

Prospects for Sustained Economic Cooperation between India and Pakistan

(M. Umar Farooq Baloch)*

Abstract

Bilateral trade between India and Pakistan is considered by certain quarters on both sides of the border as the most important confidence building measure in normalizing the strained relationship. In this connection, trade being most important confidence building measure, is believed to be the only way to transform the overwrought bilateral relations to sustained bilateral relations. It is prophesized in this case study that bilateral trade can not only help normalizing the strained relations, but also can serve as fundamental constructive step in the peaceful resolution of all ongoing bilateral issues. Trade related legislation in both countries has already reduced the volume of trade, and has allowed bilateral trade, based on a restricted list. The study highlights that the traditional rivals should focus trade liberalization, keeping in view the common goal of socio-economic development. The study will explore the impediments of economic cooperation and the trade potential between India and Pakistan.

Key Words: *transform, bilateral relations, fundamental, legislation, economic*

*Mr. Umar Farooq Baloch is working as Research Associate at Institute for Strategic Studies, Research and Analysis (ISSRA), National Defence University, Islamabad.

Pak-India Economic Cooperation: A Prelude

Not more than a year after the independence from a foreign colonial power, India and Pakistan entered a conflict-ridden course of relationship starting the first war over Kashmir in 1948. To address the questions that how and who started the war? Is beyond the purview of the study at hand, nevertheless, it is worth mentioning that due to this war the possibility of bilateral trade remained a remote course of action on the part of each warring state in the subsequent years. The period between 1947 and 1971, marked by three wars between the two countries, experienced the lowest level of bilateral trade.

However, there was a positive dimension in the bilateral relations right after the partition of British India too. Shortly, after the partition India happened to be the trading partner of Pakistan. The percentage of Pakistan's exports to India in 1948-9 was 56%, and 32% of Pakistan's imports were coming from India.¹ Two important developments resulted in the decline of bilateral trade and interdependence at that time: Currency devaluation in India and subsequent imposition of trade restrictions by Pakistan. Setting aside the old age interdependence, the two governments followed the path of diminishing interdependence to readjust the self-constructed political realities. Bilateral trade that started right after the partition halted as a result of 1965 Indo-Pak war. Furthermore, due to legal restriction, there has been a surge in the illegal trade through smuggling of goods from both sides. Even the security forces deployed on both sides of the border are accused to be involved in trans-border smuggling. This illegal trade has been, however, beneficial to the villages bordering on both sides.²

Policy Rationale & Comprehension: A Glance

The situation of bilateral trade improved as a result of a trade agreement in 1975 between the two states. This improved the level of bilateral trade but did not lead to complete mutual agreement encompassing all aspects of bilateral trade. However, it was the government of Pakistan that proactively announced a positive list of 40 items for trade. During the 1990s, a period which saw a return of civilian rule in Pakistan after more than a decade, the bilateral trade increased often punctuated by fluctuations. This increase in bilateral trade was a result of two important policy decisions aimed at liberalizing bilateral trade: Both India and Pakistan joined World Trade Organization in 1995 and in 1996 India granted MFN status to Pakistan.

These developments were followed by another important development when both India and Pakistan signed South Asian Free Trade Agreement (SAFTA). By signing this multilateral agreement the developing countries in the SAARC region agreed to decrease the tariffs to a 0-5% level by 2013. Coupled with General Pervez Musharaff's initiation of trade talks with India, this agreement helped bilateral trade reach a record high figure. A major development since 2011 has been the annulment of the Positive list and announcement of a negative list by the government of Pakistan. This negative list enables more products to be traded through road and increased from 40 to 137 products.³

However, Pakistan has still not been able to reciprocate the Indian decision to grant MFN status to Pakistan in 1996. Pakistan's reluctance to grant the MFN status to India is viewed by the latter as a violation of the SAFTA. The PPP-led government decided principally to reciprocate the Indian gesture by giving her MFN

status but this has still not been realized and the official bilateral efforts are still minuscule and limited.⁴

Since the last few decades, both Pakistan and India have proved more open economies. Indian GDP's share of global imports and exports has risen from 10% in 1970 to 32% in 2010.⁵ Similarly Pakistan's share has also increased from 12% to 34%. A realization of gains from the global trade has been observed on the part of both countries.

