

ECONOMIC COOPERATION AS AN INSTRUMENT OF
CONFIDENCE-BUILDING: THE CASE OF PAKISTAN AND
INDIA

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ASIA-EUROPE INSTITUTE
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OF CONFIDENCE-BUILDING: THE CASE OF
PAKISTAN AND INDIA**

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ABSTRACT

The nature of the Pakistan–India conflict has been portrayed as an ‘enduring rivalry’ and its essential trait is ‘persistence’. Fundamental to their antagonism is the territorial dispute over Kashmir. Negotiations are occasional, but both nations infrequently make goodwill gestures. Peace initiatives such as the Tashkent Declaration in 1966, the Simla Accord in 1972, the Lahore Declaration in 1999, the Agra Summit in 2001 and the process of the Composite Dialogue in 2004 are amongst the most important peace overtures carried out by Pakistan and India. However, dialogues at the secretary level were stalled after the Mumbai attack in 2008. Moreover, India frequently started accusing Pakistan of sponsoring terrorism in her territory. The Pakistan–India peace process portrays the constant upheaval in this bilateral relationship. If one step has been taken forward, two steps are then taken backward. The foremost reason for this is the prevalence of a trust deficit between Pakistan and India. Normalized relations between Pakistan and India are essential for the progress and development of South Asia. The regional economic grouping of South Asian nations, i.e. SAARC, has been held as a hostage of the Pakistan–India conflict and consequently has not become successful in enhancing regional economic cooperation among member countries mainly due to the persistent antagonism between Pakistan and India. With this backdrop, conflict resolution assumes a new urgency and managing the Pakistan–India conflicts becomes more vital. This study evaluates the adoption of a distinctive approach towards managing the Pakistan–India conflict. By placing bilateral economic cooperation under the umbrella of Confidence Building Measures (CBMs), this study examines the prospects of enhanced economic cooperation between Pakistan and India. Mitrany and Hass’s neofunctionalism has been applied to manage the Pakistan–India conflict. It also analyzes its spillover effect on the politico-security relationship between the two nuclear

weapon neighbors. Regarding the research methodology used in this study, an inductive approach has been adopted in this study. A qualitative research method has been used in this study. Primary as well as secondary sources have been used to collect data for this study. Primary data was collected through interviews of Key Informants (KIs) and government documents. Secondary data refers generally to research carried out by other people. This study mainly focuses on the interviews of the KIs. A questionnaire was used for the in-depth interviews (IDIs) with businessmen, representatives of chambers of commerce and industries, academicians, researchers, analysts and journalists from Pakistan and India in this study. To enhance economic cooperation between Pakistan and India, this study identifies the removal of physical barriers, such as a lack of modern facilities at trade crossings between Pakistan and India, inept infrastructure and the removal of non-tariff barriers (NTBs). Also, this research emphasizes that additional trade arteries should be opened up between Pakistan and India such as the Bahawalnagar–Fazilka, the Khokhrapar–Munabao, the Sialkot–Jammu and trade openings at the line of control (LoC) in the disputed territory of Jammu and Kashmir. The study also finds significant potential for joint ventures between Pakistan and India for win-win approaches in trade and economic links. This study considers the current governments, which are pro-business, as catalysts to the launching of economic cooperation and these governments can create conducive environment for initiating peace overtures to manage the conflictual relationship of Pakistan and India.

ABSTRAK

Bentuk konflik antara Pakistan-India seringkali digambarkan sebagai “permusuhan berterusan” dan ianya berpanjangan sehingga ke hari ini. Asas kepada persengketaan kedua-dua negara ialah pertikaian berhubung isu Kashmir. Beberapa siri rundingan diadakan secara berkala, namun kedua-dua negara jarang sekali mencapai hasil yang memberangsangkan. Inisiatif ke arah keamanan seperti Deklarasi Tashkent pada 1966, Perjanjian Simla pada 1972, Deklarasi Lahore pada 1999, Sidang Kemuncak Agra pada 2001 dan proses ke arah Dialog Composite pada 2004 adalah antara beberapa langkah menuju keamanan yang pernah diusahakan oleh Pakistan dan India. Walau bagaimanapun, siri-siri dialog di peringkat menteri mula terjejas selepas serangan Mumbai pada 2008. Tambahan pula, India secara kerap mula menuduh Pakistan menaja keganasan dalam wilayahnya. Proses menuju ke arah keamanan oleh Pakistan dan India menggambarkan pergolakan yang tidak berkesudahan dalam hubungan bilateral kedua-dua negara. Sekiranya selangkah usaha ke hadapan diambil, dua langkah mundur ke belakang dihadapi. Alasan utama berlakunya keadaan ini berkaitan dengan meluasnya hakisan kepercayaan di antara Pakistan dan India. Pemulihan hubungan antara Pakistan dan India merupakan keperluan utama kepada kemajuan dan pembangunan rantau Asia Selatan. Kesatuan ekonomi serantau negara-negara Asia Selatan iaitu SAARC, terperangkap dalam konflik Pakistan-India dan akibatnya tidak begitu berjaya dalam usaha memperkukuhkan kerjasama ekonomi serantau di kalangan negara-negara ahli yang diakibatkan terutamanya oleh permusuhan berterusan di antara Pakistan dan India. Dengan latar belakang sebegini, penyelesaian konflik memerlukan tindakan baru yang segera dan menguruskan konflik Pakistan-India menjadi amat penting. Kajian ini menilai penggunaan pendekatan distingtif dalam penyelesaian konflik Pakistan-India. Dengan memasukkan kerjasama ekonomi dua hala sebagai inisiatif ke arah Langkah-Langkah Pemupukan Keyakinan (CBMs), kajian ini mengkaji prospek pengukuhan

kerjasama ekonomi di antara Pakistan dan India. Teori neo-fungsionalisme oleh Mitrany dan Hass digunakan untuk menghuraikan pengurusan konflik Pakistan-India. Kajian ini juga menganalisis kesan berganda ke atas hubungan politik-keselamatan di antara dua negara seteru nuklear berjiran ini. Kajian ini menguna pakai kaedah induktif dengan reka bentuk kajian kualitatif. Sumber primer dan sekunder digunakan sebagai pengumpulan data dalam kajian ini. Teknik kajian memperolehi data primer melalui temu bual dengan informan kunci dan analisis dokumen kerajaan dijalankan. Kajian lampau juga digunakan sebagai data sekunder untuk rujukan dan panduan kajian. Dalam kajian ini, temu bual intensif atau mendalam dilakukan merangkumi temu bual dengan ahli perniagaan, wakil perdagangan dan industri, ahli akademik, penyelidik, penganalisis dan wartawan daripada Pakistan dan India. Bagi memperkasa kerjasama ekonomi India dan Pakistan, kajian ini mengenal pasti beberapa halangan fizikal yang perlu dihapuskan seperti kekurangan kelengkapan moden di lintasan perdagangan kedua-dua negara, infrastruktur yang tidak cekap serta penghapusan halangan bukan tarif (NTB). Kajian ini menegaskan supaya lebih banyak laluan perdagangan dibuka seperti Bahawalnagar-Fazilka, Khokhrapar-Munabao, Sialkot-Jammu serta pembukaan laluan perdagangan di Garisan Kawalan (LoC) di wilayah pertikaian Jammu dan Kashmir. Dapatan kajian menunjukkan bahawa wujudnya potensi yang signifikan ke arah usahasama di antara Pakistan-India melalui pendekatan menang-menang dalam hubungan ekonomi dan perdagangan. Kajian ini melihat kedua-dua kerajaan sekarang yang pro-perniagaan, sebagai katalis untuk menggerakkan kerjasama ekonomi dan kedua-dua kerajaan berupaya mewujudkan persekitaran yang kondusif bagi memupuk keamanan sekaligus menguruskan konflik Pakistan dan India.

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LIST OF SYMBOLS AND ABBREVIATIONS

ACU	Asian Clearing Union
ADB	Asian Development Bank
AJK	Azad Jammu o Kashmir
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AFTA	ASEAN Free Trade Area
ARF	ASEAN Regional Forum
AU	African Union
BEDF	Bahawalpur Economic Development Forum
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIS	Bureau of Indian Standards
BJP	Bharatiya Janata Party
BoP	Balance of Payments
BPO	Business Outsourcing Programme
BRCA	Bilateral Revealed Comparative Analysis

CBMs	Confidence Building Measures
CBU	Completely Built Unit
CEC	Community on Economic Cooperation
CENTO	Central Treaty Organization
CFL	Cease-fire Line
CII	Confederation of Indian Industry
CKD	Completely Knocked Down
CNN	Cable News Network
CPEC	China-Pakistan Economic Corridor
CRSS	Centre for Research and Security Studies
CTBT	Comprehensive Test Ban Treaty
CWC	Chemical Weapons Convention
DCL	Direct Communication Link
DGMO	Director General Military Operation
DMZ	Demilitarized Zone
EC	European Commission
ECO	Economic Cooperation Organization
ECOWAS	Economic Community of West African States

ECSC	European Coal and Steel Community
EDC	European Defence Community
EDI	Electronic Data Interchange
EEZ	Exclusive Economic Zone
EPZ	Export Processing Zone
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FICCI	Federation of Indian Chambers of Commerce and Industry
FPCCI	Federation of Pakistan Chambers of Commerce and Industry
FTA	Free Trade Area
FOSWAL	Foundation of SAARC Writers and Literature
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preferences
HDI	Human Development Index

HRCP	Human Rights Commission of Pakistan
HRM	Human Resource Management
IAK	Indian-ministered Kashmir
ICP	Integrated Check Post
ICT	Information and Communication Technology
IDI	In-depth Interview
IDSА	Institute for Defence Studies and Analyses
IGG	Intergovernmental Group
IMF	International Monetary Fund
ICRIER	Indian Council for Research on International Economic Relations
IPI	Iran-Pakistan-India
IPRI	Islamabad Policy Research Institute
IRS	Institute of Regional Studies
ISI	Inter-Services Intelligence
ISSI	Institute of Strategic Studies Islamabad
IOK	Indian Occupied Kashmir
ISO	International Standards Organization
IT	Information Technology

ITU	International Telecommunication Union
JeM	Jaish-e-Mohammad
JKLF	Jammu and Kashmir Liberation Front
JNU	Jawaharlal Nehru University
JuD	Jamaat-ud-Dawa
KIs	Key Informants
LC	Letter of Credit
LCCI	Lahore Chamber of Commerce and Industry
LDCs	Less-Developed Countries
LeT	Lashkar e Taiba
LOC	Line of Control
MAF	Million Acre Feet
MERCOSUR	Mercado Común del Sur (Common Southern Market)
MFN	Most Favoured Nation
MNCs	Multi National Corporations
MoU	Memorandum of Understanding
MW	Mega Watt
NAFTA	North American Free Trade Area

NAM	Non-Aligned Movement
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organization
NTBs	Non-Tariff Barriers
OAU	Organization of African Unity
OECD	Organization for Economic Cooperation and Development
OIC	Organization of Islamic Cooperation
OSCE	Organization for Security Cooperation in Europe
PAK	Pakistan-administered Kashmir
PHD CCI	Punjab Haryana Delhi Chamber of Commerce and Industry
PML-N	Pakistan Muslim League-Nawaz
POK	Pakistan-occupied Kashmir
PPP	Pakistan Peoples Party
RAW	Research and Analysis Wing
RCA	Revealed Comparative Analysis
RCCI	Rawalpindi Chamber of Commerce and Industry
RCD	Regional Cooperation Development
RCSS	Regional Centre for Strategic Studies

RCST	Regional Convention on Suppression of Terrorism
RSCT	Regional Security Complex Theory
R&D	Research and Development
RMA	Revealed Market Access
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAF	South Asia Foundation
SAFA	South Asian Federation of Accountants
SAFMA	South Asian Free Media Association
SAFTA	South Asian Free Trade Area
SAIC	SAARC Agricultural Information Centre
SAIEVAC	South Asia Initiative to End Violence Against Children
SAARCLAW	South Asian Association for Regional Cooperation in Law
SAPTA	SAARC Preferential Trading Arrangement
SAU	South Asian University
SBP	State Bank of Pakistan
SCCI	SAARC Chamber of Commerce and Industry
SCO	Shanghai Cooperation Organization

SDF	SAARC Development Fund
SDPI	Sustainable Development Policy Institute
SEATO	South East Asian Treaty Organization
SEC	SAARC Energy Centre
SFB	SAARC Food Bank
SPS	Sanitary and Phytosanitary
TALOS	Technical Aspects of the Law of the Sea
TAPI	Tajikistan-Afghanistan-Pakistan-India
TBT	Technical Barriers to Trade
TCI	Trade Complementarity Indices
TNCs	Transnational Corporations
UN	United Nations
UNO	United Nations Organization
UNCIP	United Nations Commission for India and Pakistan
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNMIGOP	United Nations Military Observer Group in India and Pakistan
UNSC	United Nations Security Council

USA	United States of America
USSR	Union of Soviet Socialist Republics
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

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CHAPTER 1: INTRODUCTION

1.1 Statement of the Problem

In the twenty first century, global politics has witnessed profound changes. It is revolving around the goal of achieving economic progress. Therefore, low politics is replacing high politics. The twenty first century has witnessed regional economic groupings in different parts of the globe. South Asia is not an exception. The South Asian Association for Regional Cooperation (SAARC) was established in 1985 (*SAARC Charter*, 1985). However, it has not become an effective organization. Traditional animosity between India and Pakistan is the main reason behind it (Kishore C Dash, 2008) and the SAARC has become hostage to the Pakistan–India conflict. Barry Buzan’s Regional Security Complex Theory (RSCT) accurately explains that the SAARC’s dilemma has resulted due to bilateral conflict between Pakistan and India. According to Barry Buzan, RSCT is “defined by durable pattern of amity and enmity in the form of regional or geographical patterns of security interdependence. The particular characteristic of Regional Security Complex is shaped by historic factors such as longstanding enmity or cultural linkage to a specific geographical region” (Buzan & Waeber, 2003). The bipolar conflictual power structure that exists in South Asia results in a “zero-sum notion of security” and works in such a way in the Pakistan–India case so as to generate complexes like ‘we’ and ‘they’ between Pakistan and India (Aminul Karim, 2015). This impedes the SAARC and causes it to appear as an inefficient organization on a regional basis. Pakistan and India should adopt an approach, which Shahid Javed Burki quotes as ‘Pareto optimality- when given solution brings benefits to all participants in the transactions’ will result in a ‘plus-sum game’ (Burki, 2009). Owing to geopolitical considerations, Pakistan and India have effectively blocked the successful functioning of the SAARC while dashing the anticipated objectives of regional economic integration of South Asia. A Pakistan–India economic cooperation

has greater prospects for spillover towards an increasing regional cooperation at the SAARC-level (Kemal, Abbas, & Qadir, 2002a), (De, Raihan, & Ghani, 2013), (Husain, 2013), (M. S. Khan, 2009), (Pasha & Imran, 2012), (Raihan & De, 2013). In addition, improved economic relations between Pakistan and India would help to improve South Asia's footing in the world economy (Raihan & De, 2013), (Burki, 2009), (Burki, 2010), (Burki, 2011).

Pakistan and India are engaged in bilateral trade, yet the volume is not significant to the extent that it can compel both neighbours to proceed towards a peaceful resolution of their unresolved issues. The volume of bilateral trade between Pakistan and India for the year 2014–2015 is US\$2,354.49 million (Ministry of Commerce, 2016b). Studies on Pakistan–India bilateral trade have projected that the bilateral trade is estimated to lie between US\$ 10 billion to US\$ 20 billion; ten times higher than the existing volume (Taneja, 2013b), (Taneja, Mehra, Mukherjee, Bimal, & Dayal, 2013) provided that constraints in the way of bilateral trade are relaxed (Taneja, 2007), (Husain, 2013), (M. Khan, 2013).

Pakistan and India have taken several military and non-military Confidence Building Measures (CBMs). Most of these CBMs though, have been military-oriented (Ahmar, 1994). Moreover, these CBMs have not only created confidence but also lessened the occurrences of war (M. T. Ashraf, 2001a). Pakistan and India initiated a number of CBMs after 1988 that have prevented full-fledged war between them, except for a limited one—the Kargil War in 1999. Therefore, Pakistan and India should adopt trade-related CBMs, which include overall economic cooperation between the two neighbours. In this regard, these neighbours laced with nuclear weapons should adopt a new approach to handle bilateral relationships. This new approach includes the adoption of economic CBMs. The process of confidence building should be given adequate

space so that it can be institutionalized and prospects for the reversal of this process can be minimized.

Although India and Pakistan have aspirations for bilateral economic cooperation, they have not yet succeeded due to continuing hostilities and unresolved conflicts. India and Pakistan have had three large-scale military confrontations (1948, 1965 and 1971), the Kargil crisis (1999) and war-like situations such as ten-months of full mobilization on the border between the end of 2001 and October 2002 in the wake of a terrorist attack on the Indian parliament and deployments of military troops at international borders during this period. The history of Pakistan–India relations discloses the adversarial relationship between them. Both countries have spent a great deal of time on uncompromised posturing. The nature of the Pakistan–India conflict has been portrayed as an ‘enduring rivalry’ (Paul, 2005) and its essential trait is ‘persistence’ (Rajagopalan, 1998). Fundamental to their antagonism is the territorial dispute over Kashmir (S. M. a. L. Z. Burke, 1990), (Arif, 1994), (Sattar, 2013), (Schofield, 2003), (M. M. T. Ashraf, 2007), (Indurthy & Haque, 2010). Quoting American columnist Richard Cohen, Shahid Javed Burki identifies the fundamental cause for the fractured Pakistan–India relationship: “the two countries have what it takes to blow each other to kingdom come. They also have the reason. They hate each other” (Burki, 2009). Negotiations are occasional, but both nations make infrequent goodwill gestures. Peace initiatives such as the Tashkent Declaration (1966), the Simla Accord (1972), the Lahore Declaration (1999), the Agra Summit (2001) and the process of Composite Dialogue (2004) are amongst the important peace overtures carried out by Pakistan and India. However, the dialogues at the secretary-level stalled after the Mumbai attack (2008). Furthermore, India started to frequently accuse Pakistan of sponsoring terrorism in her territory. The Pakistan–India peace process portrays the ups and down in the bilateral relationship. If

one step has been taken forward, two steps are taken back. The foremost reason for it is the prevalence of the trust-deficit between Pakistan and India.

A normalized relationship between Pakistan and India is an essential requirement for progress and development in South Asia. Regional economic grouping of South Asian nations i.e. the SAARC has become hostage to the Pakistan–India conflict and it has not become successful in enhancing regional economic cooperation among the member countries, due mainly to persistent antagonism between Pakistan and India (Kher, 2012), (Burki, 2009), (Z. S. Ahmed & Bhatnagar, 2008). In this backdrop, conflict resolution assumes a new urgency (E Sridharan, 2005) and management of the Pakistan–India conflicts becomes more vital. This study evaluates adoption of a distinctive approach towards managing the Pakistan–India conflict. By placing bilateral economic cooperation under the umbrella of CBMs, this study examines the prospects of enhanced economic cooperation between Pakistan and India. It also analyzes its spillover effect to the politico–security relationship between the two nuclear weapon neighbours.

Pakistan and India are involved in bilateral trade, yet the volume is not substantial to the extent that it can induce an advance towards resolution of unsettled problems. Nevertheless, Pakistan and India have adopted military and non-military CBMs, especially after 1988 which prevented war between them (Ahmar, 1994) (M. T. Ashraf, 2001a). The partial success of these military CBMs makes an argument for the adoption of economic CBMs. However, this process of confidence building should be institutionalized so that it can lower the possibilities of turnaround.

Sridharan argues that the best explanatory theory for the Pakistan–India conflict is a combination of Mohammed Ayooob’s Subaltern realism and regional complex theory put forward by Barry Buzan and Ole Weaver (E Sridharan, 2005). Subaltern realism

discourses' lack of any theory of state in neorealism and its negligence of national variables affect conflict and order. Contrary to this, the current study argues for an explanation regarding the management of the Pakistan–India conflict through the lens of neoliberalism, particularly using functionalism proposed by David Mitrany (Mitrany, 1944) and Ernst B Haas (Ernst B Haas, 1958). The study explores prospects for economic cooperation as an instrument of CBMs between Pakistan and India.

Concerning the resolution of conflict between Pakistan and India, CBMs have been employed to create confidence and strengthen the peace process between them. Despite some progress in economic cooperation between Pakistan and India, this economic cooperation process has not been institutionalized. This study attempts to investigate economic cooperation as an apparatus of CBMs between Pakistan and India.

1.2 Significance of the Study

The significance of this study can be explained through four notable dimensions. Firstly, it is an important and substantive study that uses a functionalist approach in investigating the management of the Pakistan–India conflict. This study attempts to provide a theoretical contribution to international relations (IR) theory. Functionalism explains that economic cooperation at lower levels leads to cooperation at higher levels, specifically security levels. It explains further how certain functional activities across borders offer mutually advantageous long-term cooperation. It also attempts to identify the instrument that can help sustain economic cooperation between Pakistan and India. Consequently, this process moves towards effective and sustained economic cooperation.

Secondly, it is the only study at this moment in time that can be regarded as a substantive work on the Pakistan–India conflict, taking an overarching comprehensive analysis of almost all major aspects of it. This study investigates economic cooperation

as a tool of confidence building. The study attempts to examine constraints to the Pakistan–India bilateral trade and economic cooperation. It also attempts to explore the prospects for an increase in bilateral trade and the initiation of joint ventures between Pakistan and India. Enhanced economic cooperation between India and Pakistan becomes beneficial for more than one and half billion people of the South Asian region. Provision of commodities at cheaper rates could become possible for the masses of both countries.

Lastly, the contribution of this study is also manifested through its ability to assess to what extent economic cooperation can be used as a tool for mitigating the conflictual relationship between Pakistan and India. Existing studies have not comprehensively researched the spillover impact of economic cooperation on the political and security relations between Pakistan and India.

The studies on the Pakistan–India economic relations and CBMs have not been extensive from an international relations research perspective and also have not fully focused on all the dimensions of economic cooperation between Pakistan and India, particularly its impact on managing the Pakistan–India conflict. Therefore, it is anticipated that with this study, the gap in literature on the Pakistan–India economic cooperation can be addressed in a substantive way, henceforth contributing to noteworthy scholarship.

1.3 Research Objectives of the Study

This study has the following objectives:

- a) To gauge the role of trade as an instrument of CBMs for managing the Pakistan–India conflict

- b) To determine prospective areas for economic cooperation between Pakistan and India
- c) To explore a mechanism that is helpful in sustaining an economic integration process that may lead towards conflict management
- d) To test functional activities between Pakistan and India for transforming their adversarial relationship into a cooperative relationship

1.4 Key Research Questions

The proposed study addresses the following key questions:

1. What are the key hindrances to economic cooperation between Pakistan and India?

This research addresses this question on the basis of secondary as well as primary sources. This study discusses origin and prospects for solution of the conflicting issues between Pakistan and India such as Kashmir dispute, Siachin glacier, Sir Creek and water issues on the basis of secondary sources. These issues have been discussed in detail in chapter three. Likewise, this study identifies the impediments to the economic cooperation between Pakistan and India, especially barriers related to the bilateral trade on the basis of interviews of Key Informants (KIs) as primary data.

2. Can trade between Pakistan and India be helpful in confidence building? If yes, how?

This research study addresses this question on the basis of previous studies as secondary sources and in-depth interviews of the respondents as primary sources.

3. What are the prospective areas for the enhancement of economic cooperation between Pakistan and India?

This question has been addressed on the basis of interviews of KIs, which are businessmen, traders, academicians, researchers, journalists and policy analysts from both Pakistan and India.

4. What instrument and mechanism can be helpful to develop sustainable economic cooperation that may lead to managing bilateral conflict?

The study also focuses on the above-mentioned question on the basis of primary sources including interviews of KIs as well as research articles related to the theoretical interpretation of the Pakistan–India conflict.

1.5 Research Methodology

This section presents the methodology of the study. Research approaches, sample size, data sources and ethical considerations are comprehensively defined. This section describes the methods used for data collection as well as how the research was conducted. This section also presents the approach selected to address the key research objectives and questions.

This study focuses on prospects of Pakistan–India economic cooperation as a tool of CBMs. A deductive approach has been adopted in this study. In the deductive approach, the researcher uses theory to guide the design of a study and interpretation of results. Researchers refute, extend, or modify on the basis of results (Neuman, 2002). David Mitrany’s functionalism has been used to test the prospects for an enhanced economic cooperation between Pakistan and India. Therefore, functionalism has been used to gauge prospects for possible cooperation in the enhancement of bilateral trade and economic connections between Pakistan and India.

The central aspect of any research is how it is conducted. Largely, multiple methods are used to generate and analyze various types of data in the same study (Schwandt, 2007). Qualitative and quantitative research approaches need to be used carefully in any research. Systematic methods should be applied to gather high-quality data (Neuman, 2002). A qualitative research method for the interviewing of KIs has been used in this research. The qualitative research, used in an interdisciplinary field, mostly crosscuts the humanities and social sciences. This includes many things at the same time. Rather, it is multi-paradigmatic in focus. Qualitative research is usually exploratory in nature, involving a small number of people surveyed on a non-probability basis to gain in-depth impressions rather than definitive, probing-oriented, open-ended and free response formats (Mumtaz, 2014). Qualitative approaches create data that can be sorted, categorized and counted; the aggregate data can be summarized numerically through graphs, charts and statistical analysis (Colton & Covert, 2007). In this study, secondary sources have been used to collect data and gather information about the dynamics of bilateral trade between Pakistan and India, prospects for joint ventures between them and prospects for economic cooperation as an instrument of confidence building between Pakistan and India.

1.5.1 Data Sources

Primary as well as secondary sources have been used to collect data for this study. Primary sources of data involve first-hand information (Sadiki, 2009). Primary data was collected through interviews of KIs and government documents. Secondary data refers generally to research carried out by other people. This includes scholarly works such as research articles, books, commentaries, biographies and autobiographies. Secondary data is generally collected through deskwork jobs (Brown, 1999). The secondary data for this research was collected from previous studies conducted by other scholars and was however, analyzed prior to the collection of primary data.

1.5.1.1 Primary Sources

Qualitative interviews are used to varying extents in social science research (Kvale & Brinkmann, 2009). This study mainly focuses on the interviews of the KIs. Interviewing commonly involves individuals, which entails face-to-face verbal interaction; it can be tightly structured, semi-structured, or unstructured survey interviews with specific, standardized and usually closed questions (Seidman, 2006). A questionnaire was used for the in-depth interviews (IDIs) with businessmen, representatives of chambers of commerce and industries, academicians, researchers, analysts and journalists in this study.

Qualitative research offers compelling descriptions of the human world. Moreover, qualitative interviewing can provide us with a well-founded knowledge of a conversational reality (Schwandt, 2007). Research interviewing is thus a knowledge-producing activity. Qualitative research interviewing guides how a question is asked and characterized in the form of knowledge (Kvale & Brinkmann, 2009). The suitability of a research method depends on the objectives of the research and the questions being asked (Seidman, 2006).

The structured questionnaires and face-to-face interviews are taken as major approaches during data collection in this study. These approaches are considered to be necessary as respondents were working as academicians, either affiliated with research think-tank institutions/organizations or worked as journalists and businessmen. Face-to-face interviews are employed because they are appropriate. Moreover, it facilitates probing for more details. Furthermore, additional information can also be ascertained through body language (Mumtaz, 2014).

Total 32 KIs have been interviewed for this study. They include 6 businessmen/traders (6 each from Pakistan and India), academicians, working on

Pakistan-India relations (4 each from Pakistan and India), journalists/analysts, writing on the Pakistan-India relations and affiliated with the leading newspapers from Pakistan and India like DAWN, Tribune, The Hindu, ABN-LIVE. They include 4 each from both countries. And, two academic experts on South Asian regionalism especially SAARC, one from Bangladesh and one from United Kingdom have also been interviewed to enrich this study further. Furthermore, two representatives from SAARC Chamber of Commerce and Industry have been interviewed.

Selection of academicians for interviewees has been done on the basis of keeping their expertise on the Pakistan-India relations and their affiliations to universities and think-tank institutions in Pakistan and India. Similarly, interviews of businessmen and traders directly engaged in Pakistan-India bilateral trade were conducted. Representatives of Chambers of Commerce and Industry and trade organizations from Pakistan were interviewed while questionnaires were sent to businessmen and traders via e-mail through the Indian Chamber of Commerce and Industries in Delhi and Amritsar. Skype was also used for the purpose of interviews.

Interviewees were selected from Lahore and Islamabad from Pakistan and Amritsar and Delhi from India. Interviewees were categorized into two groups. The first category included traders and businessmen engaged in Pakistan-India bilateral trade. They were asked to give their viewpoints regarding barriers in bilateral trade, existing areas of trade and prospective sectors for the enhancement of Pakistan-India bilateral trade. The second category consisted of academicians, policy makers and journalists who were interviewed to seek their position regarding potential areas of economic cooperation and prospects for conflict management between Pakistan and India.

After collecting data, neofunctionalism was applied and security spillover was also gauged. Functionalism adopts a bottom-up approach in regulating relations between

hostile countries. Bilateral trade between Pakistan and India has been taken as a functional activity that may lead towards cooperation at higher levels. Content analysis has also been used as a mechanism. However, the level of transactions is the major indicator to gauge any increase or decrease in the level of cooperation.

Regarding interpretation of the data, the key words have been calculated and the frequency of the key words has been noted. For each question, key words have been identified and categorized as critical issues. While counting the total number of a particular category, the key words used by KIs have also been counted. Graphs have been drawn on the basis of the frequency of these key words. For example, regarding the measures to overcome the barriers on the land route trade arteries between Pakistan and India (Figure 6.4 Measures for Facilitation of Trade), the key words “modern facilities”, “increase in number of tradable goods”, “continuity in bilateral talks”, “procedural simplicity” and “sub-regional trade regime” have been identified. On the basis of usage of these words by the KIs, these key words have been counted. The KIs have used the word “modern facilities” 19 times; “increase in the number of tradable goods” 3 times; “continuity in bilateral talks” 3 times; “procedural simplicity” 3 times; and “sub-regional trade regime” has been used 3 times in their responses. The total number of these key words is $19+3+3+2+2=29$. The percentage of the particular key word (for example modern facilities) of the total number of key words has been calculated as follows $19/29 \times 100= 65.52\%$. Similarly, the percentage of the key words “increase in number of tradable goods”, “continuity in bilateral talks”, “procedural simplicity” and “sub-regional trade regime” have been counted as $3/29 \times 100=10.34\%$; $3/29 \times 100=10.34\%$; $2/29 \times 100=6.90\%$ and $2/29 \times 100=6.90\%$ respectively. Thus, the graphs have been drawn on the basis of these percentages.

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The issue of personal biases in qualitative research is very important especially for a researcher who conducts research on one's own country. This research is not an exception to it. Therefore, this researcher has been conducted while taking this into mind. However, this researcher has attempted to be neutral in interpreting data especially interviews of KIs. For clarity and complete understanding of words used by various KIs, supplementary questions were also asked in detailed interviews conducted in Pakistan. While additional input was also sought from KIs in India. This researcher has spent considerable time in collecting as well as reviewing data. Therefore, he has attempted to confront his own opinions and prejudices with data successfully. The aim of researcher is to add knowledge rather than give judgements. Therefore, this researcher has tried its utmost to remain neutral in collecting, presenting and interpreting the data.

1.5.1.2 Secondary Sources

Secondary data was collected from previous studies carried out by other scholars. It was gathered and analyzed prior to the primary data collection. Before proceeding with primary data collection, the researcher spent substantial time in reviewing the literature and consulted relevant books, articles, reports and working papers. The researcher benefitted greatly from the availability of internet services. The resource centre of the Asia-Europe Institute, University of Malaya, and the Main library, University of Malaya were also used for the data acquisition. The main library of the University of Malaya was also utilized for accessing the collection of secondary sources from databases available through the digital library of the university. The libraries of the Institute of Strategic Studies, Islamabad and the Institute of Regional Studies, Islamabad were also utilized. In addition, reports and working papers were collected from the resource centres of the SAARC Chamber of Commerce and Industries, Islamabad, and Sustainable Development Institute, Islamabad, Pakistan.

It is relevant to mention here that several primary and secondary sources were collected from the University Library, University of Cambridge, United Kingdom especially from the Commonwealth Room of the University Library. Secondary data was also gathered from the library of the Centre of South Asian Studies, University of Cambridge, where this researcher also conducted his research as a visiting PhD student for six-months.

Many types of data such as existing statistics, government reports, international reports; studies conducted by private firms and non-governmental organizations and historical records have been used as source material for this study.

1.6 Scope and Limitations

This study covers bilateral trade relations and economic connections between Pakistan and India from 1947 to 2015. It particularly focuses on the period of 1988 to 2015. Since 1988, a democracy was restored in Pakistan and the consecutive democratic governments in Pakistan initiated several confidence-building measures for normalization of bilateral relations with India. Secondly, this was the period when SAARC was established with the objectives of creating a regional block of South Asian nations to maximize economic linkages amongst its members. This study adopts a neofunctionalist approach to examine the prospects for economic cooperation as an instrument of confidence building between Pakistan and India. It should be noted that a neorealist explanation of the Pakistan–India conflict draws attention while in the presence of geopolitical issues like Kashmir, Siachen and Sir Creek. Furthermore, the second chapter of this thesis explains the contending approaches of ‘integration’ in international relations and evaluates the merits and faults of these contending approaches regarding their relevance to the management of the Pakistan–India conflict and the enhancement of peace between them. Other limitations include the logistic

support of the researcher during this period of research. Due to a long-standing adversarial relationship, it is challenging for Pakistani and Indian nationals to obtain visas to enter the respective countries and as such, this researcher was not an exception. Moreover, it has become difficult for Pakistanis and Indians to move freely from one city to another due to 'police report to the respective police station' and 'city-specific visa'. Visitors from Pakistan and India are given visit visas for a maximum four cities in the respective country. Consequently, these visitors are supposed to report to the concerned police station in the area where they are staying. As a result, Pakistani visitors have restricted movement in India just as Indian visitors have limited movement in Pakistan. This strict visa regime works as a significant barrier to the enhancement of people-to-people contacts. This researcher also faced this barrier so interviews have been conducted through Skype and e-mail.

1.7 Literature Review

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

brief review of available studies on the potential of economic and trade relations between Pakistan and India.

1.7.1 Pakistan-India Bilateral Trade From the Prism of Gravity Model

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

Srinivasan and Canonero assess bilateral trade while using what they call an “extended version of Gravity Model of Bilateral Trade” with explanatory variables like GNP, GNP per capita and distance (Srinivasan & Canonero, 1993). The study also endeavours to quantify the impact of restrictions to trade in terms of tariff barriers. It suggests that the greatest proportional increase expected in bilateral trade would come from regional integration. The study also suggests that the expected surge in bilateral trade between Pakistan and other SAARC countries would be 8.9 times, 9.5 times in the case of Bangladesh, for India 12.8 times, 10.3 times for Sri Lanka and a 17.9 times increase is expected in bilateral trade between Nepal and the other South Asian countries (Srinivasan & Canonero, 1993).

Batra uses the gravity model to investigate world trade flows of 146 countries, pairing them with India as a trading partner (Batra, 2006). In this study, the dependent variable is the flow of bilateral trade between India and its trading partners while the independent variables are GNP, population, common border, distance, commonality of language, landlocked countries, commonalities of colonial era and the existence of preferential trade agreements. The study discovers an increase in trade with paired countries of higher GNP while trade between paired countries drops by a little over 1 percent for every 1 percent increase in the distance between them (Batra, 2006, p. 335).

It also finds that the magnitude of bilateral trade between Pakistan and India has also been constrained to only 8 percent of India's total trade with the SAARC region due to rivalry and political tension prevailing between Pakistan and India.

Rahman et al. estimates the trade creation and trade diversion in RTAs with special reference to SAFTA and uses the gravity model (Rahman et al., 2006). The study predicts that Bangladesh, Pakistan and India will be beneficiaries from RTA while Nepal, Sri Lanka and the Maldives are not expected to be recipients. It also explains linkage of size of trade (both export and import), distance between trading partners, commonality of language and common borders with trade flow between the trading partners. The study locates an approximately proportional relationship between bilateral export flow and size of economy (either importer or exporter) indicating potential high economic growth in the economies of South Asia (Rahman et al., 2006).

Nazia Gul and Yasin determine the coefficients of Pakistan's trade flow with its trading partners; therefore, the present study estimates the potential of Pakistan's trade with 42 different countries including its neighbours (Nazia Gul & Yasin, 2011). Results under the basic gravity model revealed that Pakistan's bilateral trade would increase by 0.95 percent as the product of GDP increased by 1 percent. Likewise, bilateral trade decreases by 1.44 percent as the distance between Pakistan and its trading partner increases by 1 percent on average (Nazia Gul & Yasin, 2011, p. 34). The study indicates that Pakistan's bilateral trade increases 0.92 percent as the product of GDP increases 1 percent. It also implies that a 1 percent increase in distance leads to a 1.95 percent reduction in bilateral trade between Pakistan and its trading partners (Nazia Gul & Yasin, 2011, p. 36).

Hirantha uses the gravity model to estimate the total impact of the South Asian Preferential Trade Agreement (SAPTA) over the boosting of regional trade in South

Asia (Hirantha, 2004). He discovers strong evidence of trade creation in the region under SAPTA with no trade diversion as it may have no effect on trade with non-members (Hirantha, 2004). This was an indication of trade creation; projecting prospects for success of the then proposed SAFTA that eventually came into effect in 2006. However, SAFTA permits the member countries to protect interests of industry by imposing restrictions on imports while including them in the negative or sensitive lists (*South Asian Free Trade Agreement, 2004*). Pakistan–India bilateral trade in particular and intra-SAARC trade in general have not been enhanced despite measures taken by SAFTA. Therefore, there is room for an alternative approach and this approach could be addressing barriers to trade links and economic connectivity between Pakistan and India. Economic cooperation as an instrument of CBMs seems to be a viable option to dilute the intensity of the conflict between Pakistan and India. This study makes an attempt to explore these prospects.

1.7.2 Pakistan-India Bilateral Trade from the Prism of Revealed Comparative Advantage and Complementarity Indices

In addition to using the gravity model to estimate prospective bilateral trade between Pakistan and India, scholars¹ have used substitute approaches to assess the potential of trade between Pakistan and India. These alternate approaches are trade complementarity indices and revealed comparative advantage indices. While using the revealed comparative advantage indices and trade complementarity indices, various studies have also been conducted to assess trade possibilities in South Asia. Academia, government organizations and the private sector have carried out these studies while using the revealed comparative advantage indices and trade complementarity indices. These include researches carried out by the Government of Pakistan, Ministry of Commerce

¹ Government of Pakistan, Ministry of Commerce (Pakistan, 1996), (Kemal et al., 2002a) and (Mamoon, Paracha, Mughal, & Ayesha, 2011).

(Pakistan, 1996) (Kemal et al., 2002a) and (Mamoon, Paracha, Mughal, & Ayesha, 2011).

The study conducted by the Ministry of Commerce, Government of Pakistan (Pakistan, 1996) estimated the Revealed Comparative Advantage (RCA) for Pakistan and India for the years of 1992–94 for the products at the 3-digit SITC level where both countries compete internationally. The study indicates a convincing RCA for Pakistan in cotton, cotton-based products, rice and leather vis-à-vis India. Similarly, India has additional attractiveness in men's shirts and women's non-knit dresses whereas Pakistan has added effectiveness in hand knotted carpets, woven fabrics, woven cotton and cotton yarn (Pakistan, 1996).

Kemal, Abbas and Qadir study the degree of trade complementarity in South Asia and also examine the configuration of revealed comparative advantage (Kemal, Abbas, & Qadir, 2002b). The study ascertains Pakistan's comparative advantage in 25 items alongside India's comparative advantage in 49 items in 1995 (Kemal et al., 2002b). The study shows that Pakistan has a revealed comparative advantage in food products, cotton, medical instruments, textile related products, leather, crude animal, vegetable, floor covering, baby_carriages and toys. On the other hand, India has a comparative advantage in a wide range of products which mainly include transport equipment such as motor vehicles; cycles and motor cycles; chemicals and related products; steel products and oil seeds and crude fertilizers (Kemal et al., 2002b).

Mamoon et al., estimates Pakistan's trade (export and import) performance against major economies of South Asian such as India, Bangladesh and Sri Lanka for the years 2003 to 2010 and used trade indicators like Trade Complementarity Index (TCI), RCA in its modified form of Bilateral Revealed Comparative Analysis (BRCA) and Revealed Market Access (RMA) (Mamoon et al., 2011). The study discovers that Pakistan's

export to South Asian countries has been rising unfailingly both in terms of percentage share as well as absolute value. Nonetheless, contrary to its potential, various studies indicated estimates of its totals to be at US\$10 billion or 2 percent of the combined merchandize trade with the world, the bilateral trade between Pakistan and India is little. The study calculates the complementarity index of Pakistan's supply (export) with India at 5.28 percent in 2003 and 6.08 percent in 2010. The study determines the average TCI value of Pakistan's exports for Bangladesh as 14.21 percent, 14.89 percent for Sri Lanka and 6.09 percent for India. Therefore, it gives the impression that Pakistan's exports have the potential to match, to a certain extent, with the import demands of other South Asian countries (Mamoon et al., 2011). Similarly, the calculated trade complementarity index of Pakistan's demand (imports) in 2010 was 33.38 percent, 6.08 percent and 2.65 percent for India, Sri Lanka and Bangladesh respectively. The study finds that the trade complementarity index of Pakistan with its regional trading partners has swelled over time, yet is relatively low (Mamoon et al., 2011).

The cited works indicated above are beyond the scope of this current research because this study does not fall under the purview of pure economics; rather it looks at the economic relations and bilateral links between Pakistan and India as a tool of CBMs. However, these studies substantiate the argument that Pakistan-India bilateral trade has enormous potential and can be augmented.

