ANALYZING THE SIGNIFICANCE OF PAKISTAN-INDIA TRADE

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Abstract

The study examines the significance of Pakistan-India trade, focusing on their trade potential, impediments to their bilateral trade; political barriers and non-tariff barriers. For seven decades, troubles and tensions in Pakistan-India relations have directly affected trade ties between the two countries. The unresolved issues, especially the dispute over Kashmir, which is the bone of contention between the two countries, continue to impede the normalization of relations between the two countries, thus leading to socio-economic damage on both sides of the border and also hampering regional trade. India`s reluctance to resolve the issues through negotiations, along with its aggressive policies towards Pakistan, has always been a factor in creating political and non-tariff barriers to trade between the two countries. Currently, trade between Pakistan and India takes place through three channels: formal trade, illegal trade, and trade through third countries. Pakistan is at the gateway to Central Asia via the 350-km-long Wakhan Corridor and can play the role of a bridge between the two regions (South Asia and Central Asia). The study provides policy recommendations for enhancing formal trade between the two countries. The recommended policies have strong grounds for streamlining trade when viewed through the lens of Comparative Cost Advantage Theory and Heckscher-Ohlin Theory.

Keywords: India, Pakistan, trade, Political barriers, non-tariff barriers.

Introduction

Relations between Pakistan and India have been defined by troubles and tensions. Although there has been some form of peace intervals, conditions have not been favorable for economic and trade relations. While economic experts and global organizations such as the World Bank are in favor of the liberalization of trade between Pakistan and India, the unresolved issues between the two countries are impeding their bilateral trade. As is the case in other parts of the world, trade and politics amalgamate in South Asia.

Pakistan-India trade has the potential to grow from $2 billion to $37 billion. However, political and non-tariff barriers continued to impede trade between the two countries. For decades, rivalry and mistrust have been significant barriers to normalizing trade ties between the two countries. Although there have been steps taken by both sides' governments and regional organizations, particularly the South Asia Association for Regional Cooperation (SAARC), to increase trade, any aggravation in political or security tensions hampers the normalization of trade ties between the two countries. Suspending or limiting trade has often been one of the first courses of action in the event of an intensification of tensions from either a terrorist attack or mobilization of forces across the Line of Control. For instance, soon after the Pulwama attack in February 2019, the Indian government revoked Pakistan's Most Favored Nation Status (MFN) and imposed 200 percent customs duties on Pakistani goods, negatively impacting Pakistan's exports to India (Kugelman & Hathaway, 2012).

In the same way, the Indian government in August 2019 abrogated Article 370 of the Indian Constitution, which had given special status to Kashmir. The decision provoked an intense diplomatic response from the international community. Pakistan came up with a prompt response and decided to cut off diplomatic ties and suspend bilateral trade with India. Resultantly, Pakistan's exports to India significantly declined and were recorded at a mere USD 16.8 million during the first half of the fiscal year 2019–2020, while they stood at $213 million in the first half of 2018–19. Similarly, imports from India also fell from $865 million to $286.6 million in the same period (WITS, 2019).

The study argues that the unresolved issues for seven decades as a result of the Indian government's reluctant behavior and aggressive strategic policies are impediments to Pakistan-India trade and are not allowing the bilateral trade to reach its potential. The study attempts to address the overarching question: What is the potential of Pakistan-India trade? What are the impediments to Pakistan-India bilateral trade? What is Pakistan's geo-economic significance in the context of Pak-India trade? Why is it important for Pakistan to resume trade with India? This article finds that trade ties between Pakistan and India have been affected and remain below their potential due to India`s policies, which are leading to political and non-tariff barriers. Trade with India will be of great significance for Pakistan to overcome the country's economic crisis if Pakistan can do a cost-and-benefit analysis and come forward to the already developed Indian market.

Theoretical Framework

Economic theory has been dominated by free trade for many years. Trade liberalization requires that governments refrain from interfering with import or export decisions. Adam Smith originally proposed the idea of free trading. He maintained that a nation might exchange a thing in which it has a clear edge over another nation, meaning it could make it even more effective compared to the other nation, and then exchange it for products in which its production capacity is lower (Smith, 2005). He opposed government trade tariffs and favoured letting the open economy choose what goods to buy and which ones not to buy. The ideal state of free markets is an unrestricted movement of commodities and services between two nations. However, in reality, open borders have been constrained because governments seek to impose tariffs and other forms of regulation.

Despite developing Adam's point, David Ricardo differed with him due to absolute advantage. He maintained that even nations without an edge in manufacturing any of the items may gain from trade. Trade may be advantageous by focusing on the goods that are produced more effectively and where it has a competitive advantage. He introduced the comparative advantage idea in his 1817 book Principles of Political Economy. The Ricardian model emphasizes that there exist global inequalities in labor productivity because of technical disparities and this has an impact on international trading. Each nation is required to manufacture goods where the unit labor need is substantially lower. Local labor levels of productivity enable nations to specialize in producing specific types of commodities (Ricardo, 1821).