Nevertheless, increasing global trade of the two countries has not reflected in case of their bilateral trade. The table below elicits that Pakistan's exports to India are small both in scope and magnitude - only one percent of the country's global exports and a small amount of Indian imports. Similarly Indian exports to Pakistan constitute only 1% of its total exports. There has been no advancement in potential trade because of the strained political relations between the two countries.

Table - 1: Trade between Pakistan and India

Pakistan's Exports to India

Year	Exports (US\$ million)	A percentage of exports	A percentage of Indian imports
2000/03	56	0.8	0.1
2004/07	344	2.6	0.1
2008/11	268	1.9	0.1
2012/Present	264	1.0	0.1

India's Exports to Pakistan

Year	Exports (US\$ million)	As percentage of exports	As percentage of Pakistani imports
2000/03	238	0.4	2.7
2004/07	1236	1.1	5.1
2008/11	1226	0.9	4.2
2012/Present	1734	0.9	4.9

Source: *State Bank of Pakistan*

Current Scenario as a Case Study

The feat of normalization of Indo-Pak relations received momentum when Modi led BJP came into power in May 2014. Pakistan had announced in 2011 to extend the MFN status to India to reciprocate a similar extension by the latter in 1996. Pakistan has renamed the MFN to Non-Discriminatory Market Access (NDMA) in a bid to detach the pejorative meaning attached to the MFN in the state and society of Pakistan.⁶ To reach a consequence, on granting India MFN or NDMA, the talks between the two countries have been underway but so far, have not been able to produce any tangible results, because of the recurring tension on LoC and heating up debates by anti-trade lobbies.

A prominent round of talks after the resumption of composite dialogue in 2012 took place in New Delhi, thereafter, Pakistan's High Commissioner invited Kashmiri Hurriyat leaders ahead of Pak-India talks. Consequently, India cancelled the bilateral talks on accusing Pakistan of interfering in India's internal affairs. Variety of hindrances remained underway while granting India as full NDMA status, however, the clear understanding on both sides to normalize bilateral relations through unhindered trade enabled by open borders seems to be a matter of time now.

Tariff & Policies as Striking Barriers

One of the major factors behind the low trade between Pakistan and India is the less diversified export base of Pakistan, and 60% of its exports are accounted for two products: agricultural and textile items. Moreover, these similar items also account for a large amount of India's exports too. It is against this backdrop, that free trade between the two countries is inevitable.

Tariff policies adopted by India have so far precluded the possibility of intra-industry trade. The intra-industry trade is also affected by the support provided by India in the form of relative large subsidies, especially in agriculture.⁷ The table given below compares the level and pattern of import tariffs in the two countries, showing that custom duties on agricultural items are notably higher in India.

Table - 2: Trade Items: Comparison between Level & Pattern of Import Tariffs
MFN-applied tariffs by product group in India and Pakistan

Product Group	India	Pakistan
Animal products	33.1	14.6
Dairy products	33.7	30.0
Fruit, vegetables, plants	30.4	18.2
Coffee, tea	56.3	12.8
Cereals and preparations	32.2	18.8
Oilseeds, fats, and edibles	18.3	8.8
Sugars and confectionery	34.4	17.2
Beverages and tobacco	70.8	52.5
Cotton	12.0	7.0
Other agricultural products	21.7	6.7
Fish and fish products	29.8	10.6
Minerals and metals	7.5	12.4
Petroleum	3.8	10.7
Chemicals	7.9	9.6
Wood, paper etc.	9.1	15.5
Textiles	14.7	16.7
Clothing	13.4	24.8
Leather, footwear etc.	10.2	14.9
Nonelectrical machinery	7.3	9.3
Electrical machinery	7.2	14.7
Transport equipment	20.7	24.7
Manufactures, n.e.s.	8.9	13.1