The private sector and academia both in Pakistan and India have carried out these researches and found significant possibilities for enhancing bilateral trade between Pakistan and India. Using the Gravity Model Approach, RCA and TCI, these studies note pronounced potential in Pakistan-India bilateral trade. However, the potential of bilateral trade between Pakistan and India cannot be realized due to political rivalry and economic issues that hinder the economic benefits of both countries. It is significant to

note that both countries have their potential areas for enhancing bilateral trade that will lead to a win-win situation in the economic field and result in an intensification of the overall economic cooperation between them. After having an overview of the studies which use gravity model and trade complementary index it can be found that there is potential of trade links between Pakistan and India. The following section presents a review of the studies have to identify areas for possible economic cooperation between Pakistan and India.

1.7.3 Potential of Economic and Trade Links between Pakistan and India

Since the emergence of Pakistan and India as independent sovereign states, little economic cooperation has taken place. This also applies as far as work done in this area. Some research studies have been carried out to explore prospects for economic cooperation between Pakistan and India. However, little scholarly work has been done to evaluate possibilities for the endurance of the economic cooperation process.

A. Z Khan argues for free trade as an instrument for the resolution of conflict between Pakistan and India (A. Z. Khan, 1997). According to him, increased trade and the enlarged web of mutual links and dependencies stemming from it may dismantle the walls of mistrust and eventually may pave the way for settlement of their political disputes.

While reviewing five major potential benefits of Pakistan-India free trade area, (A. Z. Khan, 1997) assesses the prospects for bilateral industrial joint ventures. He argues that a free trade area can considerably improve cost efficiency in the Pakistani and Indian manufacturing sectors. It will also enable industrialists to benefit from cheap production inputs.

The most important potential benefit of the Pakistan–India free trade area, what Aurangzeb argues in his study (1997), may be its spillover impact on political relations between Pakistan and India. Free trade between Pakistan and India is not applicable because of the disparity between the industries of both countries. Therefore, they will be in a win-lose situation. A free trade framework has many challenges regarding the elimination of import tariffs and non-trade barriers. Therefore, it is not realistic to adopt a free trade framework in the existing economic situation. As far as a resolution of Pakistan–India conflict is concerned, state-controlled process of economic cooperation between free market economies is applicable. In this model, the economic cooperation that started at a lesser level will be leading towards cooperation at a greater level and eventually moving towards managing the conflict between Pakistan and India.

E. Sridharan argues that the eventual resolution of the Pakistan–India conflict lies in developing economic cooperation, beginning with major infrastructure projects in the energy sector and interlinking electrical grids (E. Sridharan, 2000). There are incentives for this manner of cooperation in the post-nuclear test era especially when viewed from the prism of cumulative relative gains. Such common projects will create stakes in continuing cooperation and can catalyze a trade and investment relationship between both Pakistan and India. Sridharan considers a major joint project as the basis for increasing cooperation without adverse security spillover.

Sridharan has applied neoliberalism to portray Pakistan–India relations as sustainable. In this theory, international institutions, both formal organizations and regimes, shape the behaviour of states through the incentives and constraints they set up, inducing states to redefine their interests in the process. However, the framework proposed by Sridharan, is only for the major joint projects between Pakistan and India. This requires modification, as the Pakistan–India economic cooperation requires its

beginning from small functional activities to cooperation in small sectors to the cooperation in mega projects.

On the basis of interviews of the KIs, this study attempts to bridge the gap and contribute to the existing literature on the Pakistan–India economic cooperation and trade connections. This study uses neofunctionalism to explain prospects of economic cooperation between Pakistan and India as an instrument of confidence building. Functionalism explains how economic cooperation at lower level paves the way for economic cooperation at higher levels. However, this study will apply neofunctionalism to the Pakistan–India bilateral economic relations. The detailed discussion about the theoretical framework has been carried out in Chapter 2.

Mirza has explored prospects for enhanced economic cooperation between Pakistan and India and analyzed previous initiatives taken by the two neighbours of South Asia (Mirza, 2005a). He has categorized these attempts into three phases. The first phase starts from independence in 1947 and ends with the Simla Agreement in 1972. The second phase begins with the post-Simla period and continues until the first SAARC Summit in 1985. The last phase of the study is from the first SAARC Summit in 1985 to 1990. Mirza has not discussed the nature of the Pakistan–India economic relations during the 1990s when Pakistan had democratic regimes. It is important to assess the role of the democratic forces in Pakistan when normalizing the Pakistan–India relations. Democratic governments² in Pakistan made attempts to normalize relations with India and initiated various CBMs in security, military, trade and economic sectors.

Sayeed also examines barriers to Pakistan–India trade relations (Sayeed, 2005). He has identified India's high tariff and non-tariff barriers, especially on agricultural

² Benazir Bhutto remained in power from 1988-1990 & 1993-1997 and Nawaz Sharif was in power from 1990-1993 & 1997-1999. However, Nawaz Sharif is in power for third time since 2013-to-date.

products, high transaction cost, bureaucratic red tape on the part of India for Pakistani products and a large infrastructure of informal trade as reasons for the slow growth of Pakistan's exports to India despite granting of the Most Favoured Nation (MFN) status to Pakistan. He has also termed state-business relations and state-society relations in both countries as an important determinant in Pakistan-India trade relations.

Sayeed examines the pattern of formal and informal trade between Pakistan and India based on secondary data and concluded that gains from bilateral trade could be increased for both countries (Sayeed, 2005). The average level of trade between India and Pakistan has been less than US\$ 1 billion until 2005. The average of Pakistan's share in India's trade has been less than one percent while India's share in Pakistan's imports and exports has been less than two percent. Contrary to this, the volume of informal trade between the two countries is estimated to be in a range of between US\$1-2 billion. He has also given the estimates on potentials of bilateral trade to be in the range of US\$ 10-15 billion annually. This estimation is based on different studies such as (Paksitan, 2006) where a simple methodology was used for comparing one country's exports to the rest of the world with other's imports from the rest of the world, and (Nabi & Nasim, 2001) which used the probability of non-tradable into tradable, assessment of gains from trade for both sides on the basis of current formal and informal trade levels.

Taneja has studied Pakistan-India trade comprehensively and used secondary evidence regarding the existing nature of trade between Pakistan and India (Taneja, 2006). She has reviewed existing studies carried out by academia, the public a private sectors and has categorized them on the basis of the research model used in these studies. Studies undertaken by academia have used models such as the gravity model, the computable general equilibrium models and partial equilibrium models. Studies

conducted by private firms and the Chamber of Commerce and Industries have used trade indices such as the revealed comparative advantage index and the complementarity index. Taneja has not clearly mentioned the model that she used in this study, however, one can understand that her approach is closer to the gravity model. Taneja has conducted a survey of identified firms engaged in Pakistan–India trade in three cities such as Mumbai, Amritsar and Delhi to analyze the behaviors of firms and trading environments under a non-conducive political environment existing between Pakistan and India. However, she has not carried out a survey of firms based in Pakistani cities such as Lahore, Karachi and Rawalpindi. This study attempts to conduct interviews with the traders, businessmen and representatives of the chamber of commerce and industries from Pakistan as well. Taneja has also identified non-tariff barriers and visa-related issues as important barriers in Pakistan–India trade. She has also analyzed road, rail and sea routes for bilateral trade and identified high transaction costs for several factors like limited transportation routes, non-availability of rail wagons, shipping protocol between the two countries and procedural delays in clearances.

D.K. Das finds that India and Pakistan's exports have been complementary to the imports of some South Asian countries such as Bangladesh and Sri Lanka (D. K. Das, 2007). Other economies show efficiency in a small number of export areas and cannot be considered complementary to India's imports, or any other country's imports. Therefore, small economies of South Asia will derive fewer benefits compared to larger economies of South Asia such as India and Pakistan. With only two percent of the total production of the world and with a high level of tariffs, South Asia has fewer prospects for economic integration.

Ali and Talukder have analyzed prospects for preferential trade liberalization and regional integration in South Asia while using conventional trade measures, bilateral trade share and regional and international trade structures of South Asian countries (Ali & Talukder, 2009). South Asia is not an open region in terms of international trade. Major economies of South Asia such as India, Pakistan and Bangladesh are not outward-oriented. Also, tariff lines for these major economies are high and they do not have uniformity in trade liberalization programmes. Export and import structures are similar in all South Asian countries. Manufactured products claim the major share of exports and imports of all countries individually. Labour-intensive products such as textiles and clothing products generally dominate exports of the large economies of South Asia. India's total export earnings comprise a near 30 percent share of these products; Sri Lanka has more than 50 percent, while Pakistan and Bangladesh have more than 75 percent share of textile products in export earnings. South Asian countries are performing their trade mostly with non-South Asian countries which includes the US and European Union. Statistics of direction of trade of South Countries reveal that Bangladesh has 89.80 percent exports with non-South Asian countries and only 2 percent with South Asian economies. India has 46.70 percent exports with non-South Asian economies and 6.70 percent exports with South Asian countries. Pakistan, the second largest economy of South Asia has 59.50 percent of its total exports with non-South Asian economies and 7.50 percent of its total exports with South Asian economies. Sri Lanka has 72.50 percent of its total exports with non-South Asian economies while 7.50 percent is with South Asian countries. Out of their total imports, Bangladesh, India, Pakistan and Sri Lanka have 24.50, 45.50, 34.50 and 31.00 percent respectively with non-South Asian countries (Ali & Talukder, 2009).

Bilateral trade, a key indicator for regional integration, is significantly low amongst South Asian economies. India's trade share with SAARC countries is low as compared

to its trade share with non-SAARC economies. India's export share with SAARC countries was 5.25 percent while its import share stood as 0.95 percent. Pakistan's export and import share with SAARC economies in 2005 was 4.55 percent and 2.85 percent respectively. Therefore, intra-regional trade is strikingly low. Trade complementarity, an important determinant for regional economic integration, is also low.

Burki argues for intra-regional trade in South Asia as it will ensure gains to this region, particularly India and Pakistan which are larger economies of South Asia (Burki, 2010). On the basis of previous performance by Pakistan, as estimated by Surjit Bhalla, with a 6.5 percent average industrial growth during 1965–2005 as compared to 5.3 percent in India, it can be stated that Pakistan can realize its rate of growth to 8.0 percent by 2025 if it maintains strong economic relations with India.

Ongoing changes in the global economy such as a shift in the centre of the global economy from the Atlantic to the Pacific, changes in the structure of industrial production, demographic changes in the population of developed countries and a rise in the demand of the service sector should be taken as incentives for the countries of South Asia to focus on the integration of their economies. However, according to Burki, to accrue maximum benefits from the changing world economy, Pakistan should become a collaborator with India in many fields instead of becoming a competitor of India. India can also achieve the status of an economic supervisor provided it works closely with its immediate neighbours. While using trade as a driving force for increasing economic development, Burki (2010) has developed future scenarios on the basis of assumptions about the extent of integration and degree of trade, with an emphasis on significantly more trade with Asia in general and South Asia in particular (Burki, 2010). Economic

gains are higher in the scenario where South Asian economies are integrated as compared to the other scenarios where the focus is on Asian and distant economies.

Taneja, Ray, Kaushal and Chowdhury have conducted a comprehensive study for enhancing intra-SAARC trade in which they have used the Revealed Comparative Advantage (RCA) to assess India's competitiveness with Sri Lanka, Pakistan and Bangladesh (Taneja, Ray, Kaushal, & Chowdhury, 2011). Sri Lanka has a free trade agreement (FTA) with India while Pakistan and Bangladesh are non-LDC and LDC members of SAARC under SAFTA respectively. India's sensitive list toward these countries has been analyzed and categorized into items where India enjoys competitiveness with member SAARC countries as well as those items where India does not experience any competition with SAARC countries. On the basis of the pairing of the RCA of India to the products included in India's sensitive list with the RCAs of corresponding SAARC members, a decrease has been argued for with respect to the sensitive list of India towards Pakistan, Bangladesh and Sri Lanka. Agricultural products and alcohol and tobacco are excluded from this study due to food security and revenue concerns respectively. Thus, after excluding these items, India's sensitive list that (Taneja et al., 2011) found were 199 for Sri Lanka, 298 for Bangladesh, and 877 for Pakistan.

Taneja et al. has also categorized a sensitive list into a Notified Sensitive List (NSL) and an Operationalized Sensitive List (OSL) (Taneja et al., 2011). The Operationalized Sensitive List include those items that are not being exported by the country at all but are included in India's sensitive list. Therefore, these items should be excluded from India's sensitive list with regard to the corresponding countries. After excluding these items from the sensitive list of India for Pakistan, the list contains 752 items (877-125). 125 items were not exported at all by Pakistan during 2005, 2006 and 2007. After

excluding 274 items, which were initially reserved for small-scale sectors but have now been de-reserved, the sensitive list remains at 478 items. After conducting the study regarding the pairing of RCAs for India and Pakistan, it has been suggested that there are 67 items with which India has to face competition. India may face a potential threat from Pakistan in the international market regarding these items. The condensed sensitive list for Pakistan contains mainly vegetable and textile products, which amounts to 75 percent of all the items. India can give concessions to Pakistan in the textile sector as it has already given concessions to Bangladesh and Sri Lanka, provided Pakistan gives MFN status to India. However, India should eliminate items from its sensitive list concerning member SAARC countries where India would experience no threat. India should instead phase out the items under potential threat from member SAARC countries gradually over a period of three to five years.

Naz has identified the trade policies of India and Pakistan towards each other as restrictive and tested political priorities or economic gains as driving forces in regulating Pakistan–India bilateral trade (Naz, 2012). On the basis of a survey conducted in the Pakistani cities of Karachi, Islamabad, Rawalpindi and Lahore, Naz finds that the majority of stakeholders are not satisfied with the ongoing process of bilateral trade between Pakistan and India. However, they are optimistic about the prospects of it. According to her, Pakistani stakeholders consider both Pakistan and India as responsible for giving priority to political disputes over economic gains. She has presented perceptions of the people of Pakistan but lacks representation of Pakistani people from Peshawar, Quetta, Multan and Sukkur. Naz concludes that peace will be the only option if bilateral trade between Pakistan and India achieves its full potential.

Mehta has identified a high potential for trade between India and Pakistan (P. Mehta, 2012). Being contiguous as well as possessing maritime proximity between their major

business centres Karachi and Mumbai, bilateral trade between Pakistan and India is marred by several hindrances, which are mainly dominated by geo-politics. Historical reviews of Pakistan–India trade indicate India's positive trade balance with Pakistan. Due to high trade costs, it resulted in a variety of hurdles; of which included informal trade at an estimated US\$ 3 billion that takes place between the two neighbours annually. According to Mehta, India enjoys a moderate level of the Trade Complementarity Index (TCI) with Pakistan while Pakistan does not have the parallel level. India's TCI with Pakistan was 50 percent while its highest TCI with Pakistan was 63 percent in 2007. Pakistan, on the other hand, has 14 percent TCI with India and the highest TCI with India was 22 percent in 2010 (P. Mehta, 2012). It shows a great opportunity for India to trade with Pakistan.

Taneja has assessed potentials of bilateral trade between Pakistan and India at US\$19.8 billion, which is ten times higher than the current level of US\$ 1.97 billion (Taneja, 2013b). Export potential is US\$ 16 billion, while import potential is US\$ 3.8 billion. Machinery, mechanical appliances, electrical equipment, chemicals and textiles are the products that have the largest potential for export from India to Pakistan and comprise 54 percent of total exports potential. On the other hand Pakistan's products include jewelry and precious metals; textiles and base metals include 45 percent of its total export potential to India. Fifty-four percent of Indian exports to Pakistan are on Pakistan's negative list for India while thirty-two percent of Indian imports from Pakistan are on the Indian sensitive list for Pakistan and are applicable under SAFTA. The automobile and textile sectors in Pakistan are protected against India, but India has a 3 percent potential for the export of items indicated on Pakistan's list. The textile sector is protected by India against Pakistan under its sensitive list and is also applicable under SAFTA but concerns for larger Indian companies are not based on grounded realities. Service sectors such as IT, healthcare, entertainment and business process

outsourcing are other areas, which have optimum potential for bilateral trade between Pakistan and India. Pakistani businessmen face non-tariff barriers that include non-transparent regulations, port restriction regulations, problems related to standardization as well as verification of goods and complexity of regulations but these are not discriminatory. Perceived barriers are however faced by businessmen and are difficult to address except with the regard to the creation of trust among businessmen for treatment on equal terms with local businessmen in the respective countries. A flow of foreign direct investment (FDI) is an important measure to establish strong economic ties between Pakistan and India. Relaxation of the visa regime is other key measure that will provide incremental confidence to the precarious structure of the economic relationship between these two neighbours of South Asia.

Husain has argued that bilateral trade between Pakistan and India is mutually beneficial (Husain, 2013). He has taken an optimistic view of the Pakistan-India bilateral trade and considered Pakistan's grant of MFN Status to India as well as Pakistan's withdrawal from the restrictive positive list to a negative list as significant changes in Pakistan-India trade that have a positive impact on bilateral trade. While assessing trade potential between Pakistan and India, Husain has carried out factual analysis of key sectors such as textile, automobiles, Information Technology, agriculture, pharmaceuticals and chemicals. India's sensitive list for Pakistan under SAFTA includes 32 percent of items with high export potential for India and comparatively, Pakistan's sensitive list for India has 58 percent of the items that indicates high potential for India (Husain, 2013).

A. A. Naqvi and Tahira argue for trade liberalization between Pakistan and India as more cooperation and integration at the regional level may help to avoid regional or bilateral conflict (A. A. Naqvi & Tahira, 2014). Regarding the enhancing of bilateral

trade between Pakistan and India on the basis of secondary sources, emphasis has been placed upon abolishing the sensitive lists and Pakistan-specific non-tariff barriers (NTBs) adopted by India as well as improvement of the security situation in Pakistan (A. A. Naqvi & Tahira, 2014).

Sandeep Kumar studied the bilateral trade relationship between India and Pakistan in terms of shares in global trade, bilateral trade flow and the possibility of intra-industry trade along with an overall potential of bilateral trade between Pakistan and India (Sandeep Kumar, 2015). In the analysis of India's Trade Intensity Index (TII) and India's trade intensities with Pakistan, it was determined in the study that the export strength of India with Pakistan has increased. However, the entire trade relationship is not satisfactory, keeping in mind the low value of the Import Intensity Index (III) (Sandeep Kumar, 2015, p. 14). It was also identified in this study that high tariffs, non-tariff barriers, obstructive maritime protocol, poor infrastructure and difficult visa regimes are just a few of the barriers to Pakistan-India bilateral trade. (Sandeep Kumar, 2015) indicates that India accounts for a 1.20 percent share in global trade while Pakistan has only a 0.20 percent share in it. It is also noted that India has more importance in Pakistan's economy while Pakistan has little importance in the massive economy of India. However, on the basis of analysis of trade potential (Sandeep Kumar, 2015) finds adequate prospects to augment bilateral trade given the low size of bilateral trade that presently exists.

In sum, it can be argued that the above studies on Pakistan-India bilateral trade as well as potential bilateral trade between Pakistan and India are useful and substantive in explaining barriers to the Pakistan-India economic connections and trade links. However, the available studies on Pakistan-India economic relations are generally limited and demonstrate their limitations by focusing only on bilateral trade between

Pakistan and India. These studies have failed in approaching a larger overarching perspective and providing in-depth exploration of the prospects for economic cooperation between Pakistan and India as well as its spillover effect on the politico-security relationship between the two nuclear weapon-laced neighbours. The existing studies on the Pakistan-India bilateral trade relations have not adequately covered the prospects for joint ventures between Pakistan and India. This study attempts to explore prospects for joint ventures between Pakistan and India as the part of a larger framework for economic cooperation between them. These joint ventures may help increase stakes and make the situation a win-win for all. Research in this area would be highly useful for identifying the psychological and physical impediments to the Pakistan-India economic cooperation. This research would also be beneficial in highlighting substantive measures for enhanced economic cooperation between Pakistan and India as well as prospects for joint ventures between them on the basis of the interviews of Key Informants (KIs) as the primary data collected for this study.

The literature available on the Pakistan-India economic relations generally covers their bilateral trade relations. However, this research attempts to gauge prospects for economic cooperation between Pakistan and India and bilateral trade falls under the broader framework of economic cooperation. One study has treated free trade as a way to increase economic connections between Pakistan and India. However, free trade between Pakistan and India is not functional as a pragmatic approach because of differences in the economic performance of both countries; consequently free trade would not result in a fair playing field. Likewise, another study was conducted between the time period of 1947 to 1990 to examine the prospects for augmented economic cooperation between Pakistan and India. Contrary to this, the research covers the period of 1990-2015 and reviews previous initiatives taken by Pakistan and India to increase economic cooperation.

Previous studies have examined prospects for preferential trade liberalization and regional integration in South Asia, whereas this study focuses on the Pakistan–India economic cooperation while keeping in view the SAARC’s low performance in enhancing of regional economic cooperation, which has been mainly due to Pakistan–India conflict. Therefore, regional economic cooperation in South Asia cannot be maximized, unless the Pakistan–India conflict is managed and bilateral trade connections are enhanced. This research therefore attempts to bridge this gap and assess prospects of economic cooperation between Pakistan and India while identifying ways to increase bilateral trade, identify prospective low-cost trade routes and optimize use of existing trade arteries, especially the Wagha-Attari trade crossing and explore the potential of joint ventures between Pakistan and India as a win-win approach to establish sustained economic connections. Contrary to most of the existing literature, this research has used interviews of KIs from both countries as primary sources and analysed the prospects for increased economic cooperation between Pakistan and India during the pro-business Nawaz and Modi governments in Pakistan and India respectively.

1.8 Chapterisation

This study is divided into seven chapters for the purpose of organizing the research and analysis. Chapter 1 has elaborated the research problem, aims of the research and the pertinent questions to be concentrated throughout the study. Significance and research methodology of the study have also been elaborated in this chapter. Lastly, this chapter also covers the literature review of the study.

Chapter 2 focuses on the conceptual and theoretical framework of the study. It explains the contending approaches of ‘regional integration’ and attempts to make an assessment of the relevant approach to the ‘Pakistan–India conflict’. Included is a detailed

discussion on the conceptual framework of this study as well as an elaboration on the notions of 'economic cooperation', 'regionalism', and 'regional integration'; additionally this study presents a detailed analysis of the contending approaches of regional integration. On the basis of the comprehensive analysis of these contending approaches, chapter 2 applies Ernst Haas' neofunctionalist approach for managing the Pakistan–India conflict to augment peace between them.

Chapter 3 presents an overview of the history and political relations between Pakistan and India, which has been adversarial since their inception in 1947. Also, it analyses initiatives such as The Indus Waters Treaty (1960), The Tashkent Agreement (1966), The Simla Accord (1972) and The Lahore Declaration (1999) taken by Pakistan and India to build confidence and lower the intensity of conflict. The last part of this chapter surveys antecedents of the Pakistan–India conflict such as the Kashmir issue, the Siachin glacier dispute, Sir Creek and probes prospects for the resolution to these stumbling blocks of Pakistan–India relations.

Chapter 4 provides necessary attention to the economic and trade links between Pakistan and India, focusing especially on challenges and constraints. It starts with historical impressions of the bilateral trade between Pakistan and India. It also surveys research on trade potential and investment possibilities. These studies have used econometrics models such as the gravity model, the computable general equilibrium models, partial equilibrium models and various indices such as the trade complementarity index and the revealed comparative advantage index. The chapter also explores potential areas for mutual cooperation and joint ventures between Pakistan and India.

Chapter 5 attempts to make an estimate of economic cooperation as a tool for confidence building between Pakistan and India. It presents an overview of CBMs

between Pakistan and India, with a particular focus on security and economic CBMs. It highlights the need for creating a sustained economic cooperation, as in the cases of the EU, ASEAN, NAFTA; between China and Taiwan; as well as Brazil and Argentina despite the presence of the Sino–Taiwan and Brazil–Argentina conflicts. It also traces causes for the failure of the SAARC. By placing economic cooperation under the umbrella of CBMs, this chapter investigates the prospects of regional cooperation as an instrument to enhance cooperation between Pakistan and India while highlighting the constraints to regional economic cooperation.

Chapter 6 presents an analysis of the responses of KIs in accordance to the research questions and objectives set within this study. Research findings are also organized in this chapter. This chapter provides a lengthy and substantive analysis of economic cooperation as an instrument of CBMs between Pakistan and India. It also explores prospects for economic cooperation and augmented trade links between Pakistan and India as an alternative approach for the normalization of bilateral relations. This chapter also focuses on the potential for economic cooperation to function as a CBM between Pakistan and India in order to manage their conflictual relationship. This chapter includes an examination of the prospective low-cost trade routes such as the Munabao-Khokhrapar and the Bahawalnagar-Bhatinda trade openings at the Pakistan–India border as well as multiple other trade openings at the Line of Control (LoC). The provision of the modern facilities at the Wagah-Attari trade route for optimal and maximum use of this trade artery is additionally assessed. This chapter investigates the potential role of the SAARC to manage Pakistan–India conflicts and enhance economic cooperation between them. It is pointed out in this chapter that the SAARC has become captive of the Pakistan–India enmity. Henceforth, management of the Pakistan–India conflict can augment intra–SAARC cooperation. Lastly, this chapter assesses the prospects for economic cooperation as an instrument of CBMs between Pakistan and

India and investigates the existing environment; especially the pro-business parties that are in the governments of both countries.

Chapter 7 provides a conclusion based on findings in the study and includes a brief argument on existing trends occurring in Pakistan–India bilateral economic relations. This study has explored impediments to bilateral trade that Pakistan and India have been facing since their emergence as independent states. Providing an overview of bilateral economic interaction, it has pointed out several key factors, mainly the trust deficit, infrastructural related obstacles in addition to the non-tariff barriers and technical barriers to trade, security and geo-political issues which have caused the dismal nature of the Pakistan–India economic relations in general and bilateral trade in particular. The study concludes that Pakistan and India can move forward by adopting economic cooperation as an alternative strategy and succeed in bringing peace in South Asia while shifting their focus from geo-politics to geo-economics in their bilateral relationship. Economic cooperation is useful in the long term and depends upon the willingness and commitment by the governments of Pakistan and India to this process with continuous investment. The existence of pro-business governments in both Pakistan and India is to help promote the creation of a space for initiating overtures for enhanced economic cooperation for sustained peace in South Asia.

CHAPTER 2: CONCEPTUAL FRAMEWORK

2.1 Introduction:

Pakistan and India are two large countries of South Asia and are home to nearly 1.5 billion people, of which 43 percent are below the global poverty line. Among the observed countries in the world, Pakistan has been ranked 147th out of 186 in the Human Development Index (HDI) in 2015 while India has been recorded at 130th place (UNDP, 2015). This shows a bleak picture regarding the quality of life and facilities available to the masses in this poverty-stricken and conflict-ridden region of South Asia. Under-development in South Asia is mainly due to the geo-political controversies prevailing between two significant and neighboring countries of South Asia, Pakistan and India.

Pakistan and India have fought three conventional wars and one limited war. War skirmishes are an additional source of irritation. Despite showing initiative with SAARC in 1985, bilateral relations between Pakistan and India have still not improved to the extent that benefits can be supplied to the masses of these two countries. Regional economic organizations such as the EU and the Association for Southeast Asian Nations (ASEAN) have been working successfully to contribute to the development of the respective regions as well as the masses. SAARC however, is not a story of success despite the great potential in resources and manpower that is available in the region of South Asia. Regional cooperation in general and Pakistan–India cooperation in particular have become hostages of the Pakistan–India conflict. Several initiatives like the Tashkent Accord in 1966, the Simla Accord in 1972 and the Lahore Declaration in 1999, along with many CBMs have been established, yet no breakthrough has taken place to bring about a sustained peace between nuclear-armed Pakistan and India. In this

age of globalization and regional economic groupings, South Asia should not be falling behind.

For South Asia to emerge as a viable economic block, Pakistan and India should manage their conflicts and become a part of the regional level economic web. This backdrop of economic cooperation between Pakistan and India should be enhanced to the extent that they may become entangled with one another to such a degree that the reversion of this process would become impossible. Therefore, the main objective of this study is to explore prospects for economic cooperation between Pakistan and India. To gauge the potential for conversion of economic cooperation into political cooperation is another scope of the study. Therefore, regionalism has been taken as an approach to enhance economic cooperation between Pakistan and India. However, regional integration has several theoretical interpretations, some of which mainly include federalism, constructivism, functionalism and neofunctionalism. Neofunctionalism is the main approach, which is going to be used to explain prospects of enhanced Pakistan–India economic relations. Bilateral economic cooperation that was started at lower levels may lead to cooperation at higher levels as a result of what Mitrany called a ‘doctrine of ramifications’, which was later termed as “spillover” (Kishore C Dash, 2008).

2.2 Regionalization and Regionalism:

Regionalization and regionalism, being distinguished as two separate notions, are concepts in international relations that complement each other. While quoting Beeson Mark, Aminul Karim (Karim, 2014) has defined regionalism as ‘a degree of internationality as states and other actors engage in an essentially collaborative political process’ whereas regionalization is ‘self-conscious, coherent process, which is primarily driven by the private sector’ (Karim, 2014). The concepts of regionalization and

regionalism are constructed on the idea of region, which is defined as 'a limited number of states linked together by a geographical relationship and by a degree of mutual interdependence' (Nye, 1968). While adopting this definition of region, regionalism may also be defined as a 'formation of interstate groupings on the basis of regions' (L. Fawcett, 1995). The region as a unit of a level of analysis became important not only due to the end of Cold War politics but also owing to the growing assertiveness and self-consciousness of the regions themselves. Regionalism is also defined as the extent of social, economic, political and organizational cohesiveness (L. Fawcett, 1995). After the end of Cold War regionalism has become prevailing feature of international politics where regional actors have started to play active role in it to the extent where Louise Fawcett (L. Fawcett, 2004) quotes Jan Aarte Scholte, terming it as a 'contemporary turn towards multilayered governance'.

There are no naturally geographic regions, rather all these areas are socially constructed as Emmanuel Adler has rightly termed them as 'cognitive regions' (L. Fawcett, 1995). Broadly speaking, regionalism is referred to as,

the structures, processes and arrangements that are working towards greater coherence within a specific international region in terms of economic, political, security, socio-cultural and other kinds of linkages (Dent, 2008).

Regionalism may be a result due to either micro processes that emerge from regional concentrations of interconnecting private or civil sector activities or state-led initiatives for economic cooperation that are created by mutual treaties or intergovernmental dialogues. Therefore, regionalism is a 'policy-driven' and 'top-down' process while regionalization is more of a 'societal-driven' and 'bottom-up process' (Dent, 2008). Many studies on regionalism focus on its economic dimension because economic regionalism is an open manifestation of regionalism. The European Union's euro zone, the North American Free Trade Area (NAFTA), the Gulf Cooperation Council and

ASEAN's Free Trade Area are some of the most cited examples of regionalist organizations.

Economic regionalism is generally defined as institutional arrangements designed to facilitate the free flow of goods and services as well as to coordinate foreign economic policies between countries in the same region. In other words economic regionalism is concerned with regional level trade, investment and financial interlinkages. Economic regionalism can also be viewed as a conscious attempt to manage economic opportunities and constraints created by rapid increases in international economic ties. Examples of economic regionalism include free trade areas, custom unions, common markets and economic unions (Moon, 2014).

Another dimension of regionalism is political regionalism, which focuses on the development of transnational policy networks, formations of integral networks between political communities of specific regions, the expression of shared political interests among leaders of a region and the creation of region-level institutions to regulate any political spaces formed between the nation-states of the region. Security regionalism concerns overall security arrangements such as military alliances, non-aggression and common defence pacts for security of an entire region. The last dimension of regionalism that Christopher M. Dent (Dent, 2008) has described as sociocultural regionalism, focuses on linkages between a region's society and the creation of its common identity.

The advent of 'new regionalisms', particularly since the end of the Cold War, has seen the expansion and revision of the early idea of regionalism and has included new organizations, actors and issue areas, yet the original concept of regionalism, that of the policies and practices of state-based permanent organizations with memberships confined to a limited geographical area, retains extraordinary importance (L. Fawcett,

2012). On the basis of its aims, regionalism can be grouped into 'soft regionalism' and 'hard regionalism'. Soft regionalism focuses on the enhancement of a sense of regional awareness or community while hard regionalism consolidates regional groups or networks that are formalized by interstate agreements and organizations (L. Fawcett, 2004).

Regionalism can be classified into two categories. Firstly, it is ordered on the basis of the relative level of institutional integration. Secondly, regionalism is classified based on the treatment of non-members (Moon, 2014). The first type includes 'tight regionalism' and 'loose regionalism'. Tight regionalism displays a high level of integration through shared principles, norms, values and decision-making processes that curtail the autonomy of member states. The EU is classic example of tight regionalism; institutional evolution from a free trade union into a common market that eventually led to an economic union with a standardized currency. It also had spillover effects from the economic arena into social and political areas when it led to the creation of the European Parliament. Loose regionalism is characterized by a lack of binding institutional arrangements and relies on consultative mechanisms and consensus-building procedures. APEC is good example of 'loose regionalism.' APEC was purposefully established for the strengthening of economic cooperation among member states.

Another method for classification of regionalism is based on the treatment of non-members. On this basis, regionalism also has two types. First is open regionalism, which does not include any kind of discrimination or any element of exclusion. The EU, NAFTA and APEC mainly follow open regionalism. Contrary to this, closed regionalism adopts protectionist measures against non-member states to provide member states access to free markets. The international trading system prevalent during

inter war periods can be presented as a good example of closed regionalism (Moon, 2014).

2.3 Theoretical Approaches to Regionalism: A Review

The theoretical analysis of regionalism begins with the theories that started to explain the phenomenon of regional integration in Europe with the emergence of the European Coal and Steel Community (ECSC) in 1951. The first interpretation was provided by liberal theorists who focused on the changing structure of the international system and the relationship between economic integration and peace.

The following section explains the theoretical analysis of regional integration, starting with the European Community and then details contemporary regionalism in other parts of the globe.

2.3.1 Systemic Theories

Systemic theories focus on the formation of broader political and economic structures within which regionalist schemes emerge and highlight the impact of external factors on it. Two sets of systemic theories are important in this regard.

2.3.1.1 Neorealism

Neorealism focuses on the compulsions of the anarchical international system as well as the importance of the competitive nature of power politics. Neorealists see a lot of commonalities among regional groupings and politics of regional alliance formations. For neorealists, change in the structure of an international system is also considered as an important factor in the emergence of regionalist schemes. The emergence of European regionalism after the end of the Second World War and the spread of new wave of regionalism after the end of cold war politics resulted due to changes in the structure of international systems (Wallace, 1995). Neorealism also attributes the

emergence of economic regionalism to mercantilist competition. This economic competition compels countries in the same geographical groupings to form economic groups in order to secure their economic interests.

Theories of structural interdependence and globalization

The most important and significant criticism of neorealism that has been made by neoliberalism has been the challenge of the interpretation of the nature of the structure of an international system. According to neoliberals, neorealists ignore the fact when the competitive nature of an international system changes to a cooperative one over time. The scholarly work of Robert Keohane and Joseph Nye have presented the notion of 'complex interdependence' when distinctions among security, economic and social issues become blurred as result of interdependence that becomes established in the wake of regional groupings (Keohane & Nye, 1989). Globalization, as a phenomenon of interconnectedness between societies, has become a key theme of post-cold war discourses on the nature of international order. Globalization may act as a stimulus to regionalism by modifying and strengthening patterns of mercantilist economic competition. In the wake of globalization, states face competition to attract foreign investment and technology in a closely connected market. This competition compels the states towards the formation of larger units for economic efficiency and to ensure the political power necessary to bargain effectively over the rules and institutions that govern the world economy (L. L. E. Fawcett & Hurrell, 1995).

2.3.2 Regionalism and Interdependence:

Contrary to systemic theories that focus on external factors, this set of theories cover the linkage between regionalism and regional interdependence. The following are variants of it.

2.3.2.1 Neofunctionalism

Neofunctionalism is a concept that involves a continued process of functional activities. Proponents of neofunctionalism argue that cooperation in one sector will lead towards cooperation in other sectors. According to neofunctionalists, cooperation and mutual interdependence would initiate the process of continuous cooperation that would lead to political integration. In this process, cooperation starts with the least controversial issues and moves towards complicated issues as a result of 'spillover'. Regional integration is augmented with the help of 'spillover' that complements cooperation in one sector and consequently migrates to another sector under the pressure of interest groups, public opinion and elite socialization. There are two types of spillover. The first involves functional spillovers; whereby small initial steps are taken in the process of integration that creates new problems which are also solved by further co-operation. The second, political spillover, emerged when supranational institutions started to work to resolve issues created in the wake of regional integration. The existence and work of supranational institutions makes this process self-sustained.

2.3.2.2 Neoliberal institutionalism

This has been the most influential theoretical approach to the study of international co-operation. There are some core postulates of liberal institutionalism. Firstly, increasing levels of economic interdependence produce increased demand on international cooperation. Secondly, neoliberal institutionalism considers the state as a key actor in co-operation. Thirdly, institutions are important due to benefits that they provide through the provision of information, reductions in the cost of transaction and facilitating the productive use of issue-linkage strategies. Finally, regional cohesion would emerge not from impressive proposals to create new federal structures, but rather from the way in which issue-specific cooperation comes to formulate a dense network

where cooperation on each new issue becomes implanted in a more complex whole (L. E. Fawcett & Hurrell, 1995).

2.3.2.3 Constructivism

Constructivism, while focusing on regional identity and awareness, refers to the shared sense of belonging to a particular regional community and has also been called 'cognitive regionalism' (L. Fawcett, 1995). According to constructivism, regional cohesion depends on the nature of a sustained sense of community based on mutual trust and high levels of what might be termed 'cognitive interdependence'. Constructivists underline the importance of ideational forces; learning; shared knowledge; and normative and institutional structures. As Wendt (Wendt, 1992) has rightly explained:

Constructivists are interested in the construction of identities and interests, and, as such, take a more sociological than economic approach to system theory. On this basis, they have argued that states are structurally or exogenously given but historically contingent interactions.

Constructivists claim that the emergence of a regional identity is an important component for promoting cooperation among countries in a particular region. There should be a consensus or loose agreement regarding the concept of 'region' among potential members of a proposed region (Terada, 2003). Constructivists maintain that regions are not naturally built, but rather human beings subjectively construct them and draw lines to make distinctions between 'us' and 'others' (Terada, 2003). However, this kind of identification determines how the boundaries of self are drawn (Wendt, 1994). It is important to note that Constructivists also emphasize the importance of the process of how actors interpret the world and how their understandings are shaped about regions to which they belong (Hurrell, 1995). Neorealists criticize the Constructivists' overemphasis on the importance of regional identities. Rather, neorealists indicate the occurrence of violent conflicts among highly integrated communities sharing beliefs and

values. However, the foremost input of constructivism includes its 'insights into the interplay of institutions, norms and identities that goes into the social construction of security community' (Acharya, 2001).

2.4 Regional Integration:

Regional integration has been defined as 'an arrangement for enhancing cooperation through regional rules and institution entered into by states of the same region' (Filippova, 1982). Regional integration, in broad terms, is the process by which two or more nation-states agree to co-operate and work closely together to achieve peace, wealth and stability. By integration, we mean, generally, political integration. Political integration can also be defined very generally as 'the process whereby two or more actors form a new actor' (Pentland, 1975). However, two key qualifications are necessary to keep in mind before applying this definition at the international level. Firstly, original actors are supposed to be nation-states. Secondly, the emergent 'new actor' should not be a state in the same sense, rather it can be described as a political community (Pentland, 1975). By and large, the process of integration involves one or more written agreements that describe the areas of cooperation in detail and some coordinating bodies that represent the countries involved. This cooperation normally starts with economic integration and leads towards political integration. Transactionalism, Functionalism, Neofunctionalism and Intergovernmentalism are the major schools of thought on the theory of regional integration.

2.5 Theoretical Approaches to Regional Integration: An Analysis

2.5.1 Transactionalism

Transactionalism is considered as one of the early theories of regional integration. Karl Deutsch developed a communications approach to address the issue of community building in the international arena. His book 'Political Community and the North

Atlantic Area', written in 1957, is a significant contribution to integration theory. He has defined integration in this book as "the attainment, within a territory, of a sense of community and of institutions and practices strong enough and widespread enough to assure, for a long time, dependable expectations of peaceful change among its population" (Kishore C. Dash, 2013). The fundamental objective of Deutsch's theory was to avoid war and strengthen peace among nation-states by developing a political community to the extent that it could realize mutual gains attached to the formation of organizations. Traditional international relations theory revolves around the Hobbesian paradigm, which considers states as sole actors in an international system that is anarchic in nature. Challenging this view, Deutsch claimed that people could learn to forego their parochial orientations and form organizations for the promotion of peace. To him, the world consists of a society of states that has a common framework of legal and moral standards.

Deutsch has categorized political communities into pluralistic and amalgamated security communities. An amalgamated security community emerges as one single larger community having a new supreme framework of decision-making from a formal merger of two former independent units. In contrast with this, a pluralistic security community emerges when nation-states, retaining their legal independence of separate governments and maintaining their separate national identities, pursue common objectives and secure their joint economic benefits by complementing their policies (Kishore C. Dash, 2013). To Deutsch, transactional activities, such as tourism, student travel, electronic communications, mail flows and relative levels of intra-regional trade, among nation-states play a key role in the integration process. While quoting Deutsch, Charles Pentland has termed these exchanges as representative of structural bonds of an integrated system, which can be as 'stable and efficacious as one that is formally governed by a common authority' (Pentland, 1975). However, Ernst Hass and scholars

of neofunctionalism and intergovernmentalism challenged the appropriateness of Deutsch's transactionalist approach as the only one to gauge the level of regional integration. Hass rather, termed political leaders and their expectations about mutual economic benefits as crucial factors in creating regional integration.

