Citation: Ashraf, T. (2020). Economic Relations between Pakistan and India: Impressions from the Past and Prospects for Future. *Global Strategic & Security Studies Review*, *V*(III), 22-33 https://doi.org/10.31703/gsssr.2020(V-III).03

Economic Relations between Pakistan and India: Impressions from the Past and Prospects for Future

Pages: 22 – 33 | Vol. V, No. III (Summer 2020)

Tahir Ashraf *

Abstract *Pakistan and India have failed to establish substantial and sustained economic relations between them. Despite being neighbours, they couldn't enjoy a good volume of bilateral trade in multiple sectors. This study traces the history of bilateral trade between Pakistan and India. While identifying patterns of trade between them, the study attempts to identify barriers in bilateral trade between them like trade regimes, non-tariff barriers and other discriminatory measures. The study also makes an attempt to address the question concerning how the impediments in bilateral trade can be removed to enhance bilateral trade and economic connections. On the basis of interviews of Key Informants (KIs), this study explores the potential of bilateral trade between Pakistan and India and finds possible sectors where bilateral trade can be augmented. Lastly, this study finds possible sectors where Pakistan and India can initiate joint ventures to seek win-win approach in bilateral economic relations.*

Key Words: Bilateral Trade, Pakistan-India Relations, SAARC, Regionalism, Gravity-Model.

Introduction

Pakistan and India have not established substantial economic relations since their independence after the British withdrawal in 1947. Political rivalry between them has been the key barrier to this. Nonetheless, Pakistan and India are involved in bilateral trade, despite the challenges such as political rivalry, the occurrence of three wars and the prevalence of hostile perceptions of each other.

Pakistan and India share common geographical borders along with a common history. Geographical contiguity compels that the contiguous economies like Pakistan and India should not treat each other as separate and exclusive (Choudhury, 1971). However, this dream could not be realized due to a variety of factors, including ideological controversies, mutual distrust and psychological blocks that prevailed on both sides (Cheema, 1999).

Pakistan and India have a complicated economic relationship. It was not given any serious thought when the partition plan regarding the division of British India into independent states had been devised. As a result, the interconnected economy of the then Indian subcontinent was, what Mirza quotes Douglas Brown as saying, 'was vivisected at independence for Pakistan and India'(Mirza, 2005). Before independence, the economies of the regions that emerged as Pakistan and India were interlinked, as if they were one country. Since they had emerged as two separate countries due to the partition process, bilateral trade, however, began between them. It could not be boosted though, owing to the escalation of conflict-related to the Kashmir issue, mutual distrust, bitter realities of migration issues during the partition process and Pakistan's claims over unequal distribution of financial and military assets (Burke, 1973).

* Assistant Professor, Department of International Relations, Bahauddin Zakariya University Multan, Punjab, Pakistan. Email: tahirmian1@bzu.edu.pk

URL: http://dx.doi.org/10.31703/gsssr.2020(V-III).03
p- ISSN: 2708-2121 e-ISSN: 2708-3616 L- ISSN: 2708-2121 DOI: 10.31703/gsssr.2020(V-III).03

Literature Review

Research on Pakistan–India relations is abundant. However, published scholarly readings on Pakistan–India economic relations are limited. Similarly, the availability of those research works exploring the potential for the spillover impact of enhanced economic relations between Pakistan and India on the politico–security relations is lacking. This section presents a review of studies, using econometrics models of gravity model and trade complementary index models, to identify the projection of the potential of Pakistan-India bilateral trade. Having an overview of these studies, this research makes an argument for taking bilateral economic co-operation as a tool of peacebuilding between Pakistan and India. Lastly, the literature review section also makes an offer to present the studies available on the nature of bilateral trade while identifying barriers to it. This will be followed by another brief review of available studies on the potential of economic and trade linkages between them.

Numerous studies have been conducted to evaluate the potential of bilateral trade between Pakistan and India using diverse techniques of econometrics. The gravity model has been used to predict the potential of bilateral trade (Srinivasan & Canonero, 1993), (Batra, 2006), (Rahman, Shadat, & Das, 2006) and (Nazia Gul & Yasin, 2011).

