



Pakistan and India Trade: Prospects and Challenges

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1. INTRODUCTION

1.1. Pakistan and India Trade: MFN Status, Challenges and Prospects

Historically economists have emphasized on the trade between nations. David Ricardo and Adam Smith have been at the forefront to propose trade between countries on the basis of their respective theories. Economic theory provides with the advantages of trade and regional integration. Countries having large domestic markets have benefited from integrating themselves into global market. Trade is the exchange of goods and services from one person or entity to another by getting something in exchange from the buyer. Trade is also called as commerce or financial transaction or barter. It allows countries to import ideas and technologies, realize their comparative advantage in certain sectors and economy of scale, and raise competition and innovation to enhance productivity and attain higher sustainable employment and economic growth.

Free trade refers to the importation and exportation of goods without any barriers in the form of tariffs, quotas, or other restrictions. Free trade like free markets and perfect competition exists more in theory than in practice and in the modern world, developing nations have to operate in the imperfect and often highly asymmetrical real world of international commerce. (Todaro, Smith, 2011). Under the WTO agreements, no country can discriminate between its trading partners. Granting some country special favors like lowering customs duty for some products or removing technical barriers is required to be for all WTO members. This principle is known as most-favored-nation (MFN) treatment. This is also the first article of the General Agreement on Tariffs and Trade (GATT), which watch over

trade in goods. MFN is also important in General Agreement on Trade in Services (GATS) (Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 4), though in each agreement the principle is handled somewhat in a different way. These three agreements cover important areas of trade administered by the WTO.

Countries can set up a free trade agreement with their regarding certain goods to be traded with the group and prohibit the goods from the countries not signatory to the trade agreement. The rich countries can give access to developing countries to their markets or a country can raise barriers or put restrictions against the products which are traded unfairly from specific countries. In short, MFN means that whenever a country lowers or removes the trade barriers or opens up its market, it has to do it for all of its trading partners and same goods being imported from all countries.

1.2. Objective

The objective of the research is to find out the possibilities of trade between Pakistan and India and to identify and address the risks and challenges associated with the bilateral trade between the neighboring countries and the potential impacts on certain industries of Pakistan and the economy as a whole if India has been granted MFN status. Researchers also intend to find the perception of common masses regarding free trade and also calculate the impact of the free trade on common masses and analyze the technological aspect of the trade between both countries.

2. LITERATURE REVIEW

2.1. Literature Review

It is vital for any research work to be based on the past literature analysis. The literature review serve as the foundation for the research work and provide with an insight into the what has been done in the research field and what more can be explored to further increase the understanding of the topic under discussion. The literature on the problem is somewhat dispersed from different sources to get a better understanding of the problem under study. A brief review of the literature is given as:

Batra, B.R., (2004) in his study estimates the augmented gravity model. The study shows the possibility for India's trade with Pakistan is the highest in the SAARC region. Abid (2005) suggests that Pakistan can gain to access for a larger market for its exports but it can get benefit by switching its costly imports from other countries as with those of India. Certainly, at present probable scenario, the Pakistani producers should not worry if India has been granted the MFN status. IMF (2005), in an effort to study the trade liberalization and its impact conduct the study. The study found that Indians trade restrictiveness measures eight (on scale from one to ten), while Pakistan's index stand at six. Naqvi and Schuler (June 2007) in their study pointed out three main reasons for low trade volume: political instability, use of import based policies for industrialization, little commitments towards regional integration as compare to other regions of the world. While other papers in the publication different authors discuss various related issues such as the informal trade between the two countries which is estimated at US\$ 545 million, the study also showed the welfare implications of trade between both countries and free trade in the framework of SAFTA and impact of normalization of trade on textiles, light, engineering, chemicals and agriculture. Mohsin (2009) suggests that India should lower their tariff rates for goods of particular interests to Pakistan e.g. textile, leather and onyx and should remove non-tariff barriers while in return

Pakistan should follow WTO rules and agreements and grant India a MFN status. He suggests that potential gains from Pakistan-India trade are high. Taneja and Kalita (2011) suggested adopting Most Favored Nation (MFN) status would be important step to enhancing the trade because current policies prevents trade, lacks transparency and lead to high transaction cost. Previously in a study Taneja (2008) points out the bilateral trade possibilities between the neighboring countries. The study shows that there is a huge trade potential between neighboring countries of US \$11.7 billion. The possibility of Pakistani export to India is US \$2.2 billion while there is possibility of US \$9.5 billion of Indian export to Pakistan. Khan and Tabish (2011) in a joint TDAP/SAARC study suggest policy options to decision makers in both countries. They discuss the issue of non-tariff barriers in India and the previous refutation of MFN status by Pakistan.