The Hecksher-Ohlin model was created by two Swedish economists, Eli Hecksher and Bertil Ohlin, who claimed that exchange occurs because of variations in resource endowments. An economy will typically be fairly efficient at manufacturing items that are intense in the components with the nation being reasonably well endowed. When a nation has a surplus of labor, it can readily create products that require a lot of effort, like clothing. Some other nation will produce food very effectively if it has access to greater land. But abundance is a relational term. When these two nations do business, they export an item that was made using a factor within which they are favorably endowed (Leamer, 1995).

Historical Account of Pakistan-India Trade

At the time of the creation of Pakistan, the General Agreement on Tariffs and Trade (GATT) was also negotiated. GATT's founding members, bearing in mind that the Subcontinent was more or less a single economy, under Article 24, allowed special dispensation for Pakistan and India. On October 23, 1947, 23 nations signed the accord, including India and Pakistan. GATT was ratified by two countries: India on July 8, 1948, and Pakistan on July 30, 1948 (WTO, 2013).

Even during the time of partition, problems started to affect relations between the two countries. In particular, the dispute over Kashmir emerged and became the bone of contention between the two countries. For more than seven decades, the Kashmir dispute remained unresolved due to the reluctance of India, thereby affecting bilateral relations between Pakistan and India. During the early years of Pakistan's independence, the political leadership kept trade and economic issues separate from political relations, and they traded normally. In December 1957, the two countries signed a bilateral agreement to facilitate border trade. On May 29, 1958, Pakistan and Afghanistan signed the first transit trade agreement in Kabul, which allowed the transit of goods from India through Lahore (Qureshi, 1966).

Between 1947 and 1965, Pakistan and India signed 14 bilateral agreements to facilitate trade. These agreements facilitated bilateral trade, avoiding double taxation on food items, trade in goods, border trade, air service, and banking. This trade facilitation led to a boost in bilateral trade between the two countries. In that period, Pakistan exported grain to India`s deficit provinces, and India also exported flour to Sindh and East Pakistan. In addition, the two countries had opened bank branches in each other's countries. However, the situation started shifting the other way, and the dispute over Kashmir came into play. In 1965, a war broke out between India and Pakistan when India crossed the international border between Pakistan and India without declaring war (Horimoto, 2015). Trade and economic ties were deeply affected. It was followed by the war in 1971, which resulted in the dismemberment of Pakistan and the creation of East Pakistan as a separate state. After the war, the Shimla agreement was signed between India and Pakistan, which allowed trade and trade activities to resume on a limited scale in 1974 (Robert, 2004). The two countries worked on positive lists, which expanded incrementally until 1995, when India, upon signing the World Trade Organization agreement, unilaterally discontinued its positive list for trade in goods with Pakistan. Soon after this, Pakistan`s private sector made attempts to export items to India which were previously prohibited but failed due to India`s reluctance (Sharma et al., 2013).

Trade ties were interrupted during the beginning of the 1950s; however, later that year, in 1951, India acknowledged the value of the Pakistani rupee, and trade relations were resumed between the two countries. (Bhutto & Hussain, 1972). Owing to the 1965 war, trading ties between the two countries were yet again interrupted, but in 1966–67, the authorities between Pakistan and India restored the channels of trade ties by agreeing on the Tashkent accord, but the breadth of this bilateral relationship was restricted at the time. A further breakdown in economic relations happened in 1971, and it was restored with the Shimla accord in 1972. In January 1975, the two countries agreed on a full-fledged trade agreement, and railway lines were also established (Saleem et al., 2014).

In 1948-49, India counted for more than 70% of Pakistan's trade and 63% of all India's exports to Pakistan. However, by the close of 1949, Pakistan-India economic connections had plummeted. But overall legal trade fell from Rupees. 184.06 crore in 1948-49 to Rupees. 13.63 crore in 1958 and to a record low-slung of Rs.10.53 crore in 1965-66 between 1948 and 1960 (Sharma et al., 2013). The conflicts of 1965 and 1971 "severely affected" trade, which "haven't ever recovered fully (Kugelman & Hathaway, 2012).

Pakistan participated in the Delhi International Trade Fair in November and December 1981. Following that, both states sent trade delegations in fast series. Joint Business Commission was established in June 1983, between the two countries. The primary goal was accelerating decision-making on problems requiring government clearance and introducing new goods for international trade. In 1986, Pakistan and India signed the last agreement of the South Asian Association for Regional Cooperation (SAARC), having dedicated the aforementioned to promoting the welfare of South Asians (Sharma et al., 2013). Trading linkages were then suspended again in 2002 after India accused Pakistan of the December 2001 attack on the Indian parliament. India withdrew its soldiers in 2002, reopening the way for trade and bilateral relations (Saleem et al., 2014).