Srinivasan and Canonero assess bilateral trade while using what they call an "extended version of Gravity Model of Bilateral Trade" with explanatory variables like GNP, GNP per capita and distance (Srinivasan & Canonero, 1993). The study also endeavours to quantify the impact of restrictions to trade in terms of tariff barriers. It suggests that the greatest proportional increase expected in bilateral trade would come from regional integration (Srinivasan & Canonero, 1993).

Batra uses the gravity model to investigate world trade flows of 146 countries, pairing them with India as a trading partner (Batra, 2006). The study discovers an increase in trade with paired countries of higher GNP while trade between paired countries drops by 1 percent for every 1 percent rise in the distance between them (Batra, 2006, p. 335).

Rahman et al. estimates the trade creation and trade diversion in RTAs with reference to SAFTA and uses the gravity model (Rahman et al., 2006). The study predicts that Bangladesh, Pakistan and India will be beneficiaries from RTA while Nepal, Sri Lanka and the Maldives are not expected to be recipients. The study locates an approximately proportionate relationship between mutual export flow and size of economy, indicating potential high economic growth in the economies of South Asia (Rahman et al., 2006).

Nazia Gul and Yasin determine the coefficients of trade flow of Pakistan with its trading partners; therefore, the present study estimates the potential of Pakistan's trade with 42 different countries including its neighbours (Nazia Gul & Yasin, 2011). Results under the basic gravity model revealed that Pakistan's bilateral trade would rise by 0.95 percent as the produce of GDP increased by 1 percent. Likewise, bilateral trade decreases by 1.44 percent as the distance between Pakistan and its trading partner increases by 1 percent (Nazia Gul & Yasin, 2011, p. 34).

Hirantha uses the gravity model to estimate the total impact of SAPTA over the boosting of regional trade in South Asia (Hirantha, 2004). He discovers sturdy indication of trade formation over there under SAPTA with no trade distraction as it may have no effect on trade with non-members (Hirantha, 2004). This was an indication of trade creation; projecting prospects for success of the then proposed SAFTA that eventually came into effect in 2006. However, SAFTA permits the member countries to protect the interests of the industry by imposing restrictions on imports while including them in the negative or sensitive lists (*South Asian Free Trade Agreement*, 2004). Pakistan–India bilateral trade in particular and intra-SAARC trade in general, have not been enhanced despite measures taken by SAFTA. Therefore, there is room for an alternative approach, and this approach could be addressing barriers to trade links and economic connectivity between Pakistan and India.

The cited works indicated above substantiate the argument that Pakistan–India bilateral trade has enormous potential and can be augmented. After having an overview of the studies which use gravity model and trade complementary index, it can be found that possibilities of trade links exist between them.

Methodology

The central research objective of this study is to assess possibilities for the improvement of commercial co-operation between Pakistan and India. Several initiatives have been carried out, but geopolitical stumbling blocks between them barred them from attaining the preferred goals. In this milieu, Indo-Pak relations demand alternative line. Hence, this study centers on the revisiting the Pakistan-India relations. By embracing a qualitative method and content analysis technique, it detects the preeminence of the Pakistan–India rivalry as the fundamental reason for the failure of the Pakistan-India relationship.

The technique of interviews of Key Informants has been embraced in this study. A total of thirty-two detailed interviews with KIs were conducted. The expertise of the KIs was examined cautiously before conducting interviews with them. Interviews of businessmen and traders directly engaged in Pakistan–India bilateral trade was conducted. Representatives of Chambers of Commerce and Industry and trade organizations from Pakistan were interviewed while questionnaires were sent to businessmen and traders via e-mail through the Indian Chamber of Commerce and Industries in Delhi and Amritsar. Interviewees were selected from Lahore and Islamabad from Pakistan and Amritsar and Delhi from India. Two representatives from the SAARC Chamber of Commerce and Industry have been interviewed. Similarly, four analysts writing on the Pakistan-India relations and affiliated with the leading newspapers from Pakistan and India like DAWN, Tribune, The Hindu, ABN-LIVE have been interviewed. In addition to it, two academic experts on South Asian regionalism, especially SAARC, one from Bangladesh and one from the United Kingdom have also been interviewed to enrich this study further.

To include academic response and viewpoint, four academicians have been interviewed. Selection of academicians for interviewees has been made on the basis of keeping their expertise on the Pakistan-India relations and their affiliations to universities and think-tank institutions in Pakistan and India.

