom extensive documentation is also one of the most serious hurdles in trade between India and Pakistan. Other issues related to custom clearance, custom procedure and rules of the certification are also very important hurdles in this issue.

India is still using the import license especially in imports of motorcycles and other vehicles. The proper checking of food items, preserving and labelling of the food items are also important for the import in India and pose a hurdle in trade between the two (Zahra, 2013)

The Agreement on Technical Barriers to Trade (TBT) and the Agreement on Sanitary and Phytosanitary Measures (SPS) are the agreements under WTO that allows all the member states of WTO to ensure the protection and safety measures and maintain their standards to safe plant, human and animal life. This also require the member states to apply these measures in such a way that they do not create obstacle sin the flow of international trade. In India and Pakistan, both have domestic institutional framework to apply TBT and SPS through whom they control the safety measures and apply those measures through safety standards. In Pakistan this institution is named as Pakistan Standards and Quality Control Authority and In India, there is Bureau of Indian Standards working under Ministry of Food and Consumer Affairs (Khalid, 2011).

Tariff Rate Quota's (TRQ's) are used to protect the producers of Powdered Milk, Maize, Crude Sunflower, and Mustered Oil etc.

One of the greatest problems in trade between India and Pakistan is the restrictive visa regime. The procedure of visa on both the sides is too long and does not have a transparent evaluation system. That's why the business community on both the sides feel it difficult to take visits and send their delegates for negotiations for trade purposes. This restricts the activities of business community on both the sides and hampers the trade. The other big issue is the transaction issue between both the states. After an agreement, State Bank of Pakistan (SBP) and Reserve Bank of India (RBI) both allowed to open their respective branches in both the countries. In this regard, SBP allowed National Bank of Pakistan (NBP) and UBL to open branches in India and Reserve Bank of India nominated State Bank of India (SBI) and Punjab National Bank

(PNB) to follow the suit. However, the branch opening procedure has not been completed yet (Najib, *et al.* 2012).

1.2.4 Trade Potential between India And Pakistan

Knowing the facts of India-Pakistan trade benefits and its implications for the benefits of the region, the volume of trade between the two states remained very low and remained less than \$ one billion in the last decade (Sayeed, 2011). Irrespective of many similarities that both countries share, the trade between the two countries is very low and there is a huge trade potential between India and Pakistan. Only 0.1% is the share of Pakistan in total Indian imports. It is a very little share whereas Pakistan can increase its share in Indian imports (Khalid, 2011). Other study estimated that the average trade of both the countries is only US\$ 2.5 billion in a year in which Pakistan account for less than 0.5% of India's Trade and India estimated almost 3% of Pakistan's total foreign trade (Khan, 2016). India's mainly export cotton, sugar, edible oil, vegetables, tea and chemicals to Pakistan whereas Pakistan export dry fruits, scrap, chemicals, cement and textile products to India (Najib, *et al.* 2012).

So, there is a huge potential for Pakistan in trade with India as Pakistan export in sugar and sugar confectionary items is about US\$ 87,956,000 whereas India imports in this category from Pakistan is only US\$ 1000. Pakistan can increase the trade in this field through lessen the rules and restrictions. Same is the case with cosmetics, essential oils, furniture and wood. (Khalid, 2011). There are also other Primary (Agriculture, Mining of minerals etc.) Secondary (Energy, Transport, Textile and Pharmaceuticals) and Tertiary sectors (Information Technology, Daily Healthcare and Cross-Border investment in Hospitals) are existing where, there is a huge potential to work in collaboration (Jain, *et al.* 2014).

An Overview of the India-Pakistan Trade: Financial Year 1951-52 to 2009-10

US\$ Million

Year	Export	Import	Change	Total Trade
1951-52	113.71	0.08	113.63	113.79
1952-53	43.81	0.01	43.79	43.82
1953-54	26.13	11.80	14.33	37.93
1954-55	41.36	11.16	30.20	52.52
1955-56	44.09	8.69	35.40	52.78
1956-57	29.77	14.12	15.64	43.89
1957-58	18.38	18.47	-0.09	36.86
1958-59	8.75	16.27	-7.51	25.02
1959-60	20.16	17.35	2.81	37.50
1960-61	22.15	27.57	-5.42	49.72
1961-62	31.83	22.54	9.29	54.37
1962-63	40.86	16.70	24.16	57.56
1963-64	23.41	19.86	3.55	43.28
1964-65	46.18	26.82	19.35	73.00
1965-66	3.77	5.50	-1.73	9.27
1966-67	0.16	0.47	-0.31	0.62
1967-68	0.00	0.00	0.00	0.00
1968-69	0.00	0.00	0.00	0.00
1969-70	0.00	0.00	0.00	0.00
1970-71	0.00	0.00	0.00	0.00
1971-72	0.00	0.00	0.00	0.00
1972-73	0.00	0.00	0.00	0.00
1973-74	0.00	0.00	0.00	0.00
1974-75	9.30	0.00	0.00	0.00
1975-76	15.09	1.281	3.81	16.37
1976-77	0.12	23.78	-23.66	23.90
1977-78	35.05	47.57	-12.53	82.62
1978-79	16.82	21.07	-4.26	37.89
1979-80	48.30	13.08	35.22	61.39
1980-81	97.11	2.20	94.90	99.31
1981-82	56.40	7.50	48.90	63.9
1982-83	26.75	4.75	22.01	31.50
1983-84	25.47	10.95	14.52	36.42
1984-85	32.87	17.25	15.62	50.13
1985-86	28.81	12.20	16.61	41.01
1986-87	18.88	9.68	9.20	28.57
1987-88	27.47	19.37	8.09	46.84
1988-89	48.91	31.95	16.96	80.86
1989-90	35.31	38.02	-2.71	73.34
1990-91	41.63	45.77	-4.15	87.40
1991-92	113.29	48.81	64.48	162.11
1992-93	83.78	67.35	16.43	151.14