Source: World Trade Organization, country tariff profiles

It is worth mentioning that India also operates a wide range subsidy regime in agriculture. According to Institute of Public Policy, subsidies on agricultural inputs such as fertilizers, water, power, tractors and seeds etc, exceed 5% of its GDP. And yet the concomitant percentage in case of Pakistan is just 1% of GDP. However, there is no denial of the fact that the agriculture subsidies of India are compliant with WTO standards. An account of Non-Tariff barriers between the two countries are explained in succeeding paras.

Non-Tariff Barriers

The prevalent perspective in Pakistan reflects that India restricts her trade with other countries not only through tariff barriers but Non-Tariff Barriers (NTBs) as well.⁸ Some of these NTBs have more strictly been applied to Pakistani items. The following points explain Pakistan and India's operated NTBs.

➤ **Indian NTBs**

According to the World Trade Organization, India operates the following significant NTBs:

- Sanitary and phytosanitary measures are harmonized with international standards and that engulf mostly food items.
- Complex nature of obtaining import licenses and permits.
- Blockade is imposed on imports of animals and plants.
- Certain goods can only be traded through some specific ports or trade routes and particular agencies.
- Antidumping and countervailing measures are taken actively by India.

➤ **Pakistan's NTBs**

In comparison with the aforementioned NTBs operated by India, Pakistan operates fewer and less rigorous NTBs that are described below:

- Unlike in India, the main trade policy instrument operated by Pakistan is the tariff regime including sanitary and phytosanitary measures rather than NTBs.
- Clearance of items such as pharmaceuticals, agricultural products and engineering goods require clearance from the relevant ministries/industries.
- Restriction on imports is applied for health, safety, security, religious and environmental reasons.
- A dominant role is played by state agencies, TCP in case of Pakistan, in the import of agricultural items.
- Unlike India, Pakistan seldom embarks upon antidumping and countervailing measures.

Together with tariff barriers, NTBs seem to have impeded and have major impact on the trade between the two countries. At lower level some steps have been taken so far to clear the situation, whereas, there is still lack of higher level efforts in this connection from both sides. Hence, it is clear that NTBs are more restrictive in India than in Pakistan, especially on agricultural items. In addition, there are several other impediments to bilateral trade, given they are removed, can lead to a significant enhancement in bilateral trade.

Further to the technical barriers to bilateral trade, the element of internal politics has a significant impact on trade liberalization related endeavors as well. The concern also includes pursuit of internal politics.

Pursuit of Internal Politics

Domestic politics, both in Pakistan and India, have a great impact on their respective foreign policies when it comes to the bilateral relationship, Kashmir issue, the main cause for adversarial relations has taken a stronghold in domestic politics. Certain parties and quarters such as rightist parties in both countries champion the issue of Kashmir coupled with nationalistic fervor in their electoral campaigns. The groups and parties on Pakistani side develop a pressure group conditioning in soothing the relations with India on Kashmir issue resolution.⁹

Moreover, in the current scenario after coming into power of business friendly Nawaz Sharif, there appears to be cross-party consensus to a certain extent about easing and strengthening of trade relations with India. Prime Minister Nawaz Sharif has been an ardent supporter of friendly relations with India and called for peaceful resolution of all ongoing issues peacefully. It was also a BJP government in India last time when Nawaz Sharif was in power in 1999 and he successfully held Lahore Summit with Indian Prime Minister Atal Bihari Vajpai, who came to Lahore through '*Sadai-Sarhad*' dosti bus. Again with Prime Minister Nawaz Sharif in power for the third time in Pakistan, in India BJP has once again come in power with Narendra Modi at the helm. Though Prime Minister Nawaz Sharif has been promoting an agenda of friendly relations with India and even went to the swearing in ceremony of Narendra Modi, there has been no reciprocal response from India.