Conceptual Framework

The leading purpose of this study is to explore possibilities for the regulation of the Pakistan–India conflict while establishing economic co-operation between these two arch-rivals. Neofunctionalism has been adopted as an approach to study prospects for managing the Pakistan–India conflict. David Mitrany's neo-functionalism provides a framework for explaining Pakistan–India co-operation. Starting from any functional activity, functionalism argues that it has the potential to create spillover for co-operation in other complicated areas (Mitrany, 1944).

With this backdrop, functionalism advocates for activities like cross-border people-to-people contacts; exchange of delegates; cultural and social activities; and most importantly an expansion in mutual trade between Pakistan and India. These functional activities will create confidence among people across the border and modify public opinion of conflicting parties. Co-operation in one sector, for instance, infrastructure, power generation or information technology will lead to co-operation in other areas such as automobile, engineering, and the telecom industry. Mattli has termed this process of sectoral integration as functional spillover (Mattli, 1999). Political spillover, while modifying the attitude of interest groups and altering the attitude of political elites, reshapes public opinion and paves the way for sustained co-operation between participants. Therefore, neofunctionalism can rightly explain the process of interaction between Pakistan and India through all types of functional activities and bilateral trade. Eventually, this process may lead to sustained economic co-operation where it will be able to generate benefits for both countries and also create win-win situations for them. Resultantly, the process of co-operation will emerge as irreversible.

Neofunctionalism has two important postulates. First, political parties; pressure groups; national and regional elites; and supranational organizations are crucial actors in the course of regional integration. Second, sectoral co-operation which emerges in the wake of the expansion of co-operation from one sector to another sector. Since the emergence of Pakistan Muslim League Nawaz (PML-N) in 1990 as a political party having a political base in the urban areas as well as enjoying massive support of the business class, pressure groups have started to exert their pressure for normalization of Pakistan's relations with India. History of Pakistan-India relations reveals that the process of CBMs between Pakistan and India was launched in 1988. Several initiatives were also taken in 1991, 1993. However, with the emergence of PML-N as the single largest party in the wake of the general election held in Pakistan in 1997, Nawaz Sharif, the leader of PML-N emerged as a proponent of the Pakistan-India normalization process. And, the Lahore peace process was initiated in February 1999, which provided the basis for initiating of economic CBMs. Economic CBMs were followed by the Composite Dialogue process initiated in 2004, which paved the way for opening up of the Wagha-Attari as a land-route for bilateral trade.

Knowing the intricacies of the Indo-Pak conflict, it is indicated through pragmatism that neo-functionalism is the most useful approach to be applied for testing the prospects of sustained peace between Pakistan and India through economic co-operation.

Pakistan and India Economic Relations: An Impression from the Past

After their independence, India and Pakistan started mutual trade. During the early years, the share of two-sided trade in the entire trade of both countries was quite significant. At the time of independence, more than 70 percent of the trade of Pakistan was with India while 63 percent of the exports of India were with Pakistan (Khan, 2009). After 1947, exports of Pakistan to India reached as high as 30 percent while imports from India reached 10 percent of Pakistan's total imports (Qamar, 2005). In 1951–52 share of Pakistan in India's overall export and import was 2.2 percent and 1.1 percent respectively. Share of India in Pakistan's total export and import stood at 23.6 percent and 50.6 percent, respectively (Mehta, 2012). At the time of independence, Pakistan and India signed a standstill agreement that allowed both countries to move goods freely from one country to another and these goods were exempted from customs duties (Ashraf, 2009). This agreement, however, came to an end in less than three months when India refused to give Pakistan any share of the export duties collected on jute. As a result, the Standstill Agreement came to an end on March 31, 1948 (Mirza, 2005). This act deteriorated trust between the newly independent countries. However, Pakistan and India signed another trade agreement in 1949, which permitted different categories of goods to cross the Pakistan–India borders without export licenses (Choudhury, 1971). These initiatives boosted mutual trade to the extent that the total trade of India with Pakistan was 30 percent, while Pakistan's total trade with India was 60 percent (Mirza, 2005).