The study also offers short-term and medium-term corrective options, covering trade facilitation, infrastructure, government policy and other areas of bilateral cooperation. The paper also summaries the potential gains based on empirical study by researchers and proposes means to boost bilateral trade between the two countries. Bin Najim ,Baig and Ansari (2012) presented a brilliant summary of different aspects of Pakistan India trade which includes

tariffs and non-tariffs barriers to trade , opportunities to Pakistani companies and consumers , general threats to the local industry and specifically the listed the opportunities and threats in the following industries, Agriculture, Pharmaceuticals, Cotton and Textile manufacturing and Automobile sectors. The paper concludes that overall the Pakistan's economy would gain benefits if we open trade with India. Naz (2012) points out that both India and Pakistan prioritize political interests over economic gains and it is considered to be the most important reason behind low economic integration in the region. Ahmed et al (2012) suggest that by lowering the tariff barriers under the agreements of SAFTA would excel the Pakistani exports particularly in textiles and agricultural goods. Pasha and Imran, (2012) in their study point out that free trade between both countries can lead to specialization in certain sectors like Agriculture and Textile in case of Pakistan on the basis of comparative advantage. They further argue that low exports of Pakistan to India are because of dual tariff structure of India. They suggest that removing tariff and Non-Tariff barriers can open up a market of \$11 billion for India in Pakistan. Their study also point out to the threats of lobbying by Industries which enjoy government protection and also the right wing elements that can raise the voice over balance of trade in favor of India. Ahmad, Manzoor et al (2012) recommend the reduction of sensitive list of India for key products of Pakistan, harmonization of standards, opening up of transport routes, abolition of visa restrictions and up gradation of port infrastructure etc.

2.2. Literature Gap and Theoretical Framework

Qamar (2005) provide with historical analysis of trade, potential items of trade between both countries and concludes that Pakistan should grant MFN status to India. Taneja (2006) analyzes the trade possibilities between both countries, Industry wise analysis, transaction costs, informal trade between both countries and identifies the area of cooperation and policy recommendations. Naqvi and Schuler (2007) provide with the overview of the trade between both countries, the barriers to trade, the positive developments, policy reforms regarding Indo-Pak trade and policy recommendations. It focuses on the policy area of trade. Hussian (2011) provides with policy recommendations and the potential political obstacles in trade between Pakistan and India. The paper also provides with the impact of MFN on certain industries on Pakistan. Pasha and Imran (2011) address the trade policies and the potential impact of MFN status on Pakistan. Khan and Tabish (2011) suggest short term and long term measures regarding removal of NTB's. Ahmad and Ahmad focused only on caustic soda industry the economic costs and benefits for consumers, producers and Government in trade with India. Noorani (2012) addresses the practical implications of granting the MFN status to India and highlights the existing trade scenario. Naz (2012) provides with the opinion of stakeholders on trade between both countries and focuses on the political dimension of the trade.

It is quite obvious from the literature review that most of the research has been conducted regarding the policy and has addressed the trade policies of both countries and macroeconomic impact of granting MFN status to India. Very little research has been conducted to address the concerns of the consumers and the perception of common masses regarding the trade between both countries. The impact of trade on technological cooperation and spillover has been neglected and the micro level impact and analysis has been given little importance.

2.2.1. Theoretical framework

With the analysis of the literature and the existing research, it is evident that the gains from Pakistan-India trade are very large and it will open a new arena for both countries. The literature provides with information that the trade volume can increase significantly and also bring about specialization in certain sectors for both countries. The previous literature also provided with much needed policy recommendations regarding the economic aspect of the trade and pointed out the flaws in trade policy. The unanswered question is how granting MFN status to India and opening up of trade will benefit the consumers and how the business community thinks about opening up of trade and what will be the potential impacts on certain industries in Pakistan if free trade dream is realized. The Political, social and technological impacts and rewards free trade can bring have not been addressed in the previous research work. The researchers intend to find out the impact of granting MFN status to India on the trade between the two countries. Along with it, the research work is targeted to explore the challenges, prospects and the possible solutions to enhance the trade and elimination of trade barriers. The researchers use a qualitative approach to conduct study since it is the appropriate way to seek the opinion of the stakeholders and experts. For this purpose, SWOT analysis and PEST Model are suitable to conduct the research.

3. METHODOLOGY

3.1. Nature of the Study

The study "Pakistan and India Trade: MFN Status, Challenges and Prospects" is a case study and exploratory in nature to identify and investigate the different aspects and factors which can affect the trade between

both countries and the MFN status to India granted by Pakistan. The study being vast topic required extensive literature review and in depth contextual analysis. Therefore, extensive literature review along with in depth contextual study is conducted to further explore the topic.

3.2. Population

The population consists of Policy Makers, Think tanks, Government Institutions and General Public which consist of business community and the consumers. The data has been collected on convenience and it focused on the stakeholders in the trade between Pakistan and India and consisted of persons from Pakistan. Along with it, academicians from Indian universities have been also contacted to seek the opinion.

