INDO-PAK BILATERAL TRADE: PROSPECTS OF TRADE AGREEMENTS IN THE 21ST CENTURY

By

Muhammad Abbas Raza
PIDE2019FMPHILPP37

Supervisor

Dr. Ahmed Waqar Qasim

MPhil Public Policy

PIDE School of Social Sciences
Pakistan Institute of Development Economics, Islamabad
2022

Pakistan Institute of Development Economics, Islamabad

PIDE School of Social Sciences

CERTIFICATE

This is to certify that this thesis entitled: **"Indo-Pak Bilateral Trade: Prospects of Trade Agreements in the 21st Century"** submitted by **Muhammad Abbas Raza** is accepted in its present form by the PIDE School of Social Sciences, Pakistan Institute of Development Economics (PIDE), Islamabad as satisfying the requirements for partial fulfillment of the degree in Master of Philosophy in Public Policy.

Supervisor: Dr. Ahmed Waqar Qasim Signature: ____________

External Examiner: Dr. Jabbar ul Haq Signature ____________

Head,
PIDE School of Social Sciences: Dr. Hafsa Hina Signature: ____________

AUTHOR'S DECLARATION

I, Muhammad Abbas Raza hereby state that my M Phil thesis titled "Indo-Pak Bilateral Trade: Prospects of Trade Agreements in the 21st Century" is my own work and has not been submitted previously by me for taking any degree from Pakistan Institute of Development Economics or anywhere else in the country/world. At any time if my statement is found to be incorrect even after my Graduation the university has the right to withdraw my MPhil degree.

Signature of Student

Muhammad Abbas Raza

DEDICATION

I dedicate this dissertation to my beloved father, Muhammad Ishaque.

ACKNOWLEDGEMENTS

Beginning with millions of thanks to Allah Almighty for enabling me to achieve my postgraduate degree. I feel a deep sense of gratitude to my supervisor Dr. Ahmed Waqar Qasim for his timely suggestions, guidance, and critical evaluation throughout the journey of my thesis. His guidance improved my understanding in my topic in particular and in the field of public policy in general.

I praise my father Muhammad Ishaque for supporting me from my primary education till my Post Graduation. I am very thankful to my mother for her unconditional love and emotional support in my good and bad times. Thanks, are also extended to my siblings for their sincere guidance.

I am extremely thankful to Dr. Hafsa Hina for her constructive guidance in my research journey. I am extremely grateful to my friends for their emotional support in the journey of research in the specific and constructive discourse on socioeconomic issues in general.

Muhammad Abbas Raza

ABSTRACT

The legacy of Indo-Pak trade relations has remained one of the most sensitive and controversial area of interest in the South Asian regional politics. Pakistan has a prolonged trade deficit which has resulted in foreign loans, forcing national policies to be compromised. This research looks into roots of prospects and problems in trade between India and Pakistan. The thesis focuses deeply on the bilateral trade between both countries in the South Asian region and analyzes potential of trade agreements in various sectors which could thus result in fruition. The study uses Revealed Comparative Advantage to analyze competitive advantage of Pakistan vis-à-vis India in 20 manufacturing sectors and identifies 8 sectors in which Pakistan and India can enter into bilateral trade agreements. The results show that Pakistan has more potential in the sectors of hides and skins, textiles, vegetables, and agriculture raw material while India has more potential in the sectors of chemicals, stone and glass, metals, and intermediate goods. India and Pakistan can formulate trade policies and sign different preferential agreements or low tariff agreements in their potential sectors to boost their economies.

Keywords: Trade, Pakistan, India, Preferential Trade Agreement.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

CAR	Central Asian Republic
CPEC	China Pakistan Economic Corridor
ECO	Economic Cooperation Organization
ECOTA	Economic Cooperation Organization Trade Agreement
EU	European Union
FTA	Free Trade Agreement
FTA	Free Trade Agreement
FY	Fiscal Year
GATT	The General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ICRIER	Indian Council for Research in International Economic Relations
LCVs	Light Commercial Vehicles
LOC	Line of Control
MFN	Most-favoured-nation
NHPC	National Hydroelectric Power Corporation
NTBs	Non-Tariff Barriers
PILDAT	Pakistan Institute of Legislative Development and Transparency
PTA	Preferential Trade Agreement
SAARC	The South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
SAPTA	South Asia Preferential Trade Agreement
WITS	World Integrated Trade Solution
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

1.1. Introduction

The Pakistan and India trade relations were conducive between 1948 and 49 as fifty-six percent of the Pakistani exports were sent to India during this period. The two nations entered into 14 agreements from 1947 to 1965 to enhance their trade cooperation in different fields. Pakistan's average Gross Domestic Product (GDP) growth exceeded 6 percent annually in these years and the country was progressing trade-wise with India. Pakistan and India have the potential to boost their economy by strengthening trade cooperation (Kugelman, 2013).

Non-tariff barriers between both countries should be on the top to materialize and liberalization of trade. Moreover, the trade facilitation between India and Pakistan would not only boost their economies but also of the other neighboring countries because the region is the least integrated region, and the connectivity of both the countries with the whole region would increase the trade partnerships with the other countries and it would strengthen the economies of all the countries in the region (Hussain, 2013, p. 62).

Economic resuscitation in South Asia would benefit Pakistan particularly well, considering its geographical position. There are a number of important trade routes that are passing through Pakistan and these trade routes are connecting Afghanistan, Iran, and Central Asia to India in the east. Between 1948 and 1965, Pakistan and India traded via eight land routes. Pakistan and India also signed a bilateral trade agreement to facilitate land trade following Article 24 paragraph 39(a) of The General Agreement on Tariffs and Trade (GATT).

In the past, both countries were somehow cooperating on the trade but after arising of disputes of 1965 and 1971 and several others disputes between the two countries could never recover the old ties of trade. In 1972, the Shimla agreement happened between both countries. In the light of this agreement, trade between both the countries again started happening on a small scale. Both countries maintained positive listings which grew in size incrementally over time. This persisted until 1995 when India unilaterally ended its favorable list for commerce with Pakistan upon joining the World Trade Organization (WTO).

Four rounds of talks were held between 2004 and 2007 for the normalization of trade but could not happen productively. A two-part journal was published by the Indian Council for Research in International Economic Relations (ICRIER) in October 2007 and the title of the report was Pakistan-India Trade possibilities and non-tariff barriers. Pakistan's first minister visited India in 2011 to begin the process of trade normalization, and both ministers agreed and were satisfied on the following: complete normalization of trade relations, elimination of non-tariff barriers, and full implementation of obligations under the South Asian Association for Regional Cooperation (SAARC) Agreement on South Asia Free Trade Agreement (SAFTA) (Mahmood, 2013, p. 28).

But now, both the countries should realize that they have the potential to enhance their trade and by signing up the free trade agreements in different sectors in which both the countries have the potential to cooperate with each other so that they can uplift their economies and can improve the infrastructures of their countries.

Currently, there are different barriers that need to be resolved by both countries to improve their trade by signing different agreements. Both the countries should have work in the customs clearance process, transport-related infrastructure, quality of trade products, and in the shipment process so that the trade could be made more effective and trustable.

Moreover, both the countries should open new border points so that the trade could make easy, and the trading expenditures would be less by opening new borders. It is also imperative to mention that different protocols should be signed between both the countries to upgrade or modernize the rail transport, deregulation of air services and a new shipping protocol should be signed to make the trade more well-organized and active.

The geographic location of Pakistan will benefit it more if the South Asian countries are integrated with each other for trade. Numerous key trade routes reached present-day Pakistan during the pre-colonial period, stretching from Iran, Afghanistan, and Central Asia in the west to India in the east. These routes were later cut off by colonial-era borders and strained relations with India (Sharma, Bhattacharya, et al., 2013).

Both countries will get benefit from this bilateral trade and the consumers will get a variety of goods at lower prices. India will also help Pakistan in different sectors by incorporating its technology. The Indian technology will improve the productivity in the agriculture sector that will lower the costs of farming and increase productivity and likewise in the IT sector India is far from ahead from Pakistan and the IT would be improved and the opportunities in Pakistan will increase if the relations between Pakistan and India become better.

International trade is critical for the economic development of both developed and developing countries. The majority of states liberalized their trade over the last three decades, primarily in the 1990s and 2000s, as a result of their own economic reforms and the assistance of World Trade Organization (WTO) regulations. The expansion of regional groups, specifically bilateral trade partnerships, across all sectors of the global trading system, is among the most remarkable developments in the history of international trade.

On the other side, India and Pakistan's bilateral trade potential is yet to be achieved. If 'normal' relations are restored, commerce between India and Pakistan might double in the following years, reaching USD 10 billion. This target has not been happened and moved ahead because Pakistan has not responded the status of Most Favoured Nation (MFN) to India and of course the commerce between both is not expanding and functionalizing because of the historical disputes.

On the other hand, India's tariff and non-tariff barriers are high. Inadequate transportation linkages increase the cost of trade, as do insufficient railway and road connections, limited port facilities, and bureaucratic procedures and bans that restrict marine cargo. Bilateral economic ties between India and Pakistan have a turbulent history spanning more than five decades, reflecting the different degrees of geopolitical tensions and diplomatic relations between the two countries.

Economic and Political relations between Pakistan and India do not appear inevitable, but given their geographical proximity, normalization is a matter of "when," rather than "if." Once these political ties are established, trade between the two countries will prosper the most. The Pakistan Business Council (PBC) is a leading proponent of a normalized trade environment between both countries and this cannot happen until Pakistan businessmen are accepted uniformly in India.

The Pakistani government's recent reversal on partial trade restart with India demonstrates how geopolitical interests, not economic or rational reasons, drive policymaking. In recent years, there has been a renewed focus on developing Pakistan-India economic and commercial relations. The liberalization of commerce between the two countries, in particular, has become a hot topic in the regional and bilateral meetings, and in the modern era globalization has changed the trends worldwide and the regional integration for economic expansion in the South Asian region is not possible because of India and Pakistan.

However, intra-regional commerce has remained steady at less than 2% of total trade for the last two decades, a dismal state of affairs. Similarly, considering the two countries' long history of hostility, bilateral trade between Pakistan and India, the region's two largest economies and trading nations, does not represent a substantial development. The purpose of this study is to look into the challenges surrounding the march towards liberalization.

1.2. Statement of Problem

Pakistan and India are amongst South Asia's one of the largest economies. Official bilateral commerce, on the other hand, is insignificant, and neither country is among the top 10 trading partners of the other, owing to their history of having largely closed economies. The informal commerce between Pakistan and India is believed to be worth $1.5 to $2 billion, with products being exchanged at the Indo-Pakistan border, the misuse of the personal luggage plan through "green channel" facilities, and Afghanistan all contributing to this figure. Trade with third nations, also known as circular trade, is primarily carried out through agents based in free ports such as Dubai and Singapore, as well as the Central Asian Republic (CAR) countries. The ongoing and revealed circular commerce shows that both countries have a high potential for the expansion of bilateral trade.

Pakistan has consciously pursued a strategy of gradually opening trade with India, particularly in industries where it is less competitive Pakistan is allowing all types of exports to India, it has a positive list of 687 commodities that can be imported from India through a proper channel. Pakistan has provided India discounts on about 463 products so far, whereas India has given Pakistan concessions on 262 items. The trade liberalization of Pakistan has extended to the agricultural sector, where the average unweighted tariff (20.5 %) is only slightly higher than the average tariff on non-agricultural goods (13.8 %). In FY04, India was the leading supplier of raw materials (iron ore), accounting for 69.2 % of total imports, followed by Australia (19.9 %) and Iran (1.3 %).

India has a large industry of steel, and it is the booming net exporter of all steel products. The steel Industry is manufacturing and producing a diverse number of steel products. India is the world's sixth-largest crude steel manufacturer and largest producer of sponge iron, thanks to ample raw materials, highly skilled technical people, and low labor costs. This benefits intra-regional trade significantly, as well as the possibility for expanded trade between India and Pakistan, primarily in transportation and engineering industries, including information technology products. SAFTA's complete tariff reduction might boost intra-regional commerce by 1.6 times its current level. Liberalization gains are significantly bigger (at least 25%) in the dynamic framework than they are in the static framework.

In Pakistan and India,the textile and garment industry continue to be the main driver of economic growth. In FY04, this sector contributed 18.8% of India's total export value and 65.6 percent of Pakistan's total export value. In the post-quota environment, the comparison of textile industries reveals that India's textile industry is better positioned than Pakistan's. Textile and garment industries in both nations have varying degrees of specialization.

In the post-quota era, India is seen as a major alternative to China for apparel and made-up textile products. Pakistan is regarded as a supplier of a narrow product variety. It is, nonetheless, regarded as a competitive supplier of cotton items, especially men's clothes, home textiles, and fabrics. From India, China and Bangladesh Pakistan is a more expensive country in labor and capital productivity.

India, in comparison to Pakistan, has a flourishing steel industry and is a major exporter of steel products. India's steel industry manufactures a diverse range of steel products. India is the world's sixth-largest crude steel manufacturer and largest producer of sponge iron, thanks to ample raw materials, highly skilled technical people, and low labor costs.

1.3. Research Questions

The study is proposing to investigate the following research questions:

1. How bilateral trade relations evolved between India and Pakistan since 1947?
2. What were the successes and failures in Trade Agreements between India and Pakistan?
3. What are the prospects of preferential trade agreements between India and Pakistan in the 21st century?

1.4. Hypothesis

Preferential Trade Agreements between India and Pakistan will lead to improved trade relations between both countries.

1.5. Significance of the Study

This study will identify the different potential sectors of Pakistan and India in which both the countries can have preferential trade agreements with each other to enhance their trade. Moreover, an analysis will be done on the previous trade agreements between India and Pakistan so that historical trade between both the countries could be examined and the impact of those trade agreements will analyze that whether those agreements were implemented or not and if those agreements were implemented then what were the impact on the economy of both countries.

This study will be significant and helpful in identifying the potential sectors of both countries and identify the trade sectors in which both the countries can functionalize their trade and can bind into different trade agreements. Moreover, the study will also evaluate an estimation of trade impact if Pakistan and India trade with each other in their potential sectors.