In the wake of bilateral negotiations, they resolved currency issues when India accepted the par value of the Pakistani rupee, opening a new trade agreement that was signed on 25 February 1951(Choudhury, 1971). Pakistan and India reached another agreement in 1957, which stated that signatories would not treat each other with less respect than was given to any third country (Maini & Vaid, 2012). But this agreement lapsed in 1963. Unfortunately, there was a complete deadlock over bilateral trade between them owing to a trade embargo imposed by both countries in the aftermath of the 1965 war. This trade embargo had a negative impact on bilateral trade as other countries gained opportunities to occupy Pakistani and Indian markets and replaced the cross-border trade. Another impact of the end of bilateral trade between them was the emergence of smuggling between the two countries, which led to a direct loss of revenues for both Pakistan and India. Moreover, new factors of trade through other countries entered the Pakistan–India trade. As a consequence, the products of both countries were available at much higher prices than the export income of these goods.

Mutual trade between Pakistan and India was revived in 1974 due to the Simla Agreement signed in 1972. The trade embargo was lifted, and a trade protocol was signed, and both countries agreed to the MFN treatment of each other (Mirza, 2005). As a result of this trade agreement, bilateral trade started in the years of 1975–76 with a mutual trade volume of US$ 3.8 million and reached the US$ 24.04 million in 1988–1989 in the wake of the restoration of democracy in Pakistan. Due to the geopolitical situation, bilateral trade had been consistently fluctuating.

On the sidelines of the SAARC Summit held in Islamabad in December 1988, Indian Prime Minister Rajiv Gandhi and Pakistan Prime Minister Benazir Bhutto met, and this meeting helped in making the political atmosphere conducive for improving economic relations between Pakistan and India. Pakistan's 'Harmonized System Code' was expanded from 322 items to 511 items (Gupta, 2005). Another key step was an agreement to establish initiatives regarding comprehensive negotiations on avoiding double taxation. This also brought a significant proliferation in the size of bilateral trade between Pakistan and India that rose to US$ 24.04 million in 1988–89 as compared to US$ 11.87 million in1987–88. Figure 4.2 provides a detailed picture of export-import between Pakistan and India, and overall annual size of bilateral trade and a balance of trade between Pakistan and India from 1948 to 1990. During this period, the balance of trade between Pakistan and India remained in favour of Pakistan.

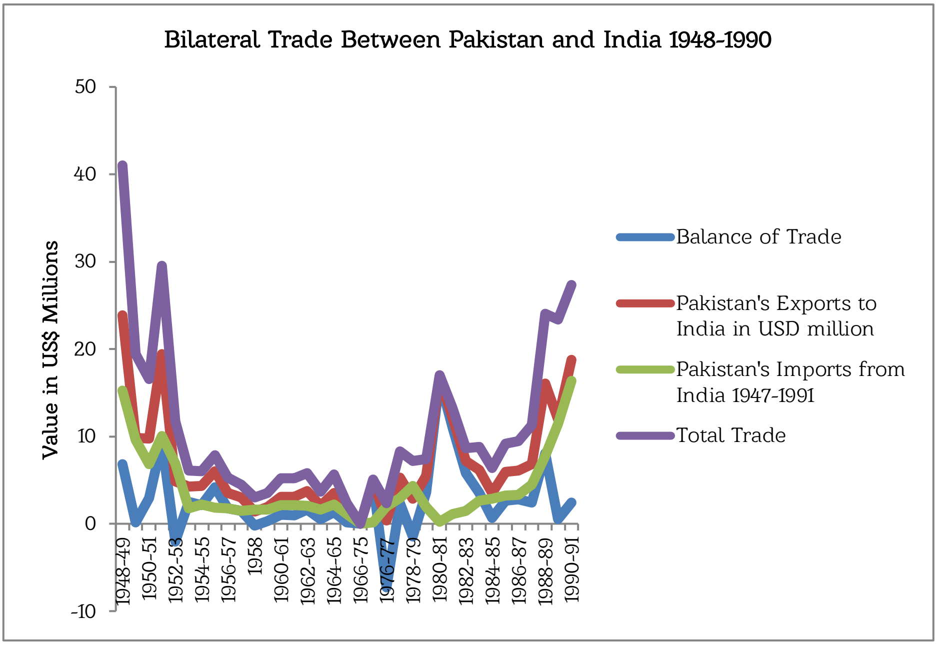

Figure 1: Bilateral Trade Between Pakistan and India 1948-199

Source: Authors' own calculation on the basis of data quoted by (Ashraf, 2009a; Mirza, 2005a; Pakistan, 2006).