Pakistan approved to import of 322 Indian products in July 1989. The formation of the PMLN government during 1991 also increased Pakistan-India trading, which reached Rupees. 522.59 crore by 1992-93, up against Rupees. 168.09 crore in 1990-91. The South Asian Preferential Trading Agreement (SAPTA), which was signed in 1995, established a regional cohesive trading structure. Pakistan was granted the Most Favored Nation (MFN) designation by India in 1996. Pakistan raised its positive list of commodities that be able to be legally imported via India to 600 that year (Hilali, 2020).

Pakistan-India Trade in the twenty-first century

The Kargil War aggravated the already strained relations between Pakistan and India. In 2002, Pakistan`s private sector again became the victim when Pakistani exporters were given a concessionary package by the European Union (EU). India promptly went against this and filed a case with the WTO. Pakistani exporters were deeply affected when India filed a case against the EU package. This hostile act by the Indian government further affected the trade ties between the two countries and strengthened the perception of the Pakistani private sector by the Indian government as an adversary state (Kugelman & Hathaway, 2012).

In the first decade of the twenty-first century, Pakistan-India witnessed new developments although foreign trade stayed low. In the 2004-08 fiscal year, trade conversation was resumed, so trade was restored. Such ties were momentarily halted following the Attack in Mumbai in 2006. However, some trading persisted over the dispute (Bhasin, 2012). with the restart of the Pakistan-India talks in 2011 March, bilateral ties improved. Globalization, which also encouraged regional integration on rational grounds inside the region, might be the factor. Despite ongoing hostilities, business communities from both countries launched bilateral trade (Saleem et al., 2014).

In 2003, the Prime Minister of Pakistan confirmed the addition of 78 new products to the positive list. In 2003, the trade complementarity index (TCI) of India reached 50%, but in Pakistan's case, it was just 14% with India. India's TCI with Pakistan was greatest in 2007, while Pakistan's TCI was greatest in 2010, enhancing the complementarity of Pakistan with India, which represents a positive indicator for Pakistan. In November 2011, Pakistan agreed to offer India's Most Favored Nation (MFN) status to increase bilateral trading (Sharma et al., 2013).

Pakistan modified the positive list of 1946 items with a negative list of restricted goods to maintain an optimal atmosphere for ongoing growth. During 2013, Pakistan's negative list consisted of just 1209 goods out of 8000, with the remaining 6800 goods approved for commerce (Sardar, 2014). Trade among Pakistan and India is primarily in foodstuffs rather than factory-made or intermediate items. The expansion of trade will indeed advantage consumers by offering lower-cost goods and providing cheap raw material availability to production plants and producers (Gul et al., 2018).
The former government under Prime Minister Imran Khan stated that they were on the same page as

the military, particularly when it comes to relations with India. It appears that the military is attempting to bring stability to the region by encouraging collaboration with regional countries, especially India and Afghanistan. The establishment of the Kartarpur border and the release of an Indian pilot stand two distinctive paces being taken together by Pakistan to reduce the likelihood of conflict and advance peace in the region. The global community lauded these measures (Siddiqui, 2019).

Former PM, Imran Khan, in his speech, stated, "To move forward Pakistan and India must dialogue and resolve their conflicts including Kashmir: The best way to alleviate poverty and uplift the people of the subcontinent is to resolve our differences through dialogue and start trading". PM also praised an Indian politician, Sidhu, and stated, "I want to thank Sidhu for coming to Pakistan for my oath taking." He was a peace ambassador who received incredible respect and admiration from the Pakistani people. Those already in India who attacked him are causing big damage to the continent's peace our nation cannot prosper without peace (Rizwan, 2021).

Progress for Trade Normalization

In the 1980s and 1990s, Pakistan and India established liberal economic regulations by promoting foreign commerce. Both countries' financial outlooks grew as a result of such measures. When both countries began a dialogue on political and economic matters in 2004-2005, commodity commerce between Pakistan and India began to diversify (Gul et al., 2018).

Pakistan discontinued its positive list of 2,000 commodities that were supplied from India in 2012, replacing it with a negative list of around 1,200 things that were unable to be received. Islamabad promised to remove the negative list totally by the conclusion of 2012, putting both countries one inch ahead of a fully working MFN policy (Kugelman & Hathaway, 2012). Understanding the significance of the land border, the nations constructed an Integrated Check Post (ICP) at Atari in 2012, April, featuring additional amenities along with a commerce gate and warehouses and other amenities. The trading hours have been protracted to 12 hours per daytime, seven days each week. Later the same year, Islamabad revealed fresh plans to increase capacity on its end of the Atari-Wagah border, such as the building of extra scanners and weighbridges, as well as the recruitment of additional customs personnel (Hussain & Singla, 2020). On August 2012, India stated modifications to its centralized FDI policy to enable Pakistani enterprises and people to participate through the government channel across all industries excluding military, aerospace, and nuclear materials. Following that, India withdrew Pakistan from the negative list under the Foreign Exchange Management Act (FEMA), allowing Pakistan to invest. The FEMA laws have also been modified to enable Indian investors to invest in Pakistan (Kugelman & Hathaway, 2012).