3.3. Data Source and Collection

The Primary data is qualitative in nature and is collected using interviews while the secondary data is collected from different papers and the official trade figures provided by the authorities. The appropriate methodology is based on the objectives of the research. Focus group discussions and interviews are conducted to know the opinions of the experts and concerns of the business community regarding the Pakistan and India trade. The link between the quantitative data and qualitative is established by the opinions and facts. The data is collected from ICCI, Ministry of Commerce, RCCI, and SDPI.

3.4. Tools and Techniques

The tool used to collect data was primarily interview and the interview questions were developed after extensive literature review and it adequately covers the scope of the research. Along with it the secondary data was collected from different sources, the official data from State Bank of Pakistan, Federal Bureau of Statistics, PLDAT, RCCI publications. Quantitative data is used to analyze the trends of the trade between Pakistan and India through different time periods.

4. CONTEXTUAL ANALYSIS

4.1. Demographic Overview of Pakistan and India

Pakistan's estimated population in 2012 is estimated to be about 180 million and ranked as the sixth most-populous country in the world. The population growth rate now is estimated to be at 1.8% which moderate as compare to past birth rate. India is the second most populated country in the world and has a population over 1.21 billion people (2011 census) which is estimated to be around 18 % of the world's population, India is expected to be the world's most populous country by 2025 and will take over China and the population is projected to reach 1.6 billion by 2050. Its population growth rate is around 1.3% according to recent survey. (ESCAP, 2012).

4.2. Trade between Pakistan and India

Economists have found it hard to explain the reasons for South Asia being the least integrated region with two big and populated countries, i.e. Pakistan and India with large domestic markets. Both countries share a common history, culture and administrative setup. The possible and perhaps the most explaining factor for this problem is the political unrest between both countries. Trade is the main element of the bilateral relation between the nations. At the time of independence, both countries were economically interdependent. After independence, Pakistan's exports and imports with India remained quite significant for several years were around 30 percent of exports and 10 percent of imports. Later on both, imports and exports dropped to less than 5 percent (on average). In 1990s, the volume of trade increased and the average exports (\$ 85 million) doubled the average of the last two decades. At the same time, the imports also increased in manifolds (Qamar, 2005).

As the WTO became effective in 1995, it was expected that trade between the neighbors would increase significantly as both countries would have to open their borders for trade, but this did not happen. India gave the MFN status to Pakistan in 1995 but the exports to India could not increase much. The volume of imports from India increased more than double after 1995. However, the share of imports from India is still low and the trade through third country and illegal channels has a fair share in trade between Pakistan and India and it is likely to be more than \$ 2 billion according to some estimates.

During the last few years, trade liberalization between Pakistan and India has been a hot cake for policy makers. The signing of the South Asian Free Trade Agreement (SAFTA) in 2004 was a major step forward in the establishment

of a customs union in the region. In the last couple of years, there have been positive developments on the economic front and in relaxing the constraints on trade. Recently, Pakistan has announced its potentially breakthrough decision to grant MFN status to India by the end of 2012. Meanwhile, a limited positive list has transitioned to a negative list, which opens up a large percentage of tariff lines for imports from India. There is a widespread consensus among the academia and business community on both sides of the border that liberalizing trade will mutually benefit them. Empirical evidence collected from the sectoral analysis point out that trade can have a positive impact for both India and Pakistan. India middle class is around 300 million people and its purchasing power is rising and matches that of Southeastern Europe while Pakistan has a middle class of around 30 million. Small 10 percent shares of the Indian middle class market will double the market size of Pakistani companies and businesses. The size of Pakistan's local market is \$180 billion and its share in the global trade is just 0.14 percent. A minor increase of 0.5 percent in the exports in the global market predicts that Pakistan's exports can rise to \$60 billion (Hussain, 2012).

Imports bring transfer of technology through imported goods and services. Pakistani and Indian companies can have joint ventures in the field of IT which will be mutually beneficial. Trade will certainly and directly benefit the private sector which plays an important role in the economic growth of any country. Trade will lead to specialization in certain industries on both sides of the border. For India, the market in form of the neighboring country can help reduce the cost of trade. Apart from the obvious advantages of the bilateral trade, there are some points against granting the MFN status to India and the opening up of local markets to Indian products. These include the infant industry argument, dumping, political antagonism, inadequate infrastructure, bureaucratic barriers, high tariff and the high Non-Tariff barriers (NTB), which exist in both countries.