In the wake of the signing and implementation of the WTO in 1995, India granted MFN status to Pakistan. However, Pakistan did not reciprocate it because of internal political pressure. An overall surge in the size of bilateral trade between Pakistan and India from US$ 122 million in 1995–96 to US$ 209 million in 2001–2002, displaying a compound yearly growth rate of 7 percent was noticed (Maini & Vaid, 2012). However, political instability in the region and tension among member countries of the South Asian region, including the especially enduring rivalry between Pakistan and India, curtailed the expected outcomes for economic co-operation in South Asia (Yousuf, 2013). The SAARC Preferential Trade Agreement (SAPTA) signed in 1995 also established a trade zone while offering special treatment to its member states regarding tariffs and non-tariff barriers. Seven members of the SAARC exchanged lists of items on which they offered tariff preferences to all members (Jain, 1999) and reduced their import tariffs. As a result, Pakistan's maximum tariff dropped from 125 percent to 65 percent, while India's maximum tariff lowered from 300 percent in 1991 to 55 percent in 1995 (Jain, 1999).

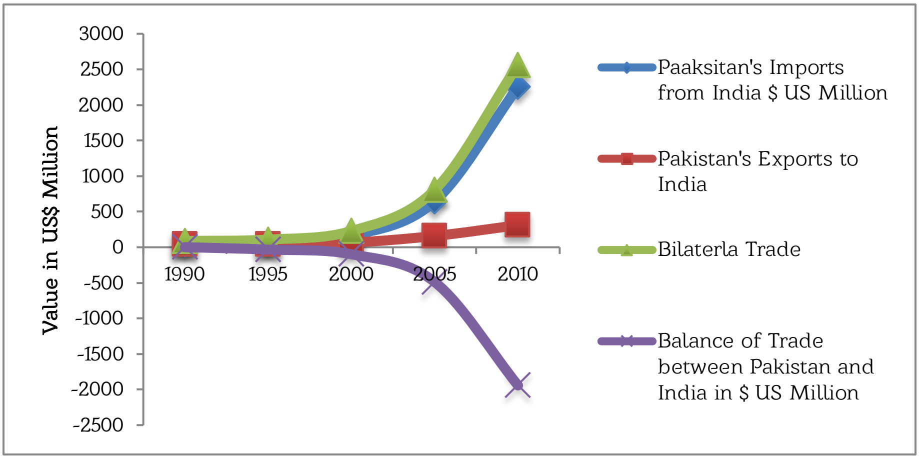

Figure 2: Bilateral Trade Between Pakistan and India 1990-2010

Source: Calculated on the basis of data quoted in (Husain, 2011; Ministry of Commerce, 2016c)

Under the auspices of SAPTA, the SAARC countries took one step further towards the regional integration of the South Asian region and approved SAFTA, which came into effect on 1 January 2006. Despite focusing on trade liberalization; para-tariff and non-tariff barriers; sensitive lists; technical support to LDCs and revenue compensation; the SAFTA agreement has allowed for safeguard measures and a full or partial surrender of preferences (SAARC, 2004).

Despite emphasis by SAFTA and the revision of negative lists by Pakistan and other SAARC states, bilateral trade between Pakistan and India in particular and intra-SAARC trade, in general, has not been augmented. Here, Pakistan and India find a lot of room for enhancing bilateral trade.

The volume of bilateral trade for 2015–2016 was US$ 2551.23 million, which indicates an increase as compared to the financial year 2014–2015, which was US$ 2354.49. The balance of trade is also in favor of India, which was indicated to be US$ 1143.90 million in 2011–2012, US$ 1522.92 million in 2012–2013 and US$ 1669.18 million in 2015–2016.

As India and Pakistan operate bigger markets in South Asia, concrete measures should be taken to show political commitment towards increasing bilateral trade between them. Out of this, augmented two-sided trade between them will lower the particularly intense and conflicting relationship between Pakistan and India (Khan, 2010) that will work as a catalyst to improve the overall political milieu of South Asia.

Constraints to Pakistan–India Bilateral Trade

It is essential to identify bottlenecks that Pakistan and India experience on the road to increased bilateral trade. The following section focuses on constraints in bilateral trade between Pakistan–India. Also, the section will be followed by a discussion regarding the removal of these constraints while addressing the stakes of Pakistan and India.