Political Barriers

It is critical to understand the reasons for economic interruption in Pakistan and India shortly after their independence, particularly after the Kargil War. This includes Pakistan's perception of rival India regarding military capability, as well as the Kashmir issue. This strategic quandary ultimately describes the entire regional stability and peace issue in South Asia, the consequences of which may be seen through small and large arm rushes, and an absence of productive economic connections.

According to liberal peace studies, economic relations between nations are often smaller. The conflict is frequently built on war and military engagement (Anderton & Carter, 2001). The main reason for Pakistan, as well as Indian leaders' hesitancy to boost commerce ties, is their bitter rivalry and political turmoil. This competition is largely motivated by two factors: underlying strategic power balance as well as the Kashmir conflict. In the regional framework of South Asia, the power distribution favors India. Indian authorities have strongly advocated a strategy of regional hegemony in South Asia, owing to its relatively bigger size, population, army, and economic strength (Dash, 2013).

The Kashmir conflict is inextricably linked to India-Pakistan economic ties. Pakistan has persistently demanded the global community's due role in resolving the Kashmir dispute. India, on the other hand, has always shown reluctance. As of now border skirmishes between Pakistan and India is very normal just like everywhere else. However, as a response, trade relations were among the first casualties.

Non-tariff Barriers

Non-tariff barriers like Logistic constraints, visas, inspections, health controls, food security, transactions, and the banking system are universally acknowledged as significant hurdles to successful and cost-effective bilateral trade among both nations. Trade between Pakistan and India would be difficult unless both nations simplify and rationalize these impediments. Such limits are among the key causes of Pakistan and India's substantial illicit trading. According to a 2007 World Bank assessment, the overall amount of illicit commerce among both Pakistan and India might reach US $IO billion (Naqvi & Schuler, 2007).

The much more obvious disadvantage of using a positive list strategy is that it restricts possible trading. The positive list strategy has increasingly grown over the decades, however, there are various issues that market participants encounter while implementing this policy move. A very well-known issue is that various commodities not even on the positive list are imported to Pakistan via Dubai. This is a long-standing practice acknowledged by dealers across both nations. Traders face large transportation expenses while taking the alternate path. The expense of transportation on the Mumbai to and from Dubai to Karachi path is 1.4 to 1.7 folds that of the direct Karachi to Mumbai path (Taneja, 2007).

The barriers exist, in the shape of trade-inhibiting laws and regulations, as well as an absence of private-sector attempts to overcome governmental paralysis. Ultimately, it will be the private sector, not government commerce, which will improve productivity across both ends of the border (Husain, 2011). Yet, APTTA prohibits India from exporting goods to Afghanistan via Pakistan. To maximize their benefits from trade normalization, Pakistan and India must include this transit problem on the respective conversation table. This also has far-reaching ramifications for the Afghan economy. As a result, India must provide Pakistani exports transit entry to the Nepal and Bangladesh marketplaces, which would aid in the transportation of commodities across South and Central Asia (Ahmed, 2010). Farmers in Pakistan, for example, are concerned that low-cost and subsidized agrarian exports from India may harm their livelihoods. The automobile, textile, and pharmaceutical sectors have also raised worries about inexpensive Indian imports. They want to be given enough time to plan for competitiveness from Indian goods (Syed, 2012). But at the same time, Pakistan's major export is textiles, and it is the only consistent industry supported by the government in the last 70 years. Yet, no significant improvement is visible.

Formal Trade

Meanwhile, the potential of mutual trading between Pakistan-India is yet to be realized. If reasonable ties are established, trade between Pakistan-India might more than double to US$10 billion in the following several years. Several analyses demonstrate that any boost in Pakistan's commerce with India will benefit the country's economy.