1993-94	42.69	70.49	-27.80	113.18
1994-95	41.62	63.99	-22.37	105.61
1995-96	40.70	94.49	-53.79	135.19
1996-97	36.22	204.67	-168.45	240.90
1997-98	90.46	154.80	-64.34	245.26
1998-99	173.65	145.85	27.81	319.50
1999-2000	53.64	127.38	-73.74	181.02
2000-01	55.40	235.09	-179.69	290.48
2001-02	49.30	186.90	-137.60	236.20
2002-03	70.70	166.50	-95.80	237.20
2003-04	93.70	382.40	-288.70	476.10
2004-05	288.13	547.46	-259.32	835.59
2005-06	293.31	802.00	-508.69	1,095.31
2006-07	342.9	1,235.9	-893.0	1,578.8
2007-08	254.9	1,701.5	-1,446.6	1,956.4
2008-09	319.6	1,194.6	-875.0	1,514.2
2009-10	268.3	1,225.5	-957.2	1,493.8
2010-11	264.3	1,743.1	1,478.8	2,007.4

Source: SBP, Federal Bureau of statistics and Economic Survey of Pakistan 2010-11

2. Conflicts and Skirmishes Between India and Pakistan

The independence of India and Pakistan from the British Colonial rule in 1947 sowed the seeds of many conflicts and issues of hatred between both the states since their independence. The relations between the two always remained fluctuating, conflicting, distrustful and inflexible. These risky relations of these two natural neighbours posed a threat to the globe in general and to South Asia in particular though having close literal, social and cultural ties but both remained in great distance throughout the course of history. This distrust also leads both the states towards wars, border issues, arms race and nuclearization. The basis of their long standing conflicts can be found in the territorial issue of Kashmir (Jauhari, 2012).

India and Pakistan, both considered each other their worst enemy and there always a feeling of "Mutual Distrust" between them since partition of 1947. This was a direct of British policy "Divide and Rule" that gave momentum to Muslims sentiment of "Islam being in Danger" (Hewitt, 1997) in a Hindu dominated society. So, this feeling

led them to demand for a Muslim separate ideological state where Muslim would practice their religious believes freely without any interference of others and this demand arose with the passage of time and finally led them towards the creation of an independent Muslim society. On the other side, Hindus believed on a “Secular Indian Nationalism” (Ganguly, 1994) and from this point, the path of both the communities differ from each other and they decided, not to live together at any cost.

Despite all the efforts of co-existence, India and Pakistan divided in to two states Hindus majority state of India and Muslims majority state of Pakistan. The partition sowed the seeds of contention and conflict and after the partition; many issues arose that are still considered as bone of contention in their relation. These issues mainly were Territorial and border issues (Kashmir, Siachin) water issues (Sir Creek, Wullar Barrage and Indus Water Issues) illegal control over Muslim majority states by India (State of Hyderabad & Junagarh) and LOC skirmishes and conflicts. These issues lead both the states towards many wars of 1948, 1965, 1971, 1984 & 1999 (Durrani, 2001).

But here, the most important fact is that, India and Pakistan fought battles mainly on the issue of Kashmir and it is believed in the international politics that until the issue is resolved, the relations between the two would remain fragile and contested and resolution of this issue is necessary for the attainment of peace and prosperity.

2.1. Major Wars and Conflicts

2.1.1 War of 1947

The First armed instance happened soon after partition in October, 1947 followed by the signing of accession agreement of Kashmir with Dominion of India by Maharaja Hari Singh. The fear of Pakistan’s government of Kashmir acceding to India led to this

struggle. This was a full-fledged war fought across the Line of Control. Even though, this war did not conclude with a clear victor but India control over the two-third territory of Kashmir while Pakistan got a third of it. From then, the war over Kashmir and the cold relations are going on between India and Pakistan that did not end up with clear results yet (Chowdhury, 2016)

2.1.2 War of 1965

The war of 1965 was also an eruption of the conflict across Line of Control in the border area of Runn of Kutch. This was the result of Operation Gibraltar carried out by Pakistan Armed forces to occupy Kashmir. This was started as an operation but changed in a full-scale war and continued for almost 17 days. This war was also ended with no clear victor but stopped with the diplomatic intervention by the Soviet Union and USA and further led to an agreement that was hosted by the Soviet Union after the ceasefire negotiations held in Tashkent. The President of Pakistan Ayub Khan and Indian Prime Minister Lal Bahadur Shastri signed the agreement in which they agreed to withdraw their forces to pre-August lines (Virk, 2015).

2.1.3 War of 1971

The war of 1971 was unique in its nature as it was not fought on the issue of Kashmir but it was the result of on-going insurgency in Eastern Part of Pakistan. In Eastern part of Pakistan, there started a secessionist movement when West Pakistan failed to give them their autonomous rights. Pakistan army started a fierce campaign to suppress the movement during March 1971. In this situation, India started helping the separatists of East Pakistan and provided them the artillery and weapons and gave full support to them. This whole conflict led to the deaths of many civilian people of East Pakistan and

estimated 10 million refugees forced to fled from their territory to India. During the crisis time, India fully indulged into the issue and started a full scale war. After a huge massacre and destruction, this war continued for 13 days from 3rd December 1971 to 16th December 1971 and resulted the independence of East Pakistan that is presently known as Bangladesh (Abro, 2007).

2.1.4 War of 1984

The war of 1984 is also named as Siachin war. Siachin is the disputed glacier area between India and Pakistan in Kashmir. Siachin glacier is the world's highest battleground where India and Pakistan has been fighting since April 1984. Both the countries are having their forces at the height of almost 6000 meters. Because of the inhospitable terrain, extreme weather and natural hazards, the life is almost impossible there and definitely impossible for human beings to survive there. The war on Siachin was fought in 1984, when India through its Operation Meghdoot, successfully gained control over the glacier. The Pakistan's forces launched strikes on many occasions during 1984, 1987 and a995 and forced the Indian forces to leave the area of Pakistan's side (North, 2014).

2.1.5 War of 1999

The War 1999 also known as Kargil conflict, fought in the area of Kargil in Kashmir and along with the borderline of India and Pakistan. During the conflict, India named this war as Operation Vijay (Victory) that was mean to clear out the Kargil region from the occupation of Pakistani forces. This war was fought during May-July 1999. The thing that caused this war was the invasion of Pakistani forces and Kashmiri militants in the sides of Indian forces and got the position on the other side of LOC. The cause

of war was also the same to free the Kashmir and to gain control over the area. Again in the issue, both the armies stable their positions and the war ended as a result of international pressure and talks (Abbas, 2017).