More importantly, by analyzing the informal trade of both countries in the past years, the study will also examine whether Pakistan and India can improve and strengthen their economic conditions if the trade is done formally and if the transit trade is done between India and Pakistan. Besides, different estimations and suggestions will be given at the end of the study that will be helpful for Pakistan in formulating and implementing conducive trade policies with India to better and strengthen the economic situation of Pakistan.

1.6. Scope of the Study

Economic theory and empirical data from throughout the world suggest that commerce between South Asia's two big economies would result in a far larger economy than its present state. While both countries appreciate the value of trade, several political and infrastructure-related impediments – physical, legal, and regulatory – have effectively stalled bilateral commercial relations between the two neighbors. To most analysts, it is obvious that Pakistan's economic success would be contingent on restoring ties with India to open the way for South Asian regional economic integration. Pakistan needs bigger and increasing export markets to access the potential of industrial centers in the South and the West due to falling marginal returns in typically growth-leading industries. Trade with India, which has a sizable and rising market, can play a significant role in achieving this aim. Commerce with Pakistan benefits India not just economically, but also facilitates trade with Afghanistan, China, Iran, and Central Asian nations. This thesis tends to study the trade relations between India and Pakistan to find out the potential trade sectors to enhance trade relations between both countries. The scope of the research has been limited to the available data sources such as the World integrated Trade Solutions forum.

1.7. Objective

The study was conducted keeping the following aims and objectives in mind:

- To examine the bilateral trade between India and Pakistan since 1947.
- To examine the bilateral trade relations between Indian and Pakistan using the indicator of Revealed Comparative Advantage.
- To analyse the trade agreements between India and Pakistan.
- To assess the implications of mutual rivalry and mistrust between India and Pakistan on the bilateral trade.
- To study the potential of various sectors of India in Pakistan in which trade can be beneficial for both.

1.8. Organization of the Study:

The following study is divided into seven chapters. Chapter 1 presents the introduction of the research. The next chapter presents literature review along with the literature gaps. The chapter also presents the research methodology and sources of data which were used to conduct the research. The research was carried out using the indicator of Revealed Comparative Advantage to identify potential trading sectors between India and Pakistan. Chapter 3 titles as “Indo-Pak Bilateral Trade: Historical Underpinnings” discusses historical roots of trade relations between India and Pakistan since 1947. The next Chapter 4 discusses significant bilateral trade agreements between India and Pakistan. The following chapter uses the model of Revealed Comparative Advantage to explore trade relations between India and Pakistan. This chapter critically examines the imports and exports of India vis-à-vis their top trading partners. The chapter also comparatively analyzed the bilateral trade between India and Pakistan and finds out prospects of new trade agreements between both countries in various trade sectors. The last chapter presents the research finds along the critical analysis of economic relations of between and India and Pakistan.

CHAPTER 2

LITERATURE REVIEW

RCA (Revealed Comparative Advantage) was proposed by Bela Balassa (1965) which is widely used in the empirical investigation of the several competitive sectors of a country in relation to another state of the world. Heller (1976) investigated manufacturing sector of Japan by using this RCA index of Balassa and studied the impact of technological advancement on industry. The index also incorporates various industrial factors to analyze the requirements of direct and indirect capital requirements. According to Heller, the results obtained through the RCA show that there was significant shift in the competitiveness of the Japan's industrial sector through from labour intensive to the capital intensive sectors.

Balassa and Noland (1989) studied the comparative advantage between USA and Japan from 1967 to 1983 by investigated 167 manufactured and 57 primary goods. They argued that there was a significant positive shift seen in the Japanese industry from labour intensive goods to relatively capital intensive goods. In the USA, the authors argued that the industry largely kept on its dependence over the labour intensive products and goods.

Lee (1995) studied the competitiveness of the manufacturing sector of Korea from 1965 to 1992 using the RCA index. Lee presented that the capital intensive manufacturing and the economic development of a sector are directly proportional as more the capital intensive manufacturing a sector has, the more economic development can be seen. The author also argued based on the findings that Korea gained significant economic advantage by introducing capital intensive measures in its various manufacturing sectors. The study results also depicted that Korea gained competitive advantage in mid- to large-sized industry while also keeping its specialization in the small industry.

Bender and Li (2002), while using RCA index, analyzed performance of several manufacturing sectors of Latin American and Asian markets, especially between Latin America, East Asia and South East Asia. The authors argued that RCA showed inter-regional mobility in the comparative advantage. The research results also showed that while there was increase in the export trends of the East Asian economies, there was an overall decline in their competitive advantage vis-à-vis rest of the countries in the Latin America and Southeast Asia.

Acharya (2008) analyzed the competitive advantage of the seven developed countries, which account for more than 80% global exports, in the years 1996-97 and 2006-07. The research results showed that China increased its competitive specialization by threefold, whereas, USA, Canada and Japan showed decreased competitive advantage with respect to the world. The results also showed no significant change in the position of East Asian economies and Mexico.

Seyoum (2007) explored the competitiveness of service sectors such as finance, business, travel and transport in the developing world based on the RCA index ranging from 1998 to 2003. The research results showed that several developing economies had competitive advantage in the travel and transport sectors, which shows that there was a substantial room for the growth of competitiveness in the remaining sectors such as business and finance. One of the reason for the lack of competitiveness of developing countries in these sectors identifies by the author was lack of trade liberalization.

Abidin and Loke (2008) researched the Malaysian economy and the non-resource based manufactured goods. Malaysia showed comparative advantage in electronic and electrical appliances along with machinery. The research also showed a shift in the export of Malaysian goods from non-resource based goods to resource-based. Similarly, Seleka and Kebakile (2016) researched on the Botswana's meat industry, specifically the competitive advantage of beef, from 1961 to 2011. Using the normalized RCA index, the authors argued that Botswana had competitive advantage over others in the beef industry.

Wizarat (2002) investigated Pakistan's industrial productivity using the RCA indices and investigated various dimensions of productivity growth. Mehmmod and Nishat (2005) investigated 25 non-agricultural production sectors of Pakistan using the RCA by dividing the 25 sectors in 8 different groups and HS-4 digit level data technique. Mahmmod and Nishat argued that there was an alarming threat posed to the non-agriculture production sectors of Pakistan, emanating from various developing countries, especially China. The authors argued that for Pakistan to achieve and maintain competitive advantage, needs to achieve some degree of specialized competitiveness.

Akhter et al. (2008) studied the footwear industry of Pakistan and its competitive advantage vis-à-vis India and China using the RCA analysis. The authors also attempted to examine the competitive advantage of footwear industry of Pakistan with respect to its global competitors and the prospects for growth. The RCA results showed that there was competitive advantage to Pakistan's footwear industry over both China and India.

Yousf (2009) studied that industrial structure of Pakistan and its exports in the period 1990 and 2007. The author also reviewed composition and structure of Pakistan's exports using the Revealed Competitive Advantage. The studied showed that there was no increase in the competitive advantage of manufacturing exports of Pakistan in the aftermath of economic liberalization reforms introduced by the government in 1998, and argued that the manufacturing exports were largely dependent on the low value-added labour intensive goods. Structural reforms were identified as a suitable remedy to increase the competitive advantage in this sector.

Abbas and Waheed (2017) investigated the manufacturing and agricultural sectors of Pakistan using the HS-2 digit data technique in the RCA index. The study showed that there was deterioration was happening in the competitive advantage of Pakistan’s largest industrial sector, which is textile.

Ghuman (1986) examined the Indo-Pak commercial relationship in terms of several export and import commodities, calculated mutual gains, and explored the prospect of regional collaboration. International trade expansion is widely documented as a significant engine of economic growth, particularly in Asia. It was proposed that increasing India-Pakistan trade relations and mutual cooperation could help alleviate tensions between the two nations and could also contribute to greater integration in South Asia.

Srinivasan and Cananero (1993) examined the bilateral trade as being proportional to the trading partners' product of GNP and inversely related to the distance between them. In comparison to preferential trade liberalization, the study suggests that bilateral trade liberalization would benefit the region more and it will particularly change the economic conditions of the countries better.

Furthermore, increased regional trade, particularly industrious trade, assists economies in expanding their worldwide commerce. Trade barriers between Pakistan and India are primarily to blame for South Asia's unusually low trade, as Pakistan has a vital geographic location that is critical for regional connectivity. Despite multiple rounds of negotiations over the last decade, the two neighbors have been unable to re-establish commercial links, which is unfortunate. Certain local industries are opposed to the government of Pakistan's efforts to integrate trade with India. Imports from India are expected to choke off the domestic industry, which is already suffering from a relentless domestic energy crisis and friction from all other trading partners such as China.

This perception is shifting, and a growing number of domestic businessmen are urging the Pakistani government to eliminate trade barriers and establish a good commercial relationship with India. International agencies are also pressuring Pakistan to award India the long-awaited Most Favored Nation (MFN) status. Finally, under the General Agreement on Tariffs and Trade (GATT), Pakistan is required to offer MFN status to all WTO signatories.

Both Pakistan and India have taken a number of steps to stifle trade. Positive list trade, restriction of Pakistani land routes, and other non-tariff restrictions on the Indian side are included. Removing tariff and non-tariff barriers might result in a significant increase in mutual trade. Liberalizing commerce between Pakistan and India, policymakers believe, will promote regional trade, as there is a significant possibility of trade diversion to other members of the region. By normalizing business relations with India, India will have access to Afghanistan and Central Asia by land. Pakistan will thrive from transiting trading because it will gain access to the economies of Nepal and Thailand.

Expanding trade relations with India based on computative advantage can result in significant long-term increases in GDP growth and the per capita income. A few of the primary reasons for India not being accorded MFN status is the non-tariff barriers established by India. These non-tariff barriers are many and encompass everything from quality assurance to physical inspection by customs agents to visa grant. Non-Tariff Barriers account for a substantial proportion of India's Overall Trade Restrictiveness Index (OTRI).

When Pakistan and India declared war over Kashmir in 1965, Pakistan had nine branches of six Indian banks working in Pakistan. Following another conflict on the Subcontinent the past year, the two sides agreed upon an agreement in 1972 which allowed for the resumption of restricted trade. Pakistan's contribution to total Indian trade has been greater in total exports than in total imports since 1991.

In 2011, an important economic development between Pakistan and India was the revival of trade dialogue. It has been observed that the trade between India and Pakistan can be enhanced to many times of current trade volume. It is apparent that these South Asian countries are well aware of the potential of economic trade between Islamabad and New Delhi and political, legal, infrastructural limitations which have immobilized the bilateral economic relations between these countries.

The economic developments in Pakistan and India depend upon normalizing relationships with each other for socio-economic integration of the south Asian region. For India, the strategic, geographical position of Pakistan in the middle of central Asia, the Middle East, and North Asia can be an important facilitator in trade with Afghanistan, China, and Central Asian countries. For these two countries, enhanced economic trade with one another is a win-win outcome and it will have an enormous impact on the economic stabilization of this region.

India and Pakistan have been members of the South Asia Free Trade Area (SAFTA), established in 2006 which is the predecessor of the former South Asia Preferential Trading Agreements (SAPTA) (Maini, 2012). The Trade between both countries was amounted to 2.5 billion dollars in 2011 as compared to 750 million dollars in 2005. This size of trade volume between these two countries is almost 0.5 percent of India's total trade for Pakistan and for India, it is almost 3 percent of Pakistan's trade following the independence of both countries in 1947.

Pakistan granted MFN status to India in 2013 in reaction to India's 1996 grant of MFN status to Pakistan. The granting of MFN status means lifting trade restrictions and application of the same tariff rates to imports from each other. Several economic studies have indicated that bilateral trade can be considerably higher if Pakistan and India agree to the trade barriers. It has been predicted that total trade between both countries can be extended to almost 20 times higher than the current level of 2.5 billion dollars in 2011 to around 50 billion dollars because of normalized trade relations.

Since both countries gained independence in 1947, the analysis of the history of trade between both countries shows that the economic trade with India deteriorated steadily. Pakistan's trade with India was 70 percent in 1947 and it declined to 8 percent in 1949 due to the decision of Pakistan about refusing to devalue the Pakistani rupee. Due to this, the Commonwealth including India put trade restrictions on Pakistan. Since then, the trade between the two countries has grown insignificant due to mainly the political disagreements and wars between them.

The economies of both countries were interconnected with each other in such a way that the two countries were following a standstill agreement under which the goods used to be exempted from the customs duty. It is true that during the early years of independence, trade between both two countries was robust, and one of the reasons for this was that there were four trade routes in India and five in Pakistan that allowed for cross-border flow of commodities until 1965. Between 1948 and 1949, India accounted for almost 23% of Pakistani exports and approximately 51% of imports.

During 1951 to 1963, the balance of trade was in favor of Pakistan. Moreover, both the countries in early 1957 signed an agreement which was equivalent to granting the Most Favored Nation (MFN) to each other and that was the effective step that had been taken by both countries to improve the trade ties with each other. The agreement remained valid for three years initially and then it was also extended for three years but the agreement failed in 1963.

The trade between both countries was disturbed after the war of 1965 and the trade remained disrupted for almost one decade. That conflict impacted the economies of both countries, and no trade agreement was formulated or signed by both countries between 1965 and 1975. Due to this conflict, India’s share in the exports of Pakistan declined to 1.30 percent while its share in the imports declined to a low level of 0.06 percent. Furthermore, the trade routes were on the least preferable situation in the lateral years due to the conflict between two countries, and a high percentage of trade was being done through the sea route by both the countries.

In 1975, a major development in trade relations occurred and the trade resumed after almost a decade and a trade agreement was followed by both countries. The resumption of trade was noteworthy in light of the insignificant 1974 agreement for the reinstatement of intergovernmental business relations agreed by the two countries. The trade started in the limited number of products and these products were put up by both the countries on the positive list. The trade agreement signed in 1975 expired in 1978 because the political relations between the two countries were very tense and those conflicts were ultimately impacting the trade ties between the two countries. But interestingly, bilateral trade which started again in 1975 continued for more than two decades without any agreement (Khan, 2013a).