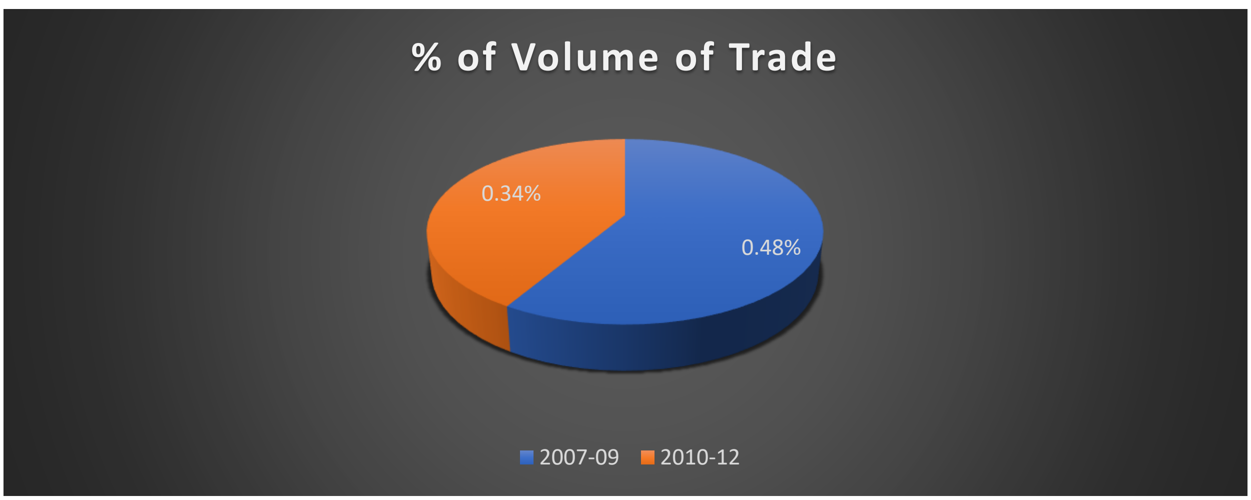


Figure 1: Pakistan-India Total Trade 2011 (US$ Billion) (Source: WITS)

Bilateral trade has witnessed a significant decline in the past few years; the percentage of Pakistani trade with India in Pakistan's overall commerce has fallen to 0.34% in the fiscal year 2010-12 from 0.48% in the fiscal year 2007-09 (Sharma et al., 2013b). Furthermore, many analysts projected that if the two nations' political ties were constant and seamless, formal trade between the two nations might reach US$ 50 billion annually (Taneja & Pohit, 2015).

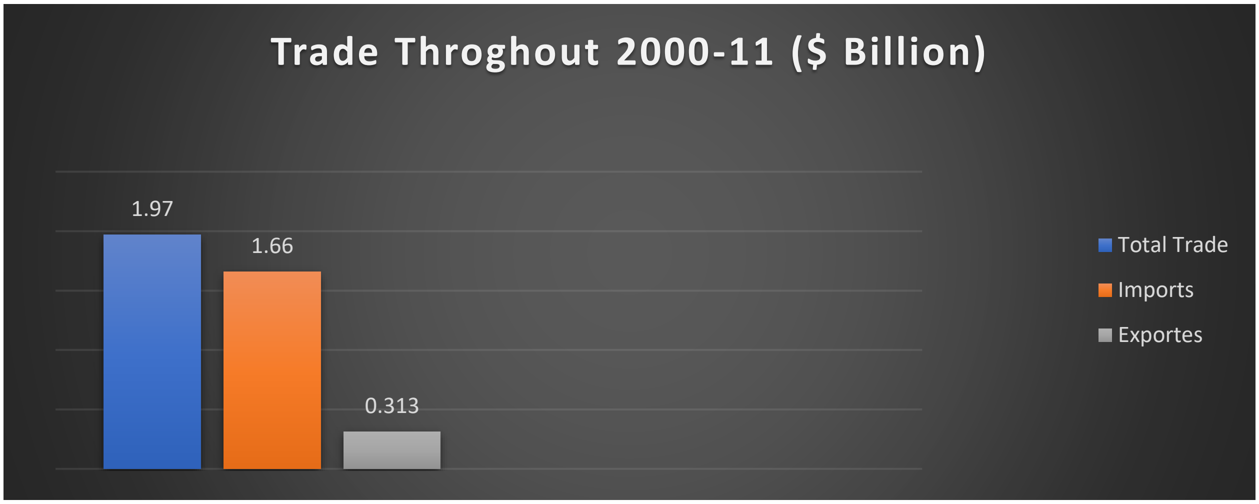


Figure 2: Pakistan-India Total Trade 2011 (US$ Billion) (Source: WITS)

Throughout 2000 and 2011, trade volume between Pakistan-India expanded much more ninefold. For 2011, total commerce seen between both nations was $1.97 billion, with Pakistan importing $1.66 billion and exporting $313 million. Although solely exporting just on a positive list, India has often maintained a trade surplus with Pakistan, with the balance of trade as a percentage of overall trade expanding between 55-68 per cent between 2000 and 2011 (Figure 1) (WITS, 2011). Import possibility is about US$ 16 billion, while export possibility is worth $ 3.8 billion. Additional US$ 10.7 billion in fossil fuel potential exists, with import possibility considering $ 9.4 billion and export possibility considering $1.3 billion (Hussain, 2013).