4.3. Contextual Analysis of Pakistan India Trade

Noorani (2012) analyzes that trade is the main feature of bilateral relationships among nations. At the time of partition of the Sub continent in 1947 most of the trade what became Pakistan was more than 70% with India, and 63% Indian exports were to Pakistan. But unfortunately this trading intensity didn't remain long due to the first armed conflict of 1948/49. Najib et al (2012) and Noorani (2012) pointed out that later in 1951 trade was totally in favor of Pakistan which exported US \$ 113 million of goods and services and imported only US \$ 0.08 million from India. After the independence both the nations enjoyed trade and cross border movement for almost two decades. The trade relations between the two nations have been ceased after the Indo-Pak war of 1965. Noorani (2012) stated that after this war trade has been suspended for almost ten years until the bilateral trade agreements were signed by the two countries in 1975 in Bhutto's era. This agreement didn't remained active and lasted for only three years and it came to an end in 1978. In this time though trade was not in large yet it remained in favor of India.

For the next twelve years the trade remained in favor of Pakistan and the volume of trade between the nations was US \$ 30 million to US \$ 80 million. The trade volume doubled in 1991-1993 and still remained in favor of Pakistan. The position of trade between the two nations has changed after 1993 and remained in favor of India till now. The gap between the two nations was US \$ 27 million in 1993-1994 and it has increased to 1.47 billion US \$ dollar in 2010-2011. (Noorani, 2012).

Table 1: Pakistan-India Trade: Financial year 1990-91 to Financial year 2010-11 (US \$ Million)

Year 1	Export	Import	Change	Total Trade
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	16.13	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	-55.79	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	319.90
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	1095.31
2006-07	342.9	1235.9	-893.0	1578.8
2007-08	254.9	1701.5	-1446.0	1956.4
2008-09	319.6	1194.6	-875.0	1514.2
2009-10	268.3	1225.5	-957.2	1493.8
2010-11	264.3	1743.1	-1478.8	2007.4

Source: SBP; Federal Bureau of Statistics and Economic Survey of Pakistan 2005-06

Despite of the fact that India granted MFN status to Pakistan in 1996, Pakistan didn't get benefit from it. Since then India also wants similar status from us. Pakistan has announced to grant India as a MFN status but it has been not implemented yet due to strategic considerations and pressure from local industries also. It has to be noted that expansion of positive list also leads to increase in exports to India. The current bilateral trade between these two countries is about 2 billion US \$ dollar of which only 300 \$ US million represent Pakistani exports. India's top exports to Pakistan include cotton, edible oil, sugar, vegetables, chemicals, and tea. Whereas, Pakistani exports to India include dry fruit, chemicals, and cement, scrap, and textile products. (Najib et al, 2012).

4.4. Overview of Industrial Sector of Pakistan and India

4.4.1. Textiles Industry

The textile and apparel sector is important for both countries, India and Pakistan. The share of the sector in India accounted 18.8 percent and 65.6 percent in Pakistan, of the overall value of exports in FY04 in both economies. The influence of textile industry in Pakistan's economy is evident from its part in domestic production, financial services and foreign exchange earnings. In addition, the sector has a huge influence on the socio-economic conditions of the country which is evident from the share in employment generation. In the beginning of FY11, the position of textile sector was encouraging; but the sector had to face load shedding of power and gas. Moreover, the floods also had adverse effect on the textile production in H1-FY11. (SBP, 2011).

In both countries, the textile and apparel sectors show different degrees of specialization. India specializes in apparel and high-value- added textile products. Pakistan's textile sector produces high quality textile products such as men's apparel, home textiles, and fabrics.

4.4.2. Iron and Steel

India has a strong Iron and steel industry. India alone in FY04 supplied raw material (iron ore) to this important industry which accounted 69.2 percent of the total imports of iron ore in the world, followed by Australia (19.9 percent) and Iran (10.9 percent). Indian steel industry produces and exports a wide variety of steel and steel products. India is the eighth largest crude-steel producer and the largest producer of sponge iron in the world and has abundance of raw material and skilled labor. (SBP, 2006).

4.4.3. Chemicals and Pharmaceuticals

The chemical industry of Pakistanis based on short term goals and encouraged by the blend of small local market and usually by highly tariffs. This industry lacks the economies of scale, national integration, and lack of competitiveness which resulted dependence on imported chemicals to fulfill the needs of its industrial and agricultural sector. The sector purchased imports of \$2.8 billion in the FY04 having increase of 29.5 percent over the preceding year. If we look at the performance of Indian chemical industry as compare to Pakistan it has shown remarkable growth contributing about 6.7 percent to Indian GDP. Their industry is the twelfth largest in the world and third largest in Asia in terms of size and volume. Currently it contributes 14 percent to the total manufacturing output of India with share of \$30.8 billion.

The contribution of pharmaceutical industry in Pakistan is appreciable towards the economy. The amount of total consumption and domestic production of the pharmaceuticals value \$2 billion. The 80 percent of country's need is provided by local industry which consists of 316 pharmaceutical companies including 30 multinationals. The share of the multinationals companies is about 47 percent and 95 percent of the raw materials used for the manufacturing

of medicines are imported from India, United Kingdom, China, Japan, the Netherlands, Germany and others. Technology and labor which are also used as inputs in manufacturing process are easily available, Other production inputs, such as technology and labor are easily available, and lot of incentives are provided by the government for importing raw materials and technology (SBP, 2006).