A meeting in April 2005 between Pakistan’s President Pervez Musharraf and Indian Prime Minister Manmohen Singh in New Delhi was held and many trade related issues came under discussion and several important decisions were taken to further expand the economic relations through small steps. However, many of the decisions made at the meeting were put into action slowly due to continued impediments by domestic political and security conflicts in both countries. However, the economic trade surged to 1.5 billion in 2006 and 2 billion in 2008. The economic trade suffered a blow after Mumbai terrorist attacks in November 2008 and raised to only 2.2 billion in 2010 and the total trade reached 2.5 billion in 2011.

This period might be described as a period of renewed trade promotion initiatives. The South Asian Free Trade Agreement was signed (SAFTA) during the 12th SAARC summit in 2004. By 2013, the SAARC developing countries, notably Sri Lanka, Pakistan, and India committed to lower their tariffs to 0-5 percent so that intra-regional commerce could be encouraged. (Khan, 2013b)

Bilateral commercial connections between the two nations improved in the years after the 2004 SAARC Summit. Trade volumes increased significantly, according to data. This was the most productive period for bilateral trade, not just in terms of volume, but also in terms of policy decisions. It was the resumption of economic interaction between the two nations that gave a boost to better ties between the two countries as in January 2004. The two commerce secretaries in April 2011 identified the areas in which both the countries can expand their trade cooperation. Several positive developments were made in this short period. On 28th April 2011, the commerce secretaries of both countries issued a joint statement in which it was said that both countries have an objective of boosting trade ties in different sectors. Moreover, the Pakistan Commerce Minister on 26th September 2011 assured the progress report of giving Most Favored Nation (MFN) status to India. Furthermore, Pakistan Cabinet on 2nd November 2011 granted MFN status to India but then withdrew it and offered in-principle agreement for trade normalization with India.

2.1. Research Gap:

The increase in the globalization has resulted in the immense increase of imports in the case of Pakistan while the data shows that there has been slothful growth rate of exports, the condition which has resulted in the imbalance in the trade balance of Pakistan. Whereas, the available empirical studies on Pakistan's competitive profile have only explored the competitive advantage of Pakistan's major industries such as agriculture, footwear and textile. The literature review does not find any available and reliable research carried out to explore competitive advantage of other industries and sectors. Thus, this research fills the gap in literature, exploring competitive advantage of Pakistan vis-à-vis India in 20 manufacturing sectors and also identifies 8 sectors in which Pakistan and India can enter into bilateral trade agreements based on competitive advantage in those sectors, using RCA index.

CHAPTER 3

RESEARCH METHODOLOGY

The study of trade patterns between different countries has been used throughout history to analyze the comparative advantage of countries in various goods and services. One of the methods to study this trade pattern is Revealed Comparative Advantage (RCA). The RCA method was adopted by Bella Balassa in 1965. This model of analysis was introduced to address the problem of absolute advantage of a country's industry or its commodities.

The classical theory of comparative advantage held that global economic prosperity was conceivable only through free trade as the exchange of goods and services would result in maximum gains. The doctrine of RCA maintains that when a country's share of one particular good's export is greater than its overall global export, than that country has comparative advantage in that good. It means that the if any country produces a cheaper good than the rest of its fellow states, it can put more resources into production of that particular good to have an advantage over others. Consequently, that country can obtain other goods, through free trade, from rest of the world at a cheaper price, in exchange for its advantaged commodity.

Adam Smith (1976) was of the view that the trade between two countries which are producing two different goods, is always absolute in nature, as they both have absolute advantage over their goods. When one country has this absolute advantage, it can produce that good in surplus and then can exchange its production with the other country which has absolute advantage in the second commodity, thus resulting in maximum advantage of both.

David Ricardo, on the other hand, was of the opinion that states dwell more in comparative advantage, meaning that a country will produce such goods more that consume less labour cost relative to those goods which consume more labour. Hence, the countries will import such commodities which are relatively more labour intensive and export those goods which are produced more. Thus, according to Ricardo, only the relative amount of labour matters in a state's exports.

Bender and Li (2002) analyzed Balassa's 'stages of comparative advantage thesis' and studied the manufactured exports in Asian and Latin American countries from 1981 to 1997. The authors evaluated the RCA indices of East Asian, Latin American and Southeast Asian economies. They argued that RCA indices failed to distinguish between trade policy effect from factor endowments effects, however, RCA provided a positive growth in the region's comparative advantage. The study concluded that despite the positive growth of exports in the East Asian region, the economies of East Asia were losing comparative advantage to low- to mid-tier economies of Latin America and Southeast Asia.

Liesner (1958) brought changes in the comparative advantage theory and made some indexes of relative export performance as proxies for comparative costs. Later on, Kojima (1964) developed another measure for identifying the international trade pattern between developed countries but could not summarize the comparative advantage into a single statistic for a commodity or nation. Balassa (1965) overcome the limitation of Liesner (1958) by presenting the term revealed comparative advantage (RCA). RCA Index requires export data for the calculation of index (Benedictis & Tamberi, 2002). RCA is the most valid measure of comparative advantage (Balance, Forstner, & Murry 1987). RCA is very useful measurement for bilateral trade between trading partners. The use of indices of comparative advantage other than RCA are not generally consistent with theoretical notions, while the use of RCA proved consistent with the theoretical notions. RCA index has been widely used in empirical research to assess the commodity pattern of comparative advantage across the countries (Kaitila, 1999;

Moyi & Kimuyu, 1999; Zhang & Richardson, 2001; Proudman & Redding, 2000; Ferto & Hubbard, 2002). The index used for the measurement of comparative advantage is given as:

$$\mathrm{RCAcg} = {}^{(\mathrm{Ecg}/\mathrm{Egw})}\big/_{(\mathrm{Ect}/\mathrm{Ew})}$$

Here, $\mathrm{Ecg} / \mathrm{Egw}$ shows the country exports product g under consideration by the world exports of product g. $\mathrm{Ect} / \mathrm{Ew}$ shows the proportion of country total exports by world total exports. Here, E represents exports, c is a country, g is a commodity (or industry), and 'w' represents the world. Furthermore,

Ecg = exports of product 'g' from country 'c'

Egw = Product 'g' world exports to the country under consideration

Ect = Country 'c' total exports

Ew = World total exports

The range of RCA index is from 0 to infinity with 1 being the breakeven point. RCA < 1 means that country has comparative disadvantage in carrying out such trade. If RCA = 0 it means that there is no comparative advantage or disadvantage whereas if RCA > 1 then it means that the country has comparative advantage in doing such trade with its partner.

3.1. Data Sources

The study namely Indo-Pak bilateral trade relations is conducted by using the World Integrated Trade Solution data. Data is gathered from World Integrated Trade Solution(WITS), the Indian and Pakistani ministries of commerce, several issues of economic surveys performed in the two economies, the IMF, and the World Trade Organization, among other sources. Tables, visuals, and empirical models were employed to make the study comprehensible and empirical. The right approach is determined by the study's aims. Trade relations between two countries can be measured using a variety of statistical metrics. With the data, the results are critically analyzed and compared for the understanding of bilateral trade between them. For the period 2016-2019, an indicator of trade intensity has been calculated for trade between both countries. This is to see if India's bilateral trading relationship with Pakistan is strengthening (or deteriorating). This shows, in a crude manner, whether India's trade with Pakistan is greater or less than one might expect given the importance of the trading partner's share in total world trade. Trade intensity indicate is also calculated from the standpoint of the trade partner (Pakistan). The research methodologies are utilized to determine: (i) Pakistan's importance in India's total trade; and (ii) The importance of India in Pakistan's overall trade. (iii) The volume of trade between India and Pakistan. (iv) Pakistan's trade intensity with India. (v) The commerce between India and Pakistan, as well as competing suppliers in each market, are discussed in the paper's results section.

CHAPTER 4

INDO-PAK BILATERAL TRADE: HISTORICAL UNDERPINNINGS

4.1. History of Pakistan India Bilateral Trade

Bilateral business ties between India and Pakistan have a turbulent history spanning more than five decades, reflecting the different degrees of geopolitical tensions and diplomatic relations between both countries. India accounted for more than 70% of Pakistan's trade transactions in 1948-1949, with 63 percent of Indian exports to Pakistan. However, by 1949, economic relations between India and Pakistan had deteriorated dramatically.

11 trade and payments were signed between 1948 to March 1960 between India and Pakistan from 1948 to 1949 the bilateral trade declined from Rs.184.06 to 13.63 crore in 1958 and from 1965-66 it reached a recorded all-time low to Rs.10.53 crore. Following the 1965 war, India and Pakistan imposed a trade embargo that lasted until 1974. Several attempts were made by India to revitalize the trade during this time, but no real results were achieved. On November 30, 1974, a trade protocol (Shimla Agreement) was signed, allowing the trade embargo to be lifted with effect from December 7, 1974. With effect from July 1976, the Pakistani government diversify the business and let the private sector to trade with India. (Sharma, Bhattacharya, et al. 2013).

In June 1983, a joint business commission was made with the goal of expediting decision-making on problems requiring government clearance and introducing new products for bilateral trade. The largest subcontinental neighbors signed a memorandum of understanding in New Delhi on April 10, 1999, to establish the India–Pakistan Chamber of Commerce. India and Pakistan signed the South Asian Association for Regional Cooperation's (SAARC) final document in 1986, pledging to better the welfare of South Asia's people. Economic ties between India and Pakistan can be divided into two categories: commerce between business communities and government cooperation. Typically, collaboration at the local level is limited to infrastructure projects in areas such as railways, energy, and telecommunications.

Pakistan agreed to import 322 Indian products in July 1989. The establishment of the Nawaz Sharif government in 1991 bolstered Indo-Pak commerce, which increased to Rs. 522.59 crore in 1992-93 from Rs. 168.09 corer the previous year. In 1948–49, India supplied 56% of Pakistan's exports. For the next many years–a period of severe political tensions–India remained Pakistan's primary commercial partner. Between 1947 and 1965, the two countries signed 14 bilateral trade facilitation agreements. As early as 1965, when the two countries went to war over Kashmir, Pakistan had nine offices of six Indian financial institutions. And in 1972, following the conclusion of another Subcontinental battle the previous year, both sides signed a deal restoring restricted trade.

Increased trade between Pakistan and India has the potential to be extremely beneficial to Pakistan. Consumers would benefit from cheaper product pricing and a broader selection. Transfers of technology from India would increase farm productivity in Pakistan while cutting manufacturing costs and increasing firms' international competitiveness. Small producers would improve their productivity by collaborating with greater Indian competitors and would benefit from economies of scale resulting from bigger export industries. Finally, Pakistan benefits from further legalization since it provides revenue that is currently lost to smuggling (Kugleman, 2013).

Table 4.1 Indo-Pakistan Trade(In Indian Crore Rupees)				
Year	Export	Import	Total	Balance Of Trade
1987-88	19.12	28.03	47.15	-8.915
1988-89	36.20	72.17	108.37	-35.97
1989-90	51.39	53.79	105.10	-2.40
1990-91	73.60	84.49	158.09	-10.89
1991-92	98.61	149.98	248.59	-51.37
1992-93	151.26	73.50	524.76	-222.24
1993-94	200.66	136.48	337.14	+63.18
1994-95	179.71	165.61	345.32	+14.10
1995-96	256.80	150.80	407.60	+106.00
1996-97	558.12	128.36	686.48	+429.76
1997-98	537.14	139.68	676.82	+397.46
1998-99	184.84	463.92	648.76	-279.08
*: Indian exports and imports to Pakistan				

Source: (Chengappa, 1999)

As illustrated in the table, India and Pakistan have experienced a gradual but dramatic expansion in trade, which has had a positive influence on both economies. Both countries traded in a limited set of items, designated as the positive list by each country. However, the 1975 trade deal terminated in January 1978. Throughout this period, the political relationship was exceedingly Bilateral commerce, which began in 1975-76, continued unabated for more than two decades. In July 1982, Pakistan announced a list of 40 commodities in which the two countries' private sectors might trade. Despite the unfavourable circumstances and short-sighted measures taken by both governments, trade continued to grow in the subsequent years. Between 1990-01 and 2001-02, several short-term oscillations were detected. There are four instances over the twelve-year period when trade decreased following an increase the preceding year (Maini, 2012).

4.2. Statistical Analysis of Trade between India and Pakistan

GDP growth jumps to 4.71 percent in 2015-16, up from 4.04 percent the previous year. Agriculture contributes 19.82 percent of GDP. 23.55 percent of agricultural value addition is attributed to important crops. This sub-sector experienced negative growth of -7.18 percent in comparison to a -0.52 percent increase last year. All key crops, including wheat, maize, rice, sugarcane, and cotton, grew by 1.58 percent, -0.35 percent, -2.74 percent, 4.22 percent, and -27.83 percent, respectively. Livestock accounts for 58.55 percent of agriculture's added value. Cattle, buffalos, sheep, goats, camels, horses, asses, mules, and poultry are all considered livestock, as are their products. It increased by 3.63 percent, compared to 3.99 percent last year.

Industrial production accounts for 21.02 percent of GDP. Manufacturing is composed of three components: Large-Scale Manufacturing (LSM), which accounts for 80.11 percent of total output, Small Scale Manufacturing (SSM), which accounts for 13.12 percent of total output, and Slaughtering, which accounts for 6.77 percent of total output. The subsector of mining and quarrying accounts for 14.19 percent of the industrial sector. Between July and March of FY2016, exports totaled US$15.6 billion, down from US$ 17.9 billion in the same period prior year, a fall of 12.9 percent. Imports were targeted at $43.2 billion (a 6% increase) in FY2016. Imports remained 4.3 percent lower in July-March FY2016 compared to the same period prior year.

Pakistan's foreign sector remained under significant strain throughout 2016-17. Though the rate of loss in exports has been slowed and in 2016-17 the Pakistan exports declined by 3.6 percent in the first nine months of the fiscal year. Comparing the previous year, in the first nine months of the 2017 fiscal year the Imports, on the other hand, continued to rise at a far quicker rate, increasing by a significant 18.67 percent. Free Trade Agreements are critical for export promotion. Pakistan is a party to regional trade like Economic Cooperation Organization Trade Agreement (ECOTA) and SAFTA and it already has free trade agreements with Sri Lanka, China and Malaysia. The Economic Cooperation Organization (ECO) Summit, which took place in Islamabad in early 2017, was intended to spur regional economic development. It is anticipated that the connectivity infrastructure associated with CPEC (One Belt One Road) will improve.