2.5.2 Functionalism

David Mitrany developed functionalism as an approach to achieve peace and stability in the world. He tried to propose an international order based on transnational cooperation. Mitrany's main preoccupation was linked to the proficient administration of limited resources as vital premises for durable cooperation and for creating what he termed as being a 'working peace system' (Popoviciu, 2010). There are two central postulates of functionalism. First, political divisions are a source of conflict among nation-states, which can augment these divisions gradually by searching for areas of mutual gains and establishing a net of international institutions not administered by political leaders, but rather by technical elites. Second, no nation-state in single capacity can solve its economic and social problems. Therefore, there is a need to identify common economic and social problems and to establish regional and international organization to address these common problems. In this way, Mitrany's functionalism is considered as a paradigm of economic, social and political cohesion in the arena of international relations (Popoviciu, 2010). The notion of functionalism proposed by Mitrany, created a pathway to move away from an old competition-based, antagonistic society to a harmonized and cooperative one.

Mitrany argues for functionally specific organizations managed by technical experts because these organizations will be able to address a single specific international issue and the experts will play a fundamental role in the successful operation of the organizations. Once these particular institutes resolve an issue, there will be an increase

in demand for similar organizations in other areas as well. In this way, cooperation among nation-states in one sector will be complimentary to other sectors. This process, later known as “spillover” or what Mitrany calls “the doctrine of ramifications” will produce “ever-widening circles” of social and political integration (Kishore C Dash, 2008). Thus, it could be indicated through the application of functionalism that cooperation in ‘low politics’ (social, economic and cultural) leads towards greater cooperation in the most complicated areas of ‘high politics’ (military and security issues).

2.5.3 Neofunctionalism

Neofunctionalism emerged as a direct product of confrontation to functionalist ideas with the experience of such an organization in Western Europe. In the ECSC, proposed by Robert Schuman in 1950, those who favoured integration turned against the ambitious pan-European federalist schemes to the functionalist strategy of placing a sector of the economies of six countries under a supra-national authority. According to neofunctionalism, this structure would remove the states capacity for reoccurrence of war and create the circumstances for rapid expansion of other sectors such as agriculture, health and transport.

Ernst Hass, the chief proponent of neofunctionalism provided the general framework in his famously pioneering work ‘The Uniting of Europe’. The fundamental objective of neofunctionalism was to explain the voluntary demise of the sovereignty of nation-states to supranational, regional or international organisation. Hass explains how nation-states voluntarily mingle, merge and mix with their neighbours so as to lose their factual attributes of sovereignty while acquiring new techniques for resolving conflicts between themselves.

Neofunctionalism has two central postulates. First, political parties; pressure groups; national and regional elites; and supranational organizations are key actors in the process of regional integration. These actors become more active when they realize that participation in supranational institutions provides more benefits and gains. Second, in addition to gains achieved by participating in the process of regional integration, cooperation in one sector will lead towards cooperation in another sector. Consequently, the process of regional integration is logical for sector-expansion that will result in sector integration. This sector integration will contribute to “spill over” from one sector to another (Ernst B Haas, 1964).

Neofunctionalism has two types of spillover: functional and political. Based on the premise that various sectors of modern industry are interdependent, functional spillover argues for the expansion of sectoral integration from one sector to another in a way that one integrative action creates demand for another action for a sustained process of integration (Mattli, 1999b). Political spillover focuses on changes in the behavior of interest groups and political leadership at supranational institutions created by sectoral integration. In neofunctionalism, sectoral integrations pave the way towards steady increases in the expectations of interest groups and political elites while changing their approach towards the positive outcome of regional integration. Contrary to functionalism, neofunctionalism advocates for a connection between economics and politics in the integration process while underlining the inseparability of social, political and economic issues. Kishore C. Dash (Kishore C Dash, 2008, p. 9) has rightly quoted Ernst Haas by stating “that supranational style stresses the indirect penetration of the political by way of the economic because the purely economic decisions always acquire political significance in the minds of the integration process”.

In the wake of French President de Gaulle's refusal for acceptance of further expansion of the EU, a major crisis emerged in 1965. Consequently, neofunctionalism faced criticism by scholars over the ignorance of the autonomy of political sector; the importance of nationalism; and the linkage between the international and regional environment (Hoffmann, 1966). Resultantly, notions such as "spillback" and "spillaround" were introduced to the literature of neofunctionalism. Spillback refers to the withdrawal of the actors' commitment from their original commitment in the process of regional integration while demoting their commitment to mutual cooperation. On the other hand, spillaround refers to the condition when there is no significant increase in growth of the authority of an institution of regional integration despite an increase in functions performed by the integrative institution.

2.5.4 Intergovernmentalism

Being another important school of integration theory, intergovernmentalism has based its assumptions on structural realism. Structural realism considers the state as the unitary and sole actor in international structures, which is anarchic. States as central actors always seek to maximize their interests (Kenneth, 1979). While following structural realism, intergovernmentalism emphasizes the state as the primary actor in the integration process and these sovereign states participate in the integration process only when this process is compatible with their national interests. Thus, the integration process involves a series of bargaining acts between nation-states in the region. The search for the compatibility of interests of nation-states with regional integration and withdrawal of national sovereignty make the integration process complicated and difficult for heads-of-state. Therefore, intergovernmentalism, according to critics, is cautious to the greater extent. Interdependence school emphasized the fragmented state and interface between domestic actors. However, it was neoliberal institutionalism that was critical of intergovernmentalism's focus on centrality of the unified state. Instead,

neoliberal institutionalism emphasized the existence of multiple actors, multiple definitions of national interests and fragmented states to cope with this limitation of intergovernmentalism.

To cope with this challenge, liberal intergovernmentalism, a new version of intergovernmentalism, emerged. This expanded approach has paid focus to interaction between domestic preferences, government bargaining and supranational institutions in the regional integration process (Mattli, 1999b). However, liberal intergovernmentalism fails to discover domestic sources of stimulus of policymakers.

2.6 Pakistan–India Economic Co-operation: From the Prism of Neofunctionalism

Since 1985, attempts for regional cooperation in South Asia have been taken, yet South Asian countries have not achieved the goal that were set at the time of the establishment of the SAARC. The main barrier to the success of the regional economic block of the SAARC is rivalry between the two larger economies of the region—India and Pakistan. Having a long history of a conflictual relationship between them and carrying the burden of a stereotypical image of each other while indulging in full-fledged war against each other thrice since their inception in 1947, India and Pakistan have taken the SAARC as well as the development of this poverty-stricken South Asia hostage because of their bilateral enmity.

The main objective of this study is to explore prospects for regulation of the Pakistan–India conflict while establishing economic cooperation between these two arch-rivals. Neofunctionalism has been adopted as an approach to study prospects for managing the Pakistan–India conflict. David Mitrany’s neofunctionalism provides a framework for explaining Pakistan–India co-operation. Starting from any functional activity,

functionalism argues that it has the potential to create spillover for cooperation in other complicated areas.

According to the Oxford English Dictionary, the theory of functionalism advocates that the design of an object should be determined by its function rather than aesthetic considerations. The reality of an object is its workability. Therefore, functionalism is about performance and workability. With this backdrop, functionalism advocates for activities like cross-border people-to-people contacts; exchange of delegates; cultural and social activities; and most importantly an increase in bilateral trade and economic cooperation between Pakistan and India. These functional activities will create confidence among people across the border and modify public opinion of conflicting parties. Cooperation in one sector, for instance, infrastructure, power generation or information technology will lead to cooperation in other areas such as automobile, engineering, and the telecom industry. Mattli has termed this process of sectoral integration as functional spillover (Mattli, 1999a). Political spillover, while modifying the attitude of interest groups and altering the attitude of political elites, reshapes public opinion and paves the way for sustained cooperation between participants. Therefore, neofunctionalism can rightly explain the process of interaction between Pakistan and India through all types of functional activities and bilateral trade. Eventually, this process may lead towards sustained economic cooperation where it will be able to generate benefits for both countries and also create win-win situations for them. Resultantly, the process of cooperation will emerge as irreversible. To gauge the prospects of economic co-operation, it is necessary to know the structure of economic cooperation between Pakistan and India. To what extent is public opinion supportive of a Pakistan–India peace process? How can domestic support affect initiatives related to confidence building between Pakistan and India?

For a better understanding of the nature of economic cooperation and perception of the masses about it, it is essential to know that Pakistan and India's regional cooperation policies, like other South Asian countries fall in the category of 'community policy', according to Pentland³ (Kishore C Dash, 2008), where it possesses some features of both domestic and foreign policy issues areas. It is also important to know the linkage between domestic support and regional bargains. According to Putnam (Kishore C Dash, 2008), regional cooperation is a two-level process where overlapping of domestic support and regional bargains is essential to move cooperation forward. The larger domestic win-sets will be able to increase the possibility of a conclusion of successful agreements. Having a political base in urban centres and enjoying the support of the business community, the ruling political party in Pakistan i.e. Muslim League Nawaz, is in a position to take initiatives for further liberalization of trade with India along with relaxation of the visa regime. Similarly, Bharatiya Janata Party (BJP) has come into power in the wake of general elections held in 2014 with heavy mandate. Having the support of hawkish elements in India, the BJP does not require any certificate of patriotism if it launches peace overtures with Pakistan. Therefore, the PML (N) and BJP can channelize political support in their respective countries for normalization of bilateral relations in general and economic cooperation in particular.

Neofunctionalism has two important postulates. First, political parties; pressure groups; national and regional elites; and supranational organizations are key actors in the process of regional integration. Second, sectoral cooperation which emerges in the wake of expansion of cooperation from one sector to another sector. Since the emergence of Pakistan Muslim League Nawaz (PML-N) in 1990 as political party having political base in the urban areas as well as enjoying massive support of business class, pressure

³ Pentland, C. (1975). Functionalism and theories of international political integration. *Functionalism: Theory and Practice In International Relations*, NY: Crane, Russak & Company, Inc.

groups have started to exert their pressure for normalization of Pakistan's relations with India. History of Pakistan-India relations reveal that process of CBMs between Pakistan and India was launched in 1988. Several initiatives were also taken in 1991, 1993. However, with the emergence of PML-N as the single largest party in the wake of general election held in Pakistan in 1997, Nawaz Sharif, the leader of PML-N emerged as proponent of the Pakistan-India normalization process. And, the Lahore peace process was initiated in February 1999 which provided the basis for initiating of economic CBMs. Economic CBMs were followed by the Composite Dialogue process initiated in 2004 which paved the way for opening up of the Wagha-Attari as a land-route for bilateral trade between Pakistan and India.

In this way, civil society, pressure groups and organizations such as Pakistan-India Peoples Forum for Peace and Democracy (PIPFPD), *Aman ki Asha*, a peace forum jointly initiated by Geo Group and Times of India and exchange of cultural delegates are enhancing connections between Pakistani and Indian societies. Therefore, space for bilateral economic connections emerges to enhance trade and economic links and neofunctionalism can fairly explain Pakistan-India economic connections that may lead to cooperation in security-related issues.

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

To know the nature of domestic support for bilateral economic cooperation between Pakistan and India, this study focuses on KIs. These KIs include businessmen, academics, media persons, traders and politicians. Political leadership adopts preferences that are generally supported by societal actors. Elites in South Asia have great potential to influence the decisions of governments. It is the elites, which shape and transform public opinion while politicizing issues, mobilizing masses and increasing saliency of a specific issue, for instance granting of MFN status to India by Pakistan, by means of discussions in media, debates and mass mobilization and also exert influence on the decision-making process at the national level.

2.7 Conclusion

The last quarter of the 20th century witnessed profound changes in international politics. With the introduction of the notion of globalization into world politics, high politics started to be replaced with low politics. Therefore, countries started to enhance their economic power. For that purpose, economic regionalism attracted the attention of the world community. Starting from Europe and going through Southeast Asia and North America, regionalism was also adopted by South Asia as an approach for the well-being of a region that is home to almost one-quarter of the total population of the world.

SAARC was established in 1985 to create and promote economic cooperation among countries of the South Asia region. However, economic regionalism as an approach to seek economic interdependence among South Asian countries has not worked successfully owing to the ongoing conflict between the two larger economies of South Asia i.e. India and Pakistan.

Regional economic cooperation has become a hostage of the bilateral rivalry between Pakistan and India. The objective of this study is to explore prospects for Pakistan–India

economic co-operation. In this context, regionalism as an approach has been tested. While making a distinction between 'regionalization' as a 'self-conscious, coherent process, which is primarily driven by the private sector' and regionalism as 'a degree of internationality as states and other actors engage in an essentially collaborative political process' (Karim, 2014) various theoretical approaches to regional integration have been discussed in this chapter.

Identified as major theoretical interpretations of regional integration theory, transactionalism, functionalism, neofunctionalism and intergovernmentalism have been discussed in detail. Karl Deutsch opted for a communication approach to study the process of community building in the international arena. The primary objective of Deutsch's theory was to avoid war and enhance peace among nation-states by developing a political community to the extent that it can recognize mutual advantages attached to the formation of organizations. However, Ernst Hass and scholars of neofunctionalism challenged the appropriateness of Deutsch's transactionalist approach as the sole way to measure integration processes and designated political leaders and their expectations about mutual economic gains as key factors in creating regional integration.

Developed by David Mitrany, functionalism is as an approach to achieve peace and stability in the world. Mitrany tried to propose an international order based on transnational co-operation. Mitrany's main focus was on small numbers of technical experts instead of political leaders to run these functional international organizations successfully. This is what Mitrany termed as a 'working peace system'. The notion of Functionalism, proposed by Mitrany, opened a conduit that allowed passage from the old competition-based antagonistic society to a harmonized and cooperative one.

Believing in the assumptions of structural realism, intergovernmentalism accentuates the state as the primary actor in the integration process. Also, sovereign states participate in the integration process provided that this process is compatible with their national interests. Consequently, the integration process involves a series of bargaining acts between nation states in the region. Thus, intergovernmentalism, according to critics, is cautious to the greater extent. They consider intergovernmentalism as a complicated and difficult process for heads of states due to the linkage of compatibility of interests of nation-states with regional integration.

In his legendary and inventive work 'The Uniting for Europe' Haas, the chief proponent of neofunctionalism, has provided the general framework. He explains how nation-states voluntarily mingle, merge and mix with their neighbours so as to lose the factual characteristics of sovereignty while acquiring new techniques for resolving conflicts between themselves. According to neofunctionalism, when states achieve benefits from mutual cooperation in one sector they tend to cooperate in other sectors and this process of sectoral expansion is called 'spillover' (Ernst B Haas, 1964). Here, neofunctionalism is more relevant to Pakistan-India economic relations. Therefore, neofunctionalism has been chosen for this study because it advocates for sectoral cooperation which emanates from least controversial areas to the most complicated areas. Pakistan and India have experienced it through adopting social and culture-related CBMs such as exchange of delegates in the field of art, singers, and permission to screening of movies across the border. Therefore, neofunctionalism has the capacity to be adopted for explanation of cooperation in trade and economic-related issues like opening up of additional trade arteries leading towards solution of the less controversial security-related issues like Sir Creek, Siachen Glacier dispute and eventually moving towards the Kashmir issue. Starting from cooperation in less controversial areas such as people-to-people contacts; the opening of more Pakistan-India routes, such as the Khokhrapar-Munabao and

Cholistan–Bekair border points; trade in food items, cooperation may be successfully expanded to other sectors such as textile, leather and chemicals. Neo-functionalists believe that sectoral integrations pave the way towards a steady surge in the expectations of interest groups and political elites. Consequently, significant change can be noticed in their approach towards the positive outcome of regional integration. Contrary to functionalism, neofunctionalism argues for an intimate connection between economics and politics in the integration process and term social, political and economic issues as inseparable. In this way, neofunctionalism provides a framework for analysis of the Pakistan–India conflict. While providing a framework where social, cultural, economic and political issues cannot be separated; neofunctionalism can assess prospects for creating confidence and managing long-lasting conflicts between Pakistan and India through bilateral economic co-operation.

CHAPTER 3: HISTORICAL REVIEW OF POLITICAL RELATIONS BETWEEN PAKISTAN AND INDIA

3.1 Introduction

Since their independence in August 1947, Pakistan and India have had an antagonistic relationship. The overall nature of their bilateral relations has been tense except for brief periods of détente. The history of Pakistan–India relations reveals that it has been an adversarial relationship. There are many factors that have dictated Pakistan–India relations. The factors generally include the existence of various ideologies or religions, the legacies of colonial rule, the role of personalities, the imperfection of domestic as well as international political systems and mutual images (Cheema, 1999). While analyzing the causes of enmity between Pakistan and India, one needs to look at a number of factors. These include the mutual perceptions and distrust; the role of historians; the role of outsiders; and the divergent policy pursuits. Also, an important factor is the legacy of a bitter relationship between the political parties of the Congress and the Muslim League; pursuing interests of the Hindus and Muslims in India respectively. The Congress-League disputes emerged in the last decade of the independence movement, which eventually set the stage for India and Pakistan’s inability to live with one another in a reasonably amicable fashion (Kux, 2006, p. 24).

The primary objective of this chapter is to present an overall view of Pakistan–India relations while analyzing conflicting issues which have made the Pakistan–India normalization process become hostage to these issues. This chapter has three parts. The first part presents an overall view of Pakistan–India relations. Pakistan–India relations may not be portrayed as ideal cordial relations between two neighbours. However, leadership of both countries has taken different initiatives to dilute the intensity of the shared animosity. The second part of this chapter presents an analysis of important

initiatives taken by Pakistan and India. The third part explains conflicting issues such as the Kashmir issue, the Siachin Glacier Dispute, the Sir Creek and Water issues like the Wullar Barrage and Baglihar dam.

In studying Pakistan–India relations, it is convenient to divide the period into different phases with regard to key junctures in Pakistan–India relations. In this thesis, Pakistan–India relations are divided into five phases as follows: first phase (1947–1972), second phase (1972–1988), third phase (1988–1999), fourth phase (1999–2004) and the last phase which covers the period from 2004 to the present.

3.2 First Phase (1947–1972)

Political relations between Pakistan and India have remained adversarial since their independence. Just after independence, Pakistan and India engaged in a war over Kashmir in 1948. This conflictual relationship emerged between Pakistan and India as the Kashmir war shaped the future course of the bilateral relationship between the two neighbours. Under the partition plan of 3rd June 1947, all princely states were to accede to India or Pakistan. The rulers of some of the larger states had intentions to seek independence but they did not receive much support from the British (Sattar, 2013, p. 24). The rulers of all 560 princely states were supposed to accede to Pakistan or India keeping in line with geographical proximity as well as the wishes of their masses. All the princely states following the partition formula acceded to Pakistan or India. However, Hyderabad, Junagadh, Jammu and Kashmir were exceptions to this. The Nizam of Hyderabad aspired to have independence but India invaded and occupied his state in 1948 (Choudhury, 1971, p. 42). When the Muslim ruler of the Hindu-majority state of Junagadh announced accession to Pakistan on 15 August 1947, the Indian government protested and indicated that the decision by the ruler was in utter violation of the principle of the partition (S. M. a. L. Z. Burke, 1990). While rejecting Pakistan's

offer to hold a plebiscite, (S. M. Burke, 1974; Sattar, 2013, p. 24) India promptly invaded and occupied the state. Regarding Jammu and Kashmir, the Indian government accepted the offer of accession by the ruler of Jammu and Kashmir, the Maharaja Hari Singh. When Kashmiri masses resisted against the Maharaja's decision and tribesmen from Pakistan entered Kashmir to help their Kashmiri brethren, India sent its military troops to Kashmir while accepting accession to India which was utter violation of the principle of the partition of British India. As a result, war broke out and India filed a complaint against Pakistan under Article 35 of Chapter VI of the Charter to stop giving assistance to the invaders. Pakistan also filed a counter-complaint, charging India with genocide and repudiating the validity of the accession offered by the Maharaja. In this way, newly emerged independent neighbours indulged in an adversarial relationship that has become as dominant feature of their bilateral relationship over time.

The Kashmir war, stoppage of river water by India in April 1948, a lack of parity at the military level between Pakistan and India as well as Indian denial to give access to Pakistani jute to Indian markets are factors that formulated the Indian threat perception within Pakistani security policy-making circles. It was due to this threat perception that Pakistan joined the US sponsored military pacts such as the South East Treaty Organization (SEATO, 1954), Central Treaty Organization (CENTO, 1955) and also became a military ally while signing the Mutual Defence Assistance Agreement (1954) and Bilateral Defence Cooperation Agreement (1959) (H. A. Rizvi, 1993). After Pakistan joined the US sponsored defence pacts, Indian leadership started to refrain from its promises regarding the settlement of the Kashmir dispute according to the wishes of the Kashmiri masses as decided by the UN resolutions of 13 August 1948 and 5 January 1949. Furthermore, Indian leadership announced that ground realities had been changed after intervention by external powers, so India had no reason to abide by its previous commitments to the UN (Sattar, 2013, p. 33).

With the backdrop of the Sino–Indian war in 1962, Western countries, especially the USA, started to provide military assistance and financial aid to India to help it against communist China. As a result of pressure exerted by the US and UK, India and Pakistan started negotiations on 16 May 1963, known as the Bhutto–Sawarn talks, but these talks were largely unsuccessful (Jyotindra Nath Dixit, 2002). The first war occurred between Pakistan and India in the Rann of Kutch area in April–May 1965 and then a full-fledged armed conflict happened in September 1965. Through mediation and provision of good offices by the Soviet Union at Tashkent in 1966, Pakistan and India conceded to an agreement known as the Tashkent Declaration on 10 January 1966. However, the spirit of the Tashkent declaration did not prevail due to sudden death of the Indian Prime Minister Lal Bahadur Shastri and the lack of the Soviet Union’s interest in the settling of Pakistan–India controversies. India and Pakistan again went to war against the backdrop of the civil strife in the then East Pakistan in November–December 1971. This war ended as Pakistani troops surrendered to Indian troops in East Pakistan on 16 December 1971. East Pakistan emerged as the independent state of Bangladesh. Pakistan and India signed the Simla Pact on 2 July 1972 as a post-war agreement. This agreement culminated the war and laid down principles to govern the future course of bilateral relations between Pakistan and India. Importantly, the Simla Pact obliged both countries to “settle their differences by peaceful means through bilateral negotiations” (*The Simla Agreement*, 1972).

3.3 Second Phase (1972-1988)

Pakistan–India relations were marked by the concurrent existence of positive and negative interactions. Though there were periods of goodwill and relative harmony, these were short-lived. The positive element of their diplomacy however, was that they never stopped talking over contentious issues. Pakistan or India took the initiative to revive the dialogue whenever there was a downward slide or a standoff in their

relations. Contrary to the 1960s and 1970s, there was more interaction between the two states in the 1980s that kept their difference and problem within manageable limits. During early 1980s, Pakistan and India faced two major crises that prompted a war-like situation to emerge. In 1984 Pakistani forces were on high alert in the wake of intelligence reports that India was making preparation for an air strike on a Pakistani uranium enrichment plant at Kahuta (Sattar, 2013, p. 214). After Pakistan's message to India indicated that such an attack was considered as an act of aggression, the crisis quickly degenerated. Another volatile situation emerged in the winter of 1986–87 when India decided to hold the largest combined military exercise in South Asian history, code-named Brass-tacks (Bajpai, Chari, Cheema, Cohen, & Ganguly, 1995, p. 15). This exercise foresaw the gathering of a quarter of a million troops, nine army divisions, five armored brigades and 1300 tanks in western Rajasthan at locations just 50 kilometres from the Pakistan border that had the capability to launch a tactical strike into Pakistan (Sattar, 2013, p. 215). Pakistan also decided to extend its military exercises in December 1986 and moved some formations of troops to forward areas north of the Sutlej river opposite to the Indian town of Fazilka and west of the river Ravi in the Sialkot district (Sattar, 2013, p. 215). In the wake of communications between the two sides at various levels, Pakistan and India signed an agreement on 4 February 1987 regarding sector-by-sector disengagement, the deactivation of forward air bases and the return of forces to peacetime locations. While quoting David J. Karl of the Pacific Council on Foreign Policy, Abdul Sattar⁴, (Sattar, 2013, p. 216) former Foreign Minister of Pakistan, termed Brass-tacks as a crisis that brought Pakistan and India “closer to the brink of war than any other crisis since 1970”.

⁴ Abdul Sattar, a career diplomat in the Foreign Service of Pakistan retired as Foreign Secretary, Government of Pakistan, was Foreign Minister of Pakistan from July to October 1993 and 1999 to 2000.

3.4 Third Phase (1988–1999)

The third phase (1988–1999) of Pakistan–India relations depicts a relatively calm relationship, despite the fact that some incidents like the Charar-e-Sharif crisis and nuclear tests conducted by India and Pakistan in 1998 stalled the normalization process, but peace initiatives put it on track. With the restoration of democracy in Pakistan, a new chapter in Pakistan–India relations opened. After Benazir Bhutto became the Prime Minister of Pakistan in 1988 and Rajiv Gandhi was instated as the Prime Minister of India, there was an excitement in political circles and the media that the two young leaders of Pakistan and India, lacking the burdens of controversies of partition, would open a new chapter of practical and friendly relations between the two neighbours (A. Gupta, 2005, p. 87). Two visits by the Prime Minister Rajiv Gandhi to Pakistan in December 1988 for participation in the SAARC summit conference and an official visit in July 1989 resulted in significant improvements in relations. However, the goodwill generated by these visits did not last long as a new wave of the resistance movement against Indian occupation started in Indian held Jammu and Kashmir (Rizvi, 2004, p. 20). Indian Prime Minister Rajiv Gandhi and Pakistan Prime Minister Benazir Bhutto signed an Agreement on the Non-Attack of Nuclear Facilities in 1988. It was ratified in 1991 and then implemented in January 1992. This agreement created an obligation between both countries to provide an annual exchange of detailed lists of the locations of all nuclear related facilities in each country. Both countries pledged not to attack the listed facilities. When the lists were exchanged in 1992, each side reportedly left off one enrichment facility (Krepon, 1998, p. 190).

Pakistan–India relations during the late 1980s as well as the 1990s remained less tense because political leadership on both sides manifested maturity to deal with their deep-rooted conflict. Therefore, the decade of 1988–1999 witnessed significant positive developments in the history of the bilateral relations of Pakistan and India. Various

agreements were signed to build confidence between them. An Agreement on Prior Notification of Military Exercises was concluded on April 6, 1991. According to the said agreement, prior requisition of notification is essential for exercises involving ten thousand or more troops in specific locations. This agreement also renounced both countries to hold military exercises in close proximity to the border, especially within five kilometers (Krepon, 1998, p. 194). Similarly, an Agreement on the Violation of Airspace was signed in April 1992 and ratified in August 1992 by Pakistan and India. The agreement committed both countries to refrain from flying combat aircraft within ten kilometres of each other's airspace while the limit for unarmed transport as well as logistics aircraft is fixed at one kilometre away from the border. Though flights within this range for supply or rescue missions are permitted, prior notification is mandatory. In August 1992, Pakistan and India concluded A Joint Declaration on the Prohibition of Chemical Weapons. Both countries pledged not to develop, produce, acquire, or use chemical weapons. In May 1993, both countries also gave assurances that Naval Vessels and Aircraft of the two navies would communicate their respective locations. By 1997, the Chemical Weapons Convention was ratified. The overt nuclearization of South Asia was an important development during this period. India detonated nuclear devices on 11 and 13 May 1998. Pakistan considered the Indian act as a potential cause of an imbalance in the South Asian security milieu against the backdrop of the perceived Indian threat. However, the 1998 nuclear tests by India and Pakistan created stability in their bilateral relationship. Regardless of the awareness of the economics costs, fear of mutually assured destruction with the use of nuclear weapons, particularly after the nuclear tests by India and Pakistan in 1998, barred them from carrying out a full-fledged war. Therefore, it became impossible for New Delhi as well as Islamabad to go to war, due to the threat of the possible use of nuclear weapons by either side.

Against the backdrop of nuclear tests by India and Pakistan, leadership of both countries realized the intricacy introduced in their bilateral relationship. Therefore, Pakistan and India concluded on an agreement known as the Lahore Declaration in the wake of Indian Prime Minister Atal Bihari Vajpayee's visit to Lahore on 20–21 February, 1999. However, the spirit of the Lahore Declaration was dashed to the ground in the wake of the Kargil crisis, which erupted in 1999. After the Kargil crisis, the Pakistani civilian government led by Nawaz Sharif was dismissed by then Army Chief General Pervez Musharraf on 12 October 1999. After the military coup in Pakistan, India considered itself betrayed by Pakistan in the form of the Kargil crisis and was reluctant to restart the peace process (A. Gupta, 2005, p. 93).

3.5 Fourth Phase (1999–2004)

Pakistan and India resumed the peace process in the wake of a visit by the Pakistan President, General Pervez Musharraf to India on 15–16 July, 2001 to hold a summit meeting with Indian Prime Minister Atal Bihari Vajpayee in Agra. After two days of negotiations, the Agra summit produced no breakthrough in the Pakistan–India normalization process. Rather, the two sides were not able to issue a joint statement and passed blame around as to which side was responsible for deadlock while adopting being inflexible at the summit. Eventually the two leaders could not agree even on a ceremonial photo session⁵ by the end of the Summit (A. Gupta, 2005, p. 94). After the Agra Summit in July 2001 and the attack on the New York twin towers on 11 September, 2001, the already volatile security relationship charged the atmosphere when militants attacked Indian Lok Sabha on 13 December 2001. In the wake of this terrorist attack on her Parliament, India deployed its military troops massively at LoC

⁵ Pakistan and India could not agree on draft of the Agra Summit in 2001 because ruling Indian party Bharatiya Janata Party (BJP) had internal differences on the draft, particularly between Atal Bihari Vajpayee, the Prime Minister of India and L.K. Advani, another stalwart of BJP. The different drafts of the proposed declaration of the Agra Summit have been reproduced in Sattar, Abdul. (2013). *Pakistan's foreign policy, 1947-2012: A concise history* (Third ed.). Karachi: Oxford University Press.

and the international border; Pakistan responded in the same manner while amassing its military troops in front of the Indian troops. Military troops of both countries remained in the close confrontation until October 2002. This deadlock ended in December 2002 when both sides announced the withdrawal of troops from the border. The process of rapprochement towards the normalization of relations started in April 2003 when Indian Prime Minister Atal Bihari Vajpayee extended the “hand of friendship” towards Pakistan while addressing a public gathering in Srinagar (“Pakistan-India Peace Process: Summits in Focus (1999-2005),” August 2006, p. 10). As a result, Pakistan and India resumed their diplomatic relations and a cease-fire also came into effect along the LoC in November 2003. These measures taken in 2002 and 2003 paved the way for the start of a composite dialogue process in January 2004.

3.6 Fifth Phase (2004–2014)

The last phase of political relations between Pakistan and India covers the period from 2004 until now. This phase starts with a new beginning of rapprochement between Pakistan and India. On the sidelines of the 12th SAARC Summit held in Islamabad on 4–6 January, 2004, Pakistan and Indian leadership discussed bilateral relations and agreed to proceed to a normalization process through a composite dialogue while simultaneously discussing eight issues identified by them, including Jammu and Kashmir. Under the composite dialogue process, various rounds of negotiations were held at a technical level as well as a joint secretary and a foreign secretary level, while the overall progress of these rounds of talks were to be reviewed by the Foreign Ministers of both countries. Various initiatives such as the start of the Srinagar–Muzaffarabad bus service and a proposal to reopen the rail link between Khokhrapar and Munabao were taken during rounds of negotiations held under the composite dialogue. The earthquake that affected some parts of Pakistan on 8 October, 2005 also provided an opportunity for Pakistan and India to get closer to each other to reduce

human suffering that was a result of the earthquake. Therefore, Pakistan and India agreed to open five points along the LoC on 7 November, 2005. These points included Nauseri–Tithwal, Chakothei–Uri, Hajipir–Uri, Rawalakot–Poonch and Tattapani–Madhar ("Pakistan-India Peace Process: Summits in Focus (1999-2005)," August 2006, p. 20). Instability is a significant feature in Pakistan and India relations and this phase is not exception to it. It started with renewed enthusiasm and several positive achievements accomplished, yet the Mumbai terrorist attack on 26 December 2008 stalled the composite dialogue process that was started in 2004. India alleged that the Pakistan based militant organization Lashkar-e-Taiba (LeT) was responsible for the terrorist action. Therefore, India demanded the handing over of the alleged persons responsible for the Mumbai terrorist attack. Pakistan rejected Indian claims on the basis of insufficient evidences. Despite repeated offers by the democratically elected Pakistani government (PPP 2008) and (PML-N 2013) for a restart of the peace process, India did not reciprocate the offer. Similarly, invitations by two successive Pakistani governments to the Indian Prime Minister to visit Pakistan have still not been acknowledged. Both countries however, emphasize the need to resolve all outstanding issues through dialogue according to the spirit of the 1972 Simla Accord and the 1999 Lahore Declaration.

3.7 An Overview of Pakistan and India's Previous Initiatives

Despite hostilities prevailing between Pakistan and India, both neighbours prepared scores of initiatives to lower the intensity of enmity and tried to establish a cordial relationship. The Karachi Agreement of 1949 was an important initiative taken by Pakistan and India during the initial phase that established an 800 miles cease-fire line (CFL) that obligated troops to maintain a distance of five hundred yards from the CFL. Also, the agreement sought to freeze force levels around CFL. After the 1965 and 1971 wars, after some changes were made, the CFL was re-established.

By the time the 1960 Indus Waters Treaty was brokered by the World Bank, Pakistan and India resolved their long-standing resource distribution problem caused by the partition of India and Pakistan. The Indus Water Treaty divided the six great rivers of Punjab between the two countries. According to the said treaty, the eastern rivers, the Beas, the Sutlej and the Ravi were assigned to India while allowing the unrestricted use of the waters of these rivers. Pakistan got the control over the unrestricted use of the waters of the Western rivers, including the Chenab, the Jhelum and the Indus (Zhou, Liu, Ma, & Song, 2005, p. Article II (1)). The two countries, under the terms of the Indus Waters Treaty, were obliged to cooperate under the management as well as the sharing of the rivers in the Indus Basin. The two sides also agreed to cooperate in regular data exchanges, routine consultation, arbitration of any disagreement and assurances not to cause any mutual interference (Zhou et al., 2005, p. Article IX). Despite some minor disagreements between the two sides, the Indus Waters Treaty is working efficiently.

The Tashkent declaration that was agreed upon between Pakistan and India is considered as a key initiative for the regulation of the future course of Pakistan–India relations generally and post 1965 war issues specially. The Tashkent declaration of 1966, brokered by the Soviet Union, formally concluded the 1965 war. It stated that future relations between India and Pakistan would be based on the principle of non-interference in the internal affairs of the other (*The Tashkent Declaration, 1966*). Unfortunately, the accord needs true implementation. The Tashkent Declaration could not be implemented owing to lack of will and commitment on both sides. As neither party wished to resume hostilities, the Declaration was drafted in the nature of a face-saving compromise. It could be interpreted in different ways. Its main achievement was the agreement between both parties to withdraw “all armed personnel” to positions held before 5 August 1964 (S. M. Burke, 1973, p. 351).

At Tashkent, neither party obtained what it had declared as its essential conditions for withdrawal. Pakistan did not get self-executing machinery for the settlement of the Kashmir dispute. It had to be content with mere assurances that both sides “will continue meetings both at the highest and at other levels on matters of direct concern to both countries” (*The Tashkent Declaration*, 1966). On the other hand, India had to vacate all territory in Pakistani Kashmir without obtaining any clear guarantee that there would be no repetition of armed infiltration from Pakistani Kashmir. Of the three participants in the discussions at Tashkent, the Soviet Union revived its influence in the power politics of South Asia. Also, the Soviet Union projected itself as a peacemaker. Before the Tashkent conference, the West labeled the Soviet Union as a potential aggressor. Unfortunately, the succession of new leadership in India, a lack of commitment on behalf of both countries and the lack of further interest by the Soviet Union led to a disappearance of the Tashkent spirit between India and Pakistan.

Another important attempt to resolve the demarcation of the border between the Indian state of Gujarat and the Pakistan province of Sindh was the Rann of Kutch Agreement that was concluded in 1968. The Rann of Kutch on the Gujarat–Sindh border was faced with early hostilities before the 1965 war formally started. Before the 1965 war, Pakistan and India disagreed over the demarcation of their borders in the area. After the war however, both sides agreed to refer the case to binding international arbitration in order to limit tensions and remove a nuisance to relations. Consequently, the Rann of Kutch Tribunal Award was concluded (M. T. Ashraf, 2007). Unfortunately, there was no ruling on the demarcation of Sir Creek, a disputed area that remains a source of irritation.

To improve communication between the leadership of both countries, a direct communication link (DCL) or ‘hotline’ between the Pakistani and Indian directors of

general military operations (DGMOs) was established in December 1970. Some days before its initiation though, Pakistan and India fought a two-front war. In December 1990, following a period of high tension, it was decided that both DGMO's would use the hotline weekly to exchange routine information. During these periods in 1986-87 and the spring of 1990, important information was not being communicated over the hotline in a timely fashion. On the other hand, skirmishes and stand offs had been diffused on a number of occasions due to contact over the hotline (Devabhaktuni & Rodolph, 1998). Direct communication links (DCLs) are also in place between sector commanders along the western sectors of the Line of Control (LoC) that divides Kashmir.

The Simla Accord of 1972 which followed the 1971 war obligates both countries to renounce the use of force as a means of settlement for outstanding disputes (*The Simla Agreement*, 1972). Both the parties agreed to resolve their disputes bilaterally. The cease-fire line in Kashmir was replaced by the LoC established on a series of maps initiated by local military commanders. Both sides pledged not to seek to alter or breach it through unilateral action. The Simla Accord was concluded when a drastic change had taken place in the power balance in South Asia. It also led to a change in the psychomilieu of the decision makers of India and Pakistan. Being victorious, India wanted to dictate the terms and conditions. Pakistan on the other hand, had no option except face-saving. Pakistan was not ready to implement the treaty sincerely. The Simla Agreement was capable of being interpreted in different ways. Both sides agreed to resolve their differences by "peaceful means through bilateral negotiations or by any other peaceful means mutually agreed upon between them" (*The Simla Agreement*, 1972). However, India and Pakistan gave divergent interpretations for this provision. The Indian leadership argued that the Indo-Pakistan problems, especially Kashmir, could not be raised on any level other than bilateral. The Pakistani leadership did not share this

viewpoint. It argued that if the bilateral approach did not resolve a problem, Pakistan could take it up at a multilateral forum, including the United Nations or any other international organization (H. A. Rizvi, 1993, p. 26).

The Simla Agreement recognizes that “the principles and purposes of the charter of the UN shall govern the relations between the two countries” (*The Simla Agreement*, 1972). Thus, it has placed the agreement within the framework of the UN. It also considers Jammu and Kashmir as unsettled disputes “without prejudice to the recognized positions of either side” and the representatives of both governments will meet to discuss “the final settlement of Jammu and Kashmir” (*The Simla Agreement*, 1972). The Simla Agreement has failed due to following factors:

- a. There was an asymmetry in the power balance of South Asia.
- b. India and Pakistan thought that the harmony between them would hurt their ideologies. On the basis of these ideologies, the sub-continent was divided into two sovereign states.
- c. Political leadership is held hostage by domestic factors that are against the normalization process between India and Pakistan.
- d. Hindu–Muslim clashes at the time of the partition have left deep scares among Indian as well as Pakistani migrants. Hindu fundamentalists as well as Muslim fundamentalists are in extreme opposition to the Pakistan–India normalization process.
- e. On both sides, personal and institutional interests are the main hindrances to the normalization process. The armies of both countries consider the normalization process to be against their vested interests.

An important idea and the first in its nature, was adopted by Pakistan and India to institutionalize peace overtures between them. Against this backdrop, the Pakistan–India Joint Commission was established in 1982 to facilitate discussions at the ministerial and sub-ministerial levels to deal with a wide range of issues, including trade, tourism, technology and communication. Meetings took place between 1982 and 1989. Since 1990, the Pakistan–India Joint Commission had been replaced by a series of foreign secretary level talks. The prior notification agreement (1991), the airspace agreement (1992) and the bilateral chemical weapons declaration (1992) were the production of these discussions. Indian Prime Minister Rajiv Gandhi and Pakistan Prime Minister Benazir Bhutto signed an Agreement on the Non-attack of Nuclear Facilities in 1988. It was ratified in 1991 and implemented in January 1992. Both countries pledged not to attack facilities listed within the terms (*Agreement on the Prohibition of Attack Against Nuclear Installations and Facilities*, 1988). According to this agreement, both parties are under obligation to provide an annual exchange of lists that detail of the locations of all nuclear related facilities in each country. When lists were exchanged in 1992, each side reportedly left off one enrichment facility (Devabhaktuni & Rodolph, 1998, p. 192).

An Agreement on Prior Notification of Military Exercises was concluded on 6 April, 1991. According to the said agreement, notification is required for exercises involving ten thousand or more troops in specific location not in close proximity to each other's borders. Exercises at the corps levels must be held forty-five kilometers away from the border. At the division level, exercises must be held twenty-five kilometers away from the border. No military exercise is permitted within five kilometers of the border (Krepon, 1998, p. 194). An Agreement on the Violation of Airspace was signed in April 1991 and ratified in August 1991 by Pakistan and India. The agreement states that combat aircraft are not to fly within ten kilometers of each other's airspace. The limit

for unarmed transport as well as logistics aircraft is 1,000 meters away from the border. Flights within this range for supply or rescue missions are permitted provided prior notification is given (*Agreement Between Pakistan and India on Prevention of Air Space Violation*, 1991). Likewise, a Joint Declaration on the Prohibition of Chemical Weapons was concluded in August 1992. Both countries promised not to develop, produce, acquire, or use chemical weapons. Both countries also ratified the Chemical Weapons Convention (CWC) in 1997. However, when India joined the CWC, it declared having stock as well as production and storage facilities for the express purpose of dealing with any situation that may arise regarding any possible use of chemical warfare against India.