Concerning this, KIs were asked to identify barriers to the Indo-Pak bilateral. Based on the responses of the KIs, physical barriers have been identified as key factors, namely land route related barriers, especially at the Wagha–Attari border, railway route related barriers, NTBs and visa-related issues.

Regarding bilateral trade barriers, Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry, points out that strict visa regimes, the dearth of modern services at the Wagah–Attari border, stereotypical mindsets and non-tariff barriers are a few of the significant barriers to Pakistan–India bilateral trade. According to him

"India has certain Pakistan-specific tariff. The important non-tariff barrier is the change of mindset that we have to do business with India or Pakistan. Strict visa regime is another key non-tariff barrier. Instead of one gate, there should be a separate gate for trade purposes in addition to the existing one for the flag-hoisting ceremony. There is a lack of state-of-the-art facilities at the entry point of the Wagha-Attari border."

Likewise, Hamid Raza, a Lahore based import/export businessman engaged in the marbles business, also dubbed some non-tariff barriers adopted by India as Pakistan-specific. This is a general impression among Pakistani businessmen dealing with export to India that India treats only Pakistani export items in a way that discourages Pakistani exporters. He mentioned that "India imposes non-tariff barriers and some NTBs are Pakistan-specific." Similarly, Sikandar Hayat Bosan, the Federal Minister for Food Security & Research, also indicated that "India imposes duties on Pakistan's exports items to India." While highlighting another key barrier to economic and trade relations, an official of the Lahore Dry Port indicated that "Strict visa regime especially city-specific is another important barrier to bilateral trade. There should be an open visa scheme (visa for the whole country) for industrialists and business community." Furthermore, Talat Butt, an export/import businessman has pointed out that Pakistan has significant potential for exports but "increase in the cost of production has become a barrier." Also, Khawaja Riaz Hussain Siddiqi, the Chairman of Patron Chemicals, identified the high prices of input in the agricultural sector and the high ratio of domestic taxes work as a barrier to Pakistan's exports, especially to India. He pointed out that "High prices of agricultural inputs and a high percentage of taxes in Pakistan, to a great extent, have caused the low volume of Pakistan's exports, especially to India."

Concerning the barriers to trade and economic relations, Talat Butt, an export/import businessman opines, "India has two-tier taxation system. The Central government imposes duties while the respective state also applies tax that varies from state to state. Pakistan and India have strict visa regime especially city-specific visa issued to the visitors including businessmen." Moreover, he also underlined payment-related barriers to Indo-Pak bilateral trade and emphasized the need to "open branches of Pakistani and Indian banks in both countries." Awais Bin Aslam, the Manager Corporate Sales, Patron Chemicals, is of the view that "inept infrastructure, law and order situation, procedural delays and bureaucratic red tape are principal barriers."

Likewise, Asif Majeed, the President of the Evyol Group, highlights the barriers to bilateral trade and commercial co-operation between India and Pakistan by commenting that

"Uncertainty is the main barriers, especially security dynamics between Pakistan and India. Due to the unavailability of facilities of international standards of quality and certification, Pakistani exporters are facing barriers and delays in checking of samples in laboratories in India. Strict visa regime, especially the city-specific visa is one of the main hurdles in bilateral trade."

Image and perception, particularly the adversarial image of the 'other country' is also an important barrier to enhanced economic co-operation between Pakistan and India. Zafar Iqbal Siddiqi, President of the Multan Chamber of Small Traders, has pointed out that "Stereotype approach and mindset of a small segment of society in both countries is a barrier to Pakistan–India bilateral trade." Similarly, Baladas Ghoshal, an expert on South Asia and Professor, Jawaharlal Nehru University, New Delhi, India also indicates "the lack of trust is a significant barrier between Pakistan and India." Likewise, Khawaja Shafiq, the Chairman of *All Pakistan Anjuman e Tajiraan* shared a similar view regarding hurdles to Pakistan–India economic co-operation by indicating "geopolitical factors are important barriers. Negativity about each other on both sides is a significant hurdle. Enemy-attitude is also a barrier." Similarly, Tridivesh Singh Miani, a columnist and analyst affiliated with the Jindal School of International Affairs, Sonipat, Haryana, India, has pointed out that enhancement of bilateral trade requires not just political will, but also the bureaucratic will. Political leaderships are willing to take risks, but bureaucracy is cautious."