In March 2017, the exports increased by 3.6 percent compared to March 2016, it was at 9.95 percent. This determines a rapid recovery in March 2017. Between July and March of FY2017, the petroleum and coal group's exports increased by 8.0 percent over the same period last year. During the July-March fiscal year 2017, raw cotton exports decreased by 48.7 percent in value and 52.9 percent in quantity. Carpets, rugs, and mats exports decreased in value by 17.3 percent while decreasing in quantity by 3.6 percent during July-March FY2017. Exports were targeted at US$ 23.09 billion in fiscal year 2018. Exports reached USD 14.8 billion in July-February FY2018, up 11.6 percent from US$ 13.3 billion in July-February FY2017. Textile manufacturing exports, which account for around 60% of overall exports. Cotton fabric accounts for 9.6 percent of exports and 16.2 percent of the textile group. Textile exports, such as knitwear, account for 11.8 percent of total exports. Carpets, rugs, and mats exports decreased by 9.2 percent in value while decreasing in quantity by 6.3 percent of total exports and 19.9 percent of textile group exports grew by 2.7 and 13.3 percent, respectively. Between July and February of FY2018, imports of petroleum group goods increased by 34.9 percent, outpacing the previous year's growth of 20.9 percent. Pakistan's imports are largely focused on a few key markets. Pakistan imports from nations such as China, Saudi Arabia, the United Arab Emirates, and Indonesia account for more than 50% of total imports. India's major imports were 4% in 2015-16 and 3% in 2016-17.

CHAPTER 5

TRADE AGREEMENTS BETWEEN INDIA AND PAKISTAN

India's relationship with Pakistan is antagonistic. This is because of the legacy of a violent split that resulted in intercommunicated warfare and the subsequent incapacity of Pakistan's numerous elected administrations to exercise complete control over domestic and international affairs. As a result, the two nations have fought multiple conflicts that have resulted in either no outcome or a triumph for India. Despite their ups and downs, bilateral trade and economic connections have remained strong between the two competitors.

Colonial British India's division split not just the country's land, but also the families who found themselves on opposite sides of the newly constituted boundary. However, partition could not quickly eliminate or diminish cultural linkages like as language, social standards, gastronomic interests, and others. As the initial consequences of partition wore off, Indian and Pakistani firms began to see economic potential in the other's nation, resulting in the establishment of more formalized commercial and cultural connections.

Due to the high cost of conflict between India and Pakistan, both countries sought an agreement and the benefits of peace through bilateral negotiations and agreements. In this situation, there is a great possibility that 'culture' will operate as a unifying element between the two states, unencumbered by coercion or threat. This section discusses the role of theatre in India-Pakistan relations and how it can be used as a diplomatic tool.

5.1. Agreement between India and Pakistan Regarding the Salal Hydro Electric Plant (12 April 1978)

On 12 April 1978, the Indian Foreign Minister and Pakistani Foreign Secretary signed a formal agreement in Delhi. The spillway gates' height has been decreased from 40 to 30 feet. The sediment management under-sluices were permanently blocked.

It was the first hydroelectric project undertaken by India in Jammu and Kashmir underneath the conditions of the Indus Water Treaty. India finished the project in 1987, following a 1978 bilateral agreement with Pakistan that contained major concessions to Pakistan about the dam's design, including lowering the dam's height, deleting the working pool, and filling the sediment management under-sluices. Compromises made in the name of multilateralism risked the dam's long-term sustainability, as the dam silted up in less than five years. It is now running at a capacity factor of 57%. The Chenab River project is located near Salal hamlet in the Reasi District, just a few kilometers south of Matlot, where the river takes a southerly path. The powerhouse's first stage was finished in 1987; the second stage was completed between 1993 and 1995.

The project was finally commissioned in 1996. After completion, ownership of the Salal project was given to National Hydroelectric Power Corporation (NHPC). The Government of Jammu and Kashmir has a Memorandum of Understanding with the Government of India to get the project at a discounted rate. The project's design was for a two-stage power plant with a combined installed capacity of 690 MW (345 MW each) Salal dam is critical for agricultural purposes in both India and Pakistan's Punjab provinces.

Pakistan expressed technical objections to the dam's design and capacity throughout the discussions. It claimed that the 40-foot gates on the spillways permitted the dam to store more water than the treaty allowed. It further claimed that the sediment-clearing under-sluices specified in the treaty were not allowed. The site's remoteness posed the main barrier in the dam's construction. For at least 50 kilometers, there was no human habitation except for a small mud-brick tented town.

5.2. Agreement Between India and Pakistan on Bilateral Relations (Simla Agreement (2 July 1972)

The summit meeting between Bhutto and Indra Gandhi began at the scheduled time in Simla. From June 28 to July 2, 1972, the Simla Agreement Conference was held. The Simla Agreement was a peace treaty signed between India and Pakistan with the aim of resolving the political issues, The treaty's official purpose was to provide a mechanism for both countries to end the conflict and better their relations with each other which have been worsened from the past many years also affecting their trade ties and to conceptualize the steps necessary to further normalize India–Pakistan relations while also establishing the principles that should govern future interactions. The agreement transformed the 17 December 1971 cease-fire line between India and Pakistan into the Line of Control (LOC), and it was stated that "no party should endeavor unilaterally to change it, regardless of mutual disagreements and legal interpretations."

To end these conflicts and confrontations both the governments are committed to better and stable them and these conflicts had plagued their relations in the past and working toward the establishment of a friendly and harmonious relationship and long-term peace in the subcontinent so that both countries can focus their resources and energies on the pressing task of advancing the welfare of their people. The summit meeting between Bhutto and Indra Gandhi began at the scheduled time in Shimla.

From June 28 to July 2, 1972, the summit meeting was held. The goal of the agreement was to lay out the procedures that will be followed to normalize bilateral ties and resolve mutual disputes through peaceful means and bilateral dialogue. India proposed a treaty of friendship, pledging the two countries to refrain from using force to resolve disputes, to refrain from interfering in each other's personal internal affairs, to refrain from seeking third-party intervention in the resolution of their differences, and to renounce military alliances directed against each other.

To accomplish this, both nations agreed that bilateral relations would be guided by the United Nations Charter's principles and purposes and that conflicts would be resolved "peacefully by bilateral conversation or other diplomatic means mutually agreed upon." Additionally, both countries agreed that their individual heads of state will engage again in the future at a "mutually convenient time to discuss in greater detail.

Specify the mechanisms and processes for achieving lasting peace and normalizing relations, including the repatriation of war prisoners and civilian deportees, a settlement agreement of the Jammu and Kashmir conflict, and the restoration of diplomatic ties." The Simla Agreement establishes a set of mutually agreed-upon guiding principles for the conduct of India's and Pakistan's bilateral relations. These principles emphasize respect and understanding for each other's sovereignty and territorial integrity; non-interference in each other's internal affairs; mutual respect for each other's unity and political independence; sovereign equality; and avoidance of adversarial propaganda. However, the following Agreement notions need special mention.:

- A mutual commitment to peacefully settle all disagreements through direct bilateral contacts.

- To lay the footing for a cooperative partnership, with a specific focus on people-to-people relations.

- Maintaining the sanctity of the Line of Control in Jammu and Kashmir, which is a perilous component of India's Comprehensive Bilateral Agreement with Pakistan and necessary for long-term peace.

The Simla and subsequent Delhi agreements granted Pakistan everything it desired: the land it had lost in India during the war and the safe return of all its soldiers, without a single one of them being held accountable for the incendiary campaign undertaken in modern-day Bangladesh. As part of the Simla Agreement, the two nations committed to resolving previous tensions and confrontations and working toward permanent peace, friendship, and collaboration.

The agreement did not prevent the relationship between the two countries from worsening to the point of armed conflict, most recently in the Kargil War of 1999. In Operation Meghdoot of 1984 India detained all of the unreceptive Siachen Glacier region where the frontier did not clearly not define in the agreement possibly as the area was thought too barren to be controversial; this was considered as a violation of the Simla Agreement.

5.3. MOU between India and Pakistan on Cultural Cooperation (8 September 2012)

The Indian Cultural Council (ICCR) and Pakistan's National Council of Arts (PNCA) were established according to the Cultural Cooperation Agreement between Pakistan and India, which was signed in Islamabad on 31 December 1988 by the Foreign Secretaries of both countries. Taking into account the importance of fostering and enhancing mutual understanding and collaboration in the fields of art and culture. Both parties shall promote collaboration in the visual and performing arts, exhibits, publications, and other areas of mutual interest while upholding religious, cultural, and ideological principles. This memorandum does not exclude any party from engaging in comparable operations with other companies that are mutually agreed upon.

Financial arrangements are reached by mutual talks on the basis of reciprocity. This memorandum does not imply a commitment by any party to support any specific activity or initiative not previously agreed upon. Any alteration to the memorandum may be implemented by either side by mutual consent. This MOU shall be effective for three years from the date of execution and, unless canceled, will remain in effect. Either party may terminate this memorandum by providing the other party with at least three months' written notice.

It has always been determined that the country's soft power culture is the most important component Promoting a country's cultural image (soft power) is gaining growing favor and respect in the larger international arena today more than ever. Although India and Pakistan share a common subcontinent, their relationship has been strained since 1947 due to a number of unresolved issues.

It underlines that both the countries need to expand their cultural ties so that they could build up their mutual trust and could occur as nations of peaceful existence. Cultural diplomacy uses by the countries to strengthen their traditions, values, and identities where the power is no longer simply decided by military force and to foster socio-cultural collaboration, and advance national objectives, among other things.

While cultural diplomacy cannot resolve India-Pakistan tensions, it can help pave the way for constructive inter-state cooperation. During times of peace, it can act as a confidence-building strategy by allowing persons on both sides to learn more about one another, remove misconceptions, and foster trust. It can mitigate hazards during times of high tension and conflict by maintaining many lines of communication open (Saha, 2020).

5.4. Agreement for the Establishment of a Joint Commission between India and Pakistan (December 24, 1982)

India and Pakistan have agreed to form a joint committee to encourage collaboration between their governments in a number of areas. The committee would be the first of its kind since the two countries earned independence from Britain in 1947 and have fought three wars in the previous 35 years. The agreement on a joint commission "aims to deepen and promote cooperation between India and Pakistan in economic, industrial, educational, cultural, tourism, and technological spheres for mutual benefit."

The Joint Commission will be made up of high-ranking leaders from both parties. The Joint Commission will generally convene once a year, on a date to be determined by mutual agreement, alternately in Brussels and Islamabad. Extraordinary meetings can also be called by the Parties with their consent.

The Joint Commission may organize specialized subgroups to assist it in carrying out its duties and to manage the development and implementation of projects and program within the Agreement's framework. The Joint Commission's meeting agenda will be decided by agreement between the parties. The Parties agree that the Joint Commission will also be responsible for ensuring the correct operation of any sector, agreements reached, or to be reached between the Community and Pakistan. India has joint commissions with 35 countries, including the US and the former Soviet Union. Pakistan has 15 countries with whom it has such commissions.

5.5. Agreement between India and Pakistan Regarding Security and Rights of Minorities (Nehru-Liaquat Agreement 8 April 1950)

The Liaquat–Nehru Pact (also known as the Delhi Pact) was a bilateral contract between the two countries that permitted refugees to return and sell their belongings, abducted women, and plundered property to be restored, enforced adaptations to be recognized, and minority rights to be affirmed. On April 8, 1950, India's Prime Minister Jawaharlal Nehru, and Pakistan's Prime Minister Liaquat Ali Khan signed the treaty in New Delhi. The treaty was the result of six days of talks aimed at ensuring the rights of minorities in both countries following India's partition and averting another conflict between them. In both nations, minority commissions were established. More than a million people fled East Pakistan (now Bangladesh) for India's West Bengal.

The agreement was reached against the backdrop of large-scale movement of persons from minority communities between the two countries following attacks by majority communities in their respective areas. The agreement was reached against the backdrop of large-scale movement of persons from minority communities between the two countries following attacks by majority communities in their respective areas. The governments of both the countries agree to provide complete citizenship equality to minorities throughout their respective territories, regardless of religion, complete security in terms of life, culture, property, and personal honor, freedom of movement within each country, and freedom of occupation, speech, and worship, subject to applicable law and morality. Minorities should have the same opportunity as members of the majority group to engage in their country's public life and serve the country's armed and civil services and uphold the political offices.

The two governments agreed on the following:

i. Protection and Freedom of movement in transit.

ii. Liberty to eradicate as much of a migrant's transportable personal items and household goods as he wishes. Personal jewelry is considered movable property. Each adult migrant will be permitted Rs. 150 in cash, and each migrant kid will be given Rs. 75.

iii. A migrant may deposit any personal jewelry or cash that he does not intend to carry with him in a bank. The bank shall issue him a valid receipt for any cash or jewelry placed, and facilities for their transfer to him shall be made available as and when required, subject to the exchange restrictions of the government concerned in the case of cash.

iv. The Customs officials will make no attempt to harass you in any way. To ensure that this is implemented in practice, liaison officials from the opposing government will be stationed at each customs post settled upon by the two governments. To ease the execution of this agreement, the two Governments undertake to consult on a periodic basis on any topic arising from or relevant to the delivery of goods or goods between the two countries during the currency of and in line with this agreement, and to alter, extend, or supplement the Schedules to this agreement by mutual agreement, if necessary.

The agreement was reached against the backdrop of large-scale movement of persons from minority communities between the two countries following attacks by majority communities in their respective areas. This was set up in both nations to carry out the terms of the Nehru-Liaquat pact. At least in part, this measure helped to restore confidence. This was the same Nehru-Liaquat accord over which Shyama Prasad Mookerjee resigned from Nehru's government as industries minister just two days before the Delhi Pact was signed.

However, whether the Nehru-Liaquat pact achieved its declared goals has been a point of contention. For months after the Nehru-Liaquat accord was struck, Hindus from East Pakistan continued to migrate to West Bengal in India.