Nevertheless, Narendra Modi is also trade friendly and wants to see the bilateral trade increasing, on the one hand, while his anti-Muslim actions in past place him at an antagonistic position with Pakistan. Nevertheless, both countries seem determined to proceed

further and make things happen at least about issues regarding business and trade. At a recent meeting in New Delhi, the commerce ministers of India and Pakistan discussed several measures to accept liberalization and facilitation actions.

Most Favored Nation Status: Apprehensions

When the World Trade Organization was established in 1995, both India and Pakistan joined it as members. It is enshrined in the first article of GATT that all the signatories to the agreement are bound to undertake trade with one another in the light of MFN principle. India complied with the GATT and extended MFN status to Pakistan soon after joining WTO, however, Pakistan has not been able to reciprocate this so far.

The MFN treatment ensures non-discriminatory trading terms among the WTO members. It is based on the principle of guarantee that if favorable tariff rates are given to one trading partner then all the member countries will get the same terms. The principle does not require extending extra advantages to any trading partner, but rather uniform terms for trading for all member countries of WTO.

Hence, there is no uniformity among the member countries in obliging these principles and not all countries fulfill this obligation. There are few clauses in GATT that allow one country to discriminate against the other in addition to the permission to form Preferential Trade Agreements.¹⁰

It was 2011, when Pakistan took principle decision to accord MFN status to India under a new name, Non-discriminatory Market Access. In 2012, it was decided that the two countries will enjoy mutual MFN treatment from January 2013; however, this has not been materialized. It is expected that the current government of Pakistan will soon fulfill its promise to grant MFN status given the

pressure from business community within the country and international donor agencies.

India imposed Non-Tariff barriers, as those serve as one of the main hurdles in Pakistan's reciprocity of MFN treatment to India. These Indian imposed NTBs are complex and range from quality assurance, physical inspection by custom officials to visa issuance. NTBs constitute a significant proportion in the composition of the Overall Trade Restrictiveness Index (OTRI) of India. So, here seems a paradigm shift in both countries and the hurdles in the way must be removed for the realization of free trade between the two countries. India needs to shun her policy to impose NTBs on one hand, while Pakistan on the other hand needs to expedite the process of realization of MFN treatment to India.

Impediments and Opportunities: Rhetorical Situation

It has been observed that Trade-Liberalization would result into benefits for both the trading partners, though, in case of Pakistan and India the opportunities are coupled with some threats as well. Following concerns take into account certain business modalities that can be faced with threats as a result of trade liberalization between Pakistan and India.

- **Textile and Clothing:**

The industry of textile and clothing is a major industry in Pakistan and India that plays an important role in the economic dynamics of both the countries. The goods produced by this industry account for a large portion of trade in both countries and contribute 18.8% in India and 65.6% in Pakistan, as per the total value of exports in previous fiscal years¹¹. Both countries rely hugely on these sectors for the creation of employment opportunities and

export revenues. As of now, trade in textile and clothing between India and Pakistan is so much low as to be considered non-existent. In both countries, the textile and clothing sectors elicit different levels of specialization. In Pakistan, the specialization of this industry is in cotton textile intermediate goods including towels and bed linen, while Indian firms have developed high expertise in fiber production and garment manufacture and packaging. Firms in both countries are not vertically integrated and most of them are operating as privately owned small and medium size firms. However, in recent times both textile and clothing industries, to some extent, have vertically integrated.

- **Agriculture:**

Therefore, India is the leading producer of wheat and sugar, Pakistan would be in a position to tap substantive gains from trading with it in these items. In addition to major crops such as wheat and sugar, both countries can explore a number of trading opportunities in other food items. Moreover, India also can tap the potential so that it can export the products that Pakistan has been importing from destinations other than India.

- **Automobile:**

The automobile industry of Pakistan is characterised by protective measures for a long time. The industry was given a boost towards growth through the Automobile Industry Development Plan (AIDP) from 2008. Hence, the automobile industry stands second largest in terms of its contribution to custom duty and sales tax, its contribution to

the GDP in terms of exports has been relatively small and is growing on a slow pace.