To bring the forces of both countries closer and decrease the chances of accidental warfare, a hotline between the Pakistan Air Force and the Indian India Air Force was also established in 1993. In May, 1993, it was agreed that the Naval Vessels and Aircraft of the two Navies would communicate when they would be in each other's vicinity. Various military goodwill measures were also concluded between India and Pakistan in 1993. Firstly, it was decided in 1993 that senior military as well as civilian officials of both countries would participate in various seminars in each other's country. Secondly, both sides agreed to invite guest speakers to each other's National Defence Colleges.

At the Malé summit held in Maldives in the summer of 1997, Inder Kumar Gujral, the then Prime Minister of India and Nawaz Sharif, the then Prime Minister of Pakistan revived a hotline between the Prime Ministers. The hotline was first installed during the premierships of Benazir Bhutto and Rajiv Gandhi, but was suspended in later years as tension over Kashmir increased. At the Malé summit of the SAARC, both leaders agreed to take some confidence building measures such as the formation of "joint

working groups” at the foreign secretary level to consider all outstanding issues including Kashmir; the Revival of hotline between the two Prime Ministers; the Exchange of civilian prisoners such as fishermen; the Easing of travel restrictions between the two countries; and observance of restraint in their public statements (M. T. Ashraf, 2001b). The Nawaz-Gujral Summit (May 1997), was held on the sidelines of the 9th SAARC Summit at Male and was considered as the most significant event in the history of Pakistan–India relations after the Benazir–Rajiv meeting in July of 1989 when Rajiv Gandhi, the then Prime Minister of India came to Islamabad to attend the SAARC summit and met his Pakistani counterpart Benazir Bhutto. The subsequent measures that were employed after the Nawaz–Gujral meeting displayed the commitments of leadership of both countries to the dialogue process because various acts of goodwill such as releasing of 389 fishermen and easing of travel restrictions were taken. However, these goodwill gestures could not be realized as result-oriented due to an exchange of fire across the LoC in August–September 1997 (M. T. Ashraf, 2001b).

The nuclearization of South Asia has had a great influence on the overtures of India and Pakistan. Both countries started to act as responsible states. Pakistan Prime Minister Nawaz Sharif and his Indian counterpart Atal Bihari Vajpayee met on 29 July, 1998 on the sidelines of the 10th SAARC Summit held in Colombo, Sri Lanka. This first meeting after the overt nuclearization of South Asia did not prove to be result-oriented. It did however compel the leadership of both countries to maintain a spirit of holding negotiations at the highest level. Therefore, the Prime Ministers of Pakistan and India again met on the sidelines of the annual session of the UN General Assembly in New York on 23 September, 1998 where they agreed upon some measures to build confidence between Pakistan and India. These measures were as follows:

- i. Direct bus service between Delhi and Lahore.
- ii. Road and rail link between Munabao (Rajasthan) and Khokhrapar (Pakistan).
- iii. Restarting hotline between the two Prime Ministers.
- iv. Relaxation in Visa rules.
- v. Increase in cultural exchanges.
- vi. Cease-fire on line of control (LoC).
- vii. Propaganda against each other to be checked.
- viii. Modalities to be worked out for buying electricity from Pakistan (Ejaz, 1998).

The Lahore Summit was held on 20–21 February, 1999 in the wake of Indian Prime Minister Atal Bihari Vajpayee's visit to Lahore. The Prime Minister of Pakistan Muhammad Nawaz Sharif met with his Indian counterpart. Three documents, namely the Lahore Declaration, was signed by the Prime Ministers of Pakistan and India, the Joint Statement by India and Pakistan and the Memorandum of Understanding (MoU) were signed by the Foreign Secretaries of India and Pakistan. The Joint Statement cites agreements for the periodic meeting of the two Foreign Ministers to "discuss all issues of mutual concern, including nuclear related-issues". It further includes a number of other issues beginning with bilateral consultations on WTO related issues, technical cooperation for tackling the problem of Y2K⁶, bilateral consultation on visa and travel liberalization and humanitarian issues such as missing fishermen (*The Joint Statement*, 1999).

The Lahore Declaration in its preamble reaffirms the commitment of two countries to the Simla Agreement. It is also recognized in the preamble that "the nuclear dimension of the security environment of the two countries adds to their responsibility for avoidance of conflict..." (*The Lahore Declaration*, 1999). In addition, the two

⁶ Y2K means year 2000 and emerged regarding entry of year 2000 in computer at the end of 20th century 1990s.

countries are further obligated to “take immediate steps for reducing the risks of accidental or unauthorized use of nuclear, weapons and discuss concepts and doctrines with a view to elaborating measures for confidence building in the nuclear and conventional fields, aimed at prevention of conflict” (*The Lahore Declaration, 1999*).

The Lahore Declaration also stated that the two countries “shall refrain from intervention and interference in each other’s internal affairs” and “refrain from their condemnation of terrorism in all its forms and manifestation and their determination to combat this menace” (*The Lahore Declaration, 1999*). This clause proved to be very critical because both countries provided their own interpretations that differed from each other. Both parties interpreted it according to their respective interests, particularly with reference to the Jammu and Kashmir territories. India considers the indigenous Kashmiri uprising as against the spirit of the Lahore Declaration because it alleges Pakistan’s involvement in the Kashmir uprising and termed the Kashmir resistance movement as a terrorist movement, especially after the 9/11 attacks as well as the attack by militants on Lok Sabha in December 2001.

The MoU focuses on the nuclear issue and CBMs. It lays down mutually agreed benchmarks to regulate future negotiations for ensuring the prevention of any irrational decision making in nuclear matters and accidental use of weapons and missiles owing to misperceptions (*Memorandum of Understanding, 1999*). Also, these benchmarks would be able to work for the promotion of mutual confidence and trust with regard to each other’s intentions in nuclear related issues.

In the wake of the visit of the then Pakistan President General Pervez Musharraf to India on 15–16 July, 2001 to hold a summit meeting with the Indian Prime Minister A. B. Vajpayee in Agra, the peace process between Pakistan and India resumed. However,

the Agra Summit could not produce any results due to the inflexible attitude of both countries. Consequently, they could not issue a joint statement (J. N. Dixit, 2004).

The incident of 9/11 and the resultant decision by Pakistan to join the US coalition against terrorism compelled India and Pakistan to initiate a peace process. On the sidelines of the 12th SAARC Summit held on 4–6 January, 2004, the Pakistani President Gen. Musharraf met with the Indian Prime Minister Atal Bihari Vajpayee and agreed to devise a roadmap for future dialogues (Nabiha Gul & Noor, 2005, p. 29). The Composite Dialogue also provided a comprehensive structure for discussing controversial points while identifying eight issues that were to be discussed simultaneously. Under the composite dialogue framework, different rounds of talks were held successfully with both countries displaying maturity and the political will to move forward on the road to peace. However, the Mumbai terrorist attack in 2008 stalled the ongoing peace process, which caused India to take a step backward in alleging that the Pakistani ISI was in support of terrorist groups involved in the Mumbai attack (J. N. Dixit, 2004). The Mumbai terrorist attack in 2008 has severely affected the composite dialogue process to the extent that despite the passage of five years, the peace process still has not been restarted with due spirit.

There are some factors that have constrained the effectiveness of the agreements and treaties to achieve the objectives agreed upon by Pakistan and India. Firstly, the most important one is the ongoing Kashmir dispute. Most Pakistanis view Kashmir as part of the unfinished agenda of partition and a manifestation of Indian high-handedness. They want the resolution of the Kashmir dispute according to the UN resolutions. These UN resolutions have granted the right of self-determination to the Kashmir people. Pakistanis consider the resolution of Kashmir dispute as per the UN resolutions, as the fulfillment of the partition plan of India. This needs the moral, spiritual and political

support of Pakistani Muslims for achievement of the sacrosanct distinction. On the other hand, Indians also consider the retention of Kashmir as extremely important for its secular policy.

Secondly, both India and Pakistan have not paid due respect and regard to the agreements and accepted principles. They have various interpretations of the agreements such as the 1999 Lahore Declaration. This difference in interpretation leads towards a breakdown in adherence to the accords.

Thirdly, perceptions and negative images of “the other” is another key factor. The perceptions, misconceptions, self-image and the other’s image all influence decision makers and policy formulators. The masses as well as the decision makers of India and Pakistan share negative images of each other. The most commonly attractive view of India among Pakistani elites and policy makers is one of a hegemonic power. India’s clever evasive policy pursuits on Kashmir, its repeatedly disingenuous attitude during negotiations with Pakistan and endless arms procurement are manifestation of its hegemonic designs. Also, it is notable that India is far larger in South Asia in terms of population, territories, resources and military strength. On the other hand, the popular image of Pakistan among Indian policy formulators is that of a militaristic and theocratic state. The former Indian Foreign Secretary has termed the political process in Pakistan to be dominated by “the extremist theocracy” and “militarism” whatever government is in power (J. Dixit, 1995) (J. N. Dixit, 2004).

There are circles in India and Pakistan however, which give credit to the avoidance of war between the two countries with the following reasons:

a) The avoidance of war between India and Pakistan is the outcome of the several CBMs at the military and non-military levels. The policy makers of both countries were

cognizant of the fact that the outbreak of an accidental war could only be averted by the adoption of CBMs, particularly at the military level. It was considered as a shortcut-measure to avoid war.

b) Despite the awareness of the economic costs, fear of total destruction by the use of nuclear weapons, particularly after the nuclear tests conducted by India and Pakistan in 1998, forbade the two countries from indulging in a full-fledged war while deescalating the conflicts. Therefore, it became impossible for New Delhi as well as Islamabad to go to war, bearing in mind the predictable use of nuclear weapons by either side. However, Pakistan and India have scores of conflicting issues between them that are considered as central stumbling blocks for the normalization of their mutual relationship. Thus, it is necessary to have a comprehensive analysis of these vital issues between Pakistan and India.

3.8 The Antecedents of Pakistan–India Conflict: Origin, Causes and Prospects for a Solution

Pakistan and India have been engaged in conflicts since their independence in 1947. Both neighbours have exhibited an adversarial relationship toward each other since their inception. The Pakistan–India conflict is preoccupied with the burden of history, partition process, role of religion, different ideologies and nationalism. To analyze the causes of conflict in South Asia, one needs to consider a number of factors. These include the mutual perceptions and distrust; self-image and image of “others”; the role of historians; the role of outsiders; and divergent policy pursuits (Cheema, 1999). The development of South Asia has become a hostage of the Pakistan–India conflict because the Pakistan–India conflict is the most significant reason behind the economic backwardness and instability of the region. Due to the Pakistan–India bilateral rivalry, the SAARC has not produced prospective results.

There have also been minor conflicts between Bangladesh and India over the waters of the Ganges; between India and Nepal over trade issues; and Pakistan and Bangladesh over the repatriation of the *Bihari* ethnic community that has been stranded in Bangladesh since the separation of East Pakistan in 1971. Within the Pakistan–India conflict is the most intractable conflict in South Asia—Pakistan, which emerged with the departure of the British. There are many issues like Sir Creek, Siachin, Wullar Barrage and terrorism. The Kashmir dispute can be considered the main cause of the Pakistan–India conflict.

3.8.1 Kashmir Dispute

The territory of Jammu and Kashmir is situated in the extreme northwest corner of South Asia. It shares borders with India, Pakistan, Afghanistan and China. Afghanistan is in the northwest area of Jammu and Kashmir; the Sinkiang–Uighur region of China is in the north; Tibet is in the east; the Indian state of Himachal Pradesh and the Punjab is in the South by the Pakistan’s Khyber Pakhtunkhwa province and the Punjab province are situated in the South of Jammu and Kashmir. It comprises an area of 85,806 square miles, which is divided by a line of control agreed upon in 1972. An area of 46,916 square miles in the North and West is under Pakistan control. The remaining area of 38,829 square miles is under Indian Control. ("Jammu and Kashmir," 1997) In 1947, at the time of the partition of the subcontinent of India, the state of Jammu and Kashmir were composed of five regions: the Vale of Kashmir, Jammu, Laddakh, Baltistan, Poonch and Gilgit. When India and Pakistan agreed to a ceasefire in the wake of the 1947–48 Kashmir war, western Poonch, together with Muzaffarabad and part of Mirpur, Gilgit and Baltistan, formed Azad Kashmir (liberated Kashmir) under Pakistani authority and Jammu, together with part of the districts of Poonch and Mirpur, the Vale of Kashmir and the Laddakh region came under Indian control.

According to the 1941 census, the total population of the state of Jammu and Kashmir was 4,021,616, out of these, 77 percent were Muslims, 20 percent were Hindus, 3 percent Sikhs and the rest were minorities. According to the 1981 Indian census, the total population of Indian controlled Kashmir was 5,987,389. It consists of 64.2 percent Muslims, 32.25 percent Hindus, 2.23 percent Sikhs and the rest includes Buddhists, Christians and Jains (T. Amin, 1995, p. 20).

During the 14th Century, Rinchan, a Buddhist ruler of Kashmir, embraced Islam in 1320 at the hands of Sayyid Hilal Shah, a traveler with Musavi Sayyid from Turkistan (T. Amin, 1995, p. 21). The Muslim rule lasted for five centuries from 1320 to 1819. This included the period of independent Sultans (1320–1586), the Mughals (1586–1753) and the Afghans (1753–1819). Ranjit Singh, the Sikh ruler of Punjab, conquered Kashmir and took it from its Afghan rulers in 1819. A Dogra Rajput Chieftain, Gulab Singh won the favour of Ranjit Singh and created the state of Jammu and Kashmir. In 1820, Ranjit Singh confirmed Gulab Singh as Raja of the State of Jammu. This provided a base for Gulab Singh from which he rapidly proceeded to build up a small empire of his own and consequently captured Ladakh and Baltistan. Due to his neutrality during the first Anglo–Sikh War, the British granted Gulab Singh dominion over the valley of Kashmir (Lamb, 1992). In 1846, the Sikhs had been indebted to cede Kashmir to the British East India Company. However, the Governor General Sir Henry Harding immediately transferred it to the Ruler of Jammu under the Treaty of Amritsar on 16 March, 1846 for the sum of Rs. 75,000,000 (about 500,000 British Pounds) (Lamb, 1992). In this way, the Dogra Dynasty was established in Jammu and Kashmir in 1846, lasting until 1947. Gulab Singh had three successors: Ranbir Singh (1858), Partap Singh (1885) and Hari Singh (1925). Hari Singh was the last ruler of the dynasty when the British withdrew from the subcontinent, thereby enabling Pakistan and India to emerge as independent states in 1947.

At the time of the transfer of power in 1947, Kashmir was one of 562 princely states. Under the partition plan, all princely states were given two options: either to accede to India or to Pakistan. However, rulers of these princely states were supposed to make their decisions by keeping in mind the geographical contiguity as well as the aspirations of the populations of their states.

At the time of the transfer of power, the Muslims constituted 79 percent of the entire population of Jammu and Kashmir with almost 93 percent in the Valley, itself. The state had close links with then west Pakistan for a variety of reasons. Islam as a common religion was the most important factor. The states of Jammu and Kashmir had the only road and rail links with the outside world through Pakistan via Rawalpindi and Sialkot respectively. Telegraphic and postal services also passed through Pakistan. All necessary items such as sugar, salt and petroleum were imported through Pakistan. The Jhelum Valley route that passed through Pakistan was the only way for the export of fruit. Also, tourist traffic to Kashmir, key source of income for Kashmiris, could only come via Rawalpindi. In the same way, the Jhelum River was the chief way through which timber could be drifted down for export purposes (Hussain, 1998). Jammu and Kashmir, geographically, is a continuation of the plains of the Punjab into the lower hills of the Himalayas. The Indus, Chenab and the Jhelum irrigate the plains of Pakistan; these three major rivers originate from within Jammu and Kashmir.

During the reign of Hari Singh, Kashmir was to join India against the wishes of the predominant majority of the Muslim population, ignoring the geographical contiguity of Jammu and Kashmir as well as the communal interest of the population of the state. However, he was cautious because he was anxious about the possibility of revolt against his rule by his Muslim majority subjects. He offered a standstill agreement

simultaneously to India and Pakistan to maintain communication and supplies. Pakistan entered into the agreement while India declined the offer (T. Amin, 1995).

The Maharaja adopted a calculated policy. He began to follow a policy of genocide of the Kashmiri Muslims on one hand while he simultaneously undertook several steps to facilitate accession to India. The construction of a road linking India to Kashmir was started. The Maharaja also increased his contacts within the Indian leadership. A Dogra replaced the Prime Minister Ram Chandra Kak of Kashmir and having an inclination to an independent Kashmir, signed a standstill agreement with Pakistan, Nanak Singh was later replaced by the nominee of Congress Mehr Chand Mahajan who was a staunch supporter of India. During these hasty developments, anti-Pakistan, Kashmiri leader Sheikh Abdullh was suddenly released from jail, while pro-Pakistani Choudhary Ghulam Abbas continued to remain in jail.

Meanwhile, the Maharaja ordered the Muslims of Jammu and Kashmir to surrender all the arms that they possessed. He further ordered the disarmament of the Muslim personnel of his army. Following that, armed gangs belonging to Rashtriya Swayamsewak Sangh (RSS) and Sikhs began an ethnic cleansing of the Muslims. As a counter-measure to the Maharaja's attempt to disarm the Muslims, a guerrilla movement started and gained vigor among the *Poonchis*⁷ who were former soldiers who had already served in the British Indian army during the Second World War. Gupta reported that of the 71,667 citizens of Jammu and Kashmir who served in the second World War, 60,402 were Muslims from Poonch (J. B. D. Gupta, 1968). This situation attracted hundreds of tribesmen from the northwestern part of Pakistan who entered Kashmir to help their Muslim brethren.

⁷ Residents of town in Kashmir who were served in British army were referred to as 'Poonch'.

On 24 October 1947, the Maharaja appealed to Indian government for military assistance. The Indian government sent V.P. Menon to study the situation in response to the Maharaja's request. Menon was accompanied by the Prime Minister of Kashmir Mr. Mahajan and flew back to Delhi in the morning of 26 October 1947, while the Maharaja left Srinagar for Jammu along with his family. The Maharaja sought military assistance in a letter that also included a signed Instrument of Accession, which was addressed to the Governor General of India, Lord Mountbatten. The Maharaja had handed the letter over to Mr. Menon who brought it to New Delhi. Alastair Lamb revealed that India had already dispatched troops to Kashmir even before completion of the formalities of accession. Alastair Lamb described it in the following words

"... All accounts, however, agree that in the early morning of 27 October an airlift of Indian troops to Srinagar began ...If Maharaja's account of his travels is true, and he was quite emphatic that he refused to return to the State until Srinagar airfield was firmly in Indian hands, then it would appear that the Indian intervention actually took place before the formalities of Accession had been completed" (Lamb, 1992).

India accepted the accession under the condition that a referendum was to be held under international auspices to ascertain the wishes of the people. Lord Mountbatten's letter that was dated 27 October in reply to the Maharaja's letter of accession needs mentioning with regard to the following:

"In the special circumstances mentioned by your Highness, my government has decided to accept the accession of Kashmir State to the Dominion of India. In consistence with their policy that in the case of any State, where the issue of accession has been the subject of dispute, the question of accession should be decided in accordance with the wishes that, as soon as law and order have been restored in Kashmir and her soil cleared of the invader the question of the State's accession should be settled by a reference to the people" (Hussain, 1998, pp. 253-254).

3.8.1.1 Kashmir Dispute at the UN

The Kashmir question was raised by India at the UN due to war between Pakistan and India on 1 January, 1948. It lodged a complaint with the UNSC concerning

Pakistan's aggression against a state that had acceded to India legally. It is notable that India raised this complaint on the basis of Article 34 and 35 from Chapter VI of the "Pacific Settlement of Dispute" from the UN Charter instead of on the basis of Chapter VII that deals with acts of aggression. However, the Indian spokesman stressed the question of aggression committed by Pakistan against India as Kashmir had acceded to India on 26 October 1947. While challenging the legal validity of the Maharaja's accession to India, the Pakistani spokesman termed the situation in Kashmir as a popular revolt against the oppressive regime of the Maharaja (T. Amin, 1995).

The UN Security Council established the UNCIP on 20 January 1948 in order to investigate the facts. On the recommendations of the UNCIP, the Security Council adopted different resolutions containing measures to bring about cessation of the fighting as well as the holding of an impartial plebiscite in the state of Jammu and Kashmir. However, the resolutions of August 13, 1948 and January 5, 1949 have great importance. These resolutions have outlined the Security Council's stand on the Kashmir dispute and provided a framework for resolution of the dispute. However, the Security Council adopted a political solution rather than taking a judicial review of the complaints and counter complaints of India and Pakistan. It proposed a package deal, comprising three sections; withdrawal of forces, plebiscite and an interim government in Kashmir (*UN Resolution 13 August 1948, (S/1100, Para. 75), 1948*). Pakistan was asked to withdraw all the tribesmen and Pakistani nationals from Kashmir while India was allowed to retain a 'minimum' force to aid the government of Kashmir during the plebiscite (*United Nations Resolution 5 January 1949 (S/1196, para.51), 1949*).

Under auspices of the United Nations, the UNCIP took several initiatives to mediate between Pakistan and India. However, the Security Council replaced UNCIP with its representative, Owen Dixon in 1950, to assist the two countries in diluting their

differences, but his efforts proved futile. Similarly, mediation efforts made by Canadian General A.G.L. McNaughton, Gunnar Jarring and Frank Graham were also destined to fail in this regard. India was adamant concerning her stand on the plebiscite question while Pakistan refused to accept any formula that contained minor adjustments that would maintain the status quo.

Indian stubbornness, backed by the erstwhile Soviet Union at the UNSC, along with the changing dynamics of international politics which were the result of Cold War politics, dashed the UN mediating and arbitrary efforts to the ground with the conclusion that a viable solution could only be possible through direct bilateral negotiations. Several rounds of negotiations were held between Pakistan and India at different levels in subsequent years such as 1953, 1955, 1960, 1962 and 1963. However, the hostile perceptions, deep mistrust and a difference in the power equation between the conflicting parties proved as stumbling blocks in the settlement of the Kashmir dispute.

The Kashmir dispute is a significant problem for Pakistan and India. The entire foundation of their bilateral relationship has been dictated by the Kashmir dispute to a great extent. Despite the Tashkent Agreement in 1966 and the Simla Accord in 1972, which were the important initiatives that were resultant from the end of war, no major breakthrough has been produced except a show of the willingness for commitment to negotiate and a belief in the settlement of the conflicting issues through dialogue. The Simla Accord redefined the ceasefire line in the wake of the end of December 1971 war and renamed the CFL as the LoC. It obliged both countries not to interfere in the internal affairs of each other and to alter their boundaries unilaterally (*The Simla Agreement*, 1972). It is notable that India and Pakistan hold different interpretations regarding the Simla Agreement. India claims that it is not valid that the Simla accord

prevents both countries from raising the Kashmir issue at multilateral forums. According to the Simla accord, the UN charter has been recognized as the principal framework to govern relations between Pakistan and India (*The Simla Agreement*, 1972). Therefore, the UN charter reigns supreme above any bilateral or multilateral agreement and testifies to Pakistan's argument that the UN resolutions are relevant to the Kashmir issue.

3.8.1.2 Mass Resistance Movement in Kashmir

Under the Simla Agreement, both countries are committed to discuss 'a final settlement of Jammu and Kashmir' (*The Simla Agreement*, 1972) but neither Pakistan nor India have taken the initiative to resolve it. However, the Indian government tried to pacify the people and foster support of the masses while installing firstly Sheikh Abdullah as chief minister again and secondly Jagmohan Malhotra as Governor. But, with the imposition of direct rule by Jagmohan in March 1986, unrest became chronic. In 1986, various political parties formed an alliance under the United Muslim Front to participate and contest elections collectively in March 1987. To the dismay of the expectations of the United Muslim Front, this alliance won only four out of seventy-six seats of Assembly in the state. According to Lamb, the 31 March 1987 elections were 'as unfair and free as any other' (Lamb, 1992). Kashmiri activists, believing in the peaceful process through election, were shocked and leaned towards violent means to secure their fundamental rights. Thus, a mass uprising was born after the 1987 election.

Due to this powerful mass resistance movement, India has deployed hundreds of thousands of military and para-military troops in Indian-held Jammu and Kashmir. There have been gross human rights violations including extra-judicial executions, rape, torture and deliberate assaults on health workers in Indian-held Jammu and Kashmir (Lamb, 1992). The Kashmiri masses are demanding the right of self determination

guaranteed to them in the UN resolutions. India terms Kashmiri resistance as a terrorist movement infiltrated by Pakistani extremist elements supported by Pakistan. Contrary to this, Pakistan terms it as an indigenous movement and rejects Indian allegations.

3.8.1.3 Kashmir Issue after 9/11

Over the succeeding decades, the Kashmir dispute has become a source of strained relations between India and Pakistan, consequently restricting the road to peace between India and Pakistan. India started to project the freedom movement in Kashmir as a movement of fundamentalists after the disintegration of the former Soviet Union. The event of 9/11 was the last factor that had had a great impact on the freedom movement carried out by Muslims against their subjugations. The Kashmir freedom movement was not an exception to this. After the attack on the Indian parliament in December 2001, India blamed Pakistan for sponsoring terrorism and supporting terrorists in Kashmir.

Islamabad considers any breakthrough in the Pakistan–India stalemate concerning the Kashmir dispute as essential for peace in South Asia. Nonetheless, New Delhi has different perceptions of this matter. For Pakistan, Kashmir is a core issue and should be settled according to UNSC resolutions passed in 1948 and 1949. These resolutions recommended the establishment of a plebiscite in Jammu and Kashmir under the auspices of the UN to provide the masses a choice of joining either Pakistan or India.

Earlier, India had supported the UNSC resolution calling for a plebiscite. However, it changed its stance later presenting different reasons. After giving special status in her constitution under Article 370, India considers Jammu and Kashmir as an integral part. The standoff between India and Pakistan prevails because both countries have divergent preferences. Therefore, it is time for both Pakistan and India to test alternative approaches to improve bilateral relations. In this regard, economic cooperation is an

appropriate tool for establishing mutual stakes and managing the conflict to the extent that both parties will be able to resolve their conflicts amicably.

Among the masses of Kashmir, three groups of public opinion can be found. These include the nationalist, the religious and the secular. The nationalists, influenced by Ammanullah Khan's Jammu and Kashmir Liberation Front (JKLF), want independence. They do not want to accede to either India or Pakistan, but rather want to restore the "Kashmiriyat" or the true honour of the people of Jammu and Kashmir (Ahmar, 1996). The religious elements led by the Hurriyat Conference want accession to Pakistan. According to them, Islam is the common bond between the Muslim majority of Kashmir and Pakistan. On the other hand, the Hindu Kashmiri supporters of the BJP and the Shiv Sena want to annul Kashmir's special status as granted in article 370 of the Indian Constitution (Ahmar, 1996). The secular Kashmiri group that encompasses the Jammu and Kashmir National Congress and is an offshoot of mainstream Indian secular political parties like the Congress and National Front, wants to be retained by India.

Kashmir has been an important issue in the agenda of negotiations between India and Pakistan within the history of Pakistan-India bilateral relations. Many fluctuations in the Pakistan-India relations have been determined by the stubborn behaviors of both countries regarding the Kashmir dispute. Pakistan considers the Kashmir dispute as the core issue that determines cordial relations between the two countries. India does not consider the Kashmir dispute as a major issue because it gives importance to other issues such as terrorism, CBMs, economic challenges faced by the two countries and bilateral trade.

Pakistan has unofficially modified her policy regarding Kashmir recently in two aspects. Firstly, Pakistan does not expect accession of whole state of the Jammu and Kashmir including Jammu and Ladakh. Secondly, it wants to emphasize the resolution

of Kashmir as per UN Resolutions until this issue is resolved. Regardless of statements issued by India insisting that the whole of the state of Jammu and Kashmir legally belongs to her, the Indian government does not realistically expect to include Azad Jammu and Kashmir and the Northern Areas as part of India (Schofield, 2003).

To conclude, the absence of a framework for the resolution of Kashmir has been a major obstacle in the cordial relationship between Pakistan and India. Pakistan and India should adopt an incremental approach to the resolution of conflicting issues. Mutual trust and confidence needs to be strengthened. In this regard, bilateral trade may be initiated as a good starting point. Economic CBMs have contributed to the elimination of major inter-state conflicts, such as the Germany–France conflict. Pakistan and India should enhance economic CBMs and “extend the scope of CBMs and enlarge it to non-military areas, like economic cooperation, environment, water resources, energy, education, science and technology and infrastructure” (Ahmar, 1993).

3.8.2 Siachin Glacier Dispute:

The Siachin glacier is another important source of conflict between Pakistan and India. Both countries have contrasting claims over this glaciated area of almost 3,000 square kilometres at elevations of over 5,000 meters above sea level which is situated at the extreme northwestern corner of the Indian subcontinent immediately south of the Chinese border in the eastern Karakorum mountain range (Wirsing, 1986). The origin of the Siachin dispute can be traced back to the initiative of the Indian military in April 1984 in the locality of the Siachen Glacier under the code-name Meghdoot. This operation triggered armed clashes between Indian and Pakistani forces in the area and eventually led to the current phase of this dispute. As a result of this fight, India controlled most (two thirds) of the 74-kilometre long glacier and occupied the high ground in two of the three passes (SiaLa and Bilafond La, also called Salto Pass).

India got access to the southern rim of the glacier through the Saltoro range. Pakistan occupied the best position in the Gyong LaPass, overlooking the Nubra river valley and India's access route leading up to the glacier from Leh (Wirsing, 1986).

The origin of the Siachin dispute lies in the dispute of Jammu and Kashmir. The LoC, drawn up following the Simla Agreement, defined the Line's northern extremity in the same way as it was in the maps of the 1949 CFL. The 1949 boundaries were as follows: "Thence northwards along the boundary line going through point 18402 up to NJ 9842". The line stopped at NJ 9842 and did not extend further to the glaciers. This area was inaccessible to the extent that no fighting took place during hostilities in Kashmir in 1948 (Sattar, 2013). The descriptions of the 1972 maps, like the 1949 agreement, referred to the glaciers in establishing the LoC. The words describing the northeastern extremity of the LoC of 1972 were vague. From Chorbatla in the Turtok Sector, provided that "the line of control runs northeastwards to Thang (inclusive to India) thence eastwards going the glaciers" (Wirsing, 1986). However, there was no LoC in the area of the Siachin Glacier that lay beyond NJ 9842. Paragraph 1 of the Simla agreement, prohibits both countries to "alter the situation unilaterally" in case of the emergence of any problem between the two countries (*The Simla Agreement*, 1972).

Robert G. Wirsing, (Wirsing, 1986) a longtime researcher of the Siachen case, discusses the genesis of the Siachin glacier dispute in the following excerpt:

"What is publicly known about events leading up to the outbreak of hostilities in the vicinity of the Siachen Glacier in the winter of 1983-84 does not supply unambiguous evidence that either India or Pakistan was the aggressor. Precisely who shot first is probably impossible to determine. Which of the two armed forces had the "right" to be on the glacier since the question of the legitimacy of the two sides' territorial claims has never been submitted to impartial adjudication is a matter obviously open to disagreement. There is ample evidence, however (actually, there is no argument about it), that Indian armed forces were the first to establish permanent posts on the glacier and that they had prepared themselves long and well for the task. Published Indian

accounts of Operation Meghdoot (the deployment of special trained Indian forces on the glacier in mid April 1984) leave little room for doubt, in fact, that the Pakistanis were caught napping and that their principal strategy for fortifying Pakistan's claim to the glacier-sponsoring foreign mountaineering expeditions to the area had failed".

Since 1984, forces of both countries have engaged in fighting and the Siachen glacier area has become the highest battlefield in the world. Of all the disputes between Pakistan and India, the resolution of the Siachin issue is considered as relatively easier and closer to a mutually beneficial formula for both countries. In 1985, Pakistan President General Ziaul Haq and Indian Prime Minister Rajiv Gandhi agreed to hold talks on Siachin at the defence secretary level, which led to subsequent rounds of talks. The two countries reached an agreement during the fifth round of talks held in June 1989. According to Robert G. Wirsing, (Wirsing, 1991) the initial positions of the two sides during the fifth round of talks 15–17 June, 1989 were laid out as follows:

The Indian terms were:

1. Cessation of "cartographic aggression" by Pakistan;
2. Establishment of a demilitarized zone (DMZ) at the Siachin Glacier;
3. Exchange between India and Pakistan of authenticated maps showing present military dispositions of the ground;
4. Delimitation of India and Pakistan of a line from map reference point NJ 9842 northward to the border with China "based on ground realities";
5. Formulation of ground rules to govern future military operations in the area, and, definitely "the last step" to be taken;
6. Redeployment of Indian and Pakistani forces to mutually agreed positions.

Contrary to it, Pakistan's formal terms were fewer in number. They contained only two essential points:

1. Deployment of Indian and Pakistani forces to mutually agreed positions held at the time the cease fire was declared in 1971 (pre-Simla positions); and only then
2. Delimitation of an extension of the LoC beyond map reference point NJ 9842.

Thus, the 1989 agreement provided the opportunity to resolve this issue that was less controversial. However, during talks in 1992, Pakistan expected an implementation of the 1989 agreement, while India demanded 'authentication' of the current positions occupied by armed forces, a line of control in 'the zone of conflict' and the right to establish a 'civil post' in the area (Sattar, 2013). During the technical talks held in November 1992, Pakistan and India agreed to withdraw to *Goma* and *Dzingrulma* respectively, paving the way for the creation of a "zone of disengagement" in the Siachen area. They also agreed that surveillance was to be accomplished by helicopter. Later, when the issue of surveillance was included in the agenda of talks between the two countries, India suggested a 'bilateral monitoring system' while Pakistan proposed an 'international monitoring mechanism' (Sumita Kumar, 2000). However, no formal agreement was reached due to mutual distrust.

The Siachen issue, like other conflicting issues, has been in the agenda of talks between Pakistan and India over the years, but no solution has yet been achieved. The resolution of Siachen issue lays in the implementation of the June 1989 agreement. However, lack of political will on the part of leadership of both countries is a significant barrier. Political leadership of the two countries prefers short-term interests in maintaining their vote bank to remain in power. India's denial to go forward with the proposed agreement of June 1989 and Pakistan's linking of the Kashmir issue with a solution to the Siachen dispute displays a lack of commitment of political leadership of the two countries towards a settlement of their bilateral issues.

3.8.3 Sir Creek

Sir Creek is a 96-kilometre (60 mile) long strip of water in the swamps of the Rann of Kutch of the River Indus situated at the border between the Sindh province of Pakistan and the Gujarat state of India. The two countries have been trying to resolve this issue, yet Sir Creek awaits the final settlement. Like other issues, Sir Creek has also been included in talks between Pakistan and India. Sir Creek is considered as the least controversial issue where the two countries have come closer to a final solution. On the sidelines of the 14th SAARC Summit in New Delhi on 2 April, 2007, both countries had agreed to have a common map. On the basis of this map they were ready to move forward to seek a solution of this issue (Rashid Ahmad, 2007). However, Sir Creek has not been resolved due to a prevalence of the traditional issues of a trust deficit and the lack of political will. Pakistan and India had contrasting claims over the area of Rann of Kutch after the 1965 war. Pakistan claimed over half of the Rann along the 24th parallel, while India contended that the boundary ran roughly along the northern edge of the Rann. After the war, the boundary issue was referred to international arbitration. The India–Pakistan Western Boundary Case Tribunal gave its award on 19 February, 1968. The award reinforced India's claim over 90 percent of the Rann while conceding the remaining 10 percent of the area to Pakistan (Noorani, 1994).

The dispute arose when both countries agreed before the tribunal to confine their dispute only to the northern boundary. In the south, an agreed boundary begins at the head of Sir Creek and runs a short distance eastward almost along the 24th parallel. India claims that this line moves up sharply at a right angle to meet the northern boundary of the Rann, while Pakistan holds that the line moves further eastward, thereby claiming half of the Rann along the 24th parallel.

Pakistan and India discussed Sir Creek seven times before the Delhi round of talks that were held from 6–13 December, 1998. Pakistan claims the eastern bank identified by a green line to constitute the boundary in that area. India's acceptance of this line will enable Pakistan to enlarge its EEZ by around 250 square miles. The boundary's course leads up to the coast and may create a difference of hundreds of nautical miles when stretched as a divider between Pakistan and Indian zones (Soofi, 2005). New Delhi considers the mid-channel as a proposal for a maritime boundary. Islamabad considered the mid-channel as applicable only to a navigable channel. However, Sir Creek is not navigable. For the two countries, demarcation of the land boundaries becomes significant when the line is extended seawards as a dividing maritime boundary between Pakistan and India (Rashid Ahmad, 2007). The line affects division of maritime resources including fish, minerals and other resources between Pakistan and India. India has proposed that the two sides can precede from land the extremity of the EEZ limit to a "mutually acceptable limit" which can be governed by the internationally recognized Technical Aspect of the Law of the Sea (TALOS) (Pattanaik, 1999). Pakistan rejected this proposal arguing that the delimitation of the land boundary in the Sir Creek area and demarcation of its maritime boundary are inseparable.

Resolution of the Sir Creek issue needs mutual accommodation. This region holds geo-economic and strategic importance as some reports have revealed the presence of oil and gas in the region. Due to stubbornness in their attitudes, India and Pakistan are not able to resolve this issue. A compromising attitude should be displayed both countries to bring a solution to these bilateral conflicting issues.

3.8.4 Water Issues: Wullar, Kishenganga, and Baglihar Projects

Since independence in 1947, Pakistan and India have had conflicts related to water issues, especially after blockage of the water supply to Pakistan by India in April 1948.

Repeated rounds of negotiations between Pakistan and India eventually led to the signing of the Indus Waters Treaty of 1960 under the auspices of the World Bank. The Indus Waters Treaty assigned three eastern rivers, which included the Beas, the Ravi and the Sutlej, to India while allowing unrestricted use of waters of the eastern rivers (*IndusWatersTreaty*, 1960). Pakistan was assigned unrestricted use of the three western rivers of the Chenab, the Indus and the Jhelum (*IndusWatersTreaty*, 1960). However, the Indus Waters Treaty restricted India to let the western rivers flow into Pakistan without any interference (*IndusWatersTreaty*, 1960). Rivalry over river resources has been a chronic source of severe interstate tension between Pakistan and India. With river resource issues escalating, the possibility for violent interstate conflict will likely rise. Even if direct violence is avoided, their inability to resolve river resource issues will undoubtedly limit the ability of both countries to manage and utilize water resources in the most proficient manner. Poor management of water resources will also exacerbate domestic problems in these demographically explosive societies, which could lead to a multiplicity of unwanted conditions such as increasingly fertile grounds for political extremism and terrorism.

The first significant water issue between Pakistan and India is a proposed dam on the river Jhelum. Pakistan and India have not even agreed on the name of the dispute. India refers to it as the Tulbul Navigation Project, while Pakistan calls it the Wullar Barrage dispute. The river Jhelum flows into a lake from the South and flows out of it from the West. Therefore, the lake impedes the flow of the river; hence the name Wullar, derived from the Sanskrit word '*Woll*' which means 'obstacle'.

In the early 1980s the government of the Indian controlled state of Jammu and Kashmir started to construct a barrage on the Jhelum River at the mouth of the Wullar Lake which is located on the Jhelum River at about 5,180 feet above sea level and

almost 25 kilometres north of the Srinagar. Details of the proposed project reveal that it comprises a barrage of 439 feet in length along with two sluices and a 12-metre wide navigation lock. With its completion, the barrage would have 0.3 to 0.5 million-acre feet (MAF) of water storage capacity along with a discharge capacity of 50,000 cusecs. The level in the lake could be raised and maintained at an elevation of 5,178 feet above sea level (Nasrullah, 1994). Finding the project in excess of the given limit under the Indus Waters Treaty of 1960, Pakistan, being a lower riparian state, raised the issue in vain during the Commission in 1985 arguing that the construction of the dam is against the principles of the 1960 Indus Waters Treaty (Sattar, 2013).

Though India was allowed the non-consumptive use of the western rivers and their connecting lakes such as the Wullar, the present dispute emerged due to conditions attached to it. According to the Indus Waters Treaty, India has been forbidden to store any water or construct any storage works on the western river that may result in diminished water levels. In the wake of strong protests made by Pakistan, India suspended work on the Wullar barrage. Regarding the settlement of this issue, Pakistan and India have been conducting negotiations since 1988. Media reports indicate that both countries have come closer to a settlement and agreed to a draft agreement. DAWN, a renowned Pakistani newspaper (1989) reported about the development towards such an agreement on 22 September, 1989;

“India has agreed to surrender 0.30 million acre [ft.].... Of the total general storage capacity at the Jhelum tributaries, allowed to it under the Indus Waters Treaty, if Pakistan gives it the go-ahead for the construction of the Wullar Dam. The total storage capacity of the dam is equivalent to the storage capacity India is prepared to forgo”.

On 9 February, 1992, another Pakistani newspaper, The News (1992), published the following report:

The Pakistan Government has decided to arrive at a negotiated settlement on the Wullar Project with India, allowing it to build the

disputed barrage if India agrees to keep 6.2 m of the structure as unrated with crest level at EL 1,574.90 m, forgo permitted to it on the Jhelum, and does not construct the Kishenganga (390 mw) hydro-power generating unit, highly placed sources disclosed.

The newspaper adds that India has agreed to surrender to the first two points but consensus on the Kishenganga project has yet to be reached:

“This is the only disputed issue left for the amicable settlement of the Wullar barrage melodrama. Pakistan is of the view that if India constructed Kishenganga Project, it would affect the construction of Pakistan’s Neelum Jhelum power generating project. If we compromise on other points, then India would compromise here, and construction on Neelum-Jhelum, held up due to this dispute, could begin, as it was in Pakistan’s interest”(1992).