2.1.6 Line of Control conflicts

Though India and Pakistan have fought many battles but Line of Control has always remained the bone of contention between them since long. It is not an international border but a de facto line drawn by India and Pakistan that was previously known as ceasefire line. The cross firing at LOC is almost the daily routine and each side blames the other side for the eruption of conflict. Both the sides are trying to resolve their conflicts since 2012 and security advisor have met for many times with each other but the process do not continue for long time. And it is experienced for many times that each time when the negotiation process starts or the dialogue process began the conflict arises across LOC that hinders the peace process (Ali, 2015).

2.1.7 Present Day Conflict: Cross Border Terrorism

In Present days, the conflict is still there but the nature of conflict has changed as it transformed itself in Cross-border Terrorism. Both the states are involved in creating insurgencies and supporting terrorist organization to lessen the ability and capability of each other. As India has long been suspected for supporting the insurgents to destabilize the Baluchistan (Western Province of Pakistan). On the other hand, Pakistan is always blamed for supporting insurgents in Kashmir and along the Line of Control. These news on the media really sowed the seeds of hatred and revenge in the minds of public on each side and it really hinders the peace process between the two (Patel, 2013).

3. Trade; A Mean of Countering Conflicts

Today, the international world is changing gradually from bi-polarity to multi-polarity. The cooperation, collaboration and inter-dependence of the states on each other is rising not only in regional terms but also in globalized and super power terms. And States are now more prone towards economic stability and prosperity rather than giving more importance to their political conflicts. In this context, we can take the example of US-China Bilateral Investment Treaty (BIT) and add ASEAN, EU and MERCOSUR as examples of interdependence and inter-connectedness. So, such an idea can be proposed for the case of India and Pakistan. India and Pakistan are having weak political and economic ties since their birth as independent states because of many political, ideological, cultural issues in which recent negativities of cross-border terrorism and feelings of distrust added their share. All these things hinder the economic/trade relations between two and made their ways impossible for peace and prosperity (Noshina, 2014).

It is generally believed that history proves that it never happened that two neighbouring states never progressed and developed if they remain in a background of prolonged conflicts. Same is the case with India and Pakistan. Now, after 70 years of their independence, both the states must feel the importance of peace and inter-connectivity for their own progress and prosperity rather giving importance to their conflicts and it is always said that long standing political conflicts can easily be resolved through trade interdependence and good economic relations (Mehta, *et al.* 2006).

Trade is the only mean of countering conflict in the case of India and Pakistan. It is historically approved after World Wars; many states applied it in their relations. It can be used an instrument for achieving peace and stability. Through this process, the inter-

connectedness and linkage of the people arise, improves mutual understanding and potential for co-operation among societies. But in the case of India and Pakistan, if both the states want to achieve the ultimate peace through trade and counter their long-standing conflicts, they must do some precautionary measure to ensure the peace and eliminate the conflict (Hussain, *et al.* 2015).

So, the trade can be helpful in many ways to counter their bilateral conflicts. So, there are many measures that can increase trade and reduce conflict between India and Pakistan.

3.1 Focusing Bilateral Trade

Through focusing on more bilateral trade, the conflict can be reduce. As the liberals believed that the cost of conflicts and benefits from the peace and trade make the conflicts unlikely to happen. States are always working for maximizing their benefits and try not to enter the conflict that reduces their economic growth. The trade between India and Pakistan is currently less than US\$ 3 billion but the reports argued that it can be maximized to US\$ 10 billion in upcoming years if India and Pakistan stop make ways more reliable for trade and stop the illegal ways of trade. Giving MFN status to India by Pakistan and the removal of tariff and non-tariff barriers as negative list etc. can be work as instruments for achieving peace and stability. So, these can be helpful in maximization of trade and inter-dependence between both nations and ultimately reduce the likelihood of conflict (South Asia Monitor, 2003).

3.2 Trade and Investment Potential

There is a huge trade and investment potential for both the sides to trade and invest. The bilateral trade between both the countries is although very less and there is other

informal ways of trade that are getting real benefits from the trade rather than government sponsored formal trade. In this regard, governments of both the sides must stop informal ways of trade to get net benefits and it is estimated that trade can rise up to US\$ 20 billion that is currently US\$ 3 billion (State Bank of Pakistan, 2006). On the other side if trade do not happen between both the states, then both the states will bear long lasting consequences as inflation, unemployment, slow economic growth and most importantly, the fear of conflict that make their relation volatile. So it is necessary for both the states to open up their borders for co-operation and collaboration that ensure their peace and stability.

3.3 MFN Status to India

Giving MFN Status to India by Pakistan is always remained a topic of discussion whenever the peace and trade talks started. India and Pakistan are the members of GATT and WTO and according to these agreements, it is obligatory for both the states to give non-discriminatory status in trade or MFN status. India gave this status to Pakistan in 1996 but Pakistan has not decided to reciprocate yet. This has posed a challenge to their trade relations. The giving of MFN status to India by Pakistan can lead both towards the greater cooperation and then ultimately towards the peace (Iqbal, *et al.* 2012).

There are also some other reasons that hinders the peace process and that issues must be resolved for the peaceful settlement of both the states. The issue of LOC and Dialogue process between India and Pakistan must be refined enough that it bring peace. Line of Control trade used as a confidence building measure between the two. This connects the people of both the sides with each other and they can better serve for

reducing the conflicts with strong bindings and inter-connectedness (Hussain,*et al.* 2015).

Chapter 4

Future Perspective in Relations between India and Pakistan

Still, after 70 years of independence, India and Pakistan are trying to find a way in their relations. Still it is unknown to them whether they need to work with collaboration; peace and co-operation or they would go towards arms race and threatening each other. So, it is important to find out that what can be the possible future perspective in their relations and what perspective would be dominant in their relations, Trade or Conflict.