5.6. Pakistan-India Commercial Relations: Opportunities, Benefits, and Pitfalls

Pakistan and India are South Asia's two largest economies, with virtually little bilateral trade. This has occurred as a result of border conflicts and political difficulties, but also as a result of inward-looking economic policies based on import substitution. Trade between the two nations (including official and unofficial) was around US$ 2.5-2.6 billion in 2007/08, but may possibly reach US$ 5-10 billion, or two to four times present levels.

Over the previous five years, the Composite Dialogue Process (CDP) has resulted in significant advances in political ties, as well as in commercial connections. This report advises that the process be bolstered further by resuming the delayed CDP, Pakistan providing India, Most Favoured Nation (MFN) status, continuing to eliminate trade and logistical hurdles, and maybe even contemplating the prospect of a Free Trade Agreement (FTA) with India. In November 2011, Pakistan's government announced its decision to offer India Most Favored Nation (MFN) designation.

This means that India's economic connection with Pakistan will benefit from lower tariffs and fewer trade restrictions. The move, which comes on the heels of New Delhi's 1996 award of MFN status to Pakistan, demonstrates Islamabad's determination to strengthen trade ties with its long-standing adversary. The two countries have a great and massive potential to increase their bilateral trade. The current pattern between India and Pakistan is less than 3 billion dollars. but some analysts believe that with a normalized trading system, the figure may eventually reach $40 billion. These predictions take into consideration, in part, the substantial volume of informal commerce between Pakistan and India, which recently surpassed legal trade and is currently estimated at over $1 billion.

It says that increased commerce between Pakistan and India may be extremely beneficial to Pakistan. Consumers would benefit from decreased product pricing and increased product variety. Transfers of technology from India would increase farm productivity in Pakistan while cutting manufacturing costs and increasing firms' worldwide competitiveness. Small producers would increase their production by collaborating with macro Indian competitors and would benefit from economies of scale resulting from larger export markets. Finally, the Pakistani government benefits from increased legislation since it provides revenue that would otherwise be lost to smuggling.

Among these is the fact, increased trade would remove the "deadweight loss" associated with commerce diverted to other nations. Additionally, he discusses the potential benefits of new economies of scale for governments, mentioning the India-Sri Lanka free trade agreement as an example. For an extended period of time, Sri Lankan tea exporters were forbidden from India, the world's largest producer. They may now easily "test" their products in India, since various companies and brands have established operations in the state of Tamil Nadu. Additionally, existing policies lack strategic direction and are solely concerned with preserving local monopoly interests. Pakistan should pursue measures that promote free trade rather than protectionism.

This will necessitate a greater focus on transit commerce, transportation infrastructure, and cross-border finance. Pakistan's trade strategy should see India's economic expansion positively, not negatively. It should leverage India's talented labor force and cutting-edge technology to bolster its own competitiveness. To avoid creating uncertainty in Pakistan and misunderstanding with it on non-tariff barriers (whether genuine or imagined), India should make its trade policies more transparent – particularly for food, medicines, and other items needing rapid processing. India should also expand the capacity of its laboratory and certification facilities used for commercial reasons and keep the World Trade Organization (WTO) informed of its trade-related actions affecting Pakistan.

For trade liberalization, businesses should be at the forefront. Economic interactions are served better in South Asia by the private sector's action-oriented, proactive, issue-resolving attitude than by the government’s more sluggish, reactive, and bureaucratic manner. Furthermore, the private sector has a significant influence on creating a public opinion about trade normalization surged in Pakistan as the country's business community became convinced of India's readiness to progress. The public-private joint ventures should be encouraged specifically those which promote the interconnectivity by up-gradation of infrastructures.

Swift and cost-effective interstate (and intrastate) movement of products will need the elimination of limitations on the kind and size of trucks and train carriages; enhancement of the condition of the roads and railroads utilized for trade in both nations; and enhancement of border crossing infrastructure.

To protect the integrity of both economic normalization and the broader peace process, India should abstain from slapping punitive trade penalties on Pakistan or closing its borders in response to individual terrorist attacks carried out by Pakistani-based radicals (who might like nothing better than to spark a harsh Indian response). Both sides should exert vigilance to avoid spillover into commercial or economic interactions of new security or political challenges. Suspending trade in reaction to security concerns will further undermine confidence and obstruct efforts that will produce long-term bilateral strong economic and political relations.There are other agreements that have taken place in the past are:

- In India and Pakistan, a code of conduct governs how diplomatic and consular staff are treated (19 August 1992).
- India and Pakistan have reached an agreement to prevent airspace violations and to allow military aircraft to fly over and land (6 April 1991).
- India and Pakistan signed an agreement prohibiting attacks on nuclear installations and services (31 December 1988).

Currently Pakistan is a signatory to the following trade pacts:

a. South Asian Free Trade Area Agreement (SAFTA).
b. Trade agreements between Pakistan and Malaysia.
c. Free Trade Agreement (FTA) on Goods and Investment between Pakistan and China.
d. Free Trade Agreement on Services between Pakistan and China, between Pakistan and Sri Lanka.
e. Preferential Trade Agreement (PTA) between Pakistan and Iran.
f. Preferential Trade Agreement between Pakistan and Mauritius.
g. Preferential Trade Agreement between Pakistan and Indonesia.

5.7. The Perilous Path Forward

Throughout 2012, Pakistani and Indian news outlets emphasized frequent obstacles for the normalization of trade between both countries that were followed upon political and security concerns. The resumption of trade discussions between India and Pakistan in 2011 was one of the more significant recent economic events in South Asia. An often-asked topic is why India and Pakistan trade so little despite their shared history, language, culture, and lengthy borders. Economic theory and empirical data from throughout the world suggest that commerce between South Asia's two major economies would be far larger than its present level of roughly

$2.5 billion. While the two countries recognize the advantages of trade, a number of political and infrastructure-related impediments – physical, legal, and regulatory – have effectively stalled bilateral commercial relations between the two neighbors.

Pakistan's economic achievement to the majority of analysts would be contingent on restoring ties with India in order to open the way for South Asian economic integration. Pakistan needs bigger and rising export markets to access the potential of industrial center in the south and west, as well as the central belt. Trade with India, which has a sizable and rising market, may play a significant role in achieving this aim. Commerce with Pakistan benefits India not just economically, but also facilitates trade with Afghanistan, China, Iran, and Central Asian nations.

As a result, both nations' GDP grew. Pakistan's award of Most-favoured-nation (MFN) status to India in January 2013 is apparently conditional on India's elimination of Non-Tariff Barriers (NTBs) imposed on Pakistani imports. Non-Tariff Barriers (NTBs) is widely believed in Pakistan's export community, would continue to be the primary hurdle to trade normalization even if India is awarded Most-favoured-nation (MFN). Additionally, many traders believe that Indian Non-Tariff Barriers (NTBs) are Pakistan-specific, an assertion rejected by the Indian side, which maintains that India treats all trading partners similarly. While it is true that the majority of NTBs imposed by India is not intended to harm Pakistan but rather to benefit India, there is at least anecdotal evidence that NTBs are sometimes imposed against Pakistan on an ad hoe basis.

Economic collaboration between Pakistan and India is a game-changer for Pakistan's future economic growth. As several studies have demonstrated, the potential for commerce between the two nations is enormous, maybe twenty-fold or more than the existing level. There is little question that expanding trade would greatly boost both nations' GDP and household incomes.

While business people on both sides of the border typically support lowering trade barriers, it is necessary to establish larger constituencies in each nation for more bilateral commerce.

The success of short-term "confidence-building" measures and the subsequent expansion in trade would provide a significant incentive for the development of entrenched interests that would favour a more comprehensive liberalization of commerce between the two nations. Developing and executing a system for resolving disputes. Many Pakistani businesspeople believe they have few options for resolving conflicts with their Indian counterparts at the moment.

While both India and Pakistan have access to the WTO and SAFTA dispute settlement systems, and the Redress of Trade Grievances Agreement would allow for government-to-government discussions, an informal private party dispute settlement mechanism remains possible. Such a system might establish a streamlined approach for aggrieved industries, exporters, and importers to resolve relatively minor trade disputes expeditiously.

Trade will not resolve all of the issues between the two countries, but it might be a significant driver for reducing tensions. Additionally, a reduction in hostilities between India and Pakistan – an unavoidable by-product of improved economic ties–would help both nations' security environment for investment and economic growth. It is plainly in the interests of both nations, and indeed the entire world, to find a political solution to the India-Pakistan relationship's issues and increasing commerce may be a good place to start.

5.8. Current Trade Pattern between India and Pakistan

In August 2019, Pakistan halted bilateral trade with India. In September 2019, a partial relaxation was granted for the trading of some medicinal items. India's exports to Pakistan fell 76.3 percent to $283 million in the calendar year 2020, while imports fell 96.2 percent to barely

$2.5 million. According to 2018 World Bank research, the trade potential is projected to be $37 billion. According to the two studies, this potential remains untapped owing to constraints in transportation and transit infrastructure, non-tariff barriers, and prohibitions on exports from India, among other considerations. India was 44th in the Economic Complexity Index (ECI 0.59), and 15th in total exports ($330B) in 2019. In the same year, Pakistan had been listed 100 in the Economic Complexity Index (ECI) and 67 in total exports ($26.6B). (Office of Economic Coordination, 2019).

Part of the problem is Pakistan's long-held fear that trade connections with India may be detrimental to its own interests. "We could not afford unfettered trade with India because it will have a detrimental effect on our business," Pakistani Commerce Secretary Iqbal Fareed stated. This is because of India's far larger industrial economy, which would lead to a negative trade balance. Pakistan's trade flows, not just with India, but as well as with many industrialized economies, have an unfavorable balance when examined objectively. Following the imposition of US sanctions in response to the Chaghi nuclear tests, Pakistani trade strategists may recognize the necessity to boost their economy's global competitiveness.

India would thus be seen as any other trade nation, rather than a hostile neighbor, because of this process. Surprisingly, despite free trade between Pakistan and China, Pakistani marketplaces are not overrun with Chinese goods. The composition of Pakistan's exports has shifted dramatically over time, with a considerable decrease in the share of primary and semi-manufactured exports and an equal increase in the share of manufactured exports. Primary products, semi-manufactured goods, and manufactured goods accounted for 45 percent, 27 percent, and 28 percent of total exports in 1971-72, respectively. In 2015-16, these shares for primary, semi-manufactured, and manufactured exports were 16 percent, 1%, and 72 percent, respectively. In 2019 there was a huge change in the pattern of trade in both economies. India's exports to Pakistan decreased by approximately 60.5 percent to $816.62 million in 2019-20, while imports decreased by 97 percent to $13.97 million.

CHAPTER 6

PROSPECTS OF PREFERENTIAL TRADE AGREEMENTS BETWEEN INDIA AND PAKISTAN IN 21ST CENTURY

Faced with significant economic issues, a growing population, energy and water shortages, and a large and increasing number of unemployed people, particularly the young, Pakistan should look for solutions to climb out of its economic quagmire. Greater commerce with India gives both Pakistan and India an immediate and lucrative opportunity for economic progress. Recent discussions in New Delhi between the commerce ministers of both nations appear to have resulted in some excellent intentions to boost trade from its current level of $2 billion per year to $6 billion per year, which is still much below what many scholars believe is the potential. Nonetheless, barriers exist in the form of trade-blocking rules and regulations, as well as a dearth of private-sector attempts to overcome government inaction. In the end, earnings on both sides of the border will be boosted by the private sector.

Integrating into the global economy and consequently opening up their economies has also benefited countries with huge internal markets. In 2009, global trade totaled $12 trillion. Pakistan's domestic market is only about $180 billion (GDP). It currently has a 0.14 percent share in global trade. Even if it only has a 0.5 percent portion of the global export market, its exports may increase from $25 billion to $60 billion, producing millions of employments. The commerce between India and Pakistan has shown that removing barriers to bilateral trade would benefit both countries thus far. Theoretically, countries that are relatively close geographically likely to trade more with each other than those that are further apart due to lower transportation and communication costs.

According to research commissioned by the State Bank of Pakistan, both India and Pakistan benefit from providing MFN status and eliminating non-tariff barriers that might enhance bilateral trade fivefold. In a recent study, it was projected that commerce between the two countries might be five to 10 times more than it is now, boosting GDP and household incomes in both countries. In every scenario, from the most cautious to the most optimistic, net welfare improvements are positive. Trade will result in limited specialization and trade in intermediate goods and services that can be used in exports to high-income countries.

6.1. Statistical Representation of Trade Pattern between India and Pakistan

It's been 69 years since Pakistan was separated from India, and it appears that none of the promises made in that statement have come true. The element of mistrust, mutual insecurity, and antagonism between both countries have unquestionably hampered the development of bilateral trade. More importantly, this conflict exacerbates and obscures the excessive potential of trade between the two countries, which is projected to be roughly 9 times what it is now. However, India has always been on the front foot in building trust and amicable relations with its former neighbour, Pakistan, despite decades of persistent animosity.

It is critical to continue to develop the relationship between the two countries, beginning with very basic support on a worldwide scale. From USD 601.21 million in 2004, India and Pakistan were able to increase their bilateral trade to USD 2419 million in 2015. The overall trade between the two countries grew at a rate of 13.50 percent per year. During the period 2015–19, India was able to more than triple its trade surplus with Pakistan.

Despite the fact that India's export percentage has been below 1 since 2010, the import share has increased marginally from 0.09 percent to 0.12 percent between 2015 and 2019. Since 2009, India has seen a major shift in exportable items to Pakistan based on processing level. In

2015, raw materials accounted for 34% of the total exports. The high increase in raw material exports coincided with a decline in intermediate goods' proportion from 69 percent to 48.2 percent over the same time period. In 2015, India's final products exports, i.e., aggregate consumer and capital goods, increased by 17.8%.

Cotton, organic chemicals, plastics, man-made staple fibers, edible vegetables, man-made filaments, leftovers from food industries, coffee, tea, spices, machinery, mechanical appliances, tanning or dyeing extracts are all popular exports from India to Pakistan. The top ten products account for roughly 74 percent of total exports to Pakistan. In contrast, between 2015 and 2019, Pakistan's main exportable category to India switched from intermediate goods to raw materials. In 2015, raw materials accounted for 48.2 percent of Pakistan's total exports to India, followed by intermediate goods (42 percent).