Indian automobile Industry is, to the contrary, one of the most rapidly growing automobile industries in the world where India has been bringing forth innovations. Indian automobile industry is technologically more advanced and sophisticated as compared to Pakistan's corresponding industry.

Despite Indian automobile industry's sophistication and increasing global auto exports, Pakistan has not been able to get benefit from this through imports, because various barriers in the way of free trade are being operated by both countries over various different products. If the trade liberalization is realized, Pakistan would be able to import not only Indian cars and tractors but Pakistan's automotive industry can also benefit from the increased exports to grow the national economy also.

In addition, Pakistan can also serve as a potential destination for outsourcing the Indian automobiles. Pakistan's policy of protection in the case of automobile industry has not brought benefits to the industry and it has been unable to make the industry competitive enough to equalize with the global automobile industry.

- **Pharmaceuticals:**

In pharmaceutical sector, India holds an advantageous position as compared to Pakistan. Currently, India has the third largest pharmaceutical industry in the world. The number of pharmaceutical units in India is much larger than in Pakistan, such as India has over 200,000 pharmaceutical

manufacturing units while there are only 400 units operating in Pakistan. The foreign investment in the Indian pharmaceutical sector is also huge with multinational companies investing over \$6 to 10 billion within the last decade exclusively.

On the other hand, though Pakistan's pharmaceutical sector and healthcare sectors are expanding and evolving rapidly, there is still half of its population that does not have access to modern medicines and pharmaceuticals. Given this, Pakistan can benefit from huge and growing Indian pharmaceuticals through free and liberalized trade with it. As well as, Pakistan can also learn from India in the field of pharmaceutical industry as Indian machinery used in pharmaceutical industry is cheaper than half of the other international suppliers from whom Pakistan imports these equipments.

- **Manufacturing:**

The overall share of manufacturing sector in GDP of Pakistan has been higher than India in the year 2009-10, 18% in contrast to 16 % in India.¹² Despite the growing energy shortage and rising inflation domestically, manufacturing industry of Pakistan has shown some positive growth over last five years. There has been 31.3% growth in India's manufacturing sector. Chief Indian exports in terms of manufacturing sector are cellular phones, data processing machines, aircraft parts and air conditioning machines. Pakistan has developed special expertise in manufacturing highly developed and famous sports goods and surgical instruments. Apart from these products, Pakistan is also

able to export light engineering products to India. In other Pakistani manufacturing sectors, there are various pitfalls arising from the weaknesses such as obsolete machinery, lack of standardization, poor quality control practices, meager R&D and the small amount of market capacity. Unless these weaknesses are addressed properly, Pakistan's manufacturing sector will continue to face the challenges in realm of export competitiveness, especially against India.

Prospects of Sustained Economic Cooperation

The prospects of economic cooperation between India and Pakistan are given with the socio-economic needs and geographical proximity of both the countries. The volume of trade between India and Pakistan could reach up to \$9 billion, which currently is around just one billion dollars. But the important question is that in the environment of military rivalry marked by huge mistrust how can and how much these two countries could strengthen their economic ties? As discussed earlier, the current era is of economic cooperation and, through economic ties, the old rivals can become today's allies. The world has transformed in a manner where even the enemy states are doing trade with each other despite all the political differences.

Ever since the beginning of composite dialogue between India and Pakistan, both countries were on the right track and serious chances prevailed of substantial economic cooperation between both the countries. Therefore, the developments following the Mumbai attacks have overshadowed the trade ambitions. But later, in the following years, the relative peace has prevailed; as both the countries have broken the ice and have formally resumed the composite dialogue. The change of governments in both India and

Pakistan has proved as a good sign for the trade relations between India and Pakistan. Prime Ministers, Nawaz and Moodi are considered to be the pro-trade personalities. To prioritize the economic sector and improve economic relations with other countries was also the major goal in their election manifesto. The Prime Minister of Pakistan also declared the policy of having good relations with India during his election campaign.