The most dangerous fact in relations between India and Pakistan is that both are having nuclear arms and effectual and functional delivery system. So, when in international relations, two neighbours having such capabilities, the entire game of diplomacy and defence changes because this can lead both the states to avoid the military conflict and minimize that or this can lead towards the total destruction. In this case of India and Pakistan, the decision makers and trouble makers would must realise this thing that both the states have no other option than to change their policies and attitudes from militarism to collaboration (Lodhi, 2016)

1. Importance of Trade in Relations between India and Pakistan

1.1 Regional Demographic Importance

The demographic situation of South Asia makes it a very important region of the world. It is comprises with a very unique and diverse territory that is having the proximity to many important areas of the world as it share its borders with Central Asia, that is most important region of the world because of its mineral and other resources, Middle East that is also very much important in world Politics, having proximity with

South East Asia and big powers and most developed countries and also with Russia. This region has most important Sea trade routes e.g. Persian Gulf, Red Sea, Black Sea and borders with Arabian Sea and Pacific Ocean. The region is also well known because of the important trade routes. So because of its strategic importance and natural resources, it has gain an important position in the world politics. So it is very necessary for both India and Pakistan, being part of this region, to work for the collaboration and cooperation and for the betterment of the region that would ultimately benefit them in long terms (Shaheen, 2016).

Trade is an important factor that can play an important role for the mutual co-existence of both India and Pakistan. Both the states are not only important for regional co-operation but also important for determining the future of the region of South Asia and all the states of the region look at them for their mutual co-existence. Both are the founding members of SAARC that includes the other states of the region e.g. (Bangladesh, Maldives, Nepal, Bhutan, Sri Lanka and Afghanistan). The main objective of this organization when it came into being was to promote regional and economic unification and integration of all the member states and work for the economic growth of all on non-discriminatory basis. But the cold relations of both the major players in the region put a question mark on the credibility of the SAARC also and it make this process of integration a bit difficult for all (Nakhoda, 2016).

Along with many efforts that have been made since long to manage the relations between India and Pakistan, both the states always maintained extremely high tariffs rate in their trade that almost made their trade impossible and if possible, with very low potential. The political and military relations always posed a hurdle in betterment of their relations and this also threatened the regional co-operation (Naz, 2012). The states

of the region formed SAARC in 1985 and then further established SAFTA (South Asian Free Trade Agreement) in 2006, January 01 that was previously known as SAPTA. Under this institute, all the states determined to low their tariff rate in their bilateral trade in the region but this was again not become so effective for the states of South Asia because of the uneven behaviour of the two major players (Ghuman, *et al.* 2006).

1.2 India-Pakistan Relations and MFN

The issue of Trade between India and Pakistan is always seem sceptical. Trade between both is as old as both countries are, but the relations and the volume of trade is always remained under question. But when we see the historical background of both the states, that clarifies that the trade between India and Pakistan remained significant after independence but after some years of independence and due to unresolved political and historical issues and wars lead both the states to the verge of seized relations. With the passage of time, significant changes occurred in their relations but still the volume of their trade remained less with huge complexities and barriers in trade, inflexibilities of both governments, political misunderstandings and the role of military and world powers (Qamar, 2005).

But after many years of struggling relations, both the countries now want a more favourable and friendly relations with each other. For this, they have made a number of bilateral and multilateral agreements with each other, with the regional states and world powers. Both formed their regional organization SAARC and further joined world organizations for the betterment of the trade and bilateral relations. Both signed SAFTA (South Asian Free Trade Agreement). Both the states also agreed on the rules and regulations of GATT (General Agreement on Tariffs and Trade) under WTO that encouraged the signatory states to trade with each other on non-discriminatory basis

and open their markets for each other for the betterment and prosperity of each member states. According to this states have to give MFN Status (Most Favoured Nation) to each other so, they would trade with each other on non-discrimination (Noorani, 2012).

India gave the status of MFN to Pakistan on 1996 but Pakistan did not reciprocated to India. Giving this status to each other means that both the states would open their markets for each other, reduce the trade tariffs, give access of the commodities and release each other from uneven and possible trade tariffs. But Pakistan has a different stance on giving this status to India based on long historic mistrust, political and long military and borders conflicts. So, this issues is always remained questionable whenever their began any round of talks between India and Pakistan that when Pakistan is going to reciprocate this status to India. Many times in recent years, Pakistan was going to give this status to India but the political situation and border issues between both hinders Pakistan from doing so (Singh, 2016).

Most Favoured Nation status is very much important for both the states in South Asia. This can reduce tariffs for the states in their trade, open market access in huge markets and increase competitiveness that can lead to better quality of the products and their supply. Through this, economy can be increased and the bureaucratic hurdles can be removed (Singh, 2006). Most parts of Pakistan business community also wants to give MFN Status to India by Pakistan as it would definitely result the approach of Pakistan's Business Community to a much bigger market of India. They will get benefits out of it and better be able to conduct a cheaper business at their doorstep.as both the sides are well aware of the fact of informal and Trade with the involvement of third country. Most studies estimates that the informal trade between India and Pakistan is reaching to US\$ 2-3 billion that is much bigger than the size of formal trade through

government defined trade routes. So, through giving this MFN status to India, reduction of trade tariffs by both the states, flexibility in the government decisions by both and less political role in their economies can lead them towards prosperity and betterment of the economy (Noorani, 2012).

But the major argument comes from the industrial sector of Pakistan who find this reciprocity of giving MFN status to India as a major threat for the internal industrial sector of Pakistan. They mainly believe that Pakistan's industrial sector is an infant industry and opening up of Pakistani market for Indian manufactures would definitely hurt their industry. They do not believe that this sector can compete with Indian products and they will simply wipe out them from the market (Qamar, 2005).

1.3 Trade Liberalization and Facilitation Reforms

Trade Liberalization process between India, Pakistan and other members of SAARC started when they signed SAFTA (South Asian Free Trade Agreement) on January 6th, 2004 that determined to eliminate or reduce the trade tariffs in the region among all member states in two phases from 0-5 percent. This decision was taken to enforce from January 1st, 2006 till December 31st 2015. They decided to reduce all the trade tariffs in next 10 years but the smaller states were given this concession that they would reduce their tariffs with slow pace. All these states also agreed upon reciprocal acceptance of the status, harmonization in all the processes of reduction the tariffs and simplification of all the related process including bank transactions, custom clearance procedures, removal of trade barriers, formation of the rules that would enhance free and fair flow of competition, development and construction of infrastructure and communication system, resolution of disputes and simplification of all the trade related procedures (State Bank of Pakistan, SBP).