Furthermore, M. Ziauddin, Editor and Columnist affiliated with The Express Tribune is of the view that "Non-tariff barriers and standardization and quality control in India are some of the key barriers." However, "these are real CBMs that both countries should adopt to enhance bilateral trade while handling these issues."

On the basis of the viewpoints and responses of the KIs regarding barriers to economic and trade relations between Pakistan and India, it can be stated that significant impediments include non-tariff barriers, land route related physical barriers, psychological barriers, strict visa regimes, inept infrastructure and geopolitical issues.

Based upon the viewpoints of the KIs, this study has identified the following impediments to the Pakistan–India bilateral trade. These include physical barriers, NTBs, psychological barriers, geopolitical barricades and visa-related barriers. Table 1 displays the barriers that Pakistan–India bilateral trade is facing.

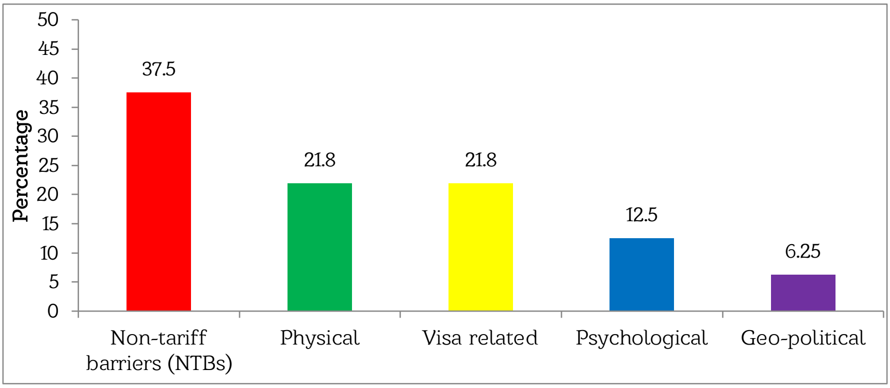

Figure 3: Barriers to Pakistan-India Bilateral Trade

Liberalization of their economies and the adoption of economic reforms by Pakistan and India have not created a considerable increase in their bilateral trade. Official trade between them was US$129 million while it reached closer to US$250 million on average in 2001 (Ministry of Commerce, 2016c). However, a sizable increase in their bilateral trade can be noted after the launch of the Composite Dialogue Process in January 2004. As a result, bilateral trade reached US$ 868.79 million in 2005–06. Moreover, it boosted from US$ 1673.71 million in 2006 to US$ 2238.50 million in 2007–2008 (Ministry of Commerce, 2016b). On the other hand, informal trade or smuggling that exists between Pakistan and India results in revenue loss for both countries. Various studies claim the existence of informal trade that amounts to almost US$2 billion per year (Husain, 2012).

Pakistan's Potential Areas for Export to India

Pakistan and India have great potential for bilateral trade. However, political rivalry between them is the key barrier in it. Pakistan and India have the potential for possible joint ventures and viable avenues for economic co-operation. The sectors that have potential include "textiles, leather, pharmaceuticals, auto parts, chemicals, agricultural products especially tea, telecommunications, minerals, iron ore, energy resources, electricity generation using coal and wind" (Nabiha Gul, 2009). Also, private sectors like tourism, health, IT, the banking sector and entertainment services have a large scope for mutual co-operation between Pakistan and India (Nabiha Gul, 2009). Additionally, India could also enhance its exports to Pakistan in mechanical applications; electrical apparatus and machinery; and textiles and chemicals (Shaikh, 2013). Pakistan's top exports to India during 2015 were fruits, nuts, cotton, stone, sulphur, salt and cement. Likewise, Pakistan's top three imports from India during the same year were cotton, vegetable products and organic chemicals (Countries, 2016). Pakistan's overall exports to India reached US$ 441.03 million in 2015–2016, which has a 0.1159 % share in the US$ 380,665.12 millions of total imports of India (Ministry of Commerce, 2016a).