Nabi, Nasim and Lahiri (2001) calculated that if Pakistan adopted India's approach and gave it the status of MFN, both countries imposed a 50 percent tariff ceiling, commerce between the two countries might expand thrice. According to research conducted by the State Bank of Pakistan, granting MFN status and removing non-tariff obstacles by both India and Pakistan could enhance bilateral trade fivefold. Impacts of Liberalizing Trade and Investment with India" (State Bank of Pakistan, 2006).

According to research by the Indian Council for Research on International Economic Relations (ICRIER), That year's volume was significantly greater than the current official trade of approximately $2 billion, varying between $10 and $11 billion (India, 90% non-textiles and Pakistan 55% textiles).

Taneja et al. (2013) recalculated the figures and estimated that the trading capability between the two countries exceeds $20 billion, ten times the current level of trade. India may expand exports to Pakistan in three categories: machinery, mechanical appliances, electrical equipment, chemicals, and textiles. These three sectors together account for 54% of India's potential exports. On the other hand, Pakistan has potential in the sectors of textiles, precious metals, Jewelry, and base metals accounting for 45 percent of total export potential, according to studies. Pakistan also possesses the necessary industrial infrastructure – for example, in the fields of sports goods, surgical instruments, textiles, defense-related manufacturing, leather goods, basic electrical appliances, and cement–as well as a sizable working-age population (average 22.5 years). Pakistan has likewise prioritised higher education over the last decade (2005 onward). In 2014-15, the number of schools conferring degrees climbed to 160 (plus), enrolling 1.3 million students (Farooq, 2015). Pakistan's GDP and exports can be increased by harnessing the capabilities of its talented workforce.

Pakistan's steel products and iron imports from India make up a minor percentage of the country's total imports. Pakistan imported 83% of iron and steel products (326 items) in FY04, with only 25 items worth $7.1 million coming from India. Around 46 items have been identified as possible imports that appear to be more affordable to purchase from India due to India's lower unit value of exports in comparison to Pakistan's unit value of foreign imports. Due to a small domestic market and historically high tariffs, Pakistan's chemical sector has developed largely ad hoc and fragmentary. As a result, it lacks economies of scale, national integration, and, consequently, competitiveness. As a reason, the agriculture and industrial sectors of the country are significantly reliant on imported chemicals to meet their requirements. Chemical imports increased by 32% to 56% over the previous year.

The Pakistani machinery industry operates on franchise and technical cooperation agreements with top global manufacturers and can be divided into several segments, including cars and Light Commercial Vehicles (LCVs), two- and three-wheelers, and motorcycles. The demand for automobiles in Pakistan increased from the late 1980s to the early 1990s, paving the way for a decade of rapid expansion. Increased competition led to the development of novel vehicle models, such as larger-capacity sedan cars and pickup trucks, as well as a decrease in financing prices, as the sector grew by 50.2 percent in 2015-19.

India, in contrast to Pakistan, has a concrete engineering background and has successfully developed a sizable vehicle manufacturing capability. It has a significant advantage over Pakistan in the automobile business. Indian auto businesses are very cost-competitive due to adequate mechanization and minimal automation and have achieved high productivity through the adoption of Japanese concepts and best methodologies. India is the world's second-largest producer of two-wheelers, and it is also the world's fifth-largest manufacturer of commercial vehicles and the second largest producer in the field of tractors with Asia's fourth-largest automobile market.

India's automobile sector is steadily improving to match those of developed countries. In comparison to Thailand, Pakistan may import automobile components and replacement parts from India at a lesser cost. On the other hand, India is likely to benefit from free trade owing to its poor raw material, electricity, as well as labour prices. Automobile imports from India would be far less expensive for Pakistan than from countries such as Korea or Japan. Joint alliances between enterprises from two countries located near industrial zones would reduce production unit cost and distribution (Hussain, 2011).

In both countries, the garment and textile industry continue to be the main driver of economic growth. This sector accounted for 17% export of Pakistan in 2019. Textile and garment industries in both nations have varying degrees of specialization. For garments and high-value-added textile itemsIndia is regarded as a significant competitor to China. Pakistan, despite its restricted product assortment, is a prominent exporter of cotton products, primarily men's clothing, home textiles, and fabrics. Textile and garment trade between India and Pakistan is virtually non-existent at the moment. Comparing the exports of the two countries finds 176 related commodities with comparable unit values. India enjoys a price advantage in 48 of the 176 textile items, whereas Pakistan enjoys a price premium in 128 textile products.

In the above table, the export of Pakistan with India in 2015 is $128.3 million worth and this slightly decrease in 2019 with $124.04 million of worth. Then in 2019 the highest exported product in 2019 is the machinery that is considered as the most progressive step in trade of Pakistan.

India exported $1.19 billion to Pakistan in 2019. Cyclic Hydrocarbons ($148 million), Non-Retail Pure Cotton Yarn ($79.5 million), and Synthetic Coloring Matter ($60.8 million) are the top three products India exports to Pakistan. India's exports to Pakistan have climbed at an annualized pace of 12.1% during the last 24 years, from $76.5 million in 1995 to $1.19 billion in 2019. Now the below table is more clear representation of India import with Pakistan.

In 2018-19, the mainly imports of India from Pakistan were petroleum products and oils ($21.50 million), nuts and fruits ($26.34 million), sulphur, salt, stone, and plastering materials ($92.84 million), slag and ash, ores ($11 million), and raw hides and leather ($853 million). Pakistan exports food (rice, fruits, and fish, for example) and textiles (cotton), petroleum-related yarn, cotton fabric, knitwear, bed linens, and other textiles (i.e. ready-made clothing, etc.) Sporting goods, for example, are manufactured using low to medium technology. Leather, footwear, and medical supply manufacturers cement, electric fans, and electrical appliances) machines, and so on). chemical & medical instruments, concentration in foods, textiles, and machines, to name a few, while the import bill is being prepared.

Transportation, metals, agriculture, and other chemicals, including petroleum, are just a few examples. It's worth noting that Pakistan imports more food than any other country in the world. Despite the fact that exports climbed from 2015 to 2019, and despite her reputation as an agriculture expert country. Agriculture also makes a substantial contribution to Pakistan's industrial production. Despite this, the textile sector earns approximately US$ 2.5 billion in sales. The affluent lifestyle of Pakistan's upper crust is exemplified by the importation of food and garments.

Exports are important to the economy because they bring in needed foreign currency and allow import invoices to be discharged with other countries. Furthermore, it is vital to receive freshly developed technology from somewhere, as this is required for a higher level of living. Foreign exchange is required to meet the criteria, as well as remit the import cost. Furthermore, multiple studies have demonstrated export-led growth, a notion that claims a country's potential to achieve increasing growth through maximising exports, particularly in the case of Pakistan. (Aurangzeb, 2006; Chaudhary and Qaisrani, 2002; Saleem and Sial, 2015; Faridi, 2012)

Pakistan imports refined petroleum worth $4.7 billion, crude petroleum worth $3.29 billion, petroleum gas worth $3.24 billion, palm oil worth $1.66 billion, and scrap iron worth $1.43 billion, primarily from China ($14.7 billion), the United Arab Emirates ($5.93 billion), the United States ($2.59 billion), Saudi Arabia ($2.23 billion), and Indonesia ($2.08 billion).

According to the research, Pakistan does have a stronger comparative advantage in raw cotton, cereals, raw leather, and fruits, but a comparative disadvantage in dairy products. While raw cotton and leather have increased their export competitiveness, the textile industry has weakened. India enjoys a competitive advantage in 32% of its total exports. This comparative advantage is focused in industries including such organic contaminants, silk, steel, and iron, and garment accessories (not knitted or crocheted).

Mineral fuels and oils ($131.29 million), edible fruits and nuts ($103.27 million), salt, sulphur, stone, and plastering materials ($92.84 million), ores, slag, and ash ($17.18 million), and raw hides and leather ($16.27 million) were India's top Pakistan imports in 2018-19. Factor endowments refer to a country's access to land, labour, capital, and resources, which provide it with a financial competitive leverage over other regions of the world.

Due to India's vast market size and fast expanding purchasing habits of middle-class Indians, it is a popular location for investors over other major countries, like China. Additionally, India benefits from a favourable economic environment, an efficient administrative structure, attractive foreign policies, and a large, available labour. India's exports to Pakistan fell more than 60% year on year to $816.62 million in 2019-20, while imports fell 97% to $13.97 million.

6.2. Global Analysis of Pakistan India Trade Relations

Table 6.1 Global Analysis of Indian Imports

Global Level Imports of India (USD Millions)			
Product Group	**2017**	**2018**	**2019**
All Products	444.0	617.9	478.8
Capital goods	94.4	131.6	108.9
Consumer goods	49.4	71.0	58.0
Intermediate goods	146.6	189.6	149.0
Raw materials	148.9	222.4	160.7
Animal	176.2	240.2	194.3
Chemicals	38.8	57.9	47.5
Food Products	2.9	3.4	2.6

Footwear	694.6	1.0	861.2
Fuels	123.1	205.1	152.6
Hides and Skins	1.0	1.3	1.0
Mach and Elec	82.6	115.4	95.0
Metals	26.5	39.8	31.5
Minerals	8.1	10.6	5.4
Miscellaneous	15.8	19.1	15.0
Plastic or Rubber	16.2	23.1	17.9
Stone and Glass	76.8	83.1	61.7
Textiles and Clothing	6.6	8.8	8.3
Transportation	14.4	17.2	13.7
Vegetable	22.6	21.5	17.0
Wood	7.5	9.9	7.9

Consumers gain from more competition and cost reductions since they enhance their purchasing power and result in an increase in consumer surplus. Domestic monopolies are also demolished through trade, when more efficient foreign firms compete against them. India was the seventh largest exporter of commercial services in 2016, accounting for 3.4% of global service trade in 2016. India's services trade expanded by 5.7 percent in 2016–17. Commodity commerce excludes services (exports and imports). The trade surplus in services was US$70 billion in the 2017–18 fiscal year.

Table 6.2 Global Analysis of Indian Exports

Global Level Exports of India (USD Millions)			
Products	**2017**	**2018**	**2019**
Capital Goods	40.5	48.3	53.4
Consumer Goods	129.5	144.7	145,9
Intermediate Goods	97.7	104.9	100.4
Raw Materials	25.4	23.9	23.1
Animal	11.3	10.6	10.1
Chemicals	37.1	44.5	48.2
Food Products	6.2	6.7	7.4
Footwear	3.0	3.1	3.1
Fuels	35.8	48.5	44.3
Hides and Skins	3.3	3.2	3.0
Mach and Elec	25.4	32.2	36.1
Metals	28.1	26.5	25.8
Minerals	3.9	3.9	5.0
Miscellaneous	5.7	6.3	6.8
Plastic or Rubber	8.7	11.0	10.5
Stone and Glass	44.4	43.1	41.1
Textiles and Clothing	37.2	37.0	35.4
Transportation	23.4	24.3	25.0
Vegetable	18.1	18.0	17.4
Wood	2.0	2.7	3.0

Source: World integrated trade solution (WITS)

The European Union and the United States are the two favorite destinations for India to export their products, while China and the European Union are the two most popular origin markets. According to the Ministry of Commerce and Industry, India's fifteen major trading partners accounted for 59.37 percent of the country's overall commerce in 2015–2016. Now as per the statistics, India is doing highest Import of capital goods 40,570,355 in 2017 and rises $53,400,195 in 2019. While second highest import is of textile and clothing in 2015 is $37,220,870 and $35,485,417 in 2019 that is a slight decrease after 2 years.

6.2.1. Pakistan Global Trade Analysis

Table 6.3 Global Analysis of Pakistan’s Exports

Global Level Export of Pakistan (USD Millions)			
Product Group	**2017**	**2018**	**2019**
Capital Goods	885.5	774.5	944.3
Consumer Goods	13.2	14.2	14.5
Intermediate Goods	5.6	5.9	5.6
Raw Materials	2.0	2.6	.5
Animal	689.2	742.5	861.9
Chemicals	417.3	66.6	386.7
Food Products	1.1	1.2	915.9
Footwear	101.6	119.4	138.9
Fuels	258.5	499.3	372.2
Hides and Skins	967.3	957.2	860.6
Mach and Elec	274.6	316.3	332.1
Metals	421.5	483.6	651.3
Minerals	498.3	531.7	527.1
Miscellaneous	868.3	749.3	806.0
Plastic or Rubber	299.0	339.3	394.1
Stone and Glass	64.8	61.9	64.1
Textiles and Clothing	13.1	13.5	13.6
Transportation	81,2	79.4	215.0
Vegetable	2.6	3.4	3.4
Wood	149.6	135.5	97.6

Source: World integrated trade solution (WITS)

Pakistan was the number 42 economy in the world in terms of GDP (current US dollars), number 67 in terms of total exports, number 49 in terms of total imports, number N/A in terms of GDP per capita (current US dollars), and number 100 in terms of economic complexity in 2019. (ECI). Pakistan's top exports are house linens ($3.52 billion, non-knit men's suits ($1.71 billion),rice ($2.25 billion), non-retail pure cotton yarn ($992 million), and non-knit women's suits ($951 million), with the majority going to the United States ($3.82 billion), China ($2.06 billion), Germany ($1.78 billion), the United Kingdom ($1.63 billion), and Afghanistan ($1.18 billion).

Table 6.4 Global Analysis of Pakistan's Imports

Global Level Imports of Pakistan (USD Millions)			
Product Group	**2017**	**2018**	**2019**
All Products	57.4	60.1	50.0
Capital goods	13.5	12.4	10.4
Consumer goods	18.5	19.1	15.9
Intermediate goods	16.1	16.7	13.7
Raw materials	9.0	11.7	9.8
Animal	249.5	209.6	168.0
Chemicals	6.1	6.9	5.9
Food Products	671.2	526.6	484.4
Footwear	124.4	108.7	85.3
Fuels	13.7	17.1	14.3
Hides and Skins	97.0	87.8	78.6
Mach and Elec	11.5	10.5	8.9
Metals	5.2	5.4	4.5
Minerals	145.7	135.5	138.0
Miscellaneous	1.4	1.3	1.2
Plastic or Rubber	2.9	3.0	2.6
Stone and Glass	526.4	469.1	324.0
Textiles and Clothing	3.5	3.7	2.9
Transportation	3.8	3.6	2.2
Vegetable	6.0	5.4	4.8
Wood	1.1	1.1	950.1

Source: World Integrated Trade Solution (WITS)

Pakistan imported the most tea ($601 million) and metallic yarn ($48.6 million) from the rest of the world in 2019. Pakistan's largest imports are refined petroleum ($4.7 billion), crude petroleum ($3.29 billion), petroleum gas ($3.24 billion), palm oil ($1.66 billion), and scrap iron ($1.43 billion), mainly from China ($14.7 billion), the United Arab Emirates ($5.93 billion), the United States ($2.59 billion), Saudi Arabia ($2.23 billion), and Indonesia ($2.08 billion).