According to World Trade Organization (WTO), Trade Facilitation can be defined as the “Procedure of Simplification, clarification, harmonization and balance”. In Trade facilitation, In Trade Facilitation, there are two ways. One way is to simplify the trade rules and regulations through cutting down the trade tariffs and making a balanced environment for other states to come in the inter market of a state. The second way of trade facilitation is harmonization through reducing the trade barriers and bringing and enhancing trade reforms. Through trade facilitation, states become more inter-dependant to each other and make an environment that is conducive for trade and to ease each other. These also include the measure that involve the resources for the betterment of trade facilitation and infrastructure (Naqvi, *et al.* 2014).

So, Trade Normalization and Trade Facilitation Proccss is on the best interest of India and Pakistan and both the states have also made many efforts to maximize their trade reforms and liberalization process in recent years but there are still some issues that are discussed as barriers and hurdles in the normalization process between both including political issues, long conflicting history, military dominance and arms race in the region, unresolved border (Sia chin, Sir Creek, Kashmir) and political issues (Indus Water, Wullar Barrage, etc.), less and ineffective bilateral dialogue, pressures on governments, inflexibility on different issues by government on both sides, restrictive communication process and all.

In a very challenging situation like unemployment of a huge number of youth, the rapid growth in population and shortage of resources have make both the states to think and realize to fill the economic holes. So the trade facilitation, flexibility and liberalization of trade activities are in the best interest of both India and Pakistan through which they can properly manage their economic flaws and mismanagement.

Trade facilitation would directly be beneficial for the consumers of Pakistan as the prices of the products may fall and they would have better choice. This is also in the best interest of the government as the trade facilitation to other big markets like India would definitely generate custom revenues for Pakistan. So Pakistan can get huge benefits from this. (Hussain, IBA)

1.4 Trade: A Source of Stability

India and Pakistan has a great potential to improve their bilateral relations through the effective use of trade. The great potential in trade can open up the doors of co-operation between them and this can ultimately lead towards the peace and prosperity in the region also. For this purpose, both can use multiple ways and Confidence Building Measures through they can achieve this goal. Trade is always effective to bring peace and stability in any area. As many studies and scholars after many years of observation and analysis have defined that trade always reduce the conflict between states and threat of conflict and ultimately brings economic development and prosperity (Chowdhry, 2012, Raihan, *et al*, 2013, Gopalan, *et al*, 2013, Khan, 2010 Mamoon, *et al*. 2010 & Taneja, 2013). It is believed today that trade can reduce rivalry, conflicts and severity of relations between the states and ultimately lead the states toward political ease, prosperity, progress and well-being of the society and stability on the broader level (Dash, 2014).

The expansion of trade generally very economical and important for a state as it reduce the poverty and inflation, raise the standards of living of the people lead towards peace and prosperity, invite and encourage the foreign investments, improve technological sector, raise the standards of the products with lower prices and increase production and competition level (Wacziarg, 2001).

Despite all these benefits that trade expansion make, the level of trade between India and Pakistan is very low. Increase trade can also beneficial for both as it can increase the livelihood of the people of both sides, increase their standards of living, reduce the inflation and unemployment and above all, brings prosperity and peace in the region that would ultimately encourage the foreign investments to come in the region, increase the trust level and lead towards prosperity. It will also increase the people to people contact and communication level and strengthen their bindings. (Heath, *et al*, 2016). It will also lead the states towards minimizing their political conflict and issues and they will work for the peace and economic growth. Although there are long historic misperceptions and mistrust between both the states but these factors can be overcome through proper strategy, policies and flexibility.

Some recent studies have also shown that trade is a main source to bring peace and stability. This idea is suggested and coined by a Stanford economist, Matthew, O. Jackson and an economics Ph.D. scholar Stephen Nei, who gave a model regarding war and trade in which they defined that only military alliances cannot stop nations from attacking one another but these can lead towards more confused and hostile situation. They have suggested that nations must go towards trade alliances that guarantee the stability, peace and co-operation. After making trade alliances, states not even stop themselves in indulging in war like situation but they also stop other states in getting involve in war for the preservation of their trade. So trade basically leads toward prosperity. (Mooney, 2014).

1.5 Regional Importance of Trade

India and Pakistan are very much important for the region of South Asia as being the major and big powers of the region. It is the time now for both the state to revise

their policies with their neighbouring states. Both the states especially Pakistan is well aware of its geostrategic importance, having main trade routes, proximity with the major powers as China, Russia and Japan and a door way to resource rich Central Asia. It is also having proximity with the major world trade and oil routes and borders with the Arabian Sea with its sea ports of Gawadar, Port Qasim and Karachi. These all things collectively make it a major and important place of the world. So, region of South Asia is also contiguous with world's major regions as of Middle East, Central Asia and South East Asia. So, it is the responsibility of both the states to make this region a peaceful and attractive region for the world (Ahmed, 2014).

South Asia is considered the world's least integrated region. There is again the same reasons of political unrest and mistrust between the major players of the region. Trade between India and Pakistan and regional integration will ultimately lead all the states of South Asia towards many opportunities. It help the states to make progress in the areas where the states worked less as addressing the energy shortage problem, working on the infrastructure for the better trade facilities, to less the cost of trade and to get positive benefits from the integration. These all efforts by the states will lead the region towards integration and this integration is also important for the positive image of the region. The world today is more likely towards integration and this integration will be appreciated by the world powers. The region become more impressive for the common people of the world, for the economic growth, foreign investment, tourism and other positive impacts. So this is very important for the regional growth and prosperity (Ahmed, *et al.* World Bank Group).

The hindrance in economic and regional development of the South Asia is the long standing animosity and acrimony. The long standing history of ill-feeling relations and

security dilemma between India and Pakistan has stop them to exploit the unlimited opportunities of the region.

2. South Asia's Strategic Environment

The division of Sub-continent had a diverse event. It was not only political independence but it had its roots in Religious and ideological differences. After living together for many hundred years, Muslims and Hindus remained in their distinct identity and they had not merged with each other and remained distinctive and separate. This was also not acceptable for Hindus at the time of Independence because they wanted to rule over the whole area after British rule. But the Muslims succeeded in their efforts to get a separate homeland of their own. In this situation, when Pakistan got independence, security remained the main concern of them. India, being a big power posed a direct threat to the presence of Pakistan and their remained a constant feeling of uncertainty and mistrust of being attacked by any time (Khan, 2012).