Figure 3: Trade Potential Between Pakistan and India (US$ Billion) (Source: (Hussain, 2013)

Expansion in Pakistan's trade with India will benefit the economy of the country. The previous study, for instance, estimates that eliminating tariffs would bring in a thirteen-time rise in Pakistan imports from India and a nine-time increase in Pakistani exports to India. Such increased commerce will result in a 3% boost in Pakistan's GDP. It would also result in a ten-time rise in mutual trading between Pakistan and India with significant implications for each country's GDP development (Ohsin et al., 2009). There are around 2646 same items which Pakistan imports from and India exports to other countries worth $15 billion, as well as 1181 commodities that India imports and Pakistan sell worth $3.9 billion (Dash, 2013). Both should obtain goods at a reduced cost from each other (Hussain, 2013). In the post-1990s period, policymakers in both countries appear to have accepted the idea that more commerce among both nations could not only have positive economic effects but would also foster shared interests that would reduce political friction.

Regional gross domestic product RGDPs get a favorable and considerable influence on Pakistan's overall bilateral trade. This means that growth and progress are long-term processes, and as neighboring nations' RGDPs rise over time, so will respective trade volumes (Jan & Shah, 2020). Increased Pakistan and Indian commerce may be extremely beneficial to Pakistan. People would benefit from low product pricing and greater product diversity. Technological breakthroughs via India will boost Pakistan's agriculture productivity while cutting manufacturing costs and increasing firms' worldwide viability (Naqvi & Schuler, 2007). Local producers will indeed improve their productivity by collaborating with significantly bigger Indian counterparts and benefit from economies of scale due to the increased export industries. Eventually, the Pakistani state would benefit from increased legalized commerce as it would bring in revenue that otherwise would have been lost to illegal trade (Kugelman & Hathaway, 2012).

To achieve a competitive advantage, each area has about the same characteristics, and countries in that region manufacture almost similar items. The same could be said about Pakistan and India. However, despite similarities in Pakistan and India's exports and imports, there is a vast range of goods that both countries can trade within their commercial relationship (Mirza, 1988). Pakistan's demographic is advantaged and plays a key part in shaping the country's bilateral commerce. Furthermore, Pakistan's trade volume with nations with comparable language families is 27% higher. Regrettably, Pakistan's important trading partner is not India, which is the closest of all massive trade partners at the moment, while research shows that even a 1% increase in the distance reduces trade volume by nearly 0.86% due to higher costs, implying that Pakistan is trading at a higher cost while avoiding cheap Indian trade and market (Jan & Shah, 2020). Lahore-Amritsar is indeed the two key towns on apiece side of the boundary, split only by 54 kilometers and with comparable languages. As a result, the transportation cost for commodities carried via land routes connecting northern Pakistan and northern India might be far cheaper than the marine route Pakistan now uses with key trading partners (Hussain, 2013).

Restricted trading and local market volatility have obstructed economic growth. In this circumstance, Pakistan must priorities trade. Positive initiatives by both states can help the bargaining process. In addition, Pakistan's economy is in a near collapse so Pakistan needs to be very rational and must not give up on trade talks (Saleem et al., 2014). The greater emphasis on the sector of the economy via formalized peacebuilding can reduce the possibility of future hostilities. Pakistan must seize economic opportunities in the area or risk being trapped in a calamity. The resumption of trade with India will have a significant beneficial effect on Pakistan's economy and trade activities (Siddique, 2012). Despite obstacles that lie ahead, for regional economic success, Pakistan must negotiate and capitalize on India's fast economic growth. Pakistan may sidestep the expensive business of playing power in the continent. Though national security challenges are crucial for Pakistan, economic progress requires a new age of partnerships with neighboring nations. The economy is the major player in the balance of power these days. Pakistan is capable of earning from the decades' efforts of India at the cost of India.

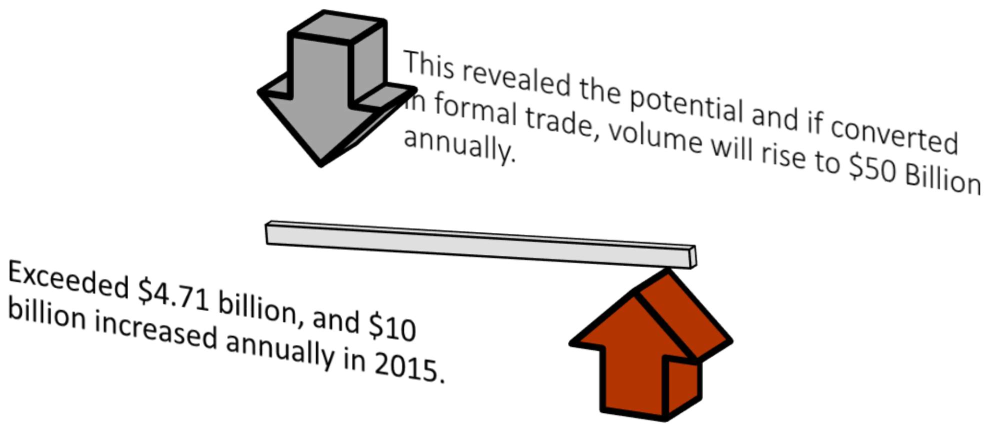
Collaboration with India can include medical, tourism, entertainment, consulting services, civil construction work, and other ventures, particularly in information technology. Both Pakistan-India may collaborate to accomplish initiatives and goals in the service industry by sharing people, specialist competent workers, and technology. Indian enterprises are well-known around the globe, yet there are few homegrown IT firms in Pakistan (Naqvi & Schuler, 2007). There can be shared initiatives in this industry in which Pakistan's trained experts can collaborate more fruitfully with their Indian counterparts while maintaining India's labor cost advantage since India's IT experts' pay is growing daily (Taneja, 2007).