The Wullar Barrage/ Tulbul Navigation Project is part of the agenda in the Pakistan–India negotiations and it is one of the eight issues identified by Pakistan and India for the Composite Dialogue, but no breakthrough has resulted. A significant reason behind this stalemate is attached to the resolution of one issue along with other issues, especially Kashmir. Therefore, Pakistan and India should change their stereotypical approach towards the normalization of their bilateral relationship. They should initiate a process of economic cooperation to establish economic interdependence. Consequently, this sustained economic interdependence will lead towards the settlement of political irritations between them.

Another water dispute between Pakistan and India is the Baglihar hydroelectric power project. India started this project in 1999 with a dam at the Baglihar, upstream from the Salal dam. Pakistan contended that the reservoir at 37.722 MAF was in excess of the limit prescribed in the Indus Waters Treaty (Sinha, 2006). Also, the dam at the height of 470 feet is excessive in its stipulated limit given by the Indus Waters Treaty. With these specifications, the Baglihar dam will give India leverage for maneuvering the flow of the waters of

the Chenab River during critical periods of wheat production from December to February. The essential effect of the on-going dispute over the Baglihar dam has broader repercussions not only for future management of increasingly important interstate river issues between Pakistan and India and the entire region of South Asia, but also for the overall disposition of future Pakistan–India relations.

Pakistan and India held a series of negotiations from 2001 to 2004 at the level of the Permanent Indus Commission, but the stalemate remained unbroken. Consequently, the matter was discussed at the level of government secretaries in January 2005, yet it proved unsuccessful. As a second level of a mechanism of dispute settlement under the Indus Waters Treaty, the issue of the Baglihar dam was referred to the World Bank, invoking article IX of the treaty for the appointment of a neutral expert. Raymond Lafitte, the neutral expert appointed by the World Bank, gave his verdict on 12 February 2007 and endorsed three of the four Pakistani objections. Consequently, India had to reduce the height of the dam by 1.5 metres and size of poundage by 14 percent (Sattar, 2013). However, the Indian view regarding the spillway gates and power generation capacity of 450-MW was maintained.

In addition, Pakistan and India also have controversies over India's Kishenganga power project on the Jhelum River. Pakistan and India have also been discussing the Kishenganga power project at the level of the Permanent Indus Commission since 2005 but no compromise has been achieved yet.

3.9 Conclusion

The history of Pakistan–India relations reveals many changing characteristics between Cold War and war; and war-like situations. Though the nature of the Pakistan–India relationship has not been cordial, stability in their bilateral relationship can be

seen in the post-Simla period and they have avoided war during the Indian military exercises Brass-tacks. However, after their overt nuclearization in 1998, the assurance of mutual destruction persuaded them to engage in bilateral negotiations to avoid accidental nuclear war and take initiatives to resolve outstanding issues between Pakistan and India. The Lahore Declaration (1999) is a notable example in this regard. Though the Kargil crisis derailed the peace process that was initiated at the Lahore Parleys in 1999, maturity on both sides did not aided in the cessation of hostility and the composite dialogue process started in 2004. The Composite Dialogue process provided a road map to discuss eight issues including Siachin; Sir Creek; and Jammu and Kashmir simultaneously without making one issue hostage of any other issue.

However, the Mumbai attacks in 2008 disrupted the composite dialogue process between them. The post-Mumbai resumption of talks has given priority to trade and investment rather than political issues. Pakistan has shown flexibility in its approach towards India for the normalization of relations and has accepted people-to-people contacts and the establishment of economic relations that have been India's priorities. Giving priority to bilateral trade and overall economic co-operation, the Muslim League government led by Nawaz Sharif in Pakistan and the BJP government under Narendra Modi in India can move forward and manage their conflicts so that they may be resolved for the well-being and betterment of more than one and half billion masses of poverty-driven South Asia.

CHAPTER 4: ECONOMIC RELATIONS BETWEEN PAKISTAN AND INDIA

4.1 Introduction

Despite being neighbours, Pakistan and India have not established substantial economic relations since their independence after the British withdrawal in 1947. Political rivalry between them has been the key barrier to this. While following the initiatives in the form of regional economic groupings taken in Europe, Southeast Asia and North America, the SAARC was established in 1985 to enhance economic cooperation in South Asia. The long lasting political rivalry between Pakistan and India has held the SAARC as a hostage. Therefore, the SAARC has not succeeded like other regional organizations such as the EU, ASEAN and NAFTA. Nonetheless, Pakistan and India are involved in bilateral trade, despite the challenges such as political rivalry, the occurrence of three wars and the prevalence of hostile perceptions of each other.

This chapter aims to discuss the nature of bilateral trade between Pakistan and India. While identifying patterns of trade between Pakistan and India, this chapter also explains barriers in bilateral trade between Pakistan and India like trade regimes, non-tariff barriers and other discriminatory measures. This chapter also makes an attempt to address the question concerning how the impediments in bilateral trade can be removed to enhance bilateral trade and economic connections. Another important focus of this chapter explores the potential of bilateral trade between Pakistan and India.

4.2 Historical Impression of Pakistan–India Bilateral Trade

Once a single economic entity, Pakistan and India have functioned separately since their independence in 1947. Despite early trade and economic links between Pakistan and India, normal economic relations could not be sustained and culminated in the end of economic interactions between them after the 1965 war. Although economic links

were renewed for a brief period during the mid 1970s and trade relations were revived in the late 1980s, bilateral trade between Pakistan and India has been surprisingly low.

Pakistan and India share a common history. They also share common geographical borders, especially after independence had been gained. Geographical contiguity compels that the similarly contiguous economies like Pakistan and India should not treat each other as separate and exclusive (Choudhury, 1971). After independence, there was a realization among the political elites of both countries that Pakistan and India should live like peaceful neighbours such as Canada and the USA. However, this dream could not be realized due to a variety of factors, including ideological controversies, mutual distrust and psychological blocks that prevailed on both sides (Cheema, 1999).

Pakistan and India have a complicated economic relationship. It was not given any serious thought when the partition plan regarding the division of British India into independent states had been devised. As a result, the interconnected economy of the then Indian subcontinent was, what Mirza (Mirza, 2005b) quotes Douglas Brown as saying, "was vivisected at independence for Pakistan and India". Before independence, the economies of the regions that emerged as Pakistan and India were interlinked, as if they were one country. Since they had emerged as two separate countries due to the partition process, bilateral trade however, began between them. It could not be boosted though, owing to the escalation of conflict related to the Kashmir issue, communal riots and water supply restrictions for Pakistan. Therefore, trade and economic relations had a slow start at the beginning due to the deterioration in political relations between Pakistan and India. This also happened due to the Kashmir War in 1948, mutual distrust, bitter realities of migration issues during the partition process and Pakistan's claims over unequal distribution of financial and military assets (S. M. Burke, 1973). Pakistan-India economic interactions, especially bilateral trade, can be divided into six

phases: from independence to the Simla Agreement (1947-1972); the post-Simla Agreement to the first SAARC Summit (1972-1985); from the SAARC Summit to the Initiative of SAPTA (1985-1995); from the SAPTA Initiative to the SAFTA Framework (1995-2004); and from the SAFTA Framework to the current Nawaz Government in Pakistan and the BJP Government in India (2004-2014).

4.2.1 Bilateral Trade Engagement from Independence to the Simla Agreement (1947-1972)

After their independence, Pakistan and India started trade with each other due to the legacy of interdependence under British colonial rule. During the early years, the share of bilateral trade in the total trade of both countries was quite significant. At the time of independence, more than 70 percent of trade of Pakistan was with India while 63 percent of the exports of India were with Pakistan (M. S. Khan, 2009). After 1947, exports of Pakistan to India reached as high as 30 percent while imports from India reached 10 percent of Pakistan's total imports (Qamar, 2005). In 1951–52 Pakistan's share in India's global export and import was 2.2 percent and 1.1 percent respectively. India's share in Pakistan's total export and import stood at 23.6 percent and 50.6 percent respectively (P. Mehta, 2012). At the time of independence, Pakistan and India signed a standstill agreement that allowed both countries to move goods freely from one country to another and these goods were exempted from custom duties (S. Ashraf, 2009b). This agreement however, came to an end in less than three months when India refused to give Pakistan any share of the export duties collected on jute. As a result, the Standstill Agreement came to an end on March 31, 1948 (Mirza, 2005b, p. 11). This act deteriorated trust between the newly independent countries. Moreover, India stopped the water supply to Pakistan, withholding the flow of the waters into the Sutlej Canal Project. This further weakened the trust between Pakistan and India. However, Pakistan and India signed another trade agreement in 1949, which permitted different categories

of goods to cross the Pakistan–India borders without export licenses (Choudhury, 1971). These initiatives boosted Pakistan–India bilateral trade to the extent that India’s total trade with Pakistan was 30 percent, while Pakistan’s total trade with India was 60 percent (Mirza, 2005b). Compulsions of circumstances just after their independence, the shared history of being one entity under the colonial period and the initial bilateral trade agreements between them were the important reasons to establish bilateral trade between Pakistan and India during the early years. Additionally, the negotiating channel was working to address the trade-related issues between Pakistan and India.

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

4.2.2 From the Simla Agreement (1972) to the First SAARC Summit (1985)

Bilateral trade between Pakistan and India was disconnected in the wake of the trade embargo imposed by Pakistan and India after the 1965 war and was revived in 1974 due to the Simla Agreement signed in 1972. The trade embargo was lifted and a trade protocol was signed and both countries agreed to the MFN treatment of each other (Mirza, 2005b). As a result of this trade agreement, bilateral trade started in the years of 1975–76 with a mutual trade volume of US\$ 3.8 million. However, a significant rise can be noticed in the volume of mutual trade between Pakistan and India when the private sector was allowed to participate in it. Bilateral trade rose to US\$ 10.8 million due to activity in the private sector. The volume of mutual trade decreased though when the private sector was banned after two years. This indicates that initiatives of the private sector can play an important role in enhancing trade between Pakistan and India. With an increase in trade, interests could be developed among the masses in general and the business community in particular to prevent a derailing of this process. Resultantly, chances for escalation of the conflict will be minimized. Consequently, this newly revived process of bilateral trade could not continue with the persistent decline of the pace and volume of bilateral trade. Bilateral trade between Pakistan and India was US\$ 41 million in 1948–1949 and decreased to US\$ 5.67 million in 1964–1965. Due to the 1965 war between Pakistan and India, bilateral trade reached the lowest level of US\$ 2.34 million in 1965–66, moving to a negligible stage during 1966–1975. Bilateral trade between them started to rise in 1986–1987 with US\$ 9.43 million and reached the US\$ 24.04 million in 1988–1989 in the wake of the restoration of democracy⁸ in Pakistan. It is notable that limited trade, revived during the 1980s, was mainly confined to commodities; Pakistan exported cotton, leather, fruit and rock salt to India while iron

⁸ The Pakistan Peoples Party (PPP) came into power in the wake of general elections held in 1988 and Benazir Bhutto became the Prime Minister of Pakistan. During her premiership, Pakistan and India took the initiatives to normalize bilateral relations and increased bilateral trade links.

ore, dyestuff, tea, vegetable oil and fruit was imported (S. C. Jain, 1999). One can notice a sharp fall in the overall volume of Pakistan–India bilateral trade from 1964–65 and 1976–77. Simultaneously, due to the geo-political situation, bilateral trade had been consistently fluctuating. Therefore, mutual trade could not be enhanced and economic cooperation between Pakistan and India could not be institutionalized. Figure 4.1 shows bilateral trade between Pakistan and India from 1948–1990. It reflects that starting with US\$ 41 million as a significant volume of bilateral trade between Pakistan and India in 1948, bilateral trade between them gradually decreased by the 1960s when it reached US\$ 3.67 million. Moreover, the 1965 war between Pakistan and India brought a halt to it. Subsequently, the volume of bilateral trade remained negligible during 1966–1975. However, it started to increase in 1978–1979 with US\$ 7.17 million and it reached US\$ 16.98 million in 1980–1981. Afterward, bilateral between Pakistan and India decreased in the following years with US\$ 8.79 million in 1983–1984 and US\$ 6.37 million in 1984–1985. Trade links started to improve between Pakistan and India with the restoration of democracy in Pakistan in the wake of elections held in 1985 when Muhamamd Khan Junejo became Prime Minister of Pakistan. The volume of bilateral trade was US\$ 9.17 million in 1985–1986, US\$ 9.43 million in 1986–1987 and US\$ 11.27 million in 1987–1988. Bilateral trade between Pakistan and India became double in 1988–1989 with the volume of US\$ 24.04 million and it reached US\$ 27.35 million in 1990–1991.

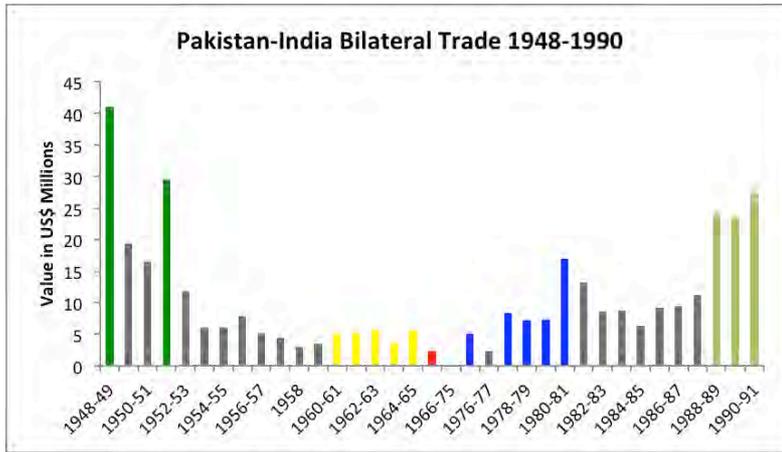


Figure 4.1: Pakistan–India Bilateral Trade 1948–1990

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

4.2.3 Bilateral Trade from the First SAARC Summit to the Initiative of SAPTA (1985–1995)

A significant improvement in the postures of Pakistan and India towards each other took place after Benazir Bhutto came into power in the wake of the general election held in Pakistan in 1988. On the sidelines of the fourth SAARC Summit held in Islamabad in December 1988, Indian Prime Minister Rajiv Gandhi and Pakistan Prime Minister Benazir Bhutto met and three rounds of negotiations were held. This meeting helped in making the political atmosphere conducive for improving economic relations between Pakistan and India, (A. Gupta, 2005, p. 182) especially in the convening of the third meeting of the India–Pakistan Joint Commission in Islamabad in July 1989, which was co-chaired by the Foreign Minister of Pakistan and the Indian Minister of External Affairs. Many concrete steps were taken in the field of trade and commerce. Pakistan’s ‘Harmonized System Code’—the list of items to be imported from India—was

expanded from 322 items to 511 items (A. Gupta, 2005). Another key step was an agreement to establish initiatives regarding comprehensive negotiations on avoiding double taxation. This also brought a significant increase in the volume of bilateral trade between Pakistan and India that rose to US\$ 24.04 million in 1988–89 as compared to US\$ 11.87 million in 1987–88. Due to Pakistan’s decision to expand the list of tradable items, India’s exports to Pakistan also increased from US\$ 4.47 million in 1987–88 to US\$ 7.78 million in 1988–89. In 1990–91, the total trade between Pakistan and India was US\$ 27.35 million while its total worth reached US\$ 107.77 million in 1995. Despite the fact of the burning of the shrine in Charar-i- Sharif, Indian-held Kashmir affected political relations between Pakistan and India and had a negative impact on expanding trade relations between them. As a result, bilateral trade dropped in 1994–1995 (A. Gupta, 2005, p. 183). Figure 4.2 provides a detailed picture of export-import between Pakistan and India, an overall annual volume of bilateral trade and a balance of trade between Pakistan and India from 1948 to 1990. It is important to mention here that during this period, the balance of trade between Pakistan and India remained in favour of Pakistan.

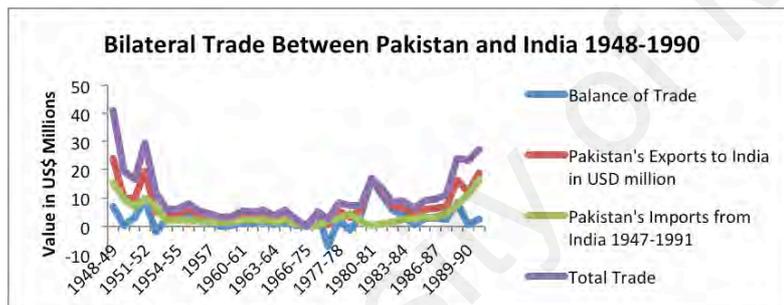


Figure 4.2: Bilateral Trade Between Pakistan and India 1948–1990

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

4.2.4 Pakistan–India Bilateral Trade from the SAPTA Initiative to the SAFTA Framework (1995–2004)

This period witnessed several trade facilitating measures. In the wake of the signing and implementation of the WTO in 1995, India granted MFN status to Pakistan. Though voices to grant MFN status to India were raised in Pakistan, it could not get popularity so it was not reciprocated by Pakistan because of politico-religious parties such as Jamaat-e-Islami and Jamiat Ulema-e-Islam (JUI) exerted pressure on the government to refrain from granting the status of MFN to India. Likewise, public opinion, influenced by right-wing political parties and hawkish elements prevalent in print and electronic media, was also not favorable. With this backdrop, no political party in government was able to take the risk of its political loss in terms of votes in the general election while granting MFN status to India. However, during this period an overall increase in the volume of bilateral trade between Pakistan and India from US\$ 122 million in 1995–96 to US\$ 209 million in 2001–2002, showing a compound annual growth rate of 7 percent (T. Maini & Vaid, 2012). An important initiative was taken during the period with the induction of the SAARC Preferential Trade Agreement (SAPTA) in 1995. It was in the backdrop of the realization by the political leadership of both countries that regional integration would lead to progress and development. SAARC's initiatives such as the regional approach of FTA in 1997, the establishment of SAPTA and a chalking out the plan for erasing custom duties, tariffs and the elimination of trade barriers were significant measures in this regard. However, political instability in the region and tension among member countries of the South Asian region, including the especially enduring rivalry between Pakistan and India, curtailed the expected outcomes for economic cooperation in South Asia (Yousuf, 2013). SAPTA was viewed as a great facilitator in creating specialization and reducing costs of production while generating

substantial trade in the region as well as introducing significant tariff reductions and removing non tariff barriers (NTBs). It established a trade zone while offering special treatment to its member states regarding tariffs and non-tariff barriers. An important feature of SAPTA was that it provided a mechanism to contain monopolies of the developed economies of South Asian region and given special treatment to the least developed economies of South Asia. SAPTA has not stipulated any precondition for implementation and has not demanded any reciprocity. A member country can unilaterally reduce its tariff on its imports from all other member countries or give special privileges to any single or all members. At the start, seven members of the SAARC exchanged lists of items on which they offered tariff preferences to all members. India was at the top, offering a list of 136 items. Pakistan offered a list of 39 items, Sri Lanka 31, Bangladesh 12, Maldives 3, while Nepal and Bhutan each offered lists of 2 items (S. C. Jain, 1999). In the post SAPTA period, Pakistan and India, the two major economies of South Asia, reduced their import tariffs. As a result, Pakistan's maximum tariff dropped from 125 percent to 65 percent while India's maximum tariff lowered from 300 percent in 1991 to 55 percent in 1995 (S. C. Jain, 1999).

Hirantha, (Hirantha, 2004) a professor in the University of Sri Jayewardenepura, Sri Lanka has used the gravity model in his research to gauge an overall impact of SAPTA over the enhancing regional trade in South Asia. He found strong evidence of trade creation in the region under SAPTA with no trade diversion affects on trade with non-members (Hirantha, 2004). This evidence of trade creation was a foretelling prospect for success of the then proposed South Asian Free Trade Agreement (SAFTA) that came into effect in 2006.

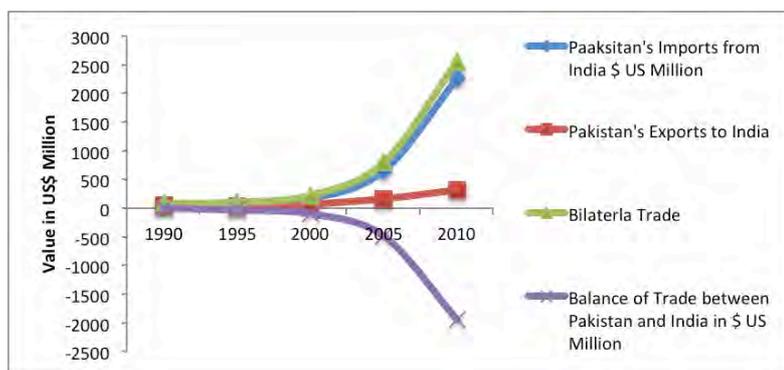


Figure 4.3: Bilateral Trade Between Pakistan and India 1990–2010

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

Figure 4.3 explains the bilateral trade between Pakistan and India showing an upward trend since 1990 when bilateral trade was US\$ 88.35 million, then at US\$ 107.77 million in 1995 and indicated to be US\$ 228.38 million in 2000. It crossed US\$ 800 million in 2005 and reached US\$ 2563 million in 2010. However, with an increase in the total volume of Pakistan–India bilateral trade, the balance of trade tilted towards India after 1990. In 1990, the balance of trade was in favor of Pakistan at US\$ 1.37 million but this balance started to rise in favor of India with US\$ 33.03 million, US\$ 98.28 million, US\$ 488.77 million and US\$ 1942.45 million in 1995, 2000, 2005 and 2010 respectively.

4.2.5 Pakistan–India Bilateral Trade Relations from the Framework of SAFTA (2004) to 2014

As result of four rounds of negotiations, held under the auspices of SAPTA, the SAARC countries took one step further towards the regional integration of the South Asian region and approved SAFTA. SAFTA came into effect on 1 January, 2006 with

the objective of creating a free trade agreement for SAARC member countries. SAFTA was established with the objectives of eliminating duties and tariffs as well as facilitating the easy movement of goods among member states. All countries of the SAARC i.e. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka are included in SAFTA. Unlike SAPTA, SAFTA seems to be more ambitious as far as the implementation of its provisions is concerned because SAFTA has to be implemented by the end of 2016. Despite focusing on trade liberalization; para-tariff and non-tariff barriers; sensitive lists; technical assistance to LDCs and revenue compensation; the SAFTA agreement has allowed for safeguard measures and a full or partial surrender of preferences (*South Asian Free Trade Agreement*, 2004). According to the Trade Liberalization Plan of SAFTA, Pakistan and India will have cut down their tariffs to 0.5 percent by 2013 while Sri Lanka will have decreased levels to 0.5 percent in 2013. The four South Asian states, which includes the Maldives, will have lowered their tariffs to 0.5 percent by 2015 (*South Asian Free Trade Agreement*, 2004).

Since the launching of SAFTA ten years ago, intra-regional trade has not witnessed any significant rise in South Asia. Trade patterns in South Asia, especially informal and illegal border trade, imbalanced distribution of intra-regional trade and import-substitute development strategies are among the key reasons behind the slow growth of intra-regional trade in South Asia. (Khuda, 2014) Although trade liberalization has reduced tariff and eliminated non-tariff barriers in some cases, trade has not been boosted to desired levels because some tariff rates in SAFTA are higher than any other RTA; furthermore, NTBs and sensitive lists also exist.

Under SAFTA every member state can protect its industry by imposing restrictions on the import of specific items while including them in sensitive or negative lists. According to Article 7 (3) (a) of SAFTA, a tariff liberalization plan would not apply to

tariff lines included in the sensitive lists (*South Asian Free Trade Agreement, 2004*). According to some estimates, over half of the total import trade in South Asian countries has been subject to negative lists of the respective countries, thereby impeding intra-regional trade in South Asia (Khuda, 2014). Despite emphasis by SAFTA and the revision of negative lists by Pakistan and other SAARC states, bilateral trade between Pakistan and India in particular and intra-SAARC trade in general has not been augmented. Here, Pakistan and India find a lot of room for enhancing bilateral trade.



Figure 4.4: Pakistan–India Bilateral Trade 2011–2015

Source: Export-import Data Bank, Ministry of Commerce, India (Ministry of Commerce, 2016c).

Figure 4.4 portrays a small rising trend in Pakistan–India bilateral trade for 2011–2012. Bilateral trade between Pakistan and India was US\$ 1939.21 million in 2011–2012, reached US\$ 2606.66 million in 2012–2013 and achieved US\$ 2701.15 in 2013–2014. It later decreased to US\$ 2354.49 million in 2014–2015. It is pertinent to mention that the present trade regime between Pakistan and India is not institutionalized to

accrue maximum benefits and it is working on the demand and supply basis, especially vegetables and fruits which creates fluctuations in annual trade volumes. The volume of bilateral trade for 2015–2016 was US\$ 2551.23 million, which indicates an increase as compared to the financial year 2014–2015. The balance of trade is also in favor of India, which was indicated to be US\$ 1143.90 million in 2011–2012, US\$ 1522.92 million in 2012–2013 and US\$ 1669.18 million in 2015–2016.

Institutional constraints such as procedural delays; inequality in standards; inefficient mechanisms at border crossings and ports; strict visa regimes; delays in custom clearances; as well as the inadequate enforcement of contracts, agreements and strict regimes regarding the movement of cargo are factors that have impeded the likely pace of intra-regional trade in South Asia. Therefore, the above-mentioned barriers should be addressed by SAFTA member states to utilize the maximum potential for enhancement in intra-regional trade. In addition, as Pakistan and India operate larger economies in South Asia, concrete measures should be taken to show political commitment towards increasing bilateral trade between them. Out of this, augmented bilateral trade between Pakistan and India will lower the particularly intense and conflicting relationship between Pakistan and India (M. S. Khan, 2010). Also, increased bilateral trade between Pakistan and India will work as a catalyst to improve the overall political milieu of South Asia.

4.3 Challenges and Constraints to Pakistan–India Bilateral Trade

To enhance bilateral trade between Pakistan and India, one has to identify challenges that these two big economies of South Asia are facing in this regard. It is also essential to identify bottlenecks that Pakistan and India experience on the road to increased bilateral trade. The following section focuses on constraints in bilateral trade between

Pakistan–India. Also, the section will be followed by a discussion regarding the removal of these constraints while addressing stakes of Pakistan and India.

Despite many initiatives taken by Pakistan and India at bilateral and multilateral levels, travel volume of bilateral trade has not increased significantly, but some positive steps have been taken since 1995 to rectify this. A few of these included the granting of MFN status to Pakistan, Pakistan’s announcement to establish a positive list regarding imports from India, the signing of SAFTA as well as the resultant retaining of Pakistan’s lists of only non-tradable items- negative list, since March 2012, (Taneja, 2013b), which are considered as encouraging and positive signs towards an enhanced trade relationship between the two neighbouring economies of South Asia. Since then, Pakistan and India have started to move away from their old view of ‘peace first, trade later’ to ‘trade now, peace later’ (Pasha & Imran, 2012).

Regarding bilateral Pakistan–India trade, some key issues can be identified that should be kept in mind before discussing the obstacles. Low complementarity between Pakistani exports and Indian imports; a restrictive Indian trade regime; and the imposition of para-tariff and tariff regimes by India are considered as key hindrances in Pakistan’s exports to India (Pasha & Imran, 2012). While high levels of trade complementarity between Pakistani imports and Indian exports as well as Pakistan’s relative liberal trade regime are considered as important factors in the augmentation of Indian exports to Pakistan, there has been no reciprocation of MFN status to India on behalf of Pakistan (Pasha & Imran, 2012).

This section focuses on important factors that have impeded bilateral trade between Pakistan and India. The enduring rivalry (Paul, 2005) between Pakistan and India is considered, as the key factor for decreased economic engagement while import-substitution policies for the promotion of industrialization has been another important

reason for low bilateral trade between the two large economies of South Asia. A detailed discussion regarding constraints in the bilateral trade between Pakistan and India, excluding the political tension, is as follows:

4.3.1 Import–Substitution Policies

After independence, both Pakistan and India adopted inward-looking economic policies that were focused on protecting their domestic industries. As a result, they emphasized heavily on protectionism; import-substituting industrialization and state intervention in the labour and financial markets; business regulation and central planning. Since the early 1990s, Pakistan and India have surrendered their decade-old economic policies and instead adopted open economic policies, liberalized their economies and have also introduced economic reforms. As a result of this economic liberalization process, new avenues for investment and international trade emerged. This resulted in a significant rise in growth of the Indian GDP, with a peak rate of 9% in 2007 (Z. F. Naqvi, 2008). Nonetheless, India was facing challenges in infrastructure; rural and agriculture development; public sector reforms and the impact of HIV/AIDS (Z. F. Naqvi, 2008). However, there is significant room for reforms in trade, especially in the removal of non-tariff barriers and the relaxation of visa regimes.

Pakistan also initiated the process of economic reforms in the early 1990s that resulted in the reduction of custom duties and a lowering of the average tariff rates closer to 30 percent in 2001, despite the fact that the average tariff rate in Pakistan was almost 70 percent in the 1980s. In the wake of further economic reforms adopted by Pakistan during the regime of President Musharaf, tariff rates dropped further and reached closer to 14 percent in 2007.

Liberalization of their economies and the adoption of economic reforms by Pakistan and India have not created a considerable increase in bilateral trade between Pakistan

and India. Official trade between Pakistan and India was US\$129 million while it reached closer to US\$250 million on average in 2001 (Ministry of Commerce, 2016c). However, a sizable increase in their bilateral trade can be noted after the start of the Composite Dialogue Process in January 2004. As a result, bilateral trade reached US\$ 868.79 million in 2005–06. Moreover, it increased from US\$ 1673.71 million in 2006 to US\$ 2238.50 million in 2007–2008 (Ministry of Commerce, 2016b). On the other hand, informal trade or smuggling that exists between Pakistan and India results in revenue loss for both countries. Various studies claim the existence of informal trade that amounts to almost US\$2 billion per year (Husain, 2012). The presence of smuggling or informal trade itself indicates the availability of space for an increase in bilateral trade. The total volume of bilateral trade has not exceeded US\$2 billion, despite the fact that the total volume of exports of Pakistan and India equals US\$200 billion (Husain, 2011). Import-substitute policies, which have been key to the economic policies of Pakistan and India until the imposition of the WTO in 1995, may be cited as an important reason behind the low volume of their bilateral trade.

4.3.2 Non-Tariff Barriers

The WTO grants the right to its member countries to adopt non-tariff measures to protect human, animal and plant life. However, in some cases, member countries have adopted strict non-tariff barriers as restrictive measures to control trade with any single country or group of countries in the wake of the measures listed by WTO and the United Nations Conference on Trade and Development (UNCTAD). Regarding Pakistan–India bilateral trade, non-tariff measures have been identified in the wake of interviews conducted with KIs. On this basis, non-tariff measures, which have impeded trade between Pakistan and India, are categorized as follows:

- I. Approach of Positive and Negative Lists

- II. Technical Barriers to Trade, Sanitary and Phytosanitary Measures
- III. Para-Tariff Measures
- IV. Visa Regime
- V. Financial Measures
- VI. Trade Facilitation and Custom Procedural Matters

4.3.2.1 Approach of a Positive/Negative List

One of important barriers to trade is the adoption of a positive and negative list. So far, growth of bilateral trade has been curtailed between Pakistan and India, creating confusion among traders, exporters and importers regarding the inclusion of items. Despite the fact that the positive list adopted by Pakistan and India has been expanded gradually, traders have been facing challenges regarding measures related to its application. Nisha Taneja, a Professor of International Economics, has pointed out that the instant inclusion of items in the positive list has sometimes created confusion among exporters and importers. Similarly, items not provided on the positive list are traded through another country while adopting a long route through Mumbai–Dubai–Karachi. Therefore, trade via a tertiary country increases transport costs by 1.4 to 1.7 times than with direct trade via Karachi–Mumbai (Taneja, 2007). According to Taneja (Taneja, 2007), under the positive list approach, certain items like blankets and corrugated galvanized iron sheets are allowed as import for limited periods. This has resulted in an uncertainty in the trading environment. Keeping the confusion and uncertainties created by the approach of a positive list in view, Pakistan has dismantled the categorization of positive and negative lists since 2012 and maintained only a negative list, which contains items that are not tradable with India. The Pakistani cabinet approved the switch from a positive list to a negative list on 29 February, 2012 (Mahmood, 2013). In contrast, India has maintained two separate sensitive lists for LDCs and non-LDCs in SAFTA. The Pakistani business community and economic observers opine that the

Indian sensitive list for non-LDCs is mainly Pakistan-specific⁹. It is important to mention that the positive/ negative list approach on the one hand, has created confusion among traders, lacks transparency and leads to high transaction costs. On the other hand, sensitive lists have significantly constrained the normalization of Pakistan–India bilateral trade.

4.3.2.2 Technical Barriers to Trade (TBT), Sanitary and Phytosanitary Measures

In compliance with the WTO obligations, both Pakistan and India have applied certain measures to ensure safety and maintain standards. These WTO-compatible measures are related to testing, labeling, certification and standardized practices. The WTO also ensures that these measures are to be non-discriminatory in their application regarding products regardless of country of origin.

Pakistan and India have adopted certain measures and legislations in maintaining standards and quality control as set by the WTO. Unlike Pakistan, where only the Pakistan Standards and Quality Control Authority is working, India has 24 bodies working at the state and central level to set quality and standards (Taneja, 2007). The Bureau of Indian Standards (BIS) is the premier body that is working at the central level. These bodies have set various standards, in addition to measures taken by the BIS, which are applicable to imports and exports of territories under their jurisdiction. The prevailing multiplicity of rules and regulations and their varying nature from one state to another and the multiple certifying bodies in India create confusion among exporters from Pakistan¹⁰; as to which are actual national standards; which agency is relevant to certify the items and what is the relevant law or regulation applicable in the presence of

⁹ Sohail Lashari, president of the Lahore Chamber of Commerce and Industry was interviewed on 10th September 2014. Hamid Raza, Lahore-based import/export businessman was interviewed on 11 September 2014. Mubarak Zeb Khan, Business and Economic Reporter, DAWN newspaper was interviewed on 8 January 2016.

¹⁰ Talat Butt, an import/export businessman based in Lahore was interviewed on 3 June 2015.

multiple laws or regulations (Taneja, 2007). This gives discretionary powers to the authorities regarding the application and interpretation of laws. It also discourages the import of products that have origins from any other country, especially Pakistan, which does not enjoy cordial relations with India. Pakistani businessmen¹¹ in personal interviews with this researcher have pointed out discriminatory and discouraging behaviours of Indian authorities regarding matching standards of Pakistani products to be imported to India. Therefore, Sanitary and Phytosanitary (SPS) measures are considered as a non-tariff barrier, which impede the flow of trade between Pakistan and India.

(a) ***Exports from Pakistan to India***

Pakistani businessmen complain about strict measures adopted by Indian authorities on the import of Pakistani agricultural and textile related products such as fresh mangoes and vegetables; livestock and leather items; and melamine and melamine products. Samples of export items of Pakistan are sent to distant laboratories within India¹². Moreover, items that have interest to be exported from Pakistan to India have to face the imposition of stringent non-tariff barriers.

(b) ***Exports from India to Pakistan***

Generally, traders opine that any stringent measure related to SPS and TBT do not exist in Pakistan on imports from India. There is an argument in Pakistan that it should also adopt some stringent quality control measures as those that India has adopted vis-à-vis Pakistani products (Husain, 2013). In addition to this, a lack of exchange of trade-related information between the two countries also increases the problems to be faced

¹¹ Hamid Raza, CEO of Pioneer Marbles, Lahore told this researcher on 11 September 2014. Asif Majeed, president of Eyyol Group, Multan. Detailed interviews of KIs have been discussed in the chapter "Data Analysis and Research Findings".

¹² Talat Butt, the Lahore-based import/export businessman was interviewed on 3 June 2015.

by the Pakistani and Indian business communities that deal with bilateral trade. A lack of testing facilities at entry points at land borders also creates delays in movements of goods across the borders¹³. Unless measures related to SPS and TBT are rationalized by India, significant increases in exports from Pakistan are not possible.

4.3.2.3 Para-Tariff Measures

Like tariff measures, para-tariff measure also increase the cost of imports by fixed percentages or values calculated on the basis of quantity and value. Pakistan and India have also imposed some para-tariff measures in addition to custom duties. This has resulted into a notable increase in the prices of import goods in the respective countries. Therefore, these para-tariff measures should be rationalized. Pakistan holds up to 6 percent withholding tax and a 15 percent sales tax. In addition to it, a federal excise duty is also imposed on selected products. Likewise, India has a countervailing duty of 16.3 percent on most items, a special countervailing duty of 4 percent and education cess¹⁴ of 2 per cent (Taneja, 2007) which should be rationalized.

4.3.2.4 Strict Visa Regime

Pakistan and India have strict visa regimes¹⁵. Bona fide businessmen are granted visas on the basis of an invitation from a recognized Association, Organization, or Chamber of Commerce. However, they face a number of problems such as city specific visas, short duration visas, visa delays, police report requirements, mode specific visas, a limited number of entries and requirements for entry or exit from the same port

¹³ Personal interview with Hamid Raza, CEO of Pioneer Marbles, Lahore, was conducted on 11 September 2014.

¹⁴ A duty on certain items

¹⁵ A visa regime is defined as a policy describing the rules and regulations for foreign nationals to enter a country. Pakistan and India have strict visa rules for the citizens of each country wishing to enter for visitation, commercial and trade purposes. Pakistan and India do not issue multiple entry visas to citizens of each country except parliamentarians and judges of the Supreme Court under the SAARC Visa scheme. General visit visas are issued with the condition of police reports to the concerned police station of the area where Pakistani and Indian visitors are residing. Moreover, these visas are city-specific. Visitors from both countries are not allowed to enter cities which are not mentioned in the visa.

(Taneja, 2013a). Despite having strict visa regimes concerning one another, the Consulates in Pakistan and India at certain times exercise discretionary powers in granting visas while exempting requirements for police reports, waiving the limit of the number of visiting cities and exempting scrutiny requirements by the Ministry of the Interior in Pakistan and the Ministry of Home Affairs in India. This lack of transparency, along with the asymmetry in getting information and the existence of mistrust, impedes many aspirant traders to visit and explore the potential markets of both countries¹⁶. The two countries have however concluded an agreement in September 2012 to loosen visa requirements in both countries (Taneja, 2013a). This still does although, require implementation in both letter and spirit. Narendra Modi, the Prime Minister of India, reiterated the relaxation of visa regimes while addressing the 18th SAARC Summit Meeting held on 26 November, 2014 in Kathmandu, Nepal and announced the expansion of the scope of SAARC Visas. The SAARC Visa is a special category of visa. Under the SAARC Visa, no invitation from a sponsor and no visa formalities are required. Moreover, there is no limit to the number of cities that could be visited per visit. It has become operational since 1992 under the initiative of the SAARC Exemption Scheme. Persons entitled to the SAARC Visa include Judges of the Supreme Court; Members of National Parliaments; SAARC Secretary Generals and Directors of the SAARC Secretariat; Heads of National Academic Institutions; Foreign and Permanent Secretaries dealing with foreign affairs; Heads of Chambers of Commerce and Industries, their spouses and accompanying dependent children under 18 years of age (SAARC, 2009; Taneja, 2007). It is imperative for Pakistan and India to expand the SAARC Visa category to include academics, journalists, IT professionals and particularly businessmen so that people-to-people contacts may reach to the

¹⁶ Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry was interviewed on 10 September 2014.

maximum level. More liberal visa regimes can only ensure the provision of an efficient network of exchange of information in trade related issues.

4.3.2.5 Financial Measures

With regard to financial matters, bilateral trade between Pakistan and India is not free of problems. These problems are primarily related to payments. Firms in Lahore and Amritsar trade without confirmed L/Cs because some Indian Banks, according to some firms, do not accept L/Cs from all Pakistani banks and the confirmation of these L/Cs take time, sometimes as long as four weeks. In addition, payments are also delayed because of discrepancies identified by banks.

Moreover, bilateral trade is also facing another crucial problem in the form of the decades-old mechanism of payment through the Asia Clearing Union (ACU). Eight Asian states established the Asian Clearing Union (ACU) in 1974, which included Iran, Pakistan, India, Bhutan, Nepal, Myanmar, Sri Lanka and Bangladesh. Under the ACU mechanism, member states avail to short-term credit facilities during the period of the settlement cycle. The ACU mechanism ensures the allowance of payments to be made and received in US dollars, but the ACU mechanism is inefficient in catering to the requirements of traders. As this is currently the only option available to traders, it causes delays in payments.

4.3.2.6 Trade Facilitation and Custom Procedural Matters

Bilateral trade between Pakistan and India takes place through several modes of transport such as sea, air and land routes. Inadequate land routes, inept infrastructure and bilateral transport protocols are factors that are working as impediments to enhancing trade and raise transaction costs. Rules of origin certification, custom clearance and procedural issues related to customs are additional obstacles.

(a) ***Inefficient Maritime Protocols***

Generally, it is emphasized upon Pakistan and India to improve the inept road infrastructure so as to enhance bilateral trade. However, recent trends in bilateral trade show that the major portion of total bilateral trade is being carried out via sea routes. The share of different modes in total trade between Pakistan and India has substantially changed since 2012 due to the opening of land routes and liberalization of sea trade. The share of sea route trade rose from 33 percent in 1995–96 to 60 percent in 2011–2012 while trade by road increased from zero percent in 1995–1996 to 17 percent. In contrast, trade by rail declined from 63 percent in 1995–1996 to 15 percent in 2011–2012 (Taneja, Mehra, et al., 2013). Therefore, both countries should focus on improving maritime trade agreements while also enhancing road infrastructure that links seaports.

Trade by sea between Pakistan and India has been managed by the Protocol on Resumption of Shipping Services between India and Pakistan, which was signed on 15 January, 1975. Under the Shipping Protocol, Indian ships were not allowed to carry cargo from Pakistan to any country except India and Pakistani ships were not permitted to carry cargo from India to any country except Pakistan. This resulted in a restrictive sea-trade regime that emerged between both countries as foreign vessels were barred from carrying cargo between the two countries. This resulted in an increase in freight costs charged by Pakistani and Indian vessels. While amending the 1975 Shipping Protocol in 2005, trade between Pakistan and India by sea was brought under global maritime arrangements and the compulsion of Pakistani and India flagships has also been waived. Therefore, it has led to a significant reduction in the cost of sea-based trade between Karachi and Mumbai (Taneja, Mehra, et al., 2013).