This situation lead towards the security issues and complexities and South Asa became one of the most militarized region of the world. Since 1947, it became the region of instability and both the states lead an edge in making arms and making the region nuclearized. State security became the most important thing and overshadow the human security. In this regard, the common people suffered a lot. Thus, the region has become the most militarized and unsecure region and it seems that this is going to be the same for years to come (Khan, 2013).

South Asia is the region that has a great potential of progress and states can progress and develop much if they work with collaboration and co-operation. They must think of the human security while making arms and while making policies regarding state

security. In this regard, International Powers can also play a positive role to counter the conflict and remove the aspects that are expanding the threat of conflict.

3. Future Relation Tides/ Dominant Perspective

After seven decades of independence and long historic sometimes robust and sometimes smooth relations, India and Pakistan is still waiting an improvement in their relations and pray for a miracle by God. It is still unpredictable for both sides of how they are going to have their future relations tides and what would be the dominant perspective in their relations. Since there is long desire of having a good and cordial relations in both the sides, but the mistrust, misperceptions, misbelieves and misunderstanding cannot mount as intently as desired (Dalton, *et al.* 2016).

But peace can be achieved between both if they start work from the basis of conflicts. The long analysis has clarified that until the long-standing issues are resolved, peace is much difficult to achieve. So, they have to start their work from Kashmir. India and Pakistan, both have different believes and ideologies over the issue of Kashmir and that is also a reason of this dis-settlement. Still, there is a hope of some better future between them. Both the states are working on non-zero sum issues and collaborating on many areas. They have made many bilateral and multi-lateral agreements that have shown as a hope of betterment of their relations in future (Olmstead, 2014).

So, until now, it is not confirmed that what would be the shape of their future relations. There is war on one side and also wishes on the other side. But this cannot be done only through wishes or waiting for a miracle until the real work has done. The issues between India and Pakistan needs a proper settlement and process of negotiations and dialogue, this also need the open mind set and flexibility from both the sides of either they really want to resolve these conflicts or not. They must free themselves from

the undermining pressures if they really want to achieve the peace in the region internally and externally. Through this process, they will somehow, be able to deal with their problems and find a way to sought out the ways.

4. Current Initiatives

The long-standing history of Sub-continent is always remained conflict prone with less efforts to develop a better livelihood for people of both sides. The People of India and Pakistan are always remained deprived and the focus of the states and all the governments mainly remained inside the parameters of military gains and control and of national security with a huge development in arms and armaments. Both spent billions of dollars for their security and arms build-up rather than spending a half of it on poverty alleviation, health and inflation. Nuclear devices also put fuel in the fire and the insecurity between both the states and in the region arose. All these things just enhanced and glisten the conflict between the two. But, the most common and well aware fact is that India and Pakistan cannot remain different as Prime Minister Mr. Vajpayee quoted once in his speech in Lahore during his visit in Pakistan in 1999 that geography cannot be changed now, but the states have to co-exist in any way (Durrani, 2001).

Along with all these condition and issues, India and Pakistan is currently trying to come on one page as far as their relations are concerned. After seeing the economic boost and economic supremacy of the big powers and the trade and economic interdependence of the states, they are also trying to find a way forward through which they would shape their relations in a better way. They have initiated many things and co-operative measures have been taken between to ease their relations (Durrani, 2001).

4.1 Composite Dialogue Process

The Composite Dialogue process was a dialogue process initiated to on the idea of organized dialogue, started during 1985- 1997 between the Prime Ministers of India and Pakistan in their visit of Male in Maldives. In this dialogue process, both promised to discuss all the issues under the forum Composite Dialogue Process including Kashmir, Siachin , ater, Commercial Trade and Cross Border Terrorism. This dialogue process also seem many intervals as political tensions arose in different time periods between India and Pakistan. However, since April 2003, it got stable somehow but after Mumbai Attacks in 2008 November 26th, this process again suspended for long time (Padder, 2012).

This dialogue process, in different times, made remarkable efforts and achieved much in the line of good relations between the two states. But many issues were remained undiscussed because of the intervals and misunderstandings as Kashmir, people to people contact and Visa problems. Regular talks and development of CBM's was the total gain achieved by this dialogue process and the main and major issues remained unresolved. The water issues, territorial and political issues were not discussed properly. The issue of terrorism gain momentum and both the countries accused each other for their involvement in cross border terrorism. So, this whole process was not proved much effective but somehow it paved a way for the future dialogues and co-operative measures (Ijaz, 2015).

4.2 Bilateral Initiatives

Now, in present conditions, the bilateral talks and initiatives between India and Pakistan are pre-dominated by the bureaucracy, political and military powers. That is

why, any kind of mistrust and misperception lead the talks towards stalemate and stand-off. Now, it is the time of political governments to take the control of the political affairs and solve the bilateral issues and misperceptions in political spheres. They must appoint a special emissaries that would control the bilateral affairs and involve the governments in resolution of political and economic problems. The two states must come out of their historic rivalries if they want progress, prosperity, economic growth, improved facilities and good image in the world (Durrani, 2001).

4.3 Track II Efforts

It is defined and analysed now by many scholars that there is a considerable huge and sizable element of people who wants to move into 21st century with friendship rather than rivalry on both side. Many people including intellectuals, economic people and common citizens of both side have already started some efforts under SAARC umbrella as well as through non-official or non-governmental level. For this purpose, large joint groups have been made as “the Pakistan India Peoples Forum for Peace and Democracy” that largely held meetings in both the countries to promote peace and stability in relations between India and Pakistan. Another well-known effort was named as “BALUSA Group” that also held number of meetings to influence the policy makers at both sides to make attractive and co-operative policies for both (Durrani, 2001).

The most important role in India-Pakistan relations is played by the business community on both sides. There is always remained an ultimate desire in the business community to work with co-operation and for common cause. For this purpose, they have recently formed Joint India-Pakistan Chamber OF Commerce. They are working for the economic build-up of both countries that would ultimately lead the both

countries towards inter-dependant and they would rather work for prosperity and well-being rather than adding fuels in the conflicts and issues (Cheema, 2016).