India's 9%-growth economic growth requires the need for greater energy supplies. India will rely on nearby energy-rich regions such as the Persian Gulf and Central Asia to attain national economic aspirations. Because Pakistan requires natural gas for home use, it is preferable to build a combined connection to send gas to the two countries rather than separate facilities. Pakistan's position in the energy industry is to serve as a possible transit point for Indian energy consumption via Iran and Central Asia, instead of as a supply (Gul et al., 2018). Pakistan is expected to receive 50 cents for every million cubic feet of gas transported a day, or $600 million a year, in transit fees from India (Tribune, 2012). The energy partnership between Pakistan and India will have a steadying effect on the South Asian continent in general.

Pakistan's automobile manufacturing industries rely on the importation of foreign supplies for operation. In addition, the continent's inexpensive vehicles are manufactured by large corporations in India. Pakistan can import automobile parts at a low cost (Husain, 2011). Japan has the highest percentage of automotive imports in Pakistan, even though it is an expensive industry designed for Pakistan. Pakistan and India have various comparative advantages in the manufacture of vehicle components; their combined endeavors would increase supply and demand in this industry while also increasing job possibilities. In addition to economic gains, this industry can help to maintain harmony among neighbors, as the car industry achieved in the case of the US, Mexico, and Canada (Gul et al., 2018).

Informal Trade

Illegal trade between India-Pakistan is typically accomplished by (1) rerouting trading via a third nation and (2) illicit trading over land boundaries. Unofficial commerce across India and Pakistan is worth over $3 billion and may be pushed through into the forefront via improved measures for trade facilitation (Sharma et al., 2013a). Illegal trade between India and Pakistan exceeded US dollars 4.71 billion in 2012-13, and it increased by US dollars 10 billion annually in 2015. Illicit trade revealed Pakistan and India's trading potential. Formal commerce between India and Pakistan might reach US dollars 50 billion annually if both nations' political ties were safe and straightforward (Mudassir & Hanita, 2017).



The projected trade along the Mumbai-Dubai-Karachi line is approximately 88% of overall illegal trade, with the remainder as cross-border illicit trade via the Amritsar Lahore and Sind Rajasthan border lines. Furthermore, about 51% of unofficial commerce passing via Dubai does not enter Karachi straight since commodities are transshipped through India via Dubai, then transported to Bandar Abbas in Iran, and ultimately carried to Afghanistan to enter Pakistan. Only around 18% of unofficial commerce is transported by sea from India to Karachi via Dubai (Hussain, 2013). Almost 68% of Indian commodities are exported to Pakistan through the Dubai platforms. Since that, a relatively tiny amount of items are exported from the Kashmiri border (Mudassir & Hanita, 2017).

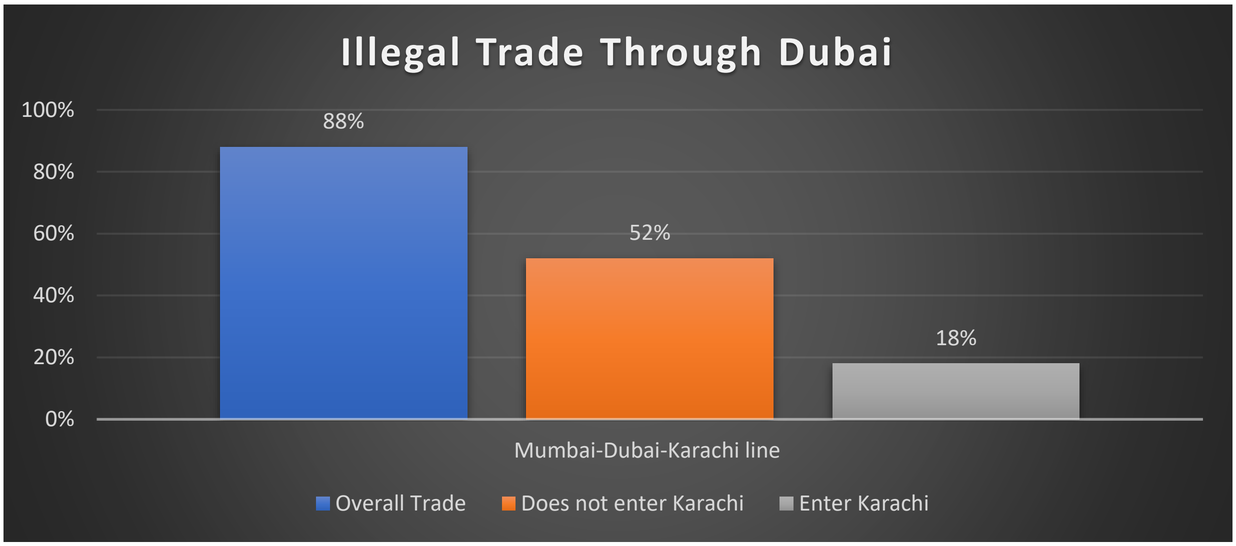


Figure 4: Illegal trade through Dubai (Source: Hussain, 2013)