(b) ***Inept Infrastructure and Barriers to Trade by Road***

An important barrier to trade by road has been the inefficient road infrastructure. The poor road infrastructure has increased transaction costs and has also resulted in the decline of bilateral trade between Pakistan and India. Trade through land routes is the most cost effective way for the movement of goods between Pakistan and India. The only land route operating between Pakistan and India is the Wagha–Attari point, despite the fact that many other routes such as the Munabao–Khokhrapar and the Bahawalnagar–Rajasthan border areas may be utilized as potential points for the transfer of goods between both countries. Pakistan has permitted only Wagha for the transport of goods while Attari has been designated for rail shipments. Consequently, India has also adopted the same routes for the distribution of goods.

i Restrictive List of Goods

Regarding barriers to land-route trade, Pakistan and India have permitted only a few items to be traded along roads. Only 137 items are permitted to be traded via the Wagah–Attari crossing at the Pakistan–India border (P. S. Mehta, 2014a). Pakistan has only permitted cement to be exported to India by road. It has also permitted a few items such as potatoes, tomatoes, onions, garlic and livestock to be imported from India by land routes since 2005. Similarly, Pakistan and India have not allowed cotton to be traded over rail or by road. Rather, they have permitted cotton to be traded along sea routes.

ii Rail-Route Specific Constraints

Like sea and road trade-specific barriers, rail route trade also has several constraints. This includes a scarcity of wagons; a limited number of rakes; a lack of modern handling facilities at Wagha; lower durations in the allowance for time for trading at the

crossing point between Pakistan and India; a lack of regular communication between railway and customs officials; and an inadequate receiving capacity at the Lahore railway station. The lack of provision of these facilities has inhibited prospects of bilateral trade between Pakistan and India. The facilities regarding the support of logistics are not currently available and are not able to ensure the smooth flow of goods between Pakistan and India and the case of bilateral trade between Pakistan and India is not likely to increase significantly unless transformations in these areas can be achieved.

Presently, goods are moved by railcars or by parcel wagons that are attached to a passenger train that travel between Lahore and Amritsar on the *Samjhauta*¹⁷ Express. The *Samjhauta* express transports the same number of parcel wagons, whether loaded or unloaded and it maintains the same number of railcars for every trip. They move at fixed times on a bi-weekly basis. Though there is no fixed schedule for shipping cars, they do not move across borders after 5.00 pm due to security reasons. Under a mutual arrangement between the two countries, the railcar balance has to be cleared every ten days (Taneja, 2007). The railway crews of both countries do not move across the borders, but shipping cars and engine crews do travel between the two countries.

A scarcity of railcars is frequent as demand generally exceeds the allocated numbers within a few days. Consequently, goods are stranded for two or three weeks while the allotments of shipping cars can take up to two months. The paucity of railcars remains until a zero balance has been achieved because the shipping cars are cleared of content only thrice a month. Containerized cargo is not permissible for land route movement under the mutually agreed bilateral arrangements. Sea routes are the only option for the movement of containerized goods (Taneja, 2007). In addition, obsolete scales and X-ray

¹⁷ "Samjhauta Express", the Agreement Express, is a train service that runs between Lahore and Delhi and stops at Wagha and Attari for immigration clearance. The word "Samjhauta" means "agreement", "compromise" or "accord" in both Urdu and Hindi languages. This service started in 1976 when the Simla Accord concluded between Pakistan and India in July 1972.

machines as well as the shabby conditions of storage are other problems that pose as infrastructural hindrances to Pakistan–India bilateral trade.

iii 4.3.2.6.4. Road related Impediments

Bilateral trade between Pakistan and India is experiencing a significant rise of unprecedented levels. Figure 4.5 shows a rising trend in bilateral trade between Pakistan and India. However, facilities available at the Wagha–Attari border are not capable to meet the increase. Both countries should take measures to improve their infrastructure as well as provide modern facilities at the crossing point. It is pertinent here to identify the road related challenges.



Figure 4.5: Pakistan-India Bilateral Trade (2001–2016)

Source: Export-import Data Bank, Ministry of Commerce, India (Ministry of Commerce, 2016c).

Pakistan and India share a 2,912 kilometre long border. The opening of the border for road trade in 2005 has been considered as a historic move. Separated by 54 kilometres, Amritsar and Lahore are main cities on both sides of Pakistan–India border. As a result, transaction costs by this route are notably lower than along a sea route. However, trade by land also presents several obstacles that have to be overcome in order to develop a low-cost trade route.

At the Wagha–Attari border, there is only one gate to allow for the movement of goods and the crossing of passengers. It is at this same avenue where a daily flag ceremony¹⁸ is held at 4 pm in the afternoon. This only allows for trade to take place from 8 am to 4 pm daily. Therefore, one gate cannot fulfill the necessary requirements of the smooth passage of passengers and the movement of goods between Pakistan and India. Moreover, no cold storage facility is available at either side of the border, despite the fact that perishable items are regularly traded. There is no shed available at the Pakistani side whereas two sheds are available on the Indian side, but are in shabby condition and are inadequate the requirements of most goods.

Another important factor, applicable only until recently, was the prohibition of trucks to cross the border. Pakistani trucks were not permitted to cross the zero line and were supposed to park 200 metres away, while Indian trucks were also required to park 600 metres away from the zero line (Taneja, 2007). Goods were unloaded from the trucks and transported on head-loads by coolies up to the zero line where goods were handed over to other coolies from the respective country. This was time consuming and raised transaction costs. However, both countries have amended the road protocols, thereby permitting trucks carrying goods to cross the border and unload goods.

¹⁸ The Wagha border closing or “lowering of the flag” ceremony is a daily military practice on the Wagha–Attari border between Pakistan and India conducted by Pakistan Rangers and Border Security Force of India. It has been jointly followed since 1959 as a gesture of goodwill but with great pomp and splendor.

Realizing the lack of adequate facilities available at Wagha–Attari border, India established an Integrated Check post (ICP) at Attari in April 2012 that provided new facilities such as a new gate as well as other modern facilities and warehousing under one roof. The installation of truck scanners and an automated system for the electronic filing of customs documents through the Electronic Data Interchange (EDI) have also been implemented (Taneja, Mehra, et al., 2013). Pakistan needs to take the initiative to provide modern facilities at the Wagha–Attari border as well, such as the establishment of warehouses equipped with modern facilities; cold storage centres; handling and clearing facilities; and most importantly, new facilities regarding the handling of goods at the Lahore railway station¹⁹.

4.3.3 Foreign Direct Investment

Investment streams play a key role in enhancing trade linkages between trading partners. It is the FDI that creates more opportunities for local people and builds the confidence of investors while establishing mutual stakes between trade partners. Unfortunately, Pakistan and India have not been enjoying confidence to the extent that they can open their investment policies for businessmen from each other. In 2012, India amended the consolidated Foreign Direct Investment (FDI) policy to allow Pakistani individuals and firms investing in India through government routes in all sectors except defense, atomic energy and space. Consequently, Pakistan has been removed from the negative list under the Indian Foreign Exchange Management Act (FEMA) permitting any investment from Pakistan and letting Indians to invest in Pakistan as well (Taneja, Mehra, et al., 2013). Now, Pakistani businessmen have also started investing in Bangladesh, Sri Lanka, Malaysia and other East Asian countries. Having these relaxations in the Indian FDI Policy, Pakistani and Indian businessmen should pursue

¹⁹ Interview with a custom official of the Lahore Dry Port on 3 June 2015. Interview with Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry on 10 September 2014.

investments in their respective countries. Joint ventures are an immediate solution to clear misperception and distrust between businessmen from both countries. While initiating joint ventures, they can enhance cooperation and utilize respective expertise in enhancing value-added projects.

4.4 Pakistan's Potential Areas for Export to India

Research studies²⁰, carried out by private sectors and academics in both Pakistan and India find great potential for bilateral trade between Pakistan and India. However, political rivalry between Pakistan and India is the main barrier to accrue the benefits from economic cooperation and trade links. Also, it is important to mention that both countries have their potential areas for enhancing bilateral trade that will lead to win-win situations in the economic field while augmenting general economic co-operation. Pakistan and India have the potential for possible joint ventures and viable avenues for economic co-operation²¹. The sectors that have potential include “textiles, leather, pharmaceuticals, auto-parts, chemicals, agricultural products especially tea, telecommunications, minerals, iron ore, energy resources, electricity generation using coal and wind” (Nabiha Gul, 2009). Also, private sectors such as health, information technology, tourism, the banking sector and entertainment services have a large scope for mutual cooperation between Pakistan and India (Nabiha Gul, 2009). Additionally, India could also enhance its exports to Pakistan in the categories of mechanical appliances; electrical equipment and machinery; and textiles and chemicals (Shaikh, 2013). Pakistan's top exports to India during 2015 were fruits, nuts, cotton, stone, sulphur, salt and cement. Likewise, Pakistan's top three imports from India during the same year were cotton, vegetable products and organic chemicals (Countries, 2016).

²⁰ Batra, 2006; Rahman et al., 2006; Gul & Yasin, 2011; Kemal et al., 2002a; Kemal et al., 2002b; Mamoon et al., 2011

²¹ Interview with Sohail Lashari, the president of the Lahore Chamber of Commerce & Industry on 10 September 2014.

Pakistan's overall exports to India reached US\$ 441.03 million in 2015–2016, which has a 0.1159 % share in the US\$ 380,665.12 million of total imports of India (Ministry of Commerce, 2016a).

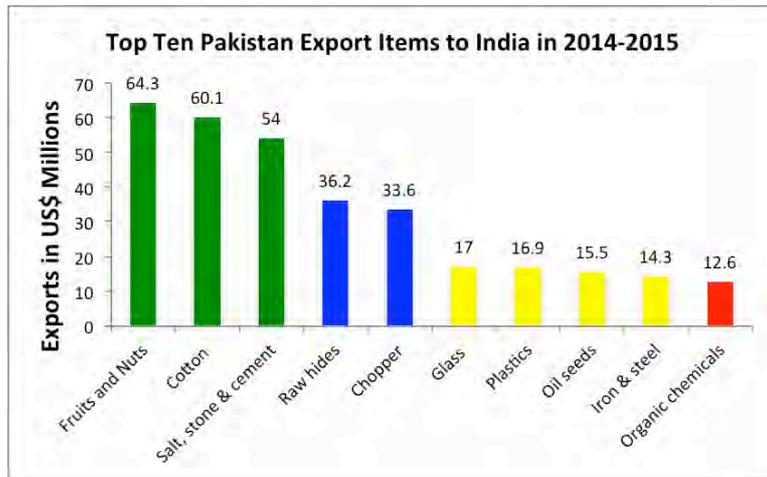


Figure 4.6: Top Ten Pakistan Export Items to India in 2014–2015

Source: Export-import Data Bank, Ministry of Commerce, India (Ministry of Commerce, 2016c).

The expansion of trade and economic contacts with India will help Pakistan to harvest from pools of skilled Indian workers and gain access to technology to advance the international competitiveness of Pakistani firms by utilizing the expertise of Indian consultants who are culturally closer and whose rates of consultation services are also relatively lower (Nabi & Javaid, 2011).

The following section provides an estimate of Pakistan's potential areas of export to India. Likewise, potential areas of Indian exports to Pakistan have also been assessed.

4.4.1 Textiles and Cotton-related Products

The textile and apparel sectors are considered to be the engines of economic growth in Pakistan and India. These sectors have been the backbone of export of the South Asian region, particularly for Pakistan because these sectors have contributed 18.8 per cent in India and 65.5 per cent in Pakistan out of the total export value of the year 2004 (Husain, 2012). Pakistan holds competitive power in terms of home textiles, fabrics and men's apparels as well as a supplier of raw cotton, while India has emerged as a key alternative to China for value-added textile products (Husain, 2011). Bilateral trade between Pakistan and India in these sectors however is negligible, as both countries have added cotton and textile-related products to the sensitive lists under the SAFTA regime. Ishrat Husain, former Governor, State Bank of Pakistan has identified 176 items, in the wake of a comparison of exports of Pakistan and India, which have comparable unit values. Pakistan has a price advantage (i.e. lower realized export value) in 128 textile items out of these 176 items, while India has a price advantage in 48 textile products (Husain, 2012). Moreover, it is difficult to forecast if Indian cotton products would flood Pakistani markets when both countries adopt liberalized bilateral trade regimes because several other factors such as production, quality and design of products are also important. It is pertinent to mention here that Ishrat Husain (Husain, 2011), while quoting Garry Pursell's study, indicated that there would be some gains for both countries as far as bilateral trade in textile and cotton related products are concerned. To realize a win-win situation, it is necessary for Pakistan and India to adopt a framework where issues related to anti-dumping, rationalization of tariff-lines, payment systems, payment-related dispute settlement systems and free movement of businessmen can be settled²².

²² Personal interview with Sohail Lashari, the president of the Lahore Chamber of Commerce & Industry on 10 September 2014.

4.4.2 Jewelry and Precious Metals

Minerals and precious metals is another sector, which has potential for exports to India. The cement sector in particular has great potential for Pakistani exports to get due ample shares in Indian markets. Keeping this in view, cement has been included in the list of the few items that are being traded between Pakistan and India via land routes. Indian imports, other than textiles, constitute over 98 per cent of the total value of imports of common items. Out of these common items, 45 percent have an individual worth equal to or more than \$5 million (Qamar, 2005). These common items imported by India pertaining to mineral oil and related products include bituminous, mineral fuel, oil and wax. Jewelry and precious metals are among those three categories of items, which account for 52 percent of Pakistan's total export potential to India. The items that have the largest export potential include petroleum oils; jewelry; medical instruments and appliances; copper waste and scrap; polyethylene; tubes and pipes of iron and steel; cotton; sports equipment; structures and parts of structures; terephthalic acid and its salts (Taneja, Mehra, et al., 2013). However, due to the sensitive list, the potential of Pakistan-India trade has not yet been realized because six out of these twenty-five items with high potential for export are included in the sensitive list of India for non-LDC under SAFTA. Though Pakistan and India have export potential in petroleum oils, researchers like Nisha Taneja quoting an analysis conducted at a disaggregated 8-digit level finds that India has a comparative advantage in high speed diesel, fuel oil, lubricating oil and aviation turbine fuel while Pakistan's major petroleum export is base oil (Taneja, Mehra, et al., 2013).

4.4.3 Base Metals

Base metals are another sector where Pakistan has great potential for its exports to India.

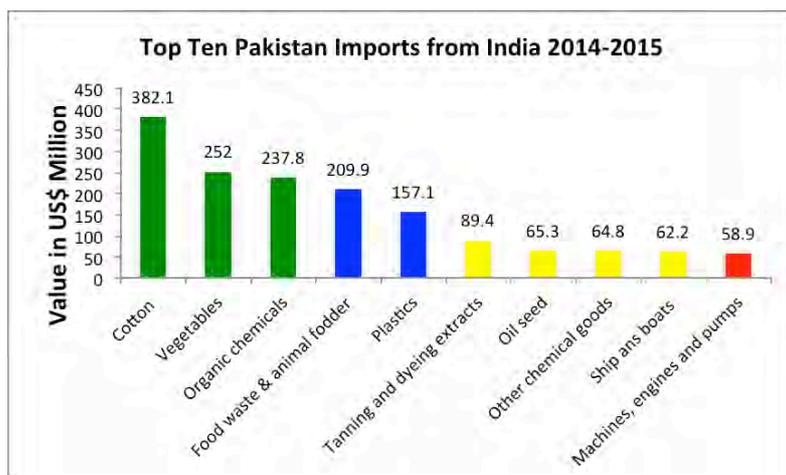


Figure 4.7: Top Ten Pakistan Imports from India 2014–2015

Source: Export-import Data Bank, Ministry of Commerce, India (Ministry of Commerce, 2016c).

4.5 India's Potential Areas for Export to Pakistan

There is ample potential for India to export items to Pakistan that she exports to the rest of the world. Items that Pakistan may import from India include machinery and mechanical appliances; chemical and allied industries; electrical equipment; vehicles; aircrafts; auto-parts; vegetable products; textile and textile products; animals and vegetable fats; and oils. In 2015–2016 India's top three exports to Pakistan were textiles, organic chemicals and plastics. India's total exports to Pakistan in 2015–2016 were US\$ 2110.20 million and it was 0.8053 percent of its total exports (Ministry of Commerce, 2016a). It reflects that the share of Pakistan's imports in India's exports is very minimal which has potential provided that Pakistan and Indian leadership want to

enhance economic cooperation between them. The State Bank of Pakistan (SBP), in her study estimates that for Pakistan to import from India it would save a minimum of US\$ 400 million to US\$ 900 million annually (Paksitan, 2006). In the following paragraphs, India's top three potential sectors for export to Pakistan are analyzed.



Figure 4.8: Top Five Indian Exports to Pakistan in 2015–16 (US\$ Million)

Source: Export-import Data Bank, Ministry of Commerce, India (Ministry of Commerce, 2016c).

4.5.1 Chemicals

Pakistan's chemical industry has not been developed to the extent that it can compete with the Indian industry or with industries of the developed world. Rather, it has been developed almost on an ad hoc basis. Therefore, it cannot fulfill the requirements of agricultural and industrial sectors and it has to import chemicals to cater to their requirements. In contrast to this, on the basis of abundant raw materials as well as

coherent policies adopted by various governments, India has established its chemical industry to the extent that it has emerged as the third largest in Asia and twelfth largest in the world (Husain, 2011).

4.5.2 Iron and Steel

India has exhibited impressive development in the iron and steel sector. India is a strong exporter of steel products and its steel industry produces a variety of steel products. On the basis of abundant raw materials, competitive labour, technical expertise and skilled manpower, India is the largest producer of sponge iron and the eighth largest producer of crude steel in the world. Compared to India, Pakistan is far behind in the iron and steel industry. It imports these products to cater to the demands of its domestic market. Pakistan's imports of steel products from India are a small fraction to its total imports of these items. Therefore, great potential exists for bilateral trade between Pakistan and India, particularly due to the lower value of unit prices of Indian exports that Pakistan can save on its foreign exchange by importing iron and steel products from India (Husain, 2012).

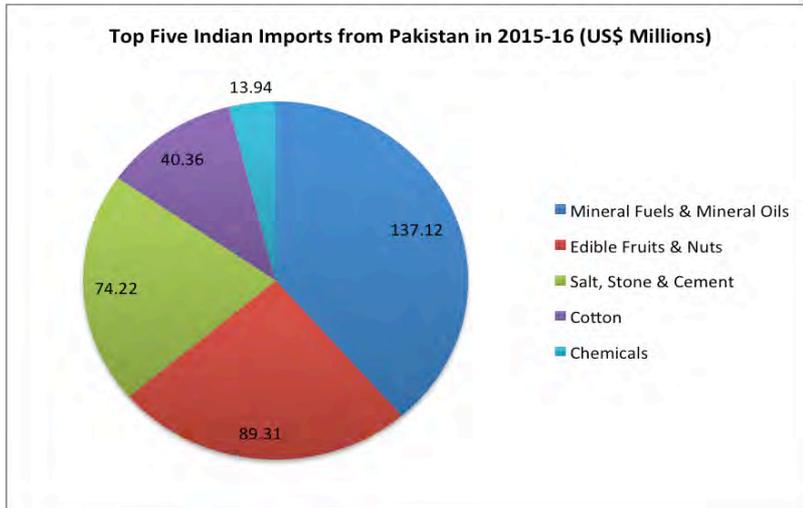


Figure 4.9: Top Five Indian Imports from Pakistan in 2015–16 (US\$ Millions)

Source: Export-import Data Bank, Ministry of Commerce, India (Ministry of Commerce, 2016c).

4.6 Potential Areas for Mutual Cooperation and Joint Ventures

There are several items available for trading between Pakistan and India. In the preceding section we have also measured the potential of bilateral trade between Pakistan and India and also identified potential areas for bilateral trade. In addition to these potential areas for bilateral trade, there are some sectors where Pakistan and India can launch joint ventures to address reservations of respective lobbies. Figure 4.12 presents prospective sectors for joint ventures between Pakistan and India. These joint projects may also work as additional channels for increasing economic co-operation, which may allow for both countries to reap further benefits and create a win-win situation for them. The automobile, pharmaceutical and IT industries are among the sectors that can emerge as potential areas for joint ventures between Pakistan and India and they can complement each other while expanding their exports after attaining

significant shares in landlocked economic markets like Afghanistan and other Central Asian States. Economists like Hartwick (Hartwick, 2008) opines that opening Pakistan–India trade would be the key opportunity for the two countries to incite trade flows and produce benefits in South Asia.

4.6.1 Automobiles

The automobile industry in Pakistan can be categorized broadly into cars and light commercial vehicles; two and three wheelers and tractors; trucks and buses. The automobile industry in Pakistan is operated under the franchise and agreements of technical cooperation with leading world manufacturers such as Toyota, Suzuki and Honda. The automobile industry achieved impressive growth in 2004 due to the liberalization of the banking sector and introduction of car financing schemes. In 2002–2003, 66,432 cars, 1,929 trucks and 1,296 buses were produced whereas in 2013–2014 the total production of cars were 1,16,605, trucks were 2,674 and buses were 558, while 1,52,524 cars, 4,039 trucks and 575 buses were manufactured in 2014–2015 (Association, 2016). Figure 4.10 shows the data regarding the annual production of cars under the Completely Built Units (CBUs).

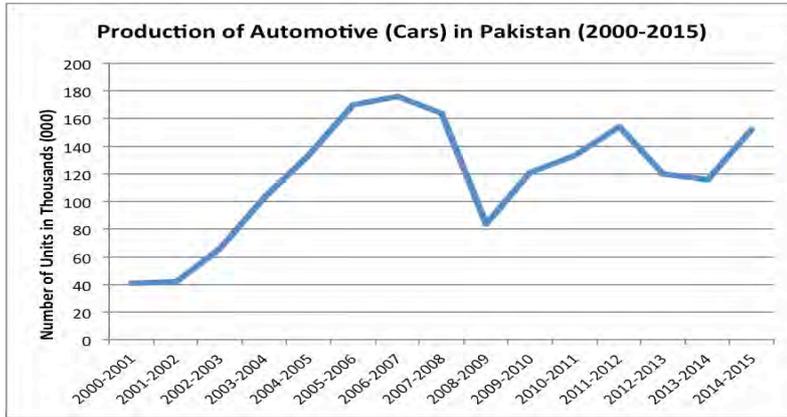


Figure 4.10: Production of Automotive (Cars) in Pakistan (2000–2015)

Source: Data has been taken from the website of the Pakistan Automotive Manufacturers Association (PAMA) <http://www.pama.org.pk/statistical-information/historical-information/annual-sales-production> Accessed on 19 July 2016.

Gradually, increased competition led to the innovation in manufacturing of sedan cars and pickup trucks as well as the introduction of new brands of two and three-wheelers such as motorbikes and auto rickshaws. Figure 4.11 presents an increasing trend in the production of motorbikes in the wake of the liberalization of the economy as well as Pakistan’s de-regulation of automobile policies since 2004.

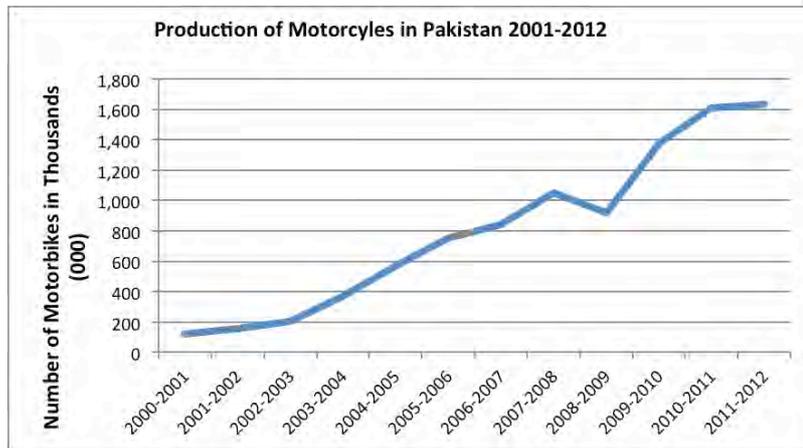


Figure 4.11: Production of Motorcycles in Pakistan (2001–2012)

Source: Author’s own calculation from the data obtained from the website of the “Association of Pakistan Motorcycles Assemblers Association” <http://www.motorcycleexport.com/str2/?p=137> (Accessed on 18th July 2016).

The automobile industry is vibrant. Comfort, design, safety, IT driven accessories and most importantly, consumer choices drive the industry. Despite achieving some level of localization in terms of usage of locally made components, Pakistan still lacks the capability to move forward with value addition. Therefore, Pakistan’s automobile industry could not cater to the demands of emerging markets. However, it can import critical components from India in Completely Knocked Down (CKD) form instead of importing it from Thailand and Japan because cost of production in India is lower due to inexpensive labour and low material costs. Pakistan can save foreign exchange earnings by changing the source of import from Thailand and Japan to India because of geographical proximity. Import of these components will not affect Pakistan domestic producers, rather it will change only the source of import from Thailand to India. Suzuki and Toyota have affiliates in Pakistan and India and some parts are reasonable in

Pakistan while some have lower prices in India. Therefore, both can grow if they can collaborate, particularly when Toyota is producing critical car components in India such as for the Fortuner, Etios and Innova. Tractor manufacturers in Pakistan such as Millat are interested in exporting tractors to India while heavy commercial vehicles (HCV) manufacturers in India such as Tata and Mahindra are interested in investing in Pakistan.²³

Pakistan has concerns regarding India's access to the Pakistani market with a lower tariff under SAFTA once non-discriminatory access is granted to India. However, Pakistan has no threat to 74 out of 167 products of the automobile industry (Nag, 2014). Pakistan can face competition from India regarding engine components for motorcycles because India has a comparative advantage in that India can gain easy access to products in Pakistani markets such as cash carrying vehicles, saddles and carriages for disable persons (Nag, 2014).

India has a significant capacity for the production of vehicles due to an efficient base in the steel and engineering industry. The auto companies of India are highly competitive and possess low cost automation. India is the second largest tractor and two-wheeler manufacturer and fifth largest commercial vehicle manufacturer in the world while it has the fourth largest car market in Asia. Therefore, access by the Pakistani automobile industry to a small portion of the Indian market can increase manifold the number of production of vehicles. Pakistan can also utilize expertise from Indian vehicle manufacturing companies and initiate joint ventures in the automobile industry to get access to West Asia and Central Asian markets. Eventually, this may result in a win-win situation. This indicates potential areas for joint ventures with India.

²³ Personal interview with Sohail Lashari, the President of the Lahore Chamber of Commerce & Industry on 10 September 2014.

4.6.2 Information Technology

Information Technology is another important sector where ample space exists for mutual cooperation and bilateral trade between Pakistan and India. The IT sector has made incredible progress in India, as it was contributing only 1.2 percent to the Indian GDP in 1998, but then the contribution rose to 5.8 percent, generating a comparatively larger GDP in 2009. The revenue earned in 2000 was \$6 billion while it increased to \$62 billion in 2010 (Husain, 2012). In contrast, the IT industry in Pakistan, despite being in its infancy, has progressed well in nearing a similar level as IT industries on a regional scale. IT exports have increased from US \$ 46 million in 2004–05 to US\$ 250 million in 2009–10 showing a 40 percent increase in growth. Still, it is far behind the Indian IT industry and most of the Pakistani companies are small and medium-sized with few focusing on export of software and IT-related services. This is one of the potential areas that can be exploited as Pakistan and India could also initiate joint ventures to further augment their export potential. Having a wider software base, India may extend help to Pakistan in establishing common and joint projects. India is losing the labor-cost advantage in the wake of the rise in the wages of IT professionals. Therefore, a joint venture between a Pakistani IT company, providing skilled IT professionals with comparable skills at lower wages, with an Indian IT company, acquiring international contracts in its name, would be a highly beneficial situation for both countries and industries (Husain, 2011).

4.7 Conclusion

Pakistan and India, despite once being a single economic entity, have not yet been engaged in sustained and irreversible economic interaction. Rather, economic relations between these two neighbours have been held hostage by political rivalry that emerged after independence from the British in 1947. This chapter has identified impediments to the bilateral trade that Pakistan and India have been facing since their emergence as

independent states. Having an overview of bilateral economic interaction, the chapter has pointed out several key factors, mainly the trust-deficit, security and geo-political issues that have caused the dismal nature of the Pakistan–India economic relations in general, and bilateral trade in particular. With the establishment of the South Asian Association for Regional Cooperation (SAARC) in 1985, there were hopes for an increase in economic cooperation as well as bilateral trade between Pakistan and India, yet it remained confined to commodities; Pakistan imported iron ore, tea, vegetable oil, fruit and dyestuff from India and exported cotton, leather, fruit and rock salt to India (S. C. Jain, 1999).

The chapter finds that the SAARC's initiatives like FTA, SAPTA and SAFTA were taken to augment economic interaction among the member countries but expected outcomes have not been achieved due to enduring rivalry between Pakistan and India. However, several measures have been taken by Pakistan and India to enhance economic cooperation and increase bilateral trade between them. Despite these measures for enhancing bilateral trade and intra-regional trade in South Asia, no significant rise in intra-regional trade has been noticed. SAFTA came into effect on January 1, 2006 with the objective of eliminating duties and tariffs and facilitating the easy flow of goods among member countries while creating a free trade agreement for member countries of the SAARC. Despite the fact that SAFTA was focused on trade liberalization; para-tariff and non-tariff barriers; revenue compensation; sensitive lists; technical assistance to LDCs and sensitive lists, it allowed for safeguard measures and full or partial surrender of preferences ("SOUTH ASIAN FREE TRADE AREA," 2005).

It has also been noted in the chapter that an inequality in standards, inefficient mechanisms at border crossings and ports; strict visa regimes; delays in customs clearance; strict regimes regarding the movement of cargo; procedural delays due to

bureaucracy and inadequate enforcement of contracts; and agreements have impeded the likely pace of intra-regional trade in South Asia. Informal trade in the form of smuggling and trade through other countries are prevalent trade patterns that exist between Pakistan and India which also hinders the pace of bilateral and intra-regional trade in South Asia (Khuda, 2014).

For enhancing bilateral trade, it is important that the obstacles constraining Pakistan–India trade relations should be identified and removed accordingly. In this regard, a set of issues have been identified as barriers to Pakistan–India bilateral trade. These are mainly considered as NTBs. These NTBs include positive/negative list approach, technical barriers to trade, para-tariff measures, SPS measures and strict visa regimes. These measures have worked in a discriminatory fashion and have impeded the pace of bilateral trade between Pakistan and India. Since 2012, Pakistan has abolished the categorization of positive and negative lists and maintained only negative lists of those items that cannot be traded with India. This is a good omen for boosting economic relations and bilateral trade statistics reflect tangible growth in it. Bilateral trade between Pakistan and India reached US\$ 2551 millions in 2015–2016, which is 8.3 percent higher than in 2014–2015 (Ministry of Commerce, 2016c). Simultaneously, Pakistan and India should surrender the old view of ‘peace first, trade later’ and adopt a ‘trade now, peace later’ stance (Pasha & Imran, 2012).

In addition to the non-tariff and technical barriers to trade, bilateral trade between Pakistan and India is facing several obstacles related to infrastructure. Bilateral trade takes place over various modes of transport such as air, sea and land routes. Inept infrastructure and inadequate land routes are key hurdles that raise transaction costs and obstruct the flow of trade. Sea routes have been the dominant trade routes between Pakistan and India. Due to inefficient maritime protocols though, trade has been below

desired levels. Now, the share of trade via land routes is increasing. Therefore, Pakistan and India should focus on providing modern facilities regarding weighing, scanning of goods, and customs clearance at the Wagha–Attari crossing points while opening the further crossing points like Khokhrapar–Munabao so that transportation costs can be reduced.

This chapter has presented an overview of the studies conducted to assess the potential of bilateral trade between Pakistan and India. A Gravity model approach and Complementarity Index approach have been used in these studies. These studies have estimated the potential volume of bilateral trade between US\$ 15 billion and US\$ 20 billion, which is almost 10–20 times higher, than the existing volume. Similarly, textile and cotton related products; jewelry and precious metals; and base metals have been identified as potential sectors for Pakistani exports to India. On the other hand, chemicals; iron and steel; and textile related products are potential sectors for Indian exports to Pakistan.

Lastly, the chapter indicates that joint ventures are an appropriate approach to enhancing economic cooperation between Pakistan and India, especially in those sectors where Pakistan, as a weaker economy, has reservations. The automobile industry, pharmaceuticals, power sector, health tourism and information technology are potential areas where Pakistan and India can initiate cooperation and launch joint ventures. In this way mutually beneficial situations can be achieved. Prospective sectors identified on the basis of interviews of KIs for likely joint ventures between Pakistan and India can be presented in the Figure 4.12.

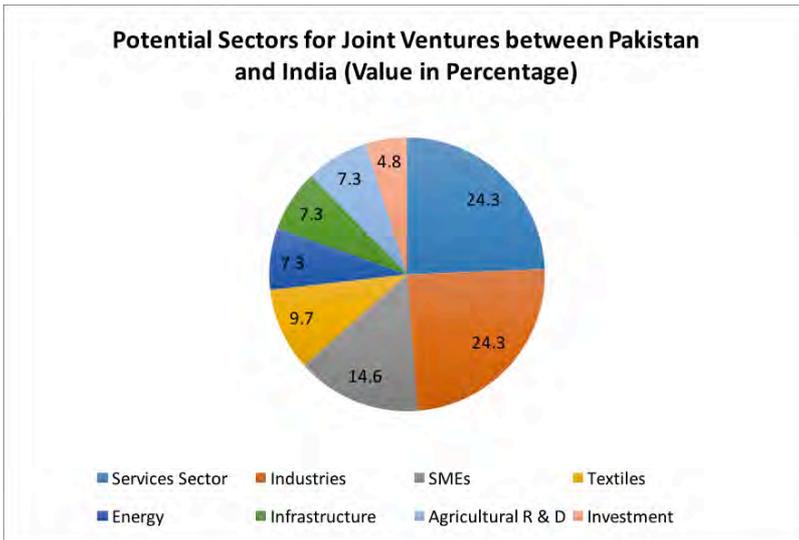


Figure 4.12: Potential Sectors for Joint Ventures between Pakistan and India (Value in Percentage)

Source. Author's own calculations on the basis of interviews of KIs.

The figure 4.12 shows the potential sectors that can be explored for joint ventures between Pakistan and India on the basis of interviews of KIs. Service sectors and industries are the leading areas where joint ventures can be launched. These industries include tires and tubes; pharmaceuticals; chemicals; and automobiles. Services sectors include packaged foods, spices, urban transport, housing, banking, hotels and tourism. SMEs are another key area that has vast potential. These include the management of water resources, the establishment of energy grids and gas pipelines such as TAPI and IPI. Agricultural R&D also has potential for joint ventures, which include new seeds for catering to the challenges of climate and weather such as El-Niño as well as related products for innovations in agricultural that could involve new formulas and

combinations for pesticides. According to KIs, there is fewer prospects however for FDI by Pakistan and India concerning each other in the beginning of the process of economic co-operation, but it may develop at later stages when this process becomes institutionalized and matures.

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CHAPTER 5: ECONOMIC COOPERATION AS A TOOL FOR CONFIDENCE

BUILDING BETWEEN PAKISTAN AND INDIA

5.1 Introduction

Pakistan and India have had an adversarial relationship since their inception. Despite engaging in war, they have also taken several initiatives to mitigate bilateral conflicts, for example the Tashkent Declaration in 1966, the Simla Accord in 1972 and the Lahore Agreement in 1999 (Pattanaik, 1999). However, the bilateral relationship has not been transformed into a cordial one and a trust deficit is prevailing over the dynamics of the bilateral interactions (Sen, 2014). Therefore, there is room for improvement in the bilateral relationship between Pakistan and India. This chapter attempts to analyze economic cooperation as a tool for confidence building between Pakistan and India. It also highlights the need for establishing sustained economic cooperation as it happened in the cases of the EU, ASEAN and NAFTA, as well as bilateral conflicts like Sino-Taiwan and Brazil-Argentina. It also traces causes for the failure of the SAARC. By placing economic cooperation under the umbrella of CBMs, this chapter assesses the prospects of regional cooperation and detects constraints to regional economic cooperation. The chapter argues for bilateral economic cooperation as a viable mechanism for creating and sustaining peace between Pakistan and India because economic cooperation from the platform of regional organization such as the SAARC has not moved forward in the wake of conflicts between Pakistan and India. Therefore, bilateral economic cooperation between Pakistan and India is imperative, not only for increasing regional cooperation among SAARC countries, rather it is the plausible mechanism for managing the Pakistan-India conflict.

Pakistan and India are engaged in bilateral trade, yet its volume is not significant enough to compel both neighbours to proceed towards peaceful resolutions of

unresolved issues. Pakistan and India have however, enacted several military and non-military Confidence Building Measures (CBMs). But, most of these CBMs have been military-oriented (Ahmar, 1994). And, these CBMs have not only created confidence but also reduced the occurrences of war (M. T. Ashraf, 2001a). Therefore, Pakistan and India should adopt trade-related confidence building measures. These CBMs should cover an overall economic cooperation between the two neighbours. In this regard, as both neighbours possess nuclear weapons, new approaches should be adopted to handle their bilateral relationship. This new approach includes the adoption of economic CBMs. The process of confidence building should be given space so that it can be institutionalized and prospects for reversal of this process will be minimized.

5.2 Concept of CBMs

Though the term 'CBM' was introduced into diplomatic jargon in the mid-1970s, every region today considers or adopts some form of CBMs (Desjardins, 2014). Broadly defined, the term CBMs comprises a large image. Any measure, development, arrangement, action, understanding, agreement or treaty that creates confidence between adversaries could be interpreted as a CBM (M. T. Ashraf, 2007). In other words CBMs can be any set of unilateral, bilateral or multilateral actions or procedures that act to reduce military tension between a set and sets of states before, during or after actual conflict (Abraham, 1993). Considered as the fastest growing business of the post-Cold War era, CBMs are said to be useful in enabling conflict resolution and are pertinent to all states (Desjardins, 2014). In practice, CBMs make actions and behaviors of states as predictable and calculative for other states (Higgins, 2001). CBMs are said to be useful apparatuses for averting war, producing arms control and disarmament agreements and smoothing conflict resolution (Desjardins, 2014). To be more specific, it can also be defined as

“A bilateral or multilateral measure that builds confidence, arrests the undesirable drift towards open hostilities, reduces tension and encourages adversaries to make contact for negotiations without taxing too much the operative policy pursuits” (Banerjee, 1999).

Having three stages of the conflict avoidance, confidence building and strengthening of peace, the process of confidence building is complex, but follows a series of steps. Pakistan and India are currently halted at the stage of confidence building. Here, the conflicting parties have to show the political will and commitment to the process (Krepon, 1993). However, success concerning the process of confidence building requires more time and space to become mature and absorb shocks like the 2008 Mumbai incident in the case of the Pakistan–India CBMs process. CBMs commonly involve four areas: communication, constraint, transparency and verification (Higgins, 2001). Communication channels help to mitigate the tension between the conflict-prone states during the crisis, while constraint measures keep the number as well as certain types of military troops under a specific ceiling along the border. Transparency measures promote additional openness of military activities and capabilities. Verification measures are aimed to express states’ compliance with a particular treaty or set of agreements. CBMs look to be a preface to the comprehensive and mature formal agreements between participants (M. M. T. Ashraf, 2007; Higgins, 2001). Also, they enhance trust between them.

Pakistan and India have CBMs, but most of these CBMs were the results of the 1948, 1965 and 1971 wars, as well as the periods of high escalation due to the Brass Tacks²⁴ and *Zarb-e-Momin*²⁵ military exercises conducted in 1986–87 and 1989 respectively. An important dilemma in the process of confidence building between Pakistan and India

²⁴ India carried out the largest peacetime military exercises in South Asia since World War Two and was named “Operation Brass Tacks” within 100 miles of the Pakistani border between November 1986 and March 1987.

²⁵ Pakistan conducted its military exercises named as “Zarb-e-Momin” between November and December 1989. It was conducted on a two-force concept to evaluate capabilities and limitations of the Pakistan Air Force (PAF) and Pakistan Army because both actively participated in this exercise.

has been the approach of both countries to the reduction of bilateral conflicts has been more reactive rather than proactive. As a result, both parties have been waiting for initiatives to be taken by the other party. This approach has not developed trust. Therefore, Pakistan and India should make attempts not only in confidence building, but also enhancing trust. It is only possible when both countries engage in economic cooperation at the maximum possible levels. Implementing of CBMs between Pakistan and India have suffered obstructions due to the intensification of tensions over political issues. The Kargil crisis (1999) can be quoted as a primary example in this regard. In addition to it, there were several occasions where the ink of the Pakistan–India treaties did not even completely dry when officials from both side issued contradictory interpretations regarding the specific agreement. Pakistan and India have an agreement to exchange a list of nuclear facilities, which they exchange periodically. However, both sides challenge the lists provided by delivering accusations concerning the concealment of one undisclosed nuclear facilities site (Devabhaktuni & Rodolph, 1998). Pakistan and India have to adopt a “bottom-up” approach in the confidence building process. It should serve as a more productive approach and it should also incrementally perform further confidence building among the parties concerned while making progress in implementing the confidence building measures.