Table 6.5 Pakistan's Top Trading Partners

Market	Trade (USD Millions)	Partner Share (%)
United States	4,030	16.97
China	2,037	8.58
United Kingdom	1,677	7.06
Germany	1,341	5.65
Afghanistan	1,180	4.97
China	12,406	24.78
United Arab Emirates	6,330	12.65
United States	2,611	5.22
Saudi Arabia	2,436	4.87
Indonesia	2,219	4.43

Pakistan's GDP was $278 billion, or $5.24 thousand per capita. Pakistan's exports have decreased by -4.1 percent annually over the last decade, from $29.1 billion in 2011 to $24.2 billion in 2016, whereas imports have increased by 1.3 percent annually, from $44.6 billion in 2011 to $48.1 billion in 2016. Pakistan's trade balance was negative with $23.9 billion in 2016 due to net imports, compared to a negative balance of $664 million in 1995. Pakistan's top export destinations in 2017 were the United Kingdom ($1.63 billion), China ($1.50 billion), Germany ($1.28 billion), and Spain ($0.9 billion), with China ($16.89 billion), the United Arab Emirates ($8.39 billion), the United States ($6.40 billion), Saudi Arabia ($3.06 billion), and Japan as main origins. In 2019 China is the biggest exporter, CPEC is the main reason.

Table 6.6 India's Top Trading Partners

Market	Trade (USD Million)	Partner Share (%)
United States	54,288	16.79
United Arab Emirates	29,539	9.14
China	17,279	5.35
Hong Kong, China	11,478	3.55
Singapore	10,739	3.32
China	68,402	14.28
United States	34,918	7.29
United Arab Emirates	30,309	6.33
Saudi Arabia	27,000	5.64
Iraq	22,085	4.61

India is doing top Import with us and the biggest exporter of 54,288$ million is China with the trade of 68,402$ million in 2019. India-US trade declined from $145.9 billion in 2019 to $121.8 billion in 2020. Additionally, India's GDP contracted by 8% in 2018. (compared to 4.2 percent growth in 2019). India was the 12th largest trading partner of the United States in 2020, with $44.8 billion in sales revenue. The United States remained India's largest trade partner, with India exporting $77 billion worth of goods to the US.

From the past many years,the US has maintained a consistent trade imbalance with India ($23.8 billion in 2020). With a 49.4 percent year-to-date increase in US products exports to India in July, compared to a 28% year-to-date decline in 2020, trade between the two countries is regaining ground in 2021. India's GDP is predicted to grow by 7.2 percent in 2021. (International Trade Administration, 2021)

6.3. Revealed Comparative Advantage Between India and Pakistan

Table 6.7 RCA of India with Pakistan

Products	**2019**	**2018**	**2017**	**2016**
Textile	2.81	2.99	2.97	3.01
Chemicals	1.55	1.52	1.39	1.48
Minerals	1.03	0.90	1.23	1.65
Animals	1.50	1.35	1.40	1.37
Vegitables	1.51	1.63	1.64	1.69
Food Products	0.56	0.59	0.63	0.66
Feuls	0.75	0.77	0.87	0.85
Plastic & Rubber	0.74	0.76	0.65	0.63
Hides & Skin	2.23	2.33	2.30	2.45
Wood	0.32	0.31	0.23	0.30
Footwear	1.44	1.49	1.46	1.56
Stone & Glass	3.68	4.00	3.66	3.77

Metals	1.22	1.33	1.52	1.17
Machine & Electronics	0.44	0.39	0.34	0.34
Transportation	0.56	0.57	0.55	0.54
Agriculture Raw Material	0.78	0.92	0.86	0.81
Raw Meterial	0.56	0.53	0.65	0.68
Intermediate Goods	1.59	1.71	1.76	1.69
Consumer Goods	1.39	1.39	1.35	1.37
Capital Goods	0.49	0.42	0.38	0.38

Table 6.8 RCA of Pakistan with India

Products	**2019**	**2018**	**2017**	**2016**
Textile	15.12	15.00	15.82	14.15
Chemicals	0.37	0.37	0.39	0.29
Minerals	1.06	1.51	1.60	1.65
Animals	1.59	1.48	1.41	1.45
Vegitables	3.62	4.16	2.88	3.39
Food Products	1.17	1.82	1.06	0.79
Feuls	0.14	0.12	0.18	0.21
Plastic & Rubber	0.35	0.34	0.30	0.27
Hides & Skin	6.98	6.95	7.71	7.61
Wood	0.22	0.28	0.22	0.24
Footwear	1.04	1.13	0.77	0.84
Stone & Glass	0.37	0.40	0.15	0.27
Metals	0.65	0.51	0.32	0.27
Machine & Electronics	0.02	0.03	0.02	0.03
Transportation	0.08	0.02	0.02	0.02
Agriculture Raw Material	1.15	1.15	1.01	0.80
Raw Meterial	0.74	0.75	0.74	0.79
Intermediate Goods	1.02	1.13	1.07	1.11
Consumer Goods	2.09	1.99	2.12	1.99
Capital Goods	0.10	0.07	0.07	0.08

Table 6.9 Indo-Pak Potential Trade Sectors as per RCA

Pakistan's Potential Sectors	**2019 RCA**	**India's Potential Sector**	**2019 RCA**
Skins & Hides	6.98	Chemicals	1.55
Textile	15.12	Stone & Glass	3.68
Vegetables	3.62	Metals	1.22
Agriculture Raw Material	1.15	Intermediate Goods	1.59

Table 6.9 provides an overview of Pakistan and India's anticipated trade agreements. Under these potential sectors, both countries can expand their commerce with one another in areas where they have a competitive advantage. The preceding product analysis is based on Revealed Comparative Advantage (RCA) data. Countries potential sectors are their effective means of enhancing and stabilizing their output markets. The concept of comparative advantage is critical because it demonstrates that trade will continue to occur even if one country has an absolute edge in all products. India's competitive advantage vis-a-vis Pakistan is concentrated on industries such as Chemicals, Glass and Stone, Metals, and Intermediate Goods, among others. Pakistan enjoys a competitive advantage in Skin and Hides, Textile, Vegetables and Agriculture Raw Material over India. Both countries stand to benefit from international commerce as long as they specialize in areas where they have a competitive advantage or rather disadvantage.

CHAPTER 7

INDO-PAK TRADE RELATIONS: A CRITICAL APPRAISAL

There were some significant advances in the last year in terms of loosening this constraint and restoring improved economic ties. The consensus of the researchers and scholars have now expanded to the business sector, with a majority of businessmen on both sides of the border feeling that bilateral trade liberalization is in their mutual interest. Finally, officials appear to have overcome their reservations due to a number of internal and exogenous circumstances, and motivation has now been ramped up from last several months to carry the process ahead. The April 2011 Agenda for normalizing Trade comprises not only the MFN issue,customs liaison, non-tariff obstacles, harmonising visa, and border infrastructure, but also export in power and petroleum products, bilateral investments, and bank branch openings. While great work has been achieved on the first set of obstacles, the second group of concerns has sat on the back burner thus far.

The watershed moment occurred when Pakistan granted India Most Favored Nation (MFN) status and switched from a highly restrictive positive list to a negative list of commodities that could be acquired from India.In December 2012,the negative list was decided to be withdrawn however an unanticipated delay has occurred due to agricultural lobby concerns. Only 1209 (or 15%) of the 8,000 goods are classified as defective. The other 6,800 are now eligible for importation from the United States.

After the complete analysis of Pakistan and India bilateral relation, it is also concluded that both nations are at the point of maintain their trade ties more strong for their economic growth ad development. This is a big shift, as India now supplies 85 percent of marketable commodities, up from 25 percent earlier. By 2016, the two countries while signing and agreeing on the South Asia Preferential Trade Agreement (SAPTA), which will gradually wipe away all tariffs on traded goods and replace them with zero tariffs.

Automobile, steel and iron, and paper industries, that were much more outspoken in their opposition to the shift from the good to the concurrent list, account for 50% of commodities on the negative list.

Additionally, India and Pakistan recently signed accords addressing three major issues that have dogged regional commerce for decades: standards and testing, customs clearance, and dispute resolution. India recently lifted restrictions on Indians venturing in Pakistan and vice versa. In April, a consolidated Border Post check between Attari and Wagah was established with modern facilities, enabling for the daily passage of many more vehicles. India has reduced by 30% the quantity of commodities from Pakistan that are prohibited for import. Pakistan's President has backed a visa liberalisation agreement that will make business trips between the two countries easier.

The two biggest economies India and Pakistan, in South Asia, have doubled their per capital income in the recent decade. Both economies have been able to maintain a positive growth track. Intra-regional trade accounts for only 5% of total commerce between South Asian countries, Pradeep Mehta conducted a study later this year for the Pakistan Institute of Legislative Development and Transparency (PILDAT). India and Pakistan might lead the way in liberalizing their import policies, setting an example for other South Asian countries to follow.The two countries have an informal trade which is estimated to be around 2 billion dollars.

Pakistan's strategic placement between two of the world's most populous and high-performing economies, China, and India, has become apparent to major political parties and other significant players. Pakistani markets and manufacturers have already adjusted to China's substantially cheaper imports since the signing of the Free Trade Agreement (FTA). They don't believe the fear of Indian items flooding Pakistani markets and replacing local industries is credible anymore.

Pakistan would've been able to conduct significantly better and penetrate a much larger market in a number of sectors, including fashion apparel, sleepwear, textile industries, and cement, and so on. Part of this confidence can be seen in Pakistani businessmen's overwhelming support for MFN status for India. Importers and traders in Pakistan are expecting substantially higher business volumes and, as a result, higher profits as a result of this opening up. When trade restrictions are eliminated or removed, Pakistani consumers will undoubtedly profit since product costs will fall and consumer choice will expand. Increased trade flow as a result of the relaxation of the import ban on commodities from India would result in increased customs income for Pakistan.

7.1. Results

This comprehensive and in-depth investigation was conducted while keeping a careful eye on the statistical data. I've come to the conclusion that drafting trade norms and regulations will help India and Pakistan trade more effectively.Pakistan has a comparative advantage of 6.98 in Hides and Skins in 2019 while India has a comparative advantage of 2.23 in Hides and Skins. According to the analysis, Pakistan not only has more comparative advantage in 2019 in Hides and skin, it has an advantage from 2016 to 2019.In textiles, Pakistan has a comparative advantage of 15.12 and India has a comparative advantage of 2.81 in 2019.In the previous year's, Pakistan has also stronger advantage in textiles from India. In vegetables, Pakistan has a comparative advantage of 3.62 in 2019 while India has a comparative advantage of 1.51. In this category, if the analysis is done on the previous years, then Pakistan has a great potential in this sector. Furthermore, Pakistan has a comparative advantage of 1.15 in agriculture raw materials while India has a comparative advantage of 0.78 in 2019.In addition, Pakistan has s strong potential in this sector if the comparative advantages of the past three years are compared with India.

India has more advantages in Chemicals, Stone and Glass, Metals, and Intermediate Goods as compared to Pakistan from 2016-2019. In 2019, the comparative advantage of India in Chemicals was 1.55 and Pakistan had 0.37. Pakistan has less advantage in the category from 2016-2019.Moreover, in 2019, in Stone and Glass, India had a comparative of 3.68 and Pakistan had 0.37. In Metals, India had a comparative advantage of 1.22 in 2019 while Pakistan had 0.65. Lastly, in Intermediate Goods, in 2019, India had a comparative advantage of 1.59 while Pakistan had 1.02.

Pakistan is importing the majority of its goods from China, which is beneficial and encouraging for their CPEC strategy. However, there are several products in which India has a major manufacturing presence. Both countries can set up a mutual trade zone between their respective borders. That would be more beneficial and better for their long-term economic growth. Furthermore, both countries share a common border and can establish a commerce transit route.

Pakistan was ranked 61st in the world for services exports in 2020, with $5.4 billion in services exports and a Compound Annual Growth Rate (CAGR) of 1.5 percent from 2016 to 2020. Recent events have provided Pakistan with an opportunity to cut trade barriers not only with India in the east, but also with a number of nations in the west and north (including China), which are accessible via westward land routes. The liberalization of Pakistan's international trade from the east could result in a big increase in imports and exports, which would have a significant impact on the country's economy. To increase and expand the trade volume with India there would be a severe need to negotiate the reduction of trade restrictions to improve the bilateral relations.

7.2. Conclusion and Policy Recommendations

This review has led me to the conclusion that Pakistan has received high accolades for its adjustment efforts and ongoing liberalization. Pakistan was urged to maintain its commitment to the process. Members clearly hope that the proposed tariff change and the removal of textiles from the Negative List will be bolstered by an increasing number of tariff bindings. Simultaneously, a supportive external environment is critical.

According to my findings after doing comprehensive research on driving out the potentials sectors of India and Pakistan it can be analyzed that both countries can enhance their trade after binding into different trade agreements. India and Pakistan can sign different preferential agreements or low tariff agreements in their potential sectors to boost their economies. Different trade policies can be formulated in the potential sectors of both countries as Pakistan has more potential in the sectors of hides and skins, textiles, vegetables, and agriculture raw material while India has more potential as compared to Pakistan in the sectors of chemicals, stone and glass, metals, and intermediate goods. In these potential sectors both countries can formulate different agreements and make trade policies for their mutual benefit which will lead their economies to a prosperous path.

Furthermore, India employs a large number of non-tariff barriers to prevent imports from entering the nation. Imports are subjected to severe quality standards and certifications, as well as strict la-belling and marketing regulations. As a result, when dealing with India, Pakistan's defining policy should be caution and moderation.