Unofficial trading typically occurs for the reasons listed: (I) bans on the shipment of special products for a variety of reasons such as health concerns, religious beliefs, or economic considerations; (ii) large import duties or freight costs that end up making it cost efficient to try to sneak the goods from other countries; as well as (iii) encroachment of non-tariff barriers like quotas; (iv) weak points inside the 'rules of origin' deriving in trade being shuttled via a foreign nation; (v) pinhole leaks in transit trade; (vi) internal political imbalances, like the lack or low level of excise duty in a nation, which creates an incentive to move goods unlawfully to adjacent countries (SBP, 2007).

Since the present amount is $2.7 billion, formal trading is insufficient. Furthermore, according to various accounts, the informal commerce size is large, ranging from $ 8-10 billion. India and Pakistan have a continuous illicit trade volume of over 90%. This is a major calamity for both countries. If Pakistan-India could improve their trade ties, formal trade will increase. Both countries might be developing and rich, yet they commonly engage in informal trade. Formal commerce is less expensive since India and Pakistan are neighboring with short border distances, lower costs of transportation and appealing markets, making formal trade more advantageous (Mudassir et al., 2016).

Conclusion

The key conclusion of the study is that trade between India and Pakistan is complementary and has great potential if political and non-tariff barriers are removed. The unresolved issues, mainly the Kashmir dispute, have continued to affect relations between the two countries. Trade ties between the two countries have also been affected due to the Indian government's policies, which are leading to political and non-tariff barriers, thus keeping the trade below its potential. The Indian government's rigid policies have affected the entire trade order between the two states. Economic gains from this trade potential will be a great source for Pakistan to overcome the current and historical economic crisis of the country if Pakistan can do a cost-and-benefit analysis and come forward to the already developed Indian market. Furthermore, economic benefits from trade with India can not only benefit the two neighboring states but also have a positive impact on the overall region.

The reluctant behavior of India in resolving the Kashmir issue in light of the UN resolution has left the region deprived of the gains of bilateral trade. The current Modi-led Hindu nationalist government in India that follows RSS ideology has even adopted a harder stance towards Pakistan and has always turned down Pakistan`s repeated offers to resolve all the issues, including Jammu and Kashmir, through negotiations, thereby affecting trade ties.

It is suggested that Pakistan should not give up on trade and trade talks with India and must not fall into Modi's isolation trap for Pakistan. There are stakeholders in India who are against the rigid policies of India. Pakistan has to bring them on board and do better marketing of anti-Indian policies in the world. Alongside border stirs, it also has additional elements in the framework of ties between Pakistan and India. The historical backdrop of both countries cannot be ignored, although it is less closed off now than it was in the past. In reality, the economy is one of the key determinants of power in the globe and area, which emphasizes the need of emphasizing economic development and national prosperity above territorial expansion. India should realize that the tactic of threatening neighbors is not any more effective when both are nuclear-armed.

Recommendations

- Although Pakistan cannot ignore its historical rivalry with India, it could maintain trade ties as the two countries did in the past when India used to be the largest market for Pakistan`s export. To resume bilateral trade with India, it is highly recommended that Pakistan first sees India as a market for its goods and industries rather than an adversary state and keeps trade ties separate from political issues.

- To take benefits from China Pakistan Economic Corridor CPEC in the highest terms Pakistan needs trade to utilize the infrastructure developed under the CPEC and pay back to China in a short period, avoiding debt servicing.

- Pakistan, if it allows India today to export under APTTA (India is already asking to get access to CARs at a lower cost) and lets India for some years to develop their trade channels, after a decade or less, this trade channel of India through Pakistan would be a great strength of Pakistan against India and also a big weakness of India.

- If Pakistan allows trade through proper doctrine, this will be a great benefit for Pakistan economically as well as strategically. Pakistan can control and counter India's mobility through this bilateral trade with proper planning. Pakistan`s foreign policy goals could be achieved through bilateral trade and structural balance, the Kashmir issue, control over India's mobility, and defense against India. Pakistan has to trap Indians in this bilateral trade and make them habitual of these low-cost routes so that Indian people and the business community in the future will not be able to lose Pakistan and these routes at any cost.

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