The Argentina–Brazil case is a prime example in this regard. Argentina and Brazil concluded an agreement with a CBM framework in 1967, yet they did not approach it again for the subsequent twenty-five years. Having realizations about Latin America as a nuclear free zone, both parties did not take any steps that were contradictory to the intent of the concluded treaty. Progress on the economic issues preceded the nuclear issue. The economic progress between the two countries also paved the way for the conclusion of a Joint Declaration on Nuclear Policy that underlined the peaceful purposes of the nuclear programme of both countries and the commitment for

cooperation in this area (Higgins, 2001). However, this rapprochement was gradual and an incremental process. A lesson exists here for south Asian neighbours to adopt gradual and step-by-step approaches to normalize bilateral relations and proceed towards managing conflicts. To move forward, it has been recommended that Pakistan and India initiate confidence and security building measures (CSBMs) that came into being during the long duration of US–Soviet period of tension. These CSBMs generally range from diplomatic to technical measures; include the establishment of a ‘hotline’ between heads of governments, foreign ministers and defence organizations; the launching of a detection and early warning system; visits to nuclear facilities, verification over flights and surprise inspections; the institution of exchange programmes and most importantly; the adoption of any measure to enhance trust and understanding between them (Desjardins, 2014). These measures will institutionalize the process of confidence building between them to the extent that it would become impossible to revert it. Economic cooperation as well as enhanced bilateral trade between Pakistan and India can work in the case of the Pakistan–India conflict.

5.2.1 Security CBMs

Pakistan and India initiated security-related CBMs that have lessened the intensity of crises that resulted due to military exercises and deployment of troops such as “An Agreement on Prior Notification of Military Exercises” to make prior announcements regarding major military exercises, deployment of military troops within specific locations as well as the specific number of troops. Under this agreement, both countries were supposed to give prior notification of military exercises involving the upper ceiling of ten thousand troops and were not permitted to operate in the close vicinity of each other’s borders (M. T. Ashraf, 2001a). Military exercises at the corps levels were supposed to be held forty-five kilometres away from the borders while exercises at the division level were to be held twenty-five kilometres away from the borders. No

military exercise was permitted within five kilometres of the border. Likewise, Pakistan and India also concluded air space related CBMs after signing an agreement related to air space violation in 1991. This agreement restricted both countries from flying combat aircraft within ten kilometres of neighbouring airspace, while the limit for unarmed transport and logistic aircraft are 1000 metres away from each other's space. Rescue missions however, are allowed to carry out operations within this range, provided that prior permission has been sought (*Agreement Between Pakistan and India on Prevention of Air Space Violation*, 1991).

Pakistan and India established hotlines between commanders on both sides during the Brass Tacks crisis (Bajpai et al., 1995) to avoid any accidental war in the future. Prior to this, no communication link existed. Therefore, establishment of a hotline was a key step in handling situations where mistrust and suspicion prevailed. Both countries successfully managed the crisis that emerged in the wake of a decision of some political groups in Pakistan to cross the LoC illegally to enter Jammu and Kashmir for the purpose of protesting over there (Hilali, 2005). Fortunately, the tension was successfully reduced. The hotline was extended to the level of sector commanders along the LoC in the Murree–Baramulla and Poonch–Rajauri sectors in 1993. After the nuclearization of South Asia in the wake of the detonation of nuclear devices in 1998, Pakistan and India decided to retain bilateral consultations on 'security concepts and nuclear doctrines, with a view to developing measures in confidence building in the nuclear and conventional fields, aimed at avoidance of conflict' (*Memorandum of Understanding*, 1999). It is important to note that Pakistan and India also concluded an agreement in 1988 to refrain from attacking listed nuclear installations or facilities and also exchanged list of nuclear facilities (*Agreement on the Prohibition of Attack Against Nuclear Installations and Facilities*, 1988). Both countries have also signed a Joint Declaration on the Prohibition of Chemical Weapons in 1992. Under this declaration,

both countries renounced production, acquiring and the use of chemical weapons (Chari, 1999).

Pakistan and India also concluded air space related CBMs after signing an agreement related to the air space violation in 1991. This agreement restricted both countries from flying combat aircraft within ten kilometres of the airspace of each other's country while the limit for unarmed transport or logistic aircraft was established at 1000 metres away from each other's space. However, rescue missions were allowed to be carried out within this range provided that prior permission was sought (*Agreement Between Pakistan and India on Prevention of Air Space Violation*, 1991).

Pakistan and India signed an agreement regarding the establishment of prior notification of ballistic missile tests. This agreement came into effect in 2005. The agreement required both countries to inform each other 72 hours in advance before testing any ballistic missile within a radius of forty kilometres from the international border or LoC (S. Ghosh, 2009).

These military CBMs are functional and have stabilized bilateral relations between Pakistan and India. However, they have their fair share of failure as well. Exchange of the lists of nuclear facilities or installations has been a continual process, yet neither side has shown satisfaction over the accuracy of the information provided regarding the exchanged lists (S. Ghosh, 2009). In 1992 when these lists were exchanged, each side reportedly left off one uranium enrichment facility intentionally (M. Krepon, Khoja, Khurshid, Newbill, Michael, Drazin, Jenny S., 1998).

Pakistan-India CBMs have a critical drawback because they are lacking in implementation. The Pakistan-India CBMs were primarily crafted to address stabilization of bilateral relations, yet these have not moved forward due to the

prevailing belief that the process of CBMs cannot move ahead unless dominant issues such as Kashmir, terrorism and water rights are not resolved. Also, CBMs do not achieve desired objectives when both Pakistan and India do not look beyond issuing declaratory statements. Pakistan–India CBMs have been ineffective because neither side has moved beyond the stage of ‘conflict avoidance’ and towards confidence building measures, which would consequently lead to strengthening peace (M. T. Ashraf, 2001b; S. Ghosh, 2009). The situation has been changed though, with the start of the composite dialogue process since 2004 when Pakistan and India decided to discuss eight identified issues simultaneously. The declaration of a ceasefire may be quoted as an example. The formal ceasefire along the LoC was announced in 2003 and it continued until 2014 when Pakistan and India became involved in violations of the ceasefire, with each country alleging the other side for the violation. Furthermore, this ceasefire also absorbed the shock of the 2008 Mumbai incident. This shows the positive indication towards sustainability of Pakistan–India CBMs. These agreements have played a significant role in stabilizing the bilateral relationship between Pakistan and India, as they have not been involved in any full scale conflict since the 1971 war. Rather, they prevented accidental war in South Asia (Javaid, 2010) and avoided several occasions like the Brass Tacks military exercise in 1986–1987, the Kargil crisis in 1999, the deployment of military troops of a significant number along the international border in 2002 and the 2008 Mumbai incident.

Despite having security CBMs, Pakistan and India need to initiate economic CBMs. These economic oriented CBMs can consequently play an important role in facilitating the overall economic cooperation and mitigation of conflict as spillover (E. Sridharan, 2000).

5.2.2 Economic CBMs

Economic engagement between adversaries is not a new phenomenon in international politics. It has worked successfully in Europe, especially between France and Germany after the Second World War. Moreover, economic linkages have played a key role in the development and progress of the South East Asian region and have not kept it hostage by the conflicting issues that existed between the participants. Economic cooperation between Argentina and Chile has also experienced spillover which has impacted the political and security relationships between them (Mares, 2000). The gradual increase in trade links between China and Taiwan is also paving the way for maximizing people-to-people contacts and transforming their political relationship to the extent that they come closer to each other. Therefore, the developing relationship between China and Taiwan is another example that Pakistan and India can follow.

There is no viable alternative to a gradual and incremental peace process through military and non-military CBMs, especially economic CBMs. However, economic CBMs have not been given adequate space regarding Pakistan–India CBMs. Given the rise of economic regionalism as well as globalization in the post cold war era, Pakistan and India can move forward with the most economic engagement possible between them while postponing controversial issues for better time. How can Pakistan and India move forward in economic co-operation? This is the question that will receive analysis in the next section. It is imperative however, to look at the instances of existing CBMs in order to have clearer representation of the advantages and disadvantages of the economic cooperation between Pakistan and India.

There have been several CBMs concluded between Pakistan and India, which address trade-related issues and economic engagement. Though these CBMs have not produced significant results in increasing the overall volume as well as the variety of

trading items, the process of economic CBMs has provided a continuity to this phenomenon.

After a trade agreement was signed between Pakistan and India in 1949 (Choudhury, 1971) bilateral trade rose to the extent that 60 percent of Pakistan's total trade was with India while India's experienced 30 percent of its total trade with Pakistan (Mirza, 2005b). As a repercussion of the 1965 war, both countries imposed trade embargos that terminated economic interaction. Trade linkages resumed between them again in 1974 when both countries signed a trade protocol regarding the renewal of trade on 30 November 1974 (*Protocol between the Government of India and the Government of Islamic Republic of Pakistan on Resumption of Trade [1974], 1974*) (S. R. Khan, 2009, p. 157). According to this trade protocol, both countries agreed to conduct trade on the basis of the most favoured nation treatment in accordance with the provisions and decisions of GATT (*Protocol between the Government of India and the Government of Islamic Republic of Pakistan on Resumption of Trade [1974], 1974*). Consequently the flow of bilateral trade between Pakistan and India increased.

An agreement between Pakistan and India for the avoidance of double taxation of income derived from international air transport was also concluded in 1988. Similarly Pakistan also expanded its list of importable items for India from 322 to 511 under the Harmonized System Code (A. Gupta, 2005).

Proponents for the expansion of economic regionalism in South Asia argue that Pakistan and India, being major economies and large countries of South Asia, should move forward and play their role in the rejuvenation of the SAARC. SAARC can be revitalized while following functionalist approaches to regional integration. The functionalist approach argues for an increase in the institutionalization of regional integration on the basis of internal demands for further integration, such as an increase

of transactions i.e.: intra-regional trade, preferential regional trade agreements with free trade agreements in particular regions, and a joint response to common problems. In these circumstances, states are expected to formulate new exercises or institutions to solve problems (Jetschke & Murray, 2012).

The idea of the SAARC was conceived when regionalism was gaining popularity in the international arena and it was successfully moving forward in Europe and Southeast Asia. However, SAARC has not proved itself as an active forum for the regional integration of South Asia compared to regional organizations such as the European Union and ASEAN. The SAARC has also not been receptive to adapting to the organizational design and function of the EU and ASEAN. Consequently, the 'existing set of ideas, belief system and norms, which determine an individual or social group's receptivity to new norms' (Jetschke & Murray, 2012) or as Acharya calls it 'cognitive priors' (Acharya, 2009) appear to make institutional adaptations in South Asia unlikely.

Some scholars are skeptic about the prospect of success of the SAARC. India, being large in population, size, GDP and military spending has no match in its neighbours and fellow members of the SAARC. Rather, it covers more than the two-thirds of the region's area and more than three-fourths of the region's population, GDP and military spending (P. S. Ghosh, 2013). On the basis of its preeminence in the region as well as her efforts to achieve global power, India does not have interest in the region. This is because South Asia, as Ghosh (P. S. Ghosh, 2013) argues, seems to emerge as a larger market that neither India nor it can support in the emergence of India as a global power. The 65-page monograph considered as a high-profile Indian document referred to as the *Non-Alignment 2.0: A Foreign and Strategic Policy for India in the Twenty First Century* has not even mentioned the word SAARC (Khilnani, 2012). Also, it should be noted that the document emphasizes that India cannot hope to arrive at a status of great

power if it fails to manage conflicts within South Asia (Khilnani, 2012). The document does however underscore that South Asia has greater importance for India than any other region within Asia (P. S. Ghosh, 2013, p. 101).

An agreement between Pakistan and India for the avoidance of double taxation of income derived from international air transport was also concluded in 1988. Similarly, Pakistan also expanded its list of importable items for India from 322 to 511 under the Harmonized System Code (A. Gupta, 2005). Pakistan and India have agreed to economic CBMs like the abolition of positive lists related to bilateral trade and the opening of several points at the LoC for the transportation of goods and movement of people across the LoC.

Despite fluctuations in trade volume, the phenomenon of economic engagement through trade continued for next decade. Unfortunately, the volume of bilateral trade dropped after a deterioration of relations resulted in the destruction of the Charar-e-Sharif Shrine by Indian paramilitary troops that had been deployed in Indian held Kashmir. India however, granted MFN status to Pakistan in 1995 (P. Mehta, 2012) in the wake of the implementation of the WTO, but Pakistan has not yet reciprocated the gesture. Reciprocation of MFN status to India could be a good omen for enhancing economic cooperation between the two countries. A vital step towards regional integration was taken when Pakistan and India, being the larger economies of SAARC, initiated the South Asian Preferential Trade Agreement (SAPTA) in 1995. Pakistan and Indian leadership realized that progress and development lies in mutual cooperation and regional integration. SAPTA was considered as an important mechanism to reduce tariff duties and to remove non-tariff barriers. Nonetheless, security issues and traditional rivalry between Pakistan and India did not allow them to move forward steadily in this direction. Therefore, the process of regionalization in South Asia also became slower.

Economic CBMs between Pakistan and India have been held hostage by the geopolitical developments that have emerged in South Asia occasionally over time. Pakistan and India initiated different steps to enhance bilateral trade, but they could not achieve significant increases in economic linkages except through the continuation of bilateral trade, despite the fact that both countries engaged in war thrice. With the rise of human rights violations in Indian held Kashmir and the emergence of the mass resistance movement there; geopolitical issues as well as the settlement of the longstanding issue of Jammu and Kashmir started to dominate Pakistan–India negotiations.

An important development took place in 2004 when Pakistan and India decided to discuss ‘eight identified issues including economic and commercial linkages’ simultaneously under the ‘Composite Dialogue’ framework. Under the Composite Dialogue, the progress of one issue was not to be linked to the progress of another issue. As a result, several economic CBMs were initiated and in 2004, the reactivation of the Joint Economic Commissions and Business Council was included among them. The initiative of the Composite Dialogue Process also had a great impact on the phenomenon of the economic regionalization of South Asia. SAARC countries, including Pakistan and India, concluded the South Asian Free Trade Agreement (SAFTA) that came into effect on 1 January, 2006. According to SAFTA, the SAARC region was to emerge as free trade area where duties and tariffs would be eliminated and the free movement of goods would become possible (*South Asian Free Trade Agreement*, 2004). As SAFTA has to be implemented in 2016 there is room for enhancing regional trade in general, specifically Pakistan–India bilateral trade.

Pakistan and India also took some measures to increase cross-border economic interaction and people-to-people contacts across the LoC. Pakistan President Pervez

Musharraf and Indian Prime Minister Manmohan Singh agreed in this regard during a meeting in 2005. They decided to take further measures to “enhance interaction and cooperation across the LoC including agreed meeting points for divided families, trade, pilgrimages and cultural interaction” (“Text of Joint Statement between Pakistan President Pervez Musharraf and Indian Prime Minister Manmohan Singh,” 2005). The implementation of this agreement was carried out when Pakistan and India agreed to start the Muzaffarabad–Srinagar truck services in July 2006 and exchanged a list of potential tradable goods between the two sides (P. Das, 2014). Consequently, the trade route on the Muzaffarabad–Srinagar and Rawlakot–Poonch road links was also opened in 2008. Likewise, Pakistan and India also decided to initiate trade via road routes and the first overland truck route between the two countries was opened at the Wagha border crossing in 2007.

The cross-LoC trade and Pakistan–India bilateral trade, through the Wagha–Attari border, have worked as productive measures to build confidence and played roles in bridging the trust-deficit environment that prevails between Pakistan and India. The successful continuation of bilateral trade between Pakistan and India, despite the Mumbai terror attack of 2008, created hope that it will create a capacity for peace building and help lead to the final settlement of the Kashmir resolution (P. Das, 2014). With this backdrop, economic cooperation can be a plausible option as CBMs between Pakistan and India to enhance trust between them. It will help in enhancing trust and move the delicate process of peace forward between Pakistan and India while also making it irreversible.

5.3 European Economic Regionalism and Economic Integration in Southeast

Asia as Lessons for Economic Regionalism in South Asia

The process of economic and political integration and security co-operation, a prevalent feature of contemporary international relations, started in its nascent form in Europe. It evolved through a lengthy process and resultantly emerged as the EU; it is now considered a reference point of successful regional organization. The European Union came out of a humble organization 'set up to coordinate European trade in coal and steel it has been evolved as a supra state institution' (Burki, 2009). Terming Europe's history as a lesson for everyone, Jokela (Jokela, 2009) has set forth the impression of the European Union as a reference point. The European Union was different just after the end of Second World War. Though the process of European economic regionalism was initially slow, its eventual and undoubted success, institutionalized the relationships between its members have made the European Union 'the most integrated regional arrangement' (Beeson, 2005). Internal urges for cooperation was a compelling reason, yet America as an external factor was also a key push factor. Initially there was a declared antipathy of both the US and the USSR from 1943–1947 towards the notion of a federal Europe. However, with the emergence of the Soviet Union as a chief proponent of a rival ideology and the beginning of the Soviet–American superpower rivalry during the Cold War from 1947–48, the US became a passionate sponsor of a Euro-Federal solution (Dedman, 2006). The US did not want to allow the Soviet Union to establish its dominance in Europe. Therefore, geopolitical considerations were also the main cause behind the emergence of European regionalism.

European economic regionalism initially started with the notion of the recovery and reconstruction of the war-stricken European region under the Marshall Plan. Americans instituted the Marshall Plan at a cost of US\$ 49 billion with the objective to boost the European ailing economies that resulted from the devastation that occurred during the

Second World War. It was also seen as key to the preservation of political democracy (De Long & Eichengreen, 1991). Some scholars²⁶ consider the role of the US as crucial and term the American role as a proponent of economic regionalism in Europe as part of its grand strategy of containment against Soviet political and ideological influence in the region. While quoting Gaddis, Beeson (Beeson, 2005) points out that European economic regionalism was a fundamental part of America's containment strategy and its objective was to establish 'countervailing centres of power as bulwarks against Soviet expansionism'. LaFeber (LaFeber, 1999) argues that for a long time the existing American intention was to simultaneously pursue strategic and economic objectives. On the other hand, scholars like Folly (Folly, 1988) consider the roles of Britain and France as crucial in sponsoring the idea of a pan-European security framework. Likewise, France played a key role in establishing the European Coal and Steel Community (ECSC) that cemented the process for extensive integration. And, economic benefits stemmed from cooperation in coal and steel sector motivated the European countries to enhance cooperation in other sectors to accrue maximum benefits. It is pertinent to mention here that the idea of regional cooperation in the form of ECSC emerged out of a shortage of coal production in Western European countries. These countries considered this as common issue. German coal production was a little more than half the level of where it was before the beginning of the Second World War. Likewise, Belgian and Dutch production was 20 percent lower while British production was 10 percent lower than production at the pre war stage in 1938 (De Long & Eichengreen, 1991). Coal shortages led to shutdowns of almost a fifth of the coal burning and electric using industry in 1947. Similarly, Western European industrial production in 1946 was 60 percent and 70 percent in 1947 of the levels that they were before the Second World War (De Long & Eichengreen, 1991). Getting benefits from mutual cooperation from

²⁶ LaFeber, 1999; Milward, Brennan & Romero 2000; and Beeson, 2005.

the establishment of the ECSC, a common market for coal and steel under the Treaty of Paris in 1951, the European countries devised expanding this cooperation to other sectors. Resultantly, a general Common Market was established in 1957 in the wake of Treaty of Rome concluded on 25 March 1957. Economic cooperation in the framework of EEC was consolidated and Political Consultations of the Nine commenced and evolved in the intergovernmental framework during 1970's and 1980's. Out of this, mutual cooperation progressed further through different stages, from the European Economic Community (1958–86) to the European Community (1986–1991). After the unification of Germany in 1990, European Community was transformed into the European Union (EU) in the wake of Treaty of Maastricht in 1992. The treaty enshrines the objectives of completion of economic and monetary union by 1999 (Bhargava, 1998). Primary concern of EU has been with commercial issues and other related policies.

Since the beginning of economic and trade connectivity among the European countries in 1951, economic benefits have been a great source of motivation for its success. The membership and the policy scope of the EU have increased significantly since 1950's due to changing political and economic circumstances in Europe. Increase in economic connectivity among the member countries attracted new members; for example, completion of the single market in late 1980's and early 1990's had a magnetic effect on Austria, Finland, and Sweden, which applied to join the EU (Dinan, 1999). Also, accession of the Central and Eastern European countries in the early 2000 motivated the member countries to enhance integration in areas of justice, immigration and internal security (Dinan, 1999). Between 1973 to 2004, number of the member states in EU grew from six to twenty-five. This shows how the successful working of the EU, starting from cooperation in coal and steel sectors, spreading to monetary and financial matters resulting in the political integration.

Establishment of security architecture was also a central feature of European regionalism. An initiative of the Europe Defence Community (EDC) was taken in 1950, but competing national interests of the UK, France and Germany delayed the ratification process. The long saga of the EDC ended in August 1954 when the French National Assembly did not even accord it approval for debate. The demise of the EDC conclusively cleared the way for further negotiations concerning European economic integration (Dedman, 2006).

Regarding the role of the USA in the development of war-stricken Europe and the establishment of a regional organization for economic co-operation, it can be said that having strong support of the US, war-ravaged European economies started to stand together to move forward and recover from the aftermath of the Second World War. While quoting Karl Deutsch, Alan S. Milward (Milward, Brennan, & Romero, 2000) argued that the growth of 'community' depended on the sudden emergence of an American strategic interest in Western Europe and active cooperation of the United States and Western Europe within the new post-war international organizations. The key purpose of the Schumann Plan was that it provided a scheme for economic integration of the European region and was to provide a political structure to bind former adversaries into a joint framework. With American influence and support, the 'German Question' was resolved and Germany was included into the emerging post-war apparatus.

After the end of the Second World War, the US initiated a recovery plan for rehabilitation and reconstruction of Europe. The US considered the proposed economic assistance package as vital for the rehabilitation of the war-torn European countries because economic assistance was to be the main contribution in the fight against Soviet Communism (Folly, 1988). The US Secretary of State, George C. Marshall announced

“the European Recovery Programme” commonly known as the “Marshall Plan” on 5 June, 1947. During the initial days of negotiations for the establishment of a joint economic and security mechanism, the British Foreign Secretary Ernest Biden in a meeting with a US counterpart, advocated for the establishment of an association of democratic states bound by a common civilization and reinforced by the United States and British Dominions. To restore European self-confidence, Britain assumed it was necessary that there should be a written assurance that the United States would be militarily involved in a European war from the start, which ‘would also involve them in prior planning of strategy and supply’ (Folly, 1988). The North Atlantic Treaty Organisation (NATO), was established in 1949, effectively becoming a new security apparatus as it dominated Western Europe for the next half-century and redefined geopolitical identities of the region. America became an important part of the newly emerging security structure, which it perceived as an important component of a larger framework for containment of the Soviet Union.

Comparatively slower in pace regarding the institutionalization of political cooperation, Southeast Asian regionalism has emerged as a model for developing countries. Established in 1967, ASEAN has worked as an important vehicle for discussing their collective interests and integrating the region. Unlike the American support exercised by the EU and NATO at the time of their inception, ASEAN countries were not receiving any potential support from the US. Moreover, divisions within East Asia during the cold war era also worked as an impediment to Southeast Asian regionalism. Also, America was establishing links with Southeast Asian countries on a bilateral instead of a multilateral basis. This act by America became an impediment in enhancing regionalism in Southeast Asia (Beeson, 2005). Acharya (Acharya, 2001)

considers the limited regional integration among the Southeast Asian countries as the result of an American containment policy against China (Acharya, 2001). However, regionalism in Southeast Asia moved ahead despite American positions, while the financial crisis erupted in East Asia in 1997 which also functioned as a catalyst in enhancing Southeast Asian regionalism as the national economies of Southeast Asian countries were to be integrated into a wider international political economy (Terada, 2003; Webber, 2001).

Scholars and observers have also opined to what extent ASEAN has achieved influence from the EU. The notion of the EU as a model power is assumed on the premise that 'Europe's history is lesson for every body' (Jokela, 2009). The standard interpretation is that the European Union has emerged as a form of integration framework that has brought peace and prosperity to a region, which was previously devastated by war between the European states. Wong (Wong, 2012) however, claims that the European Union has exerted some power over ASEAN, but only as a reference point and not as a model power. The EU serves as a passive reference point for ASEAN because its influence is not very active. This reference points entreaties to the 'rational, utility-maximizing calculations of the actor' instead of working on the emotional index (Wong, 2012).

Rising regionalism in the Americas (North, South and Central) and the expansion of the European Union towards Eastern Europe also urged ASEAN countries to share a regional approach and motivated them to adopt regional institutions comprising East Asia (Terada, 2003). Sharing the benefits of regionalism, ASEAN countries are extending their cooperation at the forum of ASEAN + 3 (Japan, Korea and China) and moving to adopt an approach of 'East Asian regionalism'.

5.4 Regionalism in South Asia

The South Asian region consists of the large country India, surrounded by medium and small countries like Pakistan, Bangladesh, Sri Lanka, Afghanistan, Nepal, Bhutan and Maldives. India accounts for 80 percent of the region's GDP (IMF, October 2015) while Pakistan provides 11 percent, Bangladesh 9 percent and Sri Lanka 2 percent (Chandra & Kumar, 2008). Despite being one of the most dynamic regions in the world, South Asia is also one of the least economically integrated. Intra-regional trade accounts for just 5 percent of total trade, compared with 25 percent in ASEAN (*Regional Integration in South Asia*, 2015). By building common interests across borders, regional integration can enhance stability in this volatile region, which shares 44 percent of the world's poor as it is home to a poor population of 570 million (*Regional Integration in South Asia*, 2015). In contrast, it generates 2.52 percent of the world's GDP while containing 25 percent of the world's total population (Bank, 2016). However, geopolitical tensions in South Asia have mainly been between Pakistan and India and are producing blockages in regional integration.

South Asian countries will benefit substantially from greater integration through energy trade, commerce and river basin management. The most obvious gains are in the power sector, with connectivity enhancing system reliability; lowering costs and carbon emissions; and the relief of debilitating shortages in all countries by enabling the sustainable development of the enormous hydro and gas-based power generation potential of the Himalayas and Central Asia. Afghanistan and Nepal have water resources that could potentially generate around 24,000 and 83,000 megawatts of electricity respectively (*Regional Integration in South Asia*, 2015). Transmission infrastructure, clean energy generation, and fair pricing agreements across borders hold the key to realizing this potential.

The momentum for regional cooperation in South Asia is growing despite conflictual rhetoric between traditional rivals—Pakistan and India. Pakistan has granted a Non Discriminatory Access, which is similar to MFN, status to India, reciprocating India's granting of MFN status to Pakistan in 1996.

5.4.1 South Asian Association for Regional Cooperation (SAARC) as Manifestation of Regionalism in South Asia

There were some earlier proposals for regional cooperation in Asia involving countries that are now considered as SAARC countries, such as the Asian Relations Conference in Delhi in April 1947, the Colombo Conference in 1954 and the Bandung Conference in 1955 (Z. S. Ahmed, 2013). However, a small south Asian country's President, Ziaur Rahman, mooted the notion of SAARC in the early 1980s. President Zia who conceived of the idea of and initiated actions for regional cooperation in South Asia visited neighbouring countries for this purpose during 1979–80 to speak about the need to develop a framework for mutual co-operation. With the failed attempt to join ASEAN, Bangladesh President sent his representatives to convey his special message to neighbouring countries along with his letter dated 2 May 1980, urging them to consider the proposal for a forum of regional cooperation akin to ASEAN (Sáez, 2011). At that time in the early 1980s most South Asian countries had already become members of multilateral organizations, such as the British Commonwealth, NAM and the United Nations Organization (UNO). Since 1974, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, Myanmar, Sri Lanka and Iran have been working under the Asian Clearing Union to deal with payments. Moreover, Muslim countries of this region: Pakistan, Bangladesh and Maldives, had also been a part of the Organization of Islamic Conference (OIC). However, there was lack of a regional organization in South Asia to address issues at a regional level.

With this backdrop, the proposed member countries welcomed Bangladesh's proposal about an organizational framework for regional cooperation in South Asia. However, the leadership of India and Pakistan initially did not welcome this idea. Pakistan had the view that India would be able to establish its hegemony in South Asia from the platform of SAARC. India was also reluctant to support the initiative of any regional organization like the proposed organization mooted by Bangladeshi President because of a possible alliance of the small countries of South Asia against India. As a result, the then Indian Foreign Secretary responded to this initiative by suggesting that small powers of South Asia were likely to 'gang up' against India. However, both Pakistan and India agreed to the establishment of a regional organisation without any traditional security agenda (Prasad, 1989). Due to hectic diplomatic efforts, the dream of an establishment of a regional organization in South Asia was realized.

5.4.2 SAARC as Economic Framework

Owing to the Bangladesh President Ziaur Rahman's persuasion regarding regional cooperation in South Asia, countries of the region started the process of regional cooperation. After a couple of meetings of foreign secretaries from the countries of the South Asian region, a meeting of the Foreign Ministers was held in New Delhi on 1-2 August, 1983. The delegates decided to adopt a Declaration on South Asian Regional Cooperation, which established basic objectives and principles for regional cooperation in South Asia and recommended some core institutional and financial arrangements. This 1983 Declaration is a significant document in the evolution of SAARC as what Lawrence Sàez, (Sàez, 2011) a professor at the School of Oriental and African Studies (SOAS) observed that 'many sections of the 1983 Declaration were copied literally in the SAARC Charter'. Seven South Asian countries namely Pakistan, India, Bangladesh, Bhutan, Nepal, Maldives and Sri Lanka gathered in Dhaka, Bangladesh on 8 December 1985 and agreed to establish an organization known as the South Asian Association for

Regional Cooperation (SAARC) (*SAARC Charter*, 1985). Kathmandu was selected as the SAARC headquarters. Afghanistan has been added to SAARC as the eighth formal member in November 2005. Moreover, Australia, China, Iran, Japan, USA, Myanmar, Mauritius and South Korea are countries that currently enjoy the status of observer. The European Union holds observer status as well.

SAARC leaders agreed to take all decisions at all levels on the basis of unanimity. It is pertinent to mention here that the SAARC Charter under its own article X, prohibits member countries to discuss bilateral and contentious issues at this forum (*SAARC Charter*, 1985). The leaders of SAARC countries also decided to hold the Summit annually at the level of the Heads of State or Government at changing locations on a rotational basis. The leaders are also committed to promote peace and harmony among member states for the welfare of their masses.

The SAARC was a good opening for regional economic cooperation with very aspiring objectives. Unfortunately, SAARC member states could not maintain the aspirations that they manifested at the beginning of the SAARC initiative. As a result, SAARC has become a lukewarm organization with capable of making declarations only. The reasons behind the lack of success of the SAARC can be explained in the following section.

5.4.3 Causes for Lack of Momentum of SAARC

Though SAARC has not been reflective of a successful regional association, it has generated a seemingly endless supply of initiatives, summit declarations, communiqués and expert-committee reports (Sáez, 2011). However, SAARC has become a hostage of Pakistan–India bilateral animosity since its beginning in 1985. It was formulated with the objective of economic integration, yet it has not produced the expected results due to the Pakistan–India conflict, despite initiatives like SAPTA in 1993 and SAFTA in 2004.

Regardless of the institutional constraints which have worked as barriers, the Pakistan–India conflictual relationship has proven to be a key stumbling block on the way to South Asian regionalism.

5.4.3.1 Bipolar Conflictual Power Structure in South Asia

Barry Buzan’s Regional Security Complex Theory (RSCT) rightly explains SAARC’s dilemma that has resulted from the bilateral conflict between Pakistan and India. According to Barry Buzan (Buzan & Waever, 2003), RSCT is “defined by durable pattern of amity and enmity in the form of regional or geographical patterns of security interdependence. The particular characteristic of Regional Security Complex is shaped by historic factors such as longstanding enmity or cultural linkage to a specific geographical region”. It is also defined as “a group of states where primary security concerns link together sufficiently closely that their national securities cannot reasonably be considered apart from one another” (Buzan & Waever, 2003). The bipolar conflictual power structure in South Asia results in a “zero-sum notion of security” and always works in the Pakistan–India case to create complexes like ‘we’ and ‘they’ between Pakistan and India (Aminul Karim, 2015). This is blocking the SAARC from emerging as an effective organization on a regional basis. Therefore, Pakistan and India can adopt an approach what Shahid Javed Burki (Burki, 2009) quotes as “Pareto optimality- when given solution brings benefits to all participants in the transactions resulting into plus-sum game”.

The geopolitical interests of Pakistan and India have always barred them from active participation in the process of regionalization of South Asia. Resultantly, Pakistan and India have blocked the successful functioning of the SAARC while dashing the desired objectives of the regional economic integration of South Asia. Therefore, Pakistan and India should embrace a regional outlook instead of pursuing a strict “country-centric

approach” so it is possible to convert South Asia into a viable regional economic block. Indian policy towards its small South Asian neighbours reflects the situation that renowned political theorist Hedley Bull (Hedley, 1977) terms, as “the deepest fears of smaller units in the global system are their larger units”. Therefore, the geostrategic interests of Pakistan and India have held their role in the SAARC hostage.

S.D. Muni (Muni, 1985), a professor of international relations, has also identified the linkage between a widening strategic divide in the region predominantly between Pakistan and India and lesser regional cooperation in South Asia (Muni, 1985).

5.4.3.2 Organizational and Internal Structural Impediments

SAARC member countries established the SAARC Secretariat to make the organization efficient. The Secretary General, appointed by the member countries on an alphabetical rotational basis, has to head the SAARC secretariat for coordination among various institutional bodies. Likewise, the SAARC Secretariat has Directors of Working Divisions nominated by member states. They perform their duties under the SAARC Secretary General.

The staff of the SAARC Secretariat seems to be a barrier to an extent, in initiating the policies considered as essential for regional integration. The SAARC Secretariat operates on a consensus-based approach. Therefore, representatives of their respective countries, especially the Directors of Working Divisions do not support initiatives sponsored by the SAARC Secretariat, which may clash with particular policies adopted by their respective countries.

Another important impediment to the progress of the SAARC is the lack of technical staff nominated by the member states. Diplomatic staff that does not have technical expertise dominates the SAARC Secretariat. Mitrany (Mitrany, 1944) also makes a

point about the important role of technical experts to accomplish the programs of regional organization.

Often, bilateral conflicts have resulted into the postponement of annual Summit meetings of the SAARC and delayed the implementation of its programmes in select areas. The scheduled 1989 SAARC Summit was postponed due to the ongoing Sri Lanka–India conflict during that time. Similarly, the 11th SAARC Summit was postponed from 1999 to 2002 due to the post-Kargil episode in Pakistan–India relations. The 12th SAARC Summit had also been postponed from 2003 to 2004 due to Indian allegations against Pakistan for supporting cross border terrorism. Consequently, over roughly 30 years (1985–2015), SAARC has managed to organize twenty meetings instead of one per year.

5.5 SAARC and Regional Economic Cooperation

The primary objective of the SAARC, according to Article I of the SAARC Charter is “to promote the welfare of the peoples of SOUTH ASIA and to improve their quality of life” (SAARC *Charter*, 1985). To achieve this objective, along with other objectives mentioned in the charter, at the first SAARC summit meeting, its leaders displayed their conviction about the benefits of regional cooperation by stating “that regional cooperation among the countries of SOUTH ASIA is mutually beneficial, desirable and necessary for promoting the welfare and improving the quality of life of the peoples of the region” (SAARC Charter, 1985). Therefore, since its inception, the SAARC had been taking appropriate measures to initiate and strengthen economic cooperation among its member states. However, it has not produced the desired results due to multiple factors, but mainly the Pakistan–India conflict. Therefore, this study argues for the initiation of bilateral economic cooperation between Pakistan and India as an approach to transform Pakistan–India relations from adversarial to cooperative.

Consequently, the cordial bilateral relationship between Pakistan and India may accelerate regional economic cooperation in South Asia.

The focus of this section is to investigate SAARC's initiatives regarding the fostering of regional economic cooperation with a special emphasis on trade. During the formative phase, the SAARC could not take concrete steps towards significant achievements owing to misperceptions of its member states about each other. However, it was able to take tangible steps for cultivating economic cooperation among the member states over the succeeding years. Keeping the necessity of the institutionalization of economic cooperation in view, the ninth meeting of the Council of Ministers was held in Malé, Maldives by a high level committee on economic cooperation named the Committee on Economic Cooperation (CEC) and was established during the ninth meeting of the Council of Ministers. The membership of the CEC was comprised of trade and commerce secretaries from all eight SAARC member states.

One of the important contributions of the CEC is to recommend the idea of the creation of an Intergovernmental Group (IGG) to formulate and seek government consultations regarding the liberalization of trade in South Asia and for the enactment of rules under that specific trade regime. SAPTA and consequently SAFTA are the outcomes of this CEC.

The SAARC Chamber of Commerce and Industry (SCCI), was established in 1992 and has contributed towards the promotion of regional economic cooperation among SAARC member states. Quoting M.H. Syed, (Sáez, 2011) pointed out that the SCCI was 'instrumental in bringing into fruition the SAARC Preferential Trade Agreement (SAPTA)'.

SAFTA was eventually signed on 6 January 2004 during the 12th SAARC Summit held in Islamabad, Pakistan. The Agreement became operational in July 2006, following ratification by all SAARC member states. Under SAFTA, SAARC is supposed to gain its target of zero duties across South Asia while helping SAARC emerge as an Economic Union. However, the success achieved under the treaty has been quite limited and the large sensitive (sometimes called negative) lists maintained by member countries are considered as reasons for SAFTA being ineffectual (Taneja et al., 2011). However, member countries are purging these lists under an ongoing process.

Nevertheless, to achieve the status of an Economic Union, there are stages such as a customs union that have to be achieved. In terms of stages towards an economic union, the SAARC has moved from a preferential trade area to a free trade area. However, it still needs to ensure the success of free trade in South Asia before proceeding towards a customs union and a common market in South Asia. There are some obstructions to making South Asia as a free trade region such as impartial standards of goods and resolution of trade-related disputes. Lawrence Sàez has characterized SAFTA as undeniably the most important intraregional trade agreement in South Asia and is, arguably, the most significant achievement of SAARC (Sàez, 2011, 2014).

Economic cooperation under any bilateral or multilateral forum is an ever-evolving process and SAARC is no exception to it. A remarkable move is the creation of the South Asian Forum (SAF) that was launched in April 2011 in New Delhi on the pattern of the World Economic Forum based in Davos, Switzerland (Z. S. Ahmed, 2013). The South Asian Forum may be considered as the south Asian version of the Boao Forum for Asia based in China and the Asia Pacific Roundtable based in Australia. The South Asian Forum aims to provide a forum to academicians, economic managers, public figures, business leaders, politicians and representatives of civil society from South Asia

to deliberate on regional economic cooperation in South Asia. It is premature to highlight the contribution of the SAF yet it reveals the willingness of the SAARC countries to adopt an inclusive approach towards regional economic cooperation while taking into account diverse segments of society.

5.6 SAARC: An Assessment

In its almost thirty years of history, it is not realistic to believe that its achievements as a regional organization equate to a story of failure. During these years, the SAARC's performance had been mixed and its political leaders met regularly, particularly on informal discussions to address their mutual problems. These informal discussions produced some significant results in South Asia. The informal talks between the Indian and Pakistani Prime Ministers at the second SAARC Summit meeting at Bangalore in November 1986 led to a reduction of tension between the two countries on the issue of India's military exercise, operation Brass Tacks, on the Pakistan-India border. Also, the India-Sri Lanka talks at the 1987 SAARC Foreign Ministers' meeting led to their accord on the Tamil problem. Similarly, in the wake of an informal meeting and discussion between Nawaz Sharif and P.V. Narasimha Rao, Prime Ministers of Pakistan and India respectively, at Davos (Switzerland) in 1992, the Pakistani government took action to prevent the move of the JKLF to cross the ceasefire line in Kashmir later that year. The Davos meeting could only become possible owing to an earlier informal agreement between the two leaders at the sixth SAARC summit meeting at Colombo in December 1991. In this way SAARC, on several occasions, has displayed its expanding role. However, it would emerge as a more vibrant regional economic organization provided that the bitter relationship of Pakistan-India becomes normalized. And, the bilateral economic cooperation between Pakistan and India is essential to attain normalcy.

The recognition of the importance of the process of an informal discussion is one of the principal achievements of the SAARC. The Heads of State or Government at the ninth SAARC summit, for the first time, agreed that a process of informal political consultations would prove useful in promoting peace, stability, amity and accelerated socio-economic cooperation in the region. The leaders echoed this intent during their Tenth and Eleventh Summits held in Colombo and Kathmandu respectively (SAARC, 1998, 2002).

In an insightful assessment of the pattern of regional cooperation among the South Asian countries under the framework of the SAARC, Lawrence Sáez, a professor of international relations and expert on South Asian affairs at SOAS (Sáez, 2011, p. 107) argues that the SAARC “appears to have adopted the Nordic model of regional co-operation; that is, an avoidance of ‘constitutional approach’ an understanding that the national structure would remain the unalterable political basis for cooperation that would be directed to areas of relatively ‘low’ political content, and the exclusion of areas of ‘high’ political content (such as national security) from regional co-operation” (Sáez, 2011, p. 107).

Despite falling prey to critics regarding its efficacy, SAARC has been viewed among government functionaries and diplomats from South Asia as a respected organization (Sáez, 2011). The emergence of SAARC has been portrayed as a significant development and “its existence has certainly provided an opportunity for the policymakers, administrators, and experts to meet regularly and hold informal dialogues on bilateral and regional issues.” Similarly, “practice of informalism and behind-the-scene discussions among the political leaders of various SAARC forums have helped contain many difficult situations and have contributed to the beginning of a process of confidence-building in South Asia” (Kishore C. Dash, 1996). Underlining the

substantial role of the SAARC, S. D. Muni (Muni, 1985) proposes that without the SAARC “the deterioration in the regional strategic environment would have been greater and moved faster”.

It is necessary to mention that SAARC declarations, conventions and policies are indicative of the fact that it has been managed not only to develop consensus on non-controversial issues, but it has also been implemented to promote meaningful initiatives such as the SAARC Food Bank, the South Asian University and the SAARC Development Fund (Z. S. Ahmed, 2013).