Before granting Most-favoured-nation (MFN) and fully opening the Wagah border to Indian imports, the Pakistani government should ensure that local companies are capable of effectively fighting the inflow of low-cost Indian goods and providing aid to exporters to improve export competitiveness. To negotiate favourable trade conditions with India, a formidable trade policy should be developed. The overwhelming evidence of bilateral trade liberalization's benefits has tipped the scales in favour of proponents of expanded trade with India. However, there are still a number of sceptics who would be losers in the bargain. Some of them are eloquent, articulate, and commanding. They can't be disregarded since their nuisance value in delaying or reversing this new camaraderie isn't negligible.

Despite these encouraging advances, impediments persist in the form of trade-blocking rules and regulations, as well as a dearth of private-sector attempts to overcome government inaction. In the end, earnings on both sides of the border will be boosted by the private sector rather than government trade. The question is whether India and Pakistan would regard the benefits of opening their borders as mutually beneficial.

It's worth remembering that, despite numerous challenges and roadblocks, India-Pakistan commerce increased nearly tenfold between 2001 and 2011, reaching a total of $2 billion. Unofficial commerce, which includes trading with third countries, is believed to be worth nearly the same amount.

According to most analyses, the overall amount of bilateral commerce might climb to $8-10 billion yearly as a result of lower transportation costs, the removal of tariff and non-tariff obstacles, the provision of Most-favoured-nation (MFN) status to India by Pakistan, and improved logistics arrangements. Pakistan and India send a combined $300 billion worth of goods throughout the world. This additional volume would still account for approximately 3% of overall bilateral trade. As a result, expectations should be moderated, at least in the short term, by both parties maintaining a degree of realism. Trade's full potential will take time to realise, but like a freshly planted seedling, this will require gentle feeding and protection from strong winds and other external influences that might otherwise uproot this delicate plant.

Pakistan realises that liberalising bilateral trade with India benefits two economies and reduces barriers to regional integration throughout South Asia. Pakistan appears to stand to benefit significantly from increased regional economic cooperation. Apart from the immediate establishment of trade flows, capital investment, and joint economic ventures, cooperation in the sectors of information technology, science and technology, and research and development would almost certainly increase domestic industry productivity and promote economic growth.

To summaries, the future growth, disruption, or slow death of India-Pakistan trade will be determined by the implementation of a proactive, rational mechanism to govern the relationship. The long-term partnership is the mutual interest of both countries which has been disrupted from the past many years due to sudden conflicts, retaliatory actions, or knee-jerk reactions. There's no assurance that this will be a simple or painless process, but at the very least, one change can make a difference. The typical South Asian bureaucracy-driven strategy, which is reactive, slow, and cumbersome, can eventually lead to death. A more private sector-led, problem-solving, and get-to-work approach offers a higher chance of avoiding some of the problems and achieving the desired outcomes.

REFERENCES

Abbas, S. & Waheed, A. (2017). Trade competitiveness of Pakistan: Evidence from the Revealed Comparative Advantage Approach, *Competitiveness Review*, 27(5), 462-475. https://doi.org/10.1108/CR-12-2015-0092

Abidin, M. Z., & Loke, W. H. (2008). Revealed Comparative Advantage of Malaysian Exports: The Case of Changing Export Composition. *Asian Economic Papers*, 7(3), 130-147.

Acharya, R. C. (2008). Analysing International Trade Patterns: Comparative Advantage for the World's Major Economies. *Journal of Comparative International Management*, 11 (2), 33-53.

Akhtar, N., Zakir, N., & Ghani, E. (2008). Changing Revealed Comparative Advantage: A Case Study of Footwear Industry of Pakistan. *Pakistan Development Review*, 47 (4), 695-709.

Aurangzeb, (2006). Exports, Productivity and Economic Growth in Pakistan: A Time Series Analysis. *The Lahore Journal of Economics*. 11(1), 1-18

Balance, Forstner, H. & Murray, T. (1987). Consistency Tests of Alternative Measures of Comparative Advantage. *The Review of Economics and Statistics*, (69), 157–161.

Balassa, B. (1965). Trade liberalisation and "Revealed" Comparative Advantage. *The Manchester School*, 33(2), 99-123. doi: https://doi.org/10.1111/j.1467-9957.1965.tb00050.x

Balassa, B., & Noland, M. (1989). "Revealed' Comparative Advantage in Japan and the United States. *Journal of International Economic Integration*, 4 (2), 8-22.

Bender, S., & Li, K.W. (2002). The Changing Trade and Revealed Comparative Advantages of Asian and Latin American Manufacturer Exports. *Economic Growth Center*, Yale University, Discussion Paper No. 843.

Benedictis, De L. & Tamberi, M. (2002). A Note on the Balasaa Index of Revealed Comparative Advantage, SSRN Electronic Journal. DOI: https://papers.ssrn.com

Chaudhary, M. A. & Qaisrani, A. A. (2002). Trade Instability, Investment and Economic Growth in Pakistan. *Pakistan Economic and Social Review* XI(1), 57-73

Chengappa, B. M. (1999). India–Pakistan Trade Relations. *Strategic Analysis: A Monthly Journal of the IDSA*, XXIII(3). https://ciaotest.cc.columbia.edu/olj/sa/sa_99chb03.html

Dash, K. C. (2013). India-Pakistan Trade: Opportunities and Constraints. *Georgetown Journal of International Affairs*, *14*(1), 169–180. http://www.jstor.org/stable/43134397

Faridi, M. Z. (2012). Contribution of Agricultural Exports to Economic Growth in Pakistan. *Pakistan Journal of Commerce and Social Sciences*. 6(1), 133-46

Farooq, A. (2015). Impact of Trade Liberalization and Institutions on Economic Growth: A Time Series Analysis for Pakistan. (Doctoral Dissertation) Retrieved from http://prr.hec.gov.pk/jspui/bitstream/123456789/9174/1/Abdul_Farooq_Economics_2015_HSR_NCBA%26E_Lahore_23.12.2016.pdf

Ferto, I. & Hubbard, L. (2002). Revealed Comparative Advantage and Competitiveness in Hungarian. SSRN Electronic Journal, Discussion Paper No. 2002/2.

Ghuman, R. S. (1986). *Indo-Pakistan Trade Relations.* Deep & Deep Publications.

Hanifi, M. (2018). An Analysis of International Trade of Pakistan: With a Focus on Exports. *Paradigms: A Research Journal of Commerce, Economics, and Social Sciences*, 12(1) 22-30. https://mpra.ub.uni-muenchen.de/55540/1/MPRA_paper_55540.pdf

Heller, P. S. (1976). Factor Endowment Change and Comparative Advantage: The Case of Japan, 1956-1969. *The Review of Economics and Statistics*, *58*(3), 283–292. https://doi.org/10.2307/1924950.

Husian, I. (2011). Prospects and Challenges for Increasing India-Pakistan Trade, *Atlantic Council.* https://ishrathusain.iba.edu.pk/speeches/New/Atlantic_Council_Issue_brief_IndiaPakistanTrade.pdf

Hussain, I. (2013). Managing India-Pakistan Trade Relations, in *Pakistan-India Trade: What Needs To Be Done? What Does It Matter?* ed. Michael Kugelman and Robert M. Hathaway. Washington: Wilson Centre.

Janjua, H. (2021). Pakistan faces dilemma over trade ties with India. *DW News.* https://www.dw.com/en/india-pakistan-kashmir-tensions-trade/a-57102900

Kaitila, V. (2007). Trade and Revealed Comparative Advantage: Hungary, The Czech Republic, and the European Union. *SSRN Electronic Journal*, Discussion Paper No. 8/1999.

Khan, M. (2013a). India-Pakistan Trade Relations: A new Beginning. *New American Foundation*.

Khan, M. (2013b). Non-Tariff Barriers and Impediments to Trade. *New American Foundation.*

Kojima, K. (1964). The Pattern of International Trade among Advanced Countries. *Hitotsubashi Journal of Economics*, 5(1), 16-36.

Kugleman, M. (2013). The Pakistan-India Trade Relationship: Prospects, Profits, and Pitfalls, in *Pakistan-India Trade: What Needs to Be Done? What Does It Matter?,* Washington: Wilson Centre.

Lee, J. (1995). Comparative Advantage in Manufacturing as a determinant of Industrialization: The Korean Case. *World Development*, 23 (7), 1195-1214.

Liesner, H. H. (1958). The European Common Market and British Industry. *The Economic Journal*, 68, 270-302.

LII of India, (1951). Trade Agreement Between India and Pakistan. *Indian Treaty Series*, LII of India. http://www.commonlii.org/in/other/treaties/INTSer/1951/5.html

Mahmood, A., & Nishat, M. (2005). Export Competitiveness and Comparative Advantage of Pakistan's Non-agricultural Production Sectors: Trends and Analysis. *The Pakistan Development Review*, 43 (4), 541-561.

Mahmood, Z. (2013). Moving Toward Pakistan-India Trade Normalization: An Overview, in *Pakistan-India Trade: What Needs to Be Done? What Does It Matter?,* ed. Michael Kugelman and Robert M. Hathaway. Washington: Wilson Centre

Maini S, Tridivesh, (2012). Indo-Pak Trade: A Visit to Historical Relations. *Cuts International.*

Maini, S. T. & Vaid, M. (2012). *Indo-Pak trade: A visit to historical relations.* (Briefing Paper No. 5/2012). Jaipur: Consumer Unity and Trust Society International.

Malik, A. Ghani, E. and ud-Din, M. (n.d.) An Assessment of Pakistan's Export Performance and the Way Forward. Pakistan Institute of Development Economics (PIDE) https://www.pide.org.pk/pdf/Seminar/Pakistans-Export.pdf

Ministry of External Affairs. (1972). Simla Agreement July 2, 1972. *Ministry of External Affairs, Government of India.* https://mea.gov.in/in-focus-article.htm?19005/Simla+Agreement+July+2+1972

Ministry of External Affairs. (n.d.). Treaty Documents. *Ministry of External Affairs, Government of India.* https://mea.gov.in/TreatyDetail.htm?1100

Moyi, E. & Kimuyu, P. K. (1999). Revealed Comparative Advantage and Export Propensity in Kenya. *Institute of Policy Analysis and Research*, (Discussion Paper No. DP/015/1999).

Nabi, I., Nasim, A. & Lahiri, S. (2001) *Trading with the Enemy in Regionalism and Globalization.* London: Routledge.

Pakistan Economic Survey 2015-16: *Highlights*. (n.d.) Ministry of Finance, Government of Pakistan. https://www.finance.gov.pk/survey/chapters_16/highlights_2015_16.pdf

Proudman, & Redding, (2000). Evolving Pattern of International Trade. *Review of International Economics*. 83(3), 372-396.

Saha, R. (2020) The Shrinking Space for Cultural Diplomacy between India and Pakistan. *South Asia Voices*. https://southasianvoices.org/the-shrinking-space-for-cultural-diplomacy-between-india-and-pakistan/

Saleem, A. & Sial, M.H. (2015). Exports-Growth Nexus in Pakistan: Cointegration and Causality Analysis. *Pakistan Economic and Social Review* 53(1), 17-46.

Seleka, T. B., and Kebakile, P. G. (2016). Export Competitiveness of Botswana's Beef Industry, *The International Trade Journal*. DOI: 10.1080/08853908.2016.1199982

Seyoum, B., (2007). Revealed Comparative Advantage and Competitiveness in Services: A Study with Special Emphasis on Developing Countries. *Journal of Economic Studies*, 34 (5), 378- 388.

Sharma, S, P., Bhattacharya, M., Sharma, S., Gautam, N., Kumra, S. & Sharma, B. (2013). *India-Pakistan Bilateral Trade: Past, Present & Future,* New Delhi: Progress Harmony Development Chamber of Commerce and Industry.

Srinivasan, T. N. & Cananero, G. (1993). Preferential Trade Arrangements: Estimating the Effects on South Asia Countries, *World Bank,* 1-58.. Retrieved from https://documents1.worldbank.org/curated/en/968931468103141943/pdf/684070WP0Prefe00Box367921B00PUBLIC0.pdf

State Bank of Pakistan (2006). *Annual Report (2006-2007).* Vol. II. Retrieved from https://www.sbp.org.pk/reports/annual/arfy07/vol2/qtr-index-eng.htm

Taneja, N. & Dayal, I. (2017). India–Pakistan Trade Normalisation: The Unfinished Economic Agenda. *Springer*. https://sdpi.org/sdpiweb/publications/files/Chapter-7-%20India-Pakistan-Trade-A-Case-study-of-the-Pharmaceutical-Sector.pdf

Taneja, N., Mehra, M., Mukherjee, P., Bimal, S. & Dayal, I. (2013). Normalizing India Pakistan Trade. *Indian Council for Research on International Economic Relations* (Working Paper No. 267)

The Pakistan Business Council. (n.d.) Pakistan India Bilateral Trade and The Case for Balanced Trade Normalization. Retrieved from *The Pakistan Business Council*. https://www.pbc.org.pk/research/pakistan-india-bilateral-trade-and-the-case-for-balanced-trade-normalization/

Trade Data, *The Observatory of Economic Complexity (OEC)* https://oec.world/en

Trading Expert (2021). India Exports to Pakistan. *Trading Expert.* https://tradingeconomics.com/india/exports-to-pakistan

United Nations (n.d.), Agreement between the Government of India and the Government of the Islamic Republic of Pakistan on Bilateral Relations (Simla Agreement). *United Nations Pacemakers.* https://peacemaker.un.org/indiapakistan-simlaagreement72

Wizarat, S., (2002). *The Rise and Fall of Industrial Productivity in Pakistan*, Oxford University Press.

World Integrated Trade Solution. (n.d.) Product Revealed comparative advantage. *World integrated Trade Solution*. Retrieved from https://wits.worldbank.org/CountryProfile/en/Country/IND/StartYear/2015/EndYear/2019/TradeFlow/Export/Indicator/RCA/Partner/PAK/Product/all-groups#

Zhang, & Richardson, (2001). *Topics in Empirical International Economics: A Festschrift in Honor of Robert E. Lipsey*. London: University of Chicago Press.