Nirindra Moodi's decision to invite Pakistani counterpart on oath taking ceremony and subsequent visit of Nawaz Sharief denoted a positive beginning for the normalization of relations between India and Pakistan. Though, nothing significant has been achieved thereafter and the formal resumption of composite dialogue is still awaited and the current trends in Indo-Pak relations reflect persistence mistrust between the both nations. Although improving the economic sector has been the major priority of both governments but achieving this goal from enhancing trade with the neighboring country seems the option not being considered.

The economies of both India and Pakistan have huge potential to extract benefits from increasing trade with each other. The economic relations can not only be strengthened at bilateral level but also strong regional economic forum could come into existence by using the platform of SAARC to enrich potential benefits of trade and impediments in economic cooperation.

Economic Integration: Trade Liberalization Paradigm

It is a positive sign that both India and Pakistan have opened up their economies, relinquishing the old import-substitution policies favoring autarky, and adopted a policy of economic integration with the world economy. The reforms carried out as a result have placed

the two countries in a better position to follow preferential trade liberalization.¹³

Pakistan and India, along with other South Asian countries, signed South Asian Free Trade Agreement (SAFTA) in January 2004 that came into force in January 2006. The main purpose of SAFTA was to reduce and subsequently eliminate tariff barriers, facilitate cross-border movement of goods, promote intra-regional fair competition, and create an effective and efficient framework for regional cooperation. However, the efficacy of the agreement is still impeded by the restrictive sensitive lists adopted by the member countries.

A recent study has showed that India is increasingly shortening its sensitive list under SAFTA. Out of five SAARC member countries covered in the study, Sri Lanka, Nepal and Bhutan have already signed bilateral trade agreements with India. Bangladesh has been given a Least Developed Country (LDC) status and only 331 items are placed under the operational list applicable to it.¹⁴ These leave Pakistan to be the only state with a non-LDC status and resultantly the sensitive list applicable to Pakistan contains the largest number of items, 868.

If implemented in their true essence and spirit, the regional trade agreements like SAFTA are destined to produce a positive effect on trade, growth, technological dissemination, and increased Foreign Direct Investment. Intra-regional trade will unchain innovative technology, lower domestic prices, ensure the market expansion. There are several fronts on which joint ventures can be successful under SAFTA, for instance, in pharmaceuticals, chemicals, petrochemicals, automobiles, agro processing,

technology transfer among Information Technology firms and joint gas pipelines.

Different studies have shown different results about the prospects of regional trade in SAARC area under SAFTA. Empirical studies carried out on the subject have elicited mixed results given the smaller size of the member countries that are either landlocked or very small in size in comparison with a huge economy like India. Research studies based on computable general equilibrium model simulations suggest that the policy of unilateral liberalization would benefit the South Asian countries much more than under SAFTA, as in this case smaller countries would gain little or even lose.¹⁵

However, a different and opposite to the above comprehension is reached by a European Study Group (ETSG) report regarding trade in South Asia using the gravity model.¹⁶ During the course of its analysis, the study showed that there is a significant trade-creation effect with the outside world under the South Asian Preferential Trade Agreement (SAPTA). The report does not find any evidence of the trade diversion effect with the rest of the world, and states that increased regional integration may bring substantial benefits to the SAARC region and the agreement will enhance intra-regional trade though the elimination of tariff barriers and non-tariff barriers among the member countries.

Indo - Pak Trade Potential: Recommendatory & Policy Posture

The trade potential for mutual trade between Pakistan and India is significantly high. According to Dr. Ishrat Hussain, a renowned economist of Pakistan, "India-Pakistan is a win-win situation," arguing that even a 10 per cent share of a 300 million-strong Indian middle class market would double the market share of Pakistani

companies and businesses.¹⁷ It is evident from the economic advantage pointed out by economists that the bilateral trade is advantageous to both countries.