4.4.4. Automobiles

The automobile industry in Pakistan is based on the foreign companies' franchises. The Pakistani automobile industry produces cars and light commercial vehicles (LCVs), two and three wheelers, tractors, trucks, buses, and merchant industry vehicles. The automotive industry contributed over 30 billion rupees (US \$659.96 million) to the government revenues in the form of duties and taxes in FY03. The industry exhibited growth of 50.2 percent in FY04, and due to the increased competition, innovative automobile products, such as larger capacity sedan cars and pickup trucks were produced and introduced in the market.

In comparison to Pakistan, India possesses a strong engineering base, and has a large capacity for production of vehicles. Indian automobile companies engender cost-competitive vehicles due to felicitously right levels of mechanization and low-cost automation, and have a high caliber of productivity and use modern practices. India is the second-largest two-wheeler vehicle manufacturer, second-largest tractor manufacturer, and fifth-largest commercial vehicle manufacturer in the world, and has the fourth-largest car market in Asia.

3.4.5. Information Technology

The IT sector of India is growing rapidly and it is one of the most emerging sectors in India. In 1998 this sector contributed only 1.2 percent of GDP of India while by 2009 its contribution to GDP increased to 5.8 percent. Its annual growth rate performance has been extraordinary. In 2000 this sector generated only \$4 billion but ten years later its revenue increased to \$62 billion. This sector employed millions of people for instance Infosys (local IT Company) hired 10,000 people in 2001, which rose to 125,000 by 2010. Numerous number of multinational IT companies are also A majority of the multinational IT companies also run either software development centers or work on research development centers in India. Several companies of Europe and Japan are operating in India to attract new customers of this sector.

The IT industry of Pakistan is new as compare to India and just started. Though it is growing at fast pace but it doesn't able to compete with regional and global industry. It is recorded that IT exports increased from US \$46 million in 2004-05 to US \$250 million in 2009-10, showing a growth rate of 40 percent annually. According to the World Trade Organization (WTO), the Pakistani IT industry valued to be around \$2.8-\$3 billion and contributing \$1.6 billion of exports. Mostly the companies are of small size and pay little attention on the export of software and IT enabled services (Hussain, 2012), (SBP Report, 2006).

5. DISCUSSION AND FINDINGS

The interview was unstructured in nature and its focus was on the trade related issues and concerns. Main take away of the findings of the interview are summarized below

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|---|---|
| ✓ MFN Status | ✓ Trade through Third Countries |
| ✓ Potential Gains | ✓ Traders view regarding the Political Relations b/w Pakistan and India |
| ✓ Lack of Research Capacity | ✓ Punjab's Gain from the trade |
| ✓ Lack of Consumer Awareness | ✓ Consumer's Gains from Trade Liberalization |
| ✓ Public-Private Partnership | ✓ Competition |
| ✓ Administrative and Technical Barriers | ✓ Opinion of Political Parties |
| ✓ Missing Links between the Institutions | ✓ Role of Bureaucracy |
| ✓ No comprehensive Trade Policy | ✓ Logistic Support for the Trade |
| ✓ Role of National Tariff Commission | ✓ Change of Mindset of Public |
| ✓ Inflation | ✓ Increase in R&D |
| ✓ Energy Crisis | ✓ Increase in Coordination between the Stakeholders |
| ✓ Crowding Out of Private Investment | ✓ Informal Trade |
| ✓ No Banking Support for Business Community | ✓ Foreign Direct Investment (FDI) |
| ✓ Strict Visa Regime in India | |
| ✓ Failure of TDAP | |
| ✓ Automobile and Pharmaceutical Lobby | |

The issues related to Pakistan-India trade have been categorized under the following four broad areas:

5.1. Administrative

The findings suggest that there are numerous issues which are administrative in nature which have a significant impact on the Pakistan-India trade. Some of these issues are exclusively related to Pakistan. They are discussed below:

5.1.1. Administrative and technical barriers

With regard to the administrative and Technical barriers the respondent were of opinion that India imposes the safeguard measures and high tariffs especially in agriculture where the tariff is 90% and ad valorem tax on textile products where Pakistan can gain much from trade. One of the respondents added that, "Pakistan will not agree with India on Ad-valorem Tariff". India is good at Non-Tariff barriers like consignment delays.

5.1.2. Missing links between the government institutions

The business communities were of the opinion that there were missing links between the institutes in Pakistan and because of that Pakistan was not able to impose safeguard measures against Indian products if they were dumping them. The respondent added that there was no comprehensive policy regarding the trade and National Tariff Commission was inactive. Adding more, he argued that India has advantage in Pharmaceutical industry and Government was doing nothing to prevent the inflow of Indian medicines in Pakistani market. Indian medicines were cheaper than Pakistani medicines and are injurious to Pakistani pharmaceutical industry. They added that Pakistani steel factories were using Indian imported machines and were dependent on Indian imports for the industry.