There are also some efforts made by the governmental level as government sponsored think-tanks have made some efforts to mount this hype. But independent work is also been done in this area. A group of Joint Indo-Pak Think Tank, especially in the area of security has done considerable efforts to curb the conflict or the threat of conflict. There is also an element or desire of peace that is already existing in the people of India and Pakistan. Divided families, economic sector, and intellectual still thinks that there must be improved relations between India and Pakistan in any way. Peace must be achieved at any cost. And considerable efforts must be taken by the governments on both sides that would encourage the peace process. In this regard, role of media is also very much important. They must work for the collaboration and co-operation along with the realists and strategic community on both sides (Maini, *et al.* 2016).

4.4 Expanding SAARC

SAARC was the initiative or the result of the efforts of the President of Bangladesh Zia-ur Rehman. This organization came into being in 1985 during a summit in Dhaka. The purpose behind the formation of this organization was to give voice to the smaller states of South Asia. But both the big players India and Pakistan refused initially to join this because of their reservations. Pakistan felt that after signing this, India will become the hegemon of the region and would dominate the structure of SAARC while India felt the fear that all other smaller countries would join hands

against India. Due to This very reason that South Asian leaders decided to remove the political, security and bilateral issues from the SAARC purview (Jabeen, *et al.* UOP).

With a very narrow sphere of work and agenda, SAARC started its work and made little progress. It did not include the political and security issues in its agenda. But through its efforts, states got some forums for informal bilateral discussions. There are lying some very good examples of regional organizations for SAARC as ASEAN and GCC, but the main issue of SAARC was bilateral and security. Until that issues are resolved through bilateral efforts and negotiations, SAARC cannot expand its sphere of work (Durrani, 2001).

So, these are the effort's that are made by both the states to smoothen their bilateral relations and towards peace. Many policies and paper work has done but now, the duty lies with the governments to make proper ways of implementation and move towards flexibility from rigidity and work for the betterment of their future.

Chapter 5

Hurdles, Recommendations and Conclusion

1. Hurdles in the Process of Normalization

India and Pakistan are working for the betterment of their relation since long along with their long-standing rivalry and mistrust. They have worked a lot on governmental and non-governmental level to achieve this target of peace and development including Composite Dialogue process, bilateral talks, formation of different organizations, easing up their barriers of trade and joint and collective efforts. Still there are some hurdles that are working as a barriers in the normalization process of trade and ultimately towards peace.

The biggest hurdle in the way of India-Pakistan normalization of relations is the arms race. Since both the states are having the nuclear capability and whenever their relations seized, both always try to show their power through press releases and other ways. So, both need to respect the sovereignty and accept the status of each other if they really want to attain the ultimate peace (Masud, SDPI).

Both the states still spending a huge amount of their defence spending in arms build-up along with the peace process. This has created an environment of distrust and misperceptions that also hinders the process towards peace. Both the countries are also engaged in unnecessary conflicts and issues like Sia-Chin that is only a burden for these less developed countries. There are also other hurdles that are working as barriers in the smooth walk of both the states including the unresolved issue of Kashmir, ineffective dialogue process, restriction on common communication and visa restrictions and other political issues like Indus Water. These all are working like

hurdles in the way of India and Pakistan. If both the states want to resolve their conflicts and issues in a peaceful manner then they have to resolve these conflict as a base for the attainment of peace (Taneja , *et al.* 2013).

2. Recommendations

Trade is very much important for the tranquillity, peace, prosperity and stillness. The states which trade to each other are less likely to go towards war and conflict. This results the mutual understanding and trust and states are more appreciable for each other. So, trade is very much important for the smooth relations between India and Pakistan and peaceful settlement of their territorial and other conflicts. Although their relations are based on historic mistrust and misperceptions but increase trade will make their way easier to achieve the long-standing conflict resolution. They can achieve all these goals and peace can be attain through many ways including the removal of trade barriers for each other, easing the trans-border movement of goods and services, increasing the fair and free competition and creation of effective and structured mechanism to control and see the effective implementation of their bilateral agreements. They need to work for the trade that would be free from the political pressures and only work for the peace and prosperity (Ali, *et al.* 2015).

There are some recommendations that must be considered while making policy regarding India-Pakistan relations.

The highest priority must be given to social communication and interaction. The visa regime of India and Pakistan is very hard and no flexibility has been showing till yet. The people to people contact will improve the relations between both and this would definitely improve the relations between the two. There are certain forums at

non-governmental level that are working so but governments of both the side must pay attention on this issue. They must open their borders for cross-border tourism and other sports and entertainment activities must be held on reciprocal basis (Rizvi, 2012).

There must be the programs of study tours and academic and research related exchanges must be taken place. This would ultimately enhance the trust and encourage the people on both the sides to change their misperception from rivalry to friendship (Rizvi, 2012).

Increased bilateral trade is very much important for both the states. Pakistan has not yet given the MFN Status to India and feel it as a trump card to use it for the resolution of Kashmir Issue. Due to this, Pakistan's trade with India is relatively less and India has not removed its trade barriers yet. So to get the ultimate benefits from all these trade and relations they need to remove these obstacles and find a way to resolve their conflicts (Noorani, 2012).

Pakistan and India are severely facing the terrorism. Both the states accused each other for cross-border terrorism that shows the height of mistrust between both. For now, it is important for both the countries to work collectively to counter this threat of terrorism from the region (Noorani, 2012).

Both need to resolve their territorial issues of Sia-chin and Sir Creek. They had agreed many times for the undeployment of their troops from Sia-Chin that is an area of extreme weather and both the states are spending high cost to maintain their presence on that that is not at all favourable for these least developed countries. There is a need to how the flexibility from both the sides while discussing the issue on talking table. The resolution of these issues will improve the condition of trust and a good will gesture

will go in the eyes of international community. Then, more difficult issue will become easier to talk and resolve with (Salik, 2013).

Other Issues of primary concern like Indus Water Issue, Kashmir Conflict and Afghanistan must be dealt wisely. They must see their future possible relations and the changing world scenario while dealing with these issues. They must consider them as primary source of achieving peace, stability and sustainability in the region and without making a free and fair decision, peace cannot be attained. They are the pre-requisites of the future dimension of their relations. In this perspective, both the governments especially that of India must show flexibility and wise decisions must be taken to attain the ultimate peace. The decision must be free from any political or other pressures and it must be the according to the demands, needs and believes of people.