Out of these advantages, the major advantage for both Pakistan and India is the cheaper transportation costs due to shorter distances thus reducing the costs of trade. If the trade of \$1.5 Billion carried out illegally is brought under the official trade it will increase the revenues of the state. If the process of trade liberalization continues, in the longer term there is potential for increased investment including joint ventures.

Comparing with India, the advantages for Pakistan as a result of trade are greater. Trade with India would result in the growth of Pakistan's economy, the growth which stands stalled now. There are two ways through which economic growth can take place: through major structural transformation or through trade. In case of Pakistan, the economic structure has remained unchanged for at least 40 years; the only way left is economic growth through regional trade and investment. In this backdrop, India can be a major trading partner to flourish the economic growth of Pakistan as Pakistan's textile and food industries can find markets in northern India, while India can meet her energy requirements through tapping Pakistan's huge reserves of coal, the world second largest reserves.

Both countries enjoy advantages in different items. India has an advantage in rice, maize and grains while Pakistan enjoys advantage in Basmati rice, cotton and fruits and these items easily find markets in India. Pakistan's agriculture has become more efficient in recent decade and is in a competitive position with Indian agricultural sector despite the latter's huge input.¹⁸ In addition,

there is a relation between the Indian success and Pakistan's benefit as Pakistan's farmers would significantly benefit from the Indian success in raising yields per acre through improvements in seed, irrigation and mechanical technologies.

Such views that underscore the resultant mutual benefits of trade are held by most of the mainstream political spectrum. The mainstream political parties favor enhancement of trade with India which they believe would bring enormous benefit to Pakistan and help it meet the worst energy crisis. In this way, both countries have to find ways for greater economic cooperation, without losing principle stances on Political realities and issues.¹⁹

In order to revamp the benefits of trade liberalization and economic cooperation, Pakistan and India need to introduce visa regime changes. It is comprehensible that without the movement of people there is no thinking of movement of goods. Both India and Pakistan have many tourist destinations and tourist trade can account for a huge amount of trade and exchanges between the neighboring countries. However, the current visa regime of the two countries imposes severe restrictions on trans-border travel, including long processing time; a single-entry limit; city specific authorization, with a three city limit; police reporting requirements; and the same entry and exit points.²⁰ In relation to visa regime changes, the Islamabad-New Delhi dialogue has provided some progress with both parties agreeing, in principle, to a more liberal visa regime for the business community. This principle understanding needs to be materialized so that the pace of trade should increase.

Moreover, in the meantime the governments and business communities from both sides should form more contacts of

potential traders and investors, for instance, through organizing trade exhibitions that could provide an environment facilitating access, interaction and sharing of information and goods alike. Softening of visa regime would ensure an easy cross-border movement that in turn would enable potential investors to gauge opportunities. This would also increase the Indian FDI in Pakistan and vice versa.

Although Pakistan has already been allowing incoming Indian FDI, Indian businessmen have been showing hesitance in investing in Pakistan given the political instability and security related problems. A major part of Indian business community wants to invest in Pakistan on the one hand while they fear to come to Pakistan because of security fragility on the other hand. Many prospective investors in Pakistan distanced themselves from such a venture after the Mumbai terror attacks and terrorist activities in Pakistan after 9/11. Ultimately, the prospects of Indian investment in Pakistan depend upon the security and democratic transition in Pakistan that would ensure stability.

The Public Policy Concern: A Futuristic Picturesque

The study has recommended policy options for both countries that are imperative for the purpose of gradual increase towards the path of economic cooperation between India and Pakistan in the environment of hostility and mistrust. The first step towards a peaceful and economically developed region is that both countries need to indulge in negotiations to seek the permanent solution of all bilateral outstanding issues between the both countries.

The major factor for failure of negotiations has been the inability of both countries to sustain the dialogue process. During the last few decades it is seen that a single incident can disrupt the

whole process of dialogue. Only a sustained peace process can guarantee any significant development in the solution of bilateral issues.