5.1.3. Energy Crisis and Inflation

The respondents argued that Pakistani industry was in crisis and due to increasing inflation and energy crisis, Pakistani industries were not operating at optimal levels and in this scenario, the trade will not be beneficial for Pakistani business community.

5.1.4. Crowding out of Private Investment

The business community members added that due to extensive borrowing by government from local commercial and international financial institutions, the private investment has been crowded out in past few years.

5.1.5. Lack of Banking Support

One of the respondents was of the view that there was no banking support for businessman and the banks were interested in giving loans to consumers. This has put the situation of Pakistani industry and business community in jeopardy.

5.1.6. Failure of TDAP

TDAP has failed in implementing the trade policy and trade development. It has not been able to work actively and to propagate and market Pakistani products.

5.1.7. Trade through Third Countries

One of the points raised by all the stakeholders was the "Trade through third countries". All the respondents were of the view that there was a huge undocumented economy and trade was conducted between Pakistan and India through countries like UAE and Singapore. They opinioned that if trade was formalized than it may double the current volume of the formal trade between both countries. The suggestion to bring the informal trade between both countries in the formal trade structure depends upon simplifying the customs procedures.

5.1.8. Role of Bureaucracy

Two of the respondents were of opinion that the Pakistani bureaucracy was antiquated and they were disconnected from the rest of world. They further added that bureaucrats do not have the vision and are less receptive to new ideas and technology. The capacity of bureaucracy was in focus and it is inferred that bureaucrats do not have the capacity to work and conduct the necessary work regarding the trade and implement the policies in true spirit.

5.1.9. Logistic Support for the Trade

The point across which all of the respondents agreed that the infrastructure needs more attention and it should be developed on urgent basis and all the potential trade routes including Khokhrapar-Monabao and Karachi-Mumbai should be made functional to carry out large scale trade between Pakistan and India.

5.1.10. Increase in Coordination between the Stakeholders

One of the businessman suggested increasing the coordination between the government institutes and business community and also the increase in coordination between the business communities itself.

5.1.11. Visa Regime

With reference to visa regime, they pointed out that that Indian visa regime is strict and the visa process is very lengthy and it discourages the businessman in both countries. They argued that the staff of Pakistani high commission in India was unhelpful toward businessman and acted like typical bureaucrats. However, on the contrary, another business community representative argued that commercial section of Pakistani embassy in India are now better and have enhanced their capacity. A suggestion of introducing Business visa was put forwarded by a think tank analyst. He further added that there should be proper visa policy and its implementation in both countries.

5.2. *Economic*

Pakistan and India trade is mainly economic issue and it has bright prospects for both countries. The trade can bring good fortunes to both countries. Following finding are highly important in Pakistan and India trade.

5.2.1. Potential Gains from the Trade

There is a wide spread consensus among the business community and experts that the potential gains from the trade between both countries are higher if the MFN is materialized. There is no harm in trade with India. One respondent argued that Pakistani exports can increase by 66% and imports by 16% if the trade opens between both countries. The business community representative added that Pakistani pharmaceuticals were authentic and cheaper than Indian medicines. Along with it, Pakistan can import cheaper steel products from India. A research analyst stated that "transaction costs can be reduced by 2.4 billion rupees if trade opens between both countries with respect to MFN status". Pakistan will require increasing its exports and concentrating on major products. Furthermore, small countries always benefit from the trade with big partners.

5.2.2. Competition

Pakistani traders want protection in some sectors but competition will be good for traders on both side of border and especially for Pakistani traders as they will have access to a much larger market. India will not be able wipe out our market. A businessman was of opinion that Pakistani products are good, cheap and better in quality than Indian products. The business community was optimistic about doing well in Indian Market. He pointed out furniture, surgical, gems, cement, raw materials, foam and cotton industry traders can gain from the trade with India and these products are high in demand. Further said that Pakistani businessman will have access to a big market, so the business community should not fear. A think tank expressed that big industries or products are not vulnerable to dumping and Pakistan needs to foster domestic competition and improve the quality of products to reap the benefits from the trade.

5.2.3. Foreign Direct Investment

In August, 2012 India allowed Pakistani businessman to invest in India but the Pakistani business community want to invest on the conditions of proper policy by India regarding investment security, dispute resolution and on the acquiring of land and property in India by the Pakistani businessman.

5.2.4. Punjab's Gain from the Trade

"Punjab's are happy on both sides", argued one of the respondents. The respondent further added that small traders will be affected adversely because of the inflow of cheaper Indian products and may lose their market share.