So, if both the states want to achieve the ultimate peace and want to grow with the growing world, then they have to resolve all their bilateral issues wisely without taking any pressure and according to the needs and demands of the people. Through this, they would be successful in attainment of peace and they would collectively grow and develop with the pace of the world.

3. Conclusion

India and Pakistan are commonly known as the historic arch-rivals of each other. The relations between the two are mostly based on mispcrception, misbelieves, mistrust and misunderstanding. Since their birth in 1947, still after 7 decades, both are unable to draw a positive perception for each other. These all things are the result of constant and long-standing history of conflicts and issues.

Both got independence from the British rule after a very long struggle for many years. They remained a British colony for almost 100 years. Under the British rule, they were deprived of their basic rights. So, they decided to work for a separate state where they would be able to practice their thoughts and ideas as according to their beliefs and religion. So they worked for that and after more than 90 years, they won. In their struggle for independence, they lost their lives, homes, relatives and all the luxuries of their life that they were enjoying and after a long long and bloody struggle, they got the freedom from a very sophisticated and harsh environment. In all these years, they clearly felt and decided that they (Muslims) would no more live together under one rule and one territory with those of Hindus. They believed that their religion, their thoughts, ideas, practices and every aspect of life was different from them and due to the ruling authority of Hindus under British rule, Muslims were deprived from their basic rights and decided to work for their separate land in which they would freely practice their religious thoughts and ideas. So they achieved this in 1947.

So, the roots of enmity, hostility, hatred, contention and conflict can be traced from that very time when they got a separate land for themselves that was against the ideas of Hindus of India. From that very point, the conflict started in actual terms that we can see presently in different situations. This Division of British India into present day India and Pakistan laid the foundations of many conflicts including territorial issues, border issues, political and water issues and military based conflicts. All these conflicts and issues are still existing with their shape changing continuously. Now, Cross-Border terrorism is the new shape and result of these long-standing conflicts.

Due to all these conflicts and issues that always hampered the political sphere of both sides, the relations between two would not fully stabilize in any time. The

relations in these seven decades always remained volatile, saw many intervals and deadlocks. The result of this was that both the states mainly remained undeveloped due to less attention towards economy and continuous and high spending on arms build-up made the region one of the highest region that spent much money on arms. This arms build-up started an arms race in the region and this arms race ultimately made the region less developed, unpredictable and dangerous for whole world too.

Both the states never paid attention on their smooth economic relations. That is why they mostly remained least developed. The trade relations also just like the political relations, saw many deadlocks and intervals for many years whenever there arose any political or military conflict. Both fought many battles during 1948, 1965, 1971 and 1999 due to that the economy remained least developed and less considered. The trade between the two always remained very less. Now, in 21st century, when states are becoming closer and closer to each other due to their economic interdependence and interconnectedness, both these states are still watching to improve their relations and still thinking of how to direct their relations in a proper way. Now, after seeing the huge and tremendous development, both the states are trying to smoothen their relation and walk on the way of prosperity, economic gain and development together.

But the main fact in their relations is the role of bureaucracy, military and some religious and sectarian political parties that all are playing their role to hinder the peace process. But, to make a pace with the world, both the states have to work together for the prosperity and peace. So they would be able to reap and enjoy the fruits of co-operation and collaboration in the shape of peace, prosperity, development and wellbeing.

Trade and economy can be used as a positive and major players in relations between India and Pakistan. Major states of international politics now have changed their attitudes toward each other when it comes the issue of economy. In present time, when globalization has almost integrated the whole world, trade and economy can be used effectively for the better relations between India and Pakistan. The concept of trade is as historic as the birth of first human being on earth. It was originally known as barter as reshaped its name and nature with the passage of time from pre-historic to modern times. Although present day trade and economy is much different from that of pre-historic or ancient times and globalization has almost revolutionized the patterns and trends of trade but the basic concept of it is as same as it was in the ancient times of giving and taking. Now, trade is more organized and structured with the formation of many organizations and institutions related to trade.

Trade has now different types. Internal and external that can further be divided in different parts. All these steps make the present day trade more structured and organized. Trade is very much important for the states as it increase the interdependence of the states on each other and it gives a more structured and organized environment to work for the prosperity and wellbeing of the people. But in the context of India and Pakistan, the relations mostly lead by the conflicts and mistrust. There are different philosophies and theories that also define a relationship between trade and conflict. Some scholars believe that trade can lead towards the prosperity and states let go their political interests for their economic gains. But some oppose this ideology. So there is a relation between both but cannot be easily predictable.

Today, as we can see that international world is changing gradually from bi-polarity to multi-polarity. States are now more prone towards economic gains and developed

and formed huge trade alliances and organizations. History has proved that two states can never stay and progress in background of prolonged conflicts and they have to maintain the cordial relations for progress and prosperity. So, we can say that, trade is the only way of countering conflicts between India and Pakistan if they want to progress and develop in this international world. For this purpose, they have to work together, initiate bilateral talks, work for mutual gains, and remove the trade and economic barriers for each other, showing goodwill gesture for each other and through working for peace.

For Peace to attain, both India and Pakistan has initiated many programs and formed their regional organization named as SAARC. The reason for the formation of this organization was to promote peace, prosperity, give a good share and voice to the small states of South Asia and work for the collective peace and prosperity. Under the umbrella of SAARC, they signed many agreement and accords including SAPTA and SAFTA that allows the states of South Asia to relief each other in trade and economy, open the borders for each other and initiated many dialogues and sittings.

Under this, they initiated many programs and dialogue processes. The meetings on governmental and non-governmental level is also held on many forums to work for peace and prosperity. India and Pakistan clearly know their geo-strategic position and importance of peace for the region, for their own and for the world also. The benefits of peace for both India and Pakistan numerous and overwhelming. So they are trying to achieve the peace at any cost and good relations between them. But for the durable peace, it is important to address the long-standing conflicts and resolve the bilateral issues regarding territory and border issues between both. India must address the unresolved issues that are the bone of contention between both as Kashmir and other

territorial problems. So, we can say that the full fledge peace cannot be attained without the collective efforts and talks on the unresolved issues. So the current situation demands great and huge statesmanship to resolve the bilateral conflicts and work for the attainment of peace at any cost. And this cannot be possible until the bold and clear action would especially be taken by the Indian government.

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