Moreover, the leadership of India and Pakistan needs to understand the significance of economic cooperation for the regional peace and stability. The initial steps on behalf of the governments could include the softening of visa restrictions and providing the suitable environment for investment to the people from each other's country. In this regard, track-II channel of diplomacy needs to be effectively utilized.

Now, it is the time when the NGOs from countries, leading economists and civil society representatives need to play their respective role for bringing both countries towards the path of peace through encouraging and promoting the economic agenda that includes the close cooperation between India and Pakistan.

The outcomes of the study narrates that there are huge prospects for economic cooperation between India and Pakistan and this cooperation would not only help these two nations but would also contribute significantly towards the regional peace and stability. In this context, strong policy making as well as implementation to, urge between both the governments to increase the trade and other economic linkages between India and Pakistan. However the political differences are causing the major hindrance in the enhanced economic relations.

The complexity of nature of such political issues denotes the normalization of relations between India and Pakistan which seems an uphill task but the progress on the issues can easily be resolvable. The major bone of contention between India and Pakistan; Kashmir issue will remain a source of conflict and its solution seems

impossible. In such situation, the substantial breakthrough on economic cooperation between India and Pakistan seems ordinary.

Therefore in spite of great prospects for economic integration the volume of trade between India and Pakistan would remain low and no significant improvement is sighted in foresighted future. The sustained thaw of peaceful relations of both countries is prerequisite for any positive outcome related to enhance economic cooperation between India and Pakistan.

Advocating the Conclusions

The 21st Century in international politics is considered to be the era of economic cooperation and integration among the regional states. The old rivals have become the partners due to their common goal of socio-economic development through the economic cooperation at regional as well as at bilateral level. Though the economic integration is being witnessed throughout the world but the South Asian region is still the least economically integrated region of the world. The region has huge potential of economic integration but the rivalry between India and Pakistan is the major hurdle in the process. The enhanced economic cooperation would make the stakes high for both parties to indulge in hostile activities against each other. But the chances of close economic cooperation between India and Pakistan should not be expected in near future. There are multiple factors that have squeezed the prospects for trade liberalization between India and Pakistan.

The political issues between India and Pakistan are very complex and these issues would remain the cause of tension between the two neighboring nuclear armed countries. The study has identified that the issue of Kashmir is the major obstacle for normalization of relations between the both countries. The

terrorism factor has added a new dimension to the hostile relationship of India and Pakistan. In the backdrop of all these issues of divergences and the resulted mistrust the close economic cooperation seems a difficult goal to achieve in near future.

Finally, the study has identified that economic cooperation between India and Pakistan would not only be beneficial for the social development in both states but it would also significantly contribute towards regional peace and stability. The benefits of economic cooperation would equally be great for both countries. For Pakistan, economic cooperation with India would help in recovering its economy hard hit by the energy crisis. For India, Pakistan could provide a link to its market in Central Asian states through Afghanistan. The economic cooperation would also be a blessing in disguise for the Afghan people as well. This development would not only decrease the chances of proxy war between India and Pakistan in Afghanistan but would also bring economic prosperity in the country as a result of economic stability in the region.

End Notes

¹Dr. Ijaz Nabi, 'Integrated Report and Summary of Findings, Pakistan India Trade Study', Ministry of Commerce, Government of Pakistan, September 1996, p.2.

²Op.cit , 41-42.

³ An S.R.O. No. 280 was issues by Pakistan's Ministry of Commerce on March 20th, 2012, which entails the list of 1209 items not importable from India. It also has the list of 137 items which are allowed to be traded via land route. To find out the list see <http://www.tdap.gov.pk/.php> In Jan

2014, an item Petroleum Coke was also permitted to be traded through Wagah-Attari border. See <http://www.dawn.com/news/1079280/import-of-petroleum-coke-allowed-by-road-from-india>.

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¹⁰ See Article XX and Article XXI for general exceptions in the text of The General Agreement on Tariffs and Trade formulated in Geneva.

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