5.2.5. Consumer's Gains from Trade Liberalization

Consumers will gain from the trade openness between Pakistan and India because of cheaper products, diversity and variety of products. Cheaper products include consumer goods and Tractors, Automobiles, Chemicals and Pharmaceuticals.

5.3. Political

There are certain issues which are political in nature and are potentially harmful for Pakistan and India relations especially with regard to the trade between both countries. These are listed and explained below

5.3.1. MFN Status

The optimistic view was opinioned by most of the respondents but Pakistan has practically not implemented the decision and there has no real impact on the trade between both countries and it has created an atmosphere of uncertainty and trust gap has increased between both countries.

5.3.2. Opinion of Political Parties

A notable Think tank all the major political parties (PML-N, PPP, MQM, ANP and PTI) support the idea of trade between neighbors but the religious parties will oppose the trade between Pakistan and India. According to him, the younger politicians were more interested and enthusiastic about the trade with India. He further added that the Parliamentarians from FATA and KPK were in favor of conducting dialogue with India.

5.3.3. Traders view regarding the Political Relations b/w Pakistan and India

A notable think tank argued that Traders do not bother about the Political relations between the both countries. He suggested that traders will be the biggest gainers of the MFN, if it was materialized. Further adding, he pointed that by reducing the negative list of goods from India, trade volume has gone up. Adding more he said that "Goods trade is better but trade volume will increase when containers will be allowed for trade and traders want the governments to open up the trade routes.

5.3.4. Automobile and Pharmaceutical Lobby

The respondent from a notable think tank provided with the insight that Pakistan did not materialized the status of MFN for India because of the pressure from the automobile and Pharmaceutical lobby on the former Minister of Commerce "Amin Fahim". There were apprehensions of Automobile manufacturers and stressed the need for producing cheap vehicles.

5.3.5. Change of the Mindset of Public

Further adding, the respondent stressed on the need to change the mindset of public regarding relationship with India. They stressed the need for awareness programs for public regarding the trade between both countries. They argued that relations will get better between both countries as the bilateral trade increases by time.

5.4. Research and Technological

Research and use of technology is necessary in any field of life in the modern times. There are certain technological and research related issues which have been highlighted by the respondents and are of high importance in the nature. They are listed below:

5.4.1. Lack of Research Capacity

Pakistan lacks the research capacity and very little has been done to collect the information about Indian market. The respondent suggested that Indian researchers and business community have all the information about Pakistani market and on the contrary Pakistani business community and Government has very little knowledge of the Indian market. A business community representative pointed out that there was no specific field research and research was the job of the Government.

5.4.2. Lack of Consumer Awareness

The respondents also argues that the consumers in Pakistan have very little or no information regarding Pakistan and India trade. There is a need to carry out consumer awareness programs and that Government should initiate such programs. The modern technology is available and has not been used for this purpose.

5.4.3. Public-Private Partnership

One of the respondents from the business community urged for Public-private partnership in conducting market research. The respondent pointed that there was no comprehensive and true analysis available regarding trade between both countries.

5.4.4. Enhancing R&D

They further suggested that Government should enhance its R&D in trade, so that the business community can have access to more comprehensive information regarding Indian market. A respondent was of opinion that Pakistan and India can collaborate in Health, Petro-chemicals, fertilizers and pharmaceuticals. India is good in R&D in above mentioned sectors. Pakistan and India can cooperate in IT solution and Programming and Pakistan can provide with the labor to Indian firms. Furthermore, they added that government should switch from old paper work to electronic system for quick response and facilitation of trade.

6. COPING STRATEGIES

The initial literature review and gap analysis along with the findings of the research provide us with a good insight about the problems associated with the trade between both countries. On the basis of analysis of these problems, we put forward the following recommendations.

- Pakistan and India should urgently start trading on MFN basis and eliminate the negative and sensitive list of items.
- The Government of Pakistan should increase the R&D activities regarding the trade with India and provide the businessman with adequate information of Indian market. For this purpose the Ministry of Commerce should set up different cells in India.
- Consumer awareness programs should be initiated at large to provide the consumer with information of Indian products and the trade between both countries. These activities should include Public messages, seminars at universities and business community should also actively take part in consumer awareness programs.
- Public-Private partnership is highly regarded for the success of any program. The Government should engage the private sector in the market research process and seek the opinion of the private researchers who are conducting research regarding trade with India. These private researchers include Think Tanks, academicians and from the business community
- Pakistan and India should remove the NTB's and administrative barriers. These include the lengthy custom clearance processes, paperwork and the high tariffs on certain products. Customs department in both countries should place electronic system on borders and checkpoints for clearance and maintenance of data.