India's Potential Areas for Export to Pakistan

India has ample potential to export items to Pakistan that she exports to the rest of the globe. Items which Pakistan may import from India are equipment and motorized appliances; chemical and allied industries; electrical apparatus; automobiles; aeroplanes; auto-parts; herbal products; textile and textile commodities; animals and vegetable fats; and oils. In 2015–2016 India's top three exports to Pakistan were textiles, organic chemicals and plastics. Total exports of India to Pakistan in 2015–2016 were US$ 2110.20 million, and it was 0.8053 percent of its total exports (Ministry of Commerce, 2016b). It reflects that the share of Pakistan's imports in India's exports is very minimal, which has potentially provided that Pakistan and Indian leadership want to enhance economic co-operation between them. The State Bank of Pakistan (SBP), in her report, estimates that for Pakistan to import from India, it would save a minimum of US$ 400 million to US$ 900 million annually (Paksitan, 2006).

Potential Areas for Mutual Cooperation and Joint Ventures

There are several items available for trading between Pakistan and India. In the preceding section, we have also measured the potential of bilateral trade between Pakistan and India and also identified potential areas for bilateral trade. In addition to these possible zones for bilateral trade, there are some sectors where Pakistan and India can launch joint ventures to address reservations of respective lobbies. These joint projects may also work as additional channels for increasing economic co-operation, which may allow for both countries to reap further benefits and create a win-win situation for them. The automobile, pharmaceutical and IT industries are among the sectors that can emerge as potential areas for joint ventures between them, and they can complement each other while expanding their exports after attaining significant shares in landlocked economic markets like Afghanistan and the other Central Asian States. Economists like Hartwick opines that beginning Indo-Pak trade is the key opportunity for the two countries to incite trade flows and produce benefits in South Asia (Hartwick, 2008).

Conclusion

Pakistan and India, despite once being a single economic entity, have not yet been engaged in sustained and irreversible economic interaction. Rather, economic relations between these two neighbours have been held hostage by a political rivalry that emerged after their independence. Having an overview of bilateral economic interaction, the study has pointed out several key factors, mainly the trust-deficit, security and geopolitical issues that have caused the dismal nature of the Pakistan–India economic relations in general, and bilateral trade in particular.

The article finds that the SAARC's initiatives like FTA, SAPTA and SAFTA were taken to augment economic interaction among the member countries but expected outcomes had not been achieved due to enduring rivalry between Pakistan and India. However, several actions have been taken by them for enhancing bilateral trade and intra-regional trade in South Asia, yet no substantial rise in intra-regional trade has been noticed.

For enhancing bilateral trade, it is important that the obstacles constraining Pakistan–India trade relations should be identified and removed accordingly. In this regard, a set of issues have been identified as barriers to Pakistan–India bilateral trade. These are mainly considered as NTBs. These NTBs include positive/negative list approach, technical barriers to trade, para-tariff measures and strict visa regimes. These measures have worked in a discriminatory fashion and have impeded the pace of bilateral trade between them. Since 2012, Pakistan has abolished the categorization of positive and negative lists and maintained only negative lists of those items that cannot be traded with India. This is a good omen for boosting economic relations, and bilateral trade statistics reflect tangible progression in it.

The Indo-Pakistan two-sided trade is facing several obstacles related to infrastructure. Bilateral trade takes place over various modes of transport such as air, sea and land routes. Inept infrastructure and inadequate land routes are key hurdles that raise transaction costs and obstruct the flow of trade. Due to inefficient maritime protocols though, trade has been below desired levels. Now, the share of trade via land routes is increasing. Therefore, Pakistan and India should focus on providing modern facilities regarding weighing, scanning of goods, and customs clearance at the Wagha–Attari crossing points while opening the further crossing points like Khokhrapar–Munabao so that transportation costs can be reduced.

Lastly, the study indicates that joint ventures are an appropriate approach to augmenting economic co-operation between them, especially in those sectors where Pakistan, as a weaker economy, has reservations. Service sectors and industries are the leading areas where joint ventures can be launched. These industries include tires and tubes; pharmaceuticals; chemicals; and automobiles. Services sectors include packaged foods, spices, urban transport, housing, banking, hotels and tourism. SMEs are another key area that has vast potential. These include the management of water resources, the establishment of energy grids and gas pipelines such as TAIPI and IPI. Agricultural R&D also has potential for joint ventures, which include new seeds for catering to the challenges of climate and weather such as El-Niño as well as related products for innovations in agricultural that could involve new formulas and combinations for pesticides. According to KIs, there are fewer prospects however for FDI by Pakistan and India concerning each other at the beginning of the process of economic co-operation, but it may develop at later stages when this process becomes institutionalized and matures.

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