- Pakistan and India should eliminate the visa restrictions and introduce a quick process visa regime which should provide the business community across the border with an incentive to do trade openly and freely. Business visas should be granted on urgent basis and an electron system should be placed for this purpose.
- The Government should take necessary steps to enhance the coordination between the state institutes, so that the comprehensive policies are formulated and implemented in the true spirit. These Institutes include TDAP, Ministry of Commerce and Ministry of Foreign Affairs.
- Pakistan and India should open all routes for trade which include Karachi-Mumbai sea route, Khokhrapar-Monabao and Muzzarafabad- Sringar for trade. In addition to that, Pakistan and India should open all the major airports for facilitation of trade. Pakistan should also improve its internal infrastructure to facilitate trade i.e. improve the road and rail network. Pakistan and India should initiate Railway cargo service on daily basis. Furthermore, Telecommunication networks should extend across the border and facilitate the communication. Pakistan should also enhance its logistic capability by building and extending its sea ports and dry ports.
- Pakistan and India should resolve all their Political disputes including Kashmir and other border disputes. Both countries should come up with confidence building measures and make a firm commitment to carry out trade even in the face of Political disputes. For regional integration, it is necessary that Pakistan and India should keep peaceful relationships with each other.
- The Governments on both sides of border should make efforts to create a friendly atmosphere and try to create a better image of both countries in the Public. The efforts should include Public interaction in form of visits, peace forums, student exchange programs etc.
- Pakistan should urgently address the energy crisis in the country which is necessary for Industries to operate and manufacture goods. This will create a healthy atmosphere for the business community and enhance the productivity.
- In case of trade opening between both countries, there is a possibility of dumping of Indian Products in Pakistani market. The National Tariff Commission should actively monitor the trade and keep a record of products imported and effectively implement the Anti-dumping laws to prevent any damage to local industry.
- TDAP should arrange exhibitions of Pakistani products in India and also change the bureaucratic behavior of its organization. The Institute needs structural reforms internally.
- Banks should provide the businessman with soft loans and facilitate the investment process. The Government should also negotiate with Indian officials and joint banking system should be placed in order to facilitate monetary transactions. This will speed up the process of trade.

7. POLICY IMPLICATIONS

In the light of the recommendations, there are certain effects which will have to be taken in account by the government and they are important because of their macro and micro effect on the economy.

7.1. Macro Level Implications

The policy recommendations put forwarded if implemented by the government will boost the trade between both countries and will have a positive impact on the GDP. Beside it, a competitive environment will be established in the local market and specialization will occur in the industry. It will also help bring the structural reforms needed in bureaucracy. Furthermore, this will bring the neighbors near and promote peace in the region and trust building measures should be taken by both countries. In addition to that Government of Pakistan should devise a trade policy regarding India and other trading partners which explicitly should be based on the above mentioned recommendations and the trade policy of Pakistan should include the aspect of regional and bilateral trade, reciprocal basis, removal of trade barriers including removal of excessive tariff, Technical barriers, export oriented trade policy, promotion of Pakistani products, effectively prevent dumping and strengthen the institutes related to trade. The Indian Government should also take into account the above suggestion for smooth trade relations.

7.2. Micro Level Implications

At the micro level the traders and their representative Chambers of Commerce should strengthen their partnership and work together to conduct research in the field of trade. The traders should work together to bring innovation in their products and provide the consumer with a variety of choices. The Chamber of Commerce needs to collaborate with the Government in product research and present with their suggestion regarding trade policy. The business community of both countries should hold joint exhibitions of products in both countries, so as to attract more consumers and help disseminate information about the products to public.

8. CONTRIBUTION

The research work supplements the previous research while it brings forward the issues of consumer awareness and R&D along with Political dimension of the Pakistan and India trade. Furthermore, the qualitative research is supported by the quantitative figures and the opinions further strengthen the evidence that it is vital for both countries to conduct trade. The scope of research is wider than the previous one as it takes the opinion of both business community and experts which gives a clear information about what needs to be done in the future research and what necessary steps government should take to further the trade between both countries. This research completely addresses the political, administrative, economic and technological aspects of the Pakistan-India trade which have been relatively less discussed in the previous research work.

9. CONCLUSION

The future of India-Pakistan trade depends upon the governments on the both side of the border. Both of the countries need to remove the trade barriers on the reciprocal basis and it will help mitigate the trust deficit. It will require putting a sensible and reliable mechanism to manage the relations between both countries. The future of both countries lies in long lasting peace rather than war and conflict. In fact, trade will help both nations to solve their other disputes in peaceful manner and bring good fortunes to both countries. The process of bilateral trade will take time to reach its full potential and both countries will have to work on long term basis to enhance the cooperation. Pakistan and India will require changing the bureaucratic structure and putting a more business friendly administration to facilitate trade. Pakistan will require solving the energy crisis and giving the private sector incentive to trade with India. The political parties also have role to play in changing the mindset of public and set the friendly political environment for the bilateral trade. MFN status is the first step toward the better relationship between the neighbors and it can lead to regional integration.

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