Traditional animosity between Pakistan and India has consequently not allowed SAARC to move ahead with the pace required for the earlier emergence of SAARC as an economic grouping. Rather, it has been, to a greater extent, held hostage by the Pakistan–India conflict. It has been taken, since its inception, by this bilateral conflict as baggage that is hindering its progress to developing a real economic block. Therefore, it may be rightly said that the normalization of Pakistan–India relations, which would include a diffusion of the intensity of their longstanding conflict is a key to the overall progress and welfare of the one fifth of the population of world living in the South Asian region. Hence, bilateral economic cooperation between Pakistan and India should be addressed so that economic cooperation in South Asia may be enhanced.

5.7 Prospects of SAARC

Bilateral economic cooperation between Pakistan and India and the regional economic cooperation in South Asia from the platform of SAARC are interrelated issues. Both are interlinked to the extent that they are complimentary to each other. More importantly, Pakistan–India economic cooperation has greater prospects for spillover towards an increasing regional cooperation at the SAARC level (De et al., 2013; Husain, 2013; Kemal et al., 2002a; M. S. Khan, 2009; Pasha & Imran, 2012;

Raihan & De, 2013). Additionally, improved economic relations between Pakistan and India would help improve South Asia's footing in the world economy (Burki, 2009, 2010, 2011; Raihan & De, 2013). Nonetheless, the augmentation of regional economic cooperation has become a hostage to great extent, of the Pakistan–India conflictual relationship. With this backdrop, it is essential to address the Pakistan–India conflict simultaneously as well as moving towards the fostering of a regional economic cooperation in South Asia. To handle the Pakistan–India conflict, it is appropriate to manage the conflict while transforming an overall nature of their relationship. As such, bilateral economic cooperation may be considered as an appropriate approach for managing the Pakistan–India conflict. This is going to be analyzed in detail in the next chapter of this study.

5.8 Conclusion

The present chapter has attempted to inquire into various aspects of the utility of CBMs in South Asia in the preceding sections with the objective of gaining a meaningful understanding of CBMs as an approach for conflict transformation in other regions such as Europe and Southeast Asia. Nonetheless, special emphasis has been focused on the process of CBMs between Pakistan and India. This chapter started with a basic conceptual discussion of the concept of CBMs and proceeded to study the application of economic CBMs as a tool for managing the conflictual relationship between Argentina and Brazil as well as between western European countries.

The phenomenon of regional economic cooperation in Europe and Southeast Asia has been discussed in detail with the application of special focus on the evolution of the EU and ASEAN respectively. The chapter has also attempted to make a comparison of the phenomenon of regionalism in South Asia with those that have been carried out in Europe and Southeast Asia. Several contrasts that should be noted have been

highlighted, especially in terms of external influences, such as with the role of the US in promoting regional cooperation in Europe, a common threat in the case of European regionalism and ASEAN. No common, tangible threat has prevailed though in South Asia as an incentive to the regional states for proceeding toward regional economic grouping. Globalization and the popularity of the notion of regionalism across the world however, persuaded South Asian states to initiate an economic apparatus at the regional level in order to accrue maximum benefits. Consequently, the SAARC was launched in 1985. An evaluation of the functionality of the SAARC and the progress made by it during these years has also been undertaken in this chapter. The chapter has provided an indication that South Asia has had a different experience during the course of setting up their economic organizational structure. Despite facing challenges, the SAARC has attained significant achievements, such as the adoption of SAPTA, SAFTA and the launching of the SAARC Social Charter.

The chapter indicates that CBMs have been an important tool of diplomacy in international relations. The canvas of CBMs is very broad. It includes practices that range from the small act of a handshake between adversaries, an unwritten understanding addressing a particular issue, to a formal agreement between conflicting parties. CBMs have been in practice in almost all parts of the globe such as Europe, East Asia, South America and the Middle East. Similarly, South Asia has not been an exception to this. Pakistan and India have been initiating various acts of goodwill for diluting the intensity of the conflicts between them. These measures have been categorized as CBMs. These measures include cultural, social, economic, military and security related measures that hold a significant role in the normalization of Pakistan-India relations.

CBMs between Pakistan and India have been discussed in detail in this chapter while their short and long-term contributions over the course of the Pakistan–India conflictual relationship have been highlighted. However, an important aspect of CBMs in Pakistan–India relations has been to emphasize economic cooperation as a tool of CBMs for the transformation of the Pakistan–India conflict. Economic cooperation under the functionalist approach leads towards managing a security relationship as argued by Mitrany (Mitrany, 1944) and Ernst Hass (Ernst B. Haas, 1968).

The chapter concludes that economic CBMs, like those adopted in Europe and Southeast Asia, may be embraced in the Pakistan–India conflict with a special focus on the enhancement of economic and trade links. Although this is not a new phenomenon, it should be adopted as a holistic approach to manage the traditional enmity between Pakistan and India. What are the possible economic measures in this regard? In what ways would these measures be different from previous one? What are the prospects for the success of these economic measures? These questions have been addressed in the following chapter based on primary data that includes interviews of KIs and Pakistan–India bilateral trade data indicating an increasing trend.

CHAPTER 6: DATA ANALYSIS AND RESEARCH FINDINGS

6.1 Introduction

This chapter includes a description of the participants as well as the research findings. The chapter analyzes the data of the present study according to the research questions and objectives set for this study and the research findings are organized accordingly. The qualitative data analysis has been done manually and presented on the basis of the research questions. The quantitative part of the data regarding the dimensions and categorization of the responses of KIs has been presented in tables; charts and a narrative description has been provided in this chapter.

The chapter has included an exploration of the prospects for economic cooperation and augmented trade links between Pakistan and India as an alternative approach in order to normalize bilateral relations. It focuses on the potential of economic cooperation as CBMs between Pakistan and India to manage their conflictual relationship.

The volume of bilateral trade between Pakistan and India is low as per its potential²⁷, so this study has attempted to determine the impediments to the Pakistan–India bilateral trade, especially focusing on land route related barriers at the Wagha–Attari trade artery as well as railway route related obstructions. Significant barriers in this regard have been identified on the basis of the responses of KIs included in this study, which has involved businessmen engaged in Pakistan–India bilateral trade, policy makers, researchers, analysts and journalists. This chapter has also identified measures to increase economic cooperation between Pakistan and India.

²⁷ Nisha Taneja (2013) has quoted an estimated potential of Pakistan–India bilateral trade to be \$20 billion (US) that is almost ten times larger than the current volume of bilateral trade \$2.3 billion. The current volume of bilateral trade has been quoted from the website of the Ministry of Commerce, India. www.commerce.nic.in/eidb/cent.asp accessed on 12 April 2016.

To increase economic and trade links between trade partners, it is vital that these connections should bear low costs resulting in maximum concessions for the masses. In this regard, transportation costs play an important role. Regarding Pakistan–India bilateral trade, high transportation costs for sea routes work as a barrier to it (S. Ahmed & Ghani, 2008; Taneja, Mehra, et al., 2013). Similarly, the lack of modern facilities at trade crossings along the Wagha–Attari trade artery and inept infrastructure are also considered as significant barricades to economic cooperation between Pakistan and India (M. Khan, 2013; Taneja, 2006, 2013a; Taneja & Kalita, 2011). Therefore, this study investigates the potential for the possibilities of low cost trade routes between Pakistan and India. This chapter has examined prospective low cost trade routes such as the Munabao–Khokhrapar and the Bahawalnagar–Bhatinda trade openings at the Pakistan–India border as well as multiple trade openings at the Line of Control (LoC).²⁸ Additionally, this chapter has assessed the provision of modern facilities at the Wagha–Attari trade route for both optimal and maximum use of this trade artery.

The chapter investigates the potential role of the SAARC to manage the Pakistan–India conflict so that it would be possible to enhance economic cooperation between them. It has been indicated however, that the SAARC has become a captive of Pakistan–India enmity. Henceforth, management of the Pakistan–India conflict can augment intra-SAARC co-operation. Therefore, Pakistan and India can move ahead with the enhancement of economic cooperation while diversifying mutual economic links and exploring the maximum potential of bilateral trade.

²⁸ The Line of Control (LoC) is de facto border shared by Pakistan and India dividing the portion of Kashmir that is controlled by India and the part of Kashmir controlled by Pakistan. This was a ceasefire line (CFL) drawn in the wake of the 1948 war between Pakistan and India. The Ceasefire line (CFL) was renamed as the Line of Control (LoC) in the Simla Accord which was concluded between Pakistan and India on 2 July 1972 in the wake of the 1971 war.

The recent trend²⁹ in the Pakistan–India bilateral trade is currently in favour of India. This study investigates the prospects for joint ventures between Pakistan and India to produce a beneficial situation for both countries. Also, the study explores prospects for initiating joint ventures between Pakistan and India in the services sector; energy sector; industries such as tires and tubes; pharmaceuticals; carpets; cosmetics; automobiles; research and development (R&D); and small and medium enterprises (SMEs).

Lastly, the chapter assesses the prospects for economic cooperation as an instrument of CBMs between Pakistan and India and investigates the existing environment, especially pro-business parties that are in the governments of both countries.

6.2 Purpose of the Study

The purpose of the study is to look at the prospects for economic cooperation between Pakistan and India as an instrument of CBMs. Economic cooperation includes bilateral trade and investment. Pakistan and India do not have an investment regime until 2012.³⁰ Consequently, Pakistan has been removed from the negative list under the Indian Foreign Exchange Management Act (FEMA) permitting investments from Pakistan and letting Indians to invest in Pakistan (Taneja, Mehra, et al., 2013). Pakistan and India have carried out several initiatives and concluded with different agreements, but geo-political stumbling blocks have not allowed them to move forward. In this context, Pakistan and India need another approach. Therefore, this study focuses on exploring an alternative strategy for Pakistan and India to move ahead to sustain peace between them.

²⁹ Since 1990, the balance of trade in the Pakistan–India bilateral trade relationship has so far, been in India's favour.

³⁰ India amended the Consolidation Foreign Direct Investment (FDI) Policy in 2012 allowing for Pakistani individuals and firms to invest in India through government routes in all sectors except defence, atomic energy and space.

6.3 Interviews with Key Informants

The technique of In-depth Interviews of KIs has been adopted in this study. In-depth Interviews (IDIs) with KIs were conducted. The professional background and expertise of the KIs were reviewed carefully before conducting the IDIs with the KIs. Therefore, a purposive sampling method was used in this respect. Detailed break-up of KIs and criterion of their selection for this research have been discussed in section 1.5. In addition to it, way of interpretation of responses of interviewees as well as analysis of data has also been described in the above mentioned section.

6.4 Alternative Approach to Pakistan–India Geo-politics for Normalized Relations

Regarding the research objective “To identify the alternative strategy for Pakistan and India to gain sustained peace between them” and the question “what could be the other alternative strategies that Pakistan and India could follow to improve their relations despite the presence of geopolitical stumbling blocks” was posed to the KIs from Pakistan and India.

Ayushman Jamwal, Senior Editor and Analyst for CNN-IBN, India opines that Pakistan and India can move forward and promote trade because they “have deep cultural ties and major potential for expanding trade relations” and “both nations enjoy the same popular culture and education system”. However, Pakistan and India “suffer from some common infrastructural challenges” that can also become motivational forces.³¹ While terming bilateral trade as mutually beneficial, Mr. Jamwal mentions that, “Despite diplomatic and political roadblocks, the governments on both sides can

³¹ Interviewed on 8 February 2016.

promote trade and movement of tangible and intangible industries, as they are mutually beneficial.”³²

Likewise, Dr. Ahmad Rashid, a senior research fellow at the Institute of Strategic Studies Islamabad, Pakistan, is of the view that “they can explore more avenues for bilateral and regional economic co-operation. Economic cooperation has the potential to remove geo-political stumbling blocks and other irritants.”³³

Similarly, Imtiaz Gul, Executive Director, Centre for Research on Strategic Stability, Islamabad, Pakistan, indicates that

“The best way forward to take some baby steps having focused more on economic cooperation rather than allowing smaller steps with bigger implications staying hostage to geo-political issue, which is Kashmir and terrorism. The best way to go forward that to find the middle ground that is to continue talking about terrorism, continue talking about Kashmir while trying to take the economic cooperation at different level.”³⁴

On the other hand, Riaz Ahmed, a Strategic Analyst affiliated with the Centre for Policy and Media Studies, Islamabad, Pakistan, emphasized that Pakistan and India needed to cooperate on the issue of ‘climate change’ because it is a crucial and common challenge that both countries are facing. He also terms ‘granting of MFN status to India’ as a game changer in Pakistan–India bilateral economic and trade links.³⁵

Khawaja Shafiq, Chairman of All Pakistan Anjumaan-e-Tajeraan, considers increasing ‘bilateral trade’ as an alternative strategy for the enhancement of normalized relations between Pakistan and India and expresses his opinion in the following words:

³² Ibid.

³³ Interviewed on 7 January 2016.

³⁴ Interviewed on 6 January 2016.

³⁵ Interviewed on 9 February 2016.

“Bilateral trade and trade activities are the viable option. Pakistan and India should start bilateral trade and cooperation and move forward. Beneficial trade for both countries is a viable option. Bilateral trade is another option.”³⁶

Similarly, Zohra Yusuf, Chairperson of Human Rights Pakistan (HRCP) argues for cooperation in commonalities and recommends, “starting with commonalities such as poverty, poor infrastructure and services”. According to her, “Pakistan and India can share knowledge about healthcare, housing for the poor and education. Exchange of expertise (including physical location) would benefit both countries and such initiatives could be an icebreaker.”³⁷

Some respondents who are of the view that Pakistan and India should focus on altering mindset have highlighted an important point. According to the President of the Lahore Chamber of Commerce and Industries, a ‘change of mindset’ is essential. He emphasized that “There should be a paradigm shift in Pakistan–India relations.”³⁸ Additionally, an expert on Pakistan–India relations, Saeed Ahmad Rid, who is affiliated with the National Institute of Pakistan Studies, Islamabad opines that

“The very structure of the two parties is now embedded in a pattern of the conflictual relationships. Without transforming the structure of the two societies and changing their pattern of relationship, conflict resolution would have a little chance of ensuring durable peace between the two countries and Kashmiris.”³⁹

Similarly, Lieutenant General (Retired) Aminul Karim, former Corps Commander of the Bangladesh Army and former Senior Research Fellow at the Asia-Europe Institute, University of Malaya, Kuala Lumpur, urges an increase in “more people-to-people contacts” because “people-to-people contacts is the basic step in reducing the intensity of bilateral conflict” and “without involving the people of India, Pakistan and Kashmir

³⁶ Interviewed on 11 May 2015.

³⁷ Interviewed on 13 January 2016.

³⁸ Interviewed on 10 September 2014.

³⁹ Interviewed on 28 February 2016.

in the peace process and without preparing the people for such deal no deal is possible on Kashmir.”⁴⁰

Likewise, M. Ziauddin, Editor and Columnist, is of the view that “one important alternative strategy would be geo-economics. It is in the interest of Pakistan to create a kind of economic vested interests of the Indian businesses into Pakistan and Pakistani businesses interests in India.”⁴¹

Lieutenant General (Retired) Naseer Akhtar, former Corps Commander of the Pakistan army, provides the point that “Through regional economic viability and economic cooperation both countries should move forward. Business between the two countries will create a lot of opportunities for them and it will be beneficial for both countries.”⁴² Nisha Taneja, a Professor and Economic Researcher affiliated with the Indian Council for Research on International Economic Relations, New Delhi, India, also argued for alternative strategies because “the two countries are culturally very strong and associations in food, music, theatre and movies could help improve relations.”⁴³ However, SD Muni, Emeritus Professor Jawaharlal Nehru University (JNU), New Delhi, India, was critical of the role of Pakistan’s army in negotiations with India. According to him, “the roots of India–Pakistan problem lies in Pakistan’s internal mismatch between army and the civilian regime. Any strategy that can distance the Pakistan army from internal politics and access to national resources will create congenial conditions for India–Pakistan peace”. However, “Pakistan’s decision to

⁴⁰ Interviewed on 28 March 2016.

⁴¹ Interviewed on 8 January 2016.

⁴² Interviewed on 11 September 2014.

⁴³ Interviewed on 31 March 2016.

facilitate links between India and Afghanistan will also greatly facilitate matters.”⁴⁴ In contrast to this, Lieutenant General (Retired) Aminul Karim, former Senior Research Fellow at the Asia-Europe Institute, University of Malaya, Kuala Lumpur, highlighted the importance of military diplomacy between Pakistan and India because “it is paying good dividends in Southeast Asia and even between the US and China.”⁴⁵

On the basis of the responses of the KIs, it can be stated that Pakistan and India can move forward by adopting economic cooperation as an alternative strategy and succeed in promoting peace in South Asia while shifting their focus from geo-politics to geo-economics in their bilateral relationship. These alternative strategies would include bilateral economic cooperation dominated by bilateral trade, people-to-people contacts, regional economic co-operation, a change of mindsets and a paradigm-shift from geo-politics to geo-economics. Also, the cultural exchanges through associations in movies, theatre and food could help to enhance bilateral relations between Pakistan and India.

Likewise, secondary sources (Alagappa, 1995) (S. Ahmed, Kelegama, & Ghani, 2010) also support the argument that bilateral economic links and increased trade relations are the alternative choices for Pakistan and India for their progress and development.

The identification of strategies by KIs for Pakistan and India to increase bilateral relations between them can be presented in Figure 6.1 on page 184 and presents the usage of ‘key words’ by the KIs as alternative approaches to augment Pakistan–India bilateral relations. The broad categories of alternative strategies include bilateral

⁴⁴ Interviewed on 1 December 2015.

⁴⁵ Interviewed on 28 March 2016.

economic co-operation, regional economic co-operation, opening up trade links and people-to-people contacts.



Figure 6.1: Alternative Strategy for Normalization of Pakistan–India Bilateral Relations

Source: Calculated on the basis of interviews of KIs

6.4.1 Economic Cooperation as an Alternative to Contribute to Sustained Peace between Pakistan and India

Section 6.4 discusses the strategies that may be used to increase bilateral relations between Pakistan and India. Section 6.4.1 explores economic cooperation as an alternative strategy to boost the overall relations between Pakistan and India. Moreover, this section also attempts to explore what role economic cooperation can play between Pakistan and India. Concerning the research objective “To identify the alternative strategy for Pakistan and India to gain sustained peace between them” and the exploratory question “Can economic cooperation be an alternative to contribute to sustained peace between Pakistan and India?” the KIs were talked with to elicit feedback. A majority of the KIs agreed that economic cooperation could be an alternative to contribute to lasting peace between Pakistan and India. One KI termed it

as conditional while one considered it as conditional to the simultaneous negotiations regarding the long-standing issues between Pakistan and India. Otherwise, the two KIs did not provide answers.

While suggesting strategies for economic co-operation, Ayushman Jamwal, Senior News Editor and Analyst of CNN-IBN, India expressed that

“Expanding the presence of Pakistani businesses in the Indian economy and vice versa can maintain the steady growth of trade ties. It has to be done cautiously so trade ties can achieve the 'business as usual' status. Easing business and visa restrictions, including pruning negative and sensitive trade lists and doing away with expensive and time-consuming transit routes, can be done immediately by both governments.”⁴⁶

Ahmad Rashid, senior research fellow at the Institute of Strategic Studies Islamabad, Pakistan, suggested that Pakistan and India could enhance economic cooperation through the “improvement of bilateral trade, regional economic connectivity, public-private cooperation, initiating FDI activities, facilitating business visas and much more.”⁴⁷ Similarly, Baladas Ghoshal, an expert on South Asia and Professor, Jawaharlal Nehru University, New Delhi, India points out that “Pakistan and India could initiate economic interactions by opening up each other’s economies to trade and investment. The political issues are difficult to resolve, relations can be improved through economic engagement and in the process of developing an important stake in maintenance of friendly relations like Malaysia and Singapore.”⁴⁸ Likewise, Irfan Husain, a freelance journalist and columnist affiliated with DAWN Newspaper, also expressed the view that “Once both sides have a vested interest in building trade links, there would be influential constituencies in both countries that would be interested in

⁴⁶ Interviewed on 8 February 2016.

⁴⁷ Interviewed on 7 January 2016.

⁴⁸ Interviewed on 7 August 2016.

fostering peace.”⁴⁹ However, Riaz Ahmed, Strategic Analyst, affiliated with the Centre for Policy and Media Studies, Islamabad, Pakistan, emphasized upon the need “to engage in regional trade to bring down the cost of production and enhance purchasing power of their burgeoning population.” According to him, it will require “revising their visa regimes and enhancing cooperation on smuggling.”⁵⁰

From another standpoint, SD Muni, Emeritus Professor, Jawaharlal Nehru University (JNU) and Distinguished Fellow, Institute for Defence Studies and Analyses (IDSA), New Delhi, India, connected the prospects for economic cooperation between Pakistan and India with the approval of the army of Pakistan, as according to him, economic cooperation between Pakistan and India would succeed only “if the Pakistan army sees gains for itself in it.”⁵¹

Saeed Ahmad Rid, affiliated with the National Institute of Pakistan Studies, Islamabad, termed the ‘Implementation of the agreement on MFN status to India and the removal of concerns of Pakistani traders, vis-à-vis access to the Indian market, as the starting point’ for economic co-operation.⁵² This is an important point that can be considered as a mutually beneficial approach to intensify bilateral trade between Pakistan and India. Likewise, Tridivesh Singh Miani, a columnist and analyst affiliated with the Jindal School of International Affairs, Sonipat, Haryana, India, indicated that “Economic cooperation can help ensuring that India and Pakistan maintain a manageable relationship. In spite of the Mumbai Attacks, trade through the Wagha-

⁴⁹ Interviewed on 10 February 2016.

⁵⁰ Interviewed on 9 January 2016.

⁵¹ Interviewed on 1 December 2015.

⁵² Interviewed on 28 February 2016.

Attari has persisted and even when all other spheres of engagement have been suspended, trade has carried on.”⁵³

Zohra Yusuf, a journalist and Chairperson with the Human Rights Commission of Pakistan (HRCP), underscored the importance of cooperation in SMEs and urged Pakistan and India to move ahead in these sectors. She explains that, “There is a need to look at cooperation between them at SMEs-level as well, not just amongst those at the top. Both countries need to develop smaller/medium businesses to benefit more people. These are also less energy dependent.”⁵⁴

Moreover, Imtiaz Gul, Executive Director of the Centre for Research and Strategic Studies (CRSS), Islamabad, Pakistan, indicated that economic cooperation can absolutely be an alternative to the geo-politics approach that Pakistan and India can adopt for moving ahead to achieve peace in South Asia. According to him,

“Economic interdependence through oil and gas pipelines, economic corridors, or sharing rivers water may create dividends that are good for population of both countries and stake holders. Economic cooperation is absolutely unavoidable prerequisite for confidence building and cooperation. It also helps mitigation of conflicts while creating economic dividends.”⁵⁵

Regarding the role of economic cooperation to reduce the intensity of Pakistan–India conflicts, Imtiaz Alam, a freelance journalist and President of the South Asia Free Media Association (SAFMA) stated that

“Economics can turn around and if Pakistan and India redefine their national agendas and approaches and paradigms from national security-state to a state focusing on the well-being of social security of people, food security of people,

⁵³ Interviewed on 20 April 2016.

⁵⁴ Interviewed on 13 January 2016.

⁵⁵ Interviewed on 6 January 2016.

poverty alleviation and social sectors. Economic interdependence can play vital role in getting Pakistan and India closer to each other.”⁵⁶

Likewise, M. Ziauddin, Editor and Columnist, describes the job that economic relations can perform while saying that

“Once you establish trade or business relations or establish economic relations, businessmen having established markets for their produce in other countries would exert influence and respective governments to hold hands instead of going towards hostility. Economy is directly related to material gains. Once material gains become objectives the other sentiments take back seats.”⁵⁷

While supporting the establishment of enhanced trade and economic relations, Mubarak Zeb Khan, Business Reporter for DAWN Newspaper, argues, “Economic cooperation and bilateral trade can help in a way that it can exert influence on Islamabad and Delhi. Business tycoons exert pressure on respective governments to soften the intensity of Pakistan–India conflicts.”⁵⁸

Lieutenant General (Retired) Naseer Akhtar, former Corps Commander of the Pakistan Army, termed economic cooperation and bilateral trade as a ‘catalyst to enhance peace’ and opined that

“Trade and economic cooperation are catalyst to enhance between Pakistan and India and it can be an alternative mode to increase peace. Peace can return in this region only through economics. Direct trade between Pakistan and India will reduce the cost of their produce contrary to existing pattern in some products like auto mobile parts, which being manufactured in Ludhiana but shipped to Pakistan through Dubai.”⁵⁹

However, Khaleeq Kiani, a journalist affiliated with DAWN Newspaper, disagrees with the argument that economic and trade relations can be an alternative to contribute

⁵⁶ Interviewed on 12 January 2016.

⁵⁷ Interviewed on 8 January 2016.

⁵⁸ Interviewed on 8 January 2016.

⁵⁹ Interviewed on 11 September 2014.

to peace between Pakistan and India. He is of the view that talks on the long standing issues and economic cooperation should be held simultaneously. He says that

“Talking on long-standing issues and the cooperation in areas that is easier and both countries should move ahead simultaneously. The two processes can go on together.”⁶⁰

Concerning economic cooperation and bilateral trade as an alternative approach to peace between Pakistan and India, Sohail Lashari, president of the Lahore Chamber of Commerce and Industry, opines that

“Yes, I am believer in it. It is peace through trade not the vice versa. Trade and economic cooperation can bring peace between Pakistan and India. Trade should be continued and thorny issues like Kashmir Issue, water issues and terrorism can be resolved gradually. ‘Neutral zone’ should be established at the Pak-India border area as meeting point for the businessmen from both countries for business activates like checking samples etcetera. This neutral zone should have all kinds of state of the art facilities like warehouses, checking of samples. Jammu and Kashmir on both sides of the LoC should be visa free area for the Kashmiris only.”⁶¹

Contrary to this, Sikandar Hayat Bosan, Federal Minister for Food Security and Research, is of the view that “Being a grower himself, he is proponent of the bilateral trade between Pakistan and India and this phenomenon may lead to sustained peace between them. However, this process should not be at the cost of Pakistani farmers.”⁶² This presents an impression that the farmers’ community in Pakistan is hesitant concerning trade developments with India regarding agricultural products.

However, the business community in Pakistan seems to be the exponent of liberalization of Pakistan–India bilateral trade. The viewpoints of Talat Butt, an

⁶⁰ Interviewed on 8 January 2016.

⁶¹ Interviewed on 10 September 2014.

⁶² Interviewed on 9 October 2014.

export/import businessman from Lahore, engaged in Pakistan–India bilateral trade provided the following input:

“Pakistan and India are the cheapest trading partners due to geographical contiguity. Trade openings are the best available alternative.”⁶³

Similarly, Asif Majeed, Chairman of Evyol Group and Import/Export Businessman, termed bilateral trade as an important catalyst because according to him “money and economics are the biggest motivation, which are above the biases of religion and ideology. Therefore, Pakistan–India economic cooperation would have a great positive impact on an overall bilateral relations.”⁶⁴

Likewise, Nisha Taneja, Professor and Economic Researcher, affiliated with the Indian Council for Research on International Economic Relations, New Delhi, India, is also of the view that “Economic cooperation through trade can build peace, since it would help both countries prosper together.”⁶⁵

Imparting a slightly different position, Lieutenant General (Retired) Aminul Karim, former Corps Commander of the Bangladesh Army, has termed economic cooperation as an effective strategy to achieve the goal of peace instead of being a ‘sustained strategy’ for peace. He highlighted that “it will not be necessarily a sustained strategy. But, it is an effective strategy towards reaching the goal of peace. More trade and tourism may be taken forward.”⁶⁶

⁶³ Interviewed on 3 June 2015.

⁶⁴ Interviewed on 27 May 2015.

⁶⁵ Interviewed on 31 March 2016.

⁶⁶ Interviewed on 28 March 2016.

To sum up the viewpoints of the KIs regarding economic cooperation as a viable option for an alternative strategy to contribute to peace between Pakistan and India, eighty percent of the KIs are of the view that economic cooperation can be an alternative approach to aid in the development of peace between Pakistan and India. Eight percent of the KIs have termed it conditional, thereby linking it to simultaneous progress and talks on longstanding complications like the Kashmir Issue and water problems. It is also necessary to mention here that four percent of the respondents have not provided clear answers regarding the viability of economic cooperation between Pakistan and India as an alternative approach to peace. Figure 6.2 provides details to assist in an explanation.

Similarly, secondary resources also provide support for the view that Pakistan and India can move away from the old mindset of a zero-sum game, in which gains by one side are made at the cost of others. Now, the welfare of both countries can be maximized through joint gains within a framework of cooperation rather than conflict (Akmal, 2010). Therefore, bilateral trade and economic cooperation between Pakistan and India are considered to be alternatives that are beneficial options to geo-politics (Qamar, 2005).

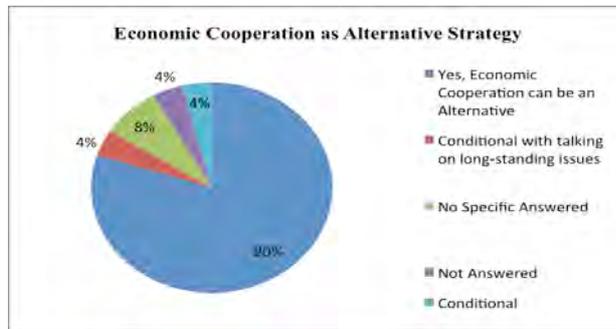


Figure 6.2: Economic Cooperation as An Alternative Approach between Pakistan and India

Source: Author's own calculation based on the interviews of KIs.

6.5 Pakistan–India Bilateral Trade: Challenges and Potentials

Trade is a key component of economic cooperation at the bilateral and multilateral levels. Pakistan–India economic cooperation is no exception. However, bilateral trade between Pakistan and India has not developed significantly so that it can translate cooperation to other sectors. An overview of Pakistan–India trade relations depicts that Pakistan and India have not maximally utilized the full potential of bilateral trade and as such, the volume of bilateral trade between them has been less than one percent of their total trade volume.

The second research objective of this study is to identify the challenges faced by bilateral trade between Pakistan and India. To achieve this objective, it is essential to examine the barriers to bilateral trade between Pakistan and India. Concerning this research objective, KIs were asked to identify barriers to bilateral trade between Pakistan and India. Based on the responses of the KIs, physical barriers have been identified as key factors, namely land route related barriers, especially at the Wagha–Attari border, railway route related barriers, NTBs and visa-related issues.

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

“India has certain Pakistan-specific tariff. Important non-tariff barrier is the change of mind-set that we have to do business with India or Pakistan. Strict visa regime is another key non-tariff barrier. Instead of one gate there should be a separate gate for trade purposes in addition to the existing one for flag-hoisting ceremony. There is lack of state of the art facilities at the entry point of the Wagha-Attari border.”⁶⁷

Likewise, Hamid Raza, a Lahore based import/export businessman engaged in the marbles business, also dubbed some non-tariff barriers adopted by India as Pakistan-specific. This is a general impression among Pakistani businessmen dealing with export to India that India treats only Pakistani export items in a way that discourages Pakistani exporters. He mentioned that “India imposes non-tariff barriers and some NTBs are Pakistan-specific.”⁶⁸ Similarly, Sikandar Hayat Bosan, the Federal Minister for Food Security & Research, also indicated that “India imposes duties on Pakistan’s exports items to India.”⁶⁹ While highlighting another key barrier to economic and trade relations, an official of the Lahore Dry Port indicated that, “Strict visa regime especially city-specific is another important barrier to bilateral trade. There should be open visa scheme (visa for the whole country) for industrialists and business community.”⁷⁰ Furthermore, Talat Butt, an export/import businessman has pointed out that Pakistan has significant potential for exports but “increase in cost of production has become a

⁶⁷ Interviewed on 10 September 2014.

⁶⁸ Interviewed on 11 September 2014.

⁶⁹ Interviewed on 9 October 2014.

⁷⁰ Interviewed on 3 June 2015.

barrier.”⁷¹ Also, Khawaja Riaz Hussain Siddiqi, Chairman of Patron Chemicals, identified the high prices of input in the agricultural sector and the high ratio of domestic taxes work as a barrier to Pakistan’s exports, especially to India. He pointed out that “High prices of agricultural inputs and high percentage of taxes in Pakistan, to great extent, have caused low volume of Pakistan's exports especially to India.”⁷²

Concerning the barriers to trade and economic relations, Talat Butt, an export/import businessman opines, “India has two-tier taxation system. The Central government imposes duties while the respective state also applies tax that varies from state to state. Pakistan and India have strict visa regime especially city-specific visa issued to the visitors including businessmen.”⁷³ Moreover, he also underlined payment-related barriers to bilateral trade between Pakistan and India and emphasized the need to “open branches of Pakistani and Indian banks in both countries.”⁷⁴ Awais Bin Aslam, Manager Corporate Sales, Patron Chemicals, is of the view that “inept infrastructure, law and order situation, procedural delays and bureaucratic red tape are principal barriers.”⁷⁵

Likewise, Asif Majeed, President of the Evyol Group, highlights the barriers to bilateral trade and economic cooperation between Pakistan and India by commenting that

“Uncertainty is the main barriers especially security dynamics between Pakistan and India. Due to unavailability of facilities of international standards of quality and certification, Pakistani exporters are facing barriers and delays in checking

⁷¹ Interviewed on 3 June 2015.

⁷² Interviewed on 27 May 2015.

⁷³ Interviewed on 3 June 2015.

⁷⁴ Interviewed on 3 June 2015.

⁷⁵ Interviewed on 27 May 2015.

of samples in laboratories in India. Strict visa regime especially city-specific visa is one of the main hurdles in bilateral trade.”⁷⁶

Image and perception, particularly the adversarial image of the ‘other country’ is also an important barrier to enhanced economic cooperation between Pakistan and India. Zafar Iqbal Siddiqi, President of the Multan Chamber of Small Traders, has pointed out that “Stereotype approach and mind-set of a small segment of society in both countries is a barrier to Pakistan–India bilateral trade.”⁷⁷ Similarly, Baladas Ghoshal, an expert on South Asia and Professor, Jawaharlal Nehru University, New Delhi, India also indicates “the lack of trust is significant barrier between Pakistan and India.”⁷⁸ Likewise, Khawaja Shafiq, Chairman of *All Pakistan Anjuman e Tajiraan* shared a similar view regarding hurdles to Pakistan–India economic cooperation by indicating “geo-political factors are important barriers. Negativity about each other on both sides is a significant hurdle. Enemy-attitude is also a barrier.”⁷⁹ Similarly, Tridivesh Singh Miani, a columnist and analyst affiliated with the Jindal School of International Affairs, Sonipat, Haryana, India, has pointed out that enhancement of bilateral trade requires not just political will, but also the bureaucratic will. Political leaderships are willing to take risks but bureaucracy is cautious.”⁸⁰

Furthermore, M. Ziauddin, Editor and Columnist affiliated with The Express Tribune is of the view that “Non-tariff barriers and standardization and quality control in India

⁷⁶ Interviewed on 27 May 2015.

⁷⁷ Interviewed on 11 May 2015.

⁷⁸ Interviewed on 7 August 2016.

⁷⁹ Interviewed on 11 May 2015.

⁸⁰ Interviewed on 20 April 2016.

are some of key barriers.” However, “these are real CBMs that both countries should adopt to enhance bilateral trade while handling these issues.”⁸¹

On the basis of the viewpoints and responses of the KIs regarding barriers to economic and trade relations between Pakistan and India, it can be stated that significant impediments include non-tariff barriers, land route related physical barriers, psychological barriers, strict visa regimes, inept infrastructure and geo-political issues. These obstacles are presented in Figure.6.3.

Similarly, secondary sources also identify inadequate infrastructure as a barrier to Pakistan–India economic relations and investment potential in Pakistan (P. Jain & Bimal, 2014) (P. S. Mehta, 2014a). Poor trade logistics and visa restrictions have been identified as the biggest non-tariff barriers that have existed between Pakistan and India (Nabi & Javaid, 2011). Health and safety reasons as well as anti-dumping measures are other forms of non-tariff barriers. The scarcity of warehousing and storage facilities along the Pakistan–India border work as barriers (FICCI, 2012). The lack of integrated transport systems and the absence of an online customs IT connectivity prove to be additional impediments (Rahmatullah, 2010). Delays in customs clearances, chemical tests, customs valuation and labeling requirements may add to the increasing costs of transactions (S. Jain, 2010). Pakistani NTBs work like gates that shut competitors out of the Pakistani market, but Indian NTBs generate costs that make foreign commodities more expensive to consumers (Sikandar Ahmad Shah, 2014). Additional constrains include an insufficient infrastructure; bureaucratic lethargy; government procedures; tariff and non-tariff barriers (Sayeed, 2005) (Pasha & Imran, 2012) (M. S. Khan, 2010) (Mel, 2010) (Chand & Saxena, 2014) (PHD, 2013); a lack of harmonization of technical standards, (De Prabir, 2010) and specific NTBs including multiple standards.

⁸¹ Interviewed on 8 January 2016.

Ineffective dispute resolutions, sales taxes; subsidies and internal state taxes; (M. Khan, 2013) (Paksitan, 2006) (Raihan, Khan, & Quoreshi, 2014) and types of non-tariff measures including Technical Barriers to Trade Sanitary and Phytosanitary Measures, Para-tariff measures, Financial measures, Trade Facilitation and Customs Procedures and visas (Taneja, 2007) are additional barriers. Furthermore, rigorous bureaucratic hindrances on the intra-LoC trade crossings (Yusuf, 2009) and complexities and variations in licensing; import of specific products through specific ports only; and import only by state trading agencies (IPRI, 2013) are important constraints. It is pertinent to mention that impractical trade facilitation related clauses are included in SAFTA (Mel, 2011).

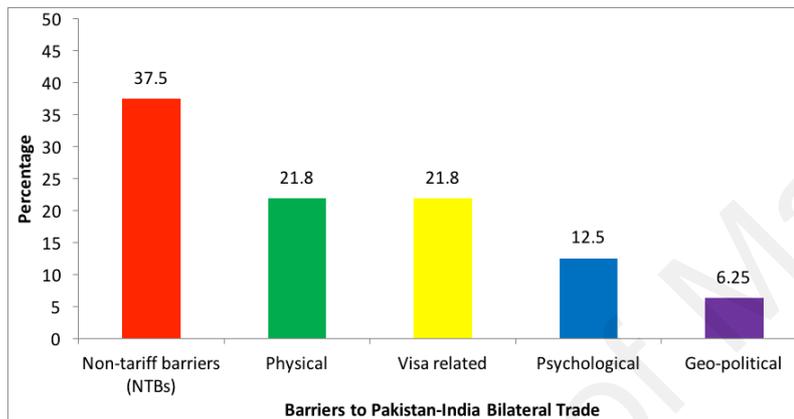


Figure 6.3: Barriers to the Pakistan–India Bilateral Trade

Source: Author’s own calculations on the basis of responses of KIs.

6.5.1 Land-route related barriers in Pakistan–India Bilateral Trade and measures for overcoming

As Section 6.5 has highlighted, barriers to trade and economic relations between Pakistan and India, section 6.5.1 explains the land route related barriers, especially

related to the Wagha–Attari border. Concerning the suggestions for the provision of facilities to enhance the economic cooperation through bilateral trade between Pakistan and India, it seems workable that the Wagah–Attari border related hurdles should be identified. In this regard, KIs have been interviewed and their viewpoints are explained in this section.

Regarding trade related obstacles at the Wagah–Attari border, Hamid Raza, a Lahore-based import/export businessman engaged in the marbles business, pointed out that

“Lack of modern facilities and absence of modern equipment at the ports in both countries particularly at the Wagah border and on entry points at LoC on both sides of Kashmir. Lack of infrastructure is another barrier that is creating bottlenecks for smooth transportation of goods between Pakistan and India.”⁸²

However, he considers a “lack of trust between Pakistan and India” as the most important barrier to moving forward.”⁸³

Likewise, Sohail Lashari, president of the Lahore Chamber of Commerce and Industry (LCCI) expresses that

“Every state in India has its own tax regime, regulations regarding tariffs and quality control in addition to the central regulations. Therefore, Pakistani industrialists have to prepare for to meet the requirements. However, India has certain Pakistan-specific tariff. Important non-tariff barrier is change of mind-set that we have to do business with India or Pakistan. There is presence of the hawkish segment in both countries. India has more Pakistan-specific hawkish people. Strict visa regime is a key non-tariff barrier.”⁸⁴

While giving suggestions regarding the provision of better facilities at the Wagah–Attari border, Sohail Lashari, the president of the LCCI opines

⁸² Interviewed on 11 September 2014.

⁸³ Ibid.

⁸⁴ Interviewed on 10 September 2014.

“State of the art trade facilities should be provided at the Wagha border. Instead of one gate, there should be a separate gate for trade purposes in addition to the existing one for flag-hoisting ceremony. Computerized facilities for scanning (at least three scanners), weighing facilities should be provided for smooth flow of goods.”⁸⁵

Correspondingly, Mubarak Zeb Khan, Business Reporter for DAWN Newspaper, expresses his viewpoint about obstacles at the Wagah–Attari border

“Lack of infrastructure is great barrier. Pakistan has started infrastructure related project with the cooperation of the Asian Development Bank and started three pilot projects related with the establishment of state of the art land port including at Wagha.”⁸⁶

He is optimistic about the measures taken by India and especially Pakistan to augment infrastructure-related facilities and points out, “with the establishment of the integrated check posts physical barriers will be reduced to the greater extent.”⁸⁷

A customs official from the Lahore Dry Port placed emphasis upon the need to provide modern facilities at the Wagah–Attari border because it is the most feasible and operative trade route between Pakistan and India. He also stated that

“There is a need to provide state of the art facilities regarding lifters for normal packages. Lifter is available for loading and unloading of heavy machinery but there is no such facility regarding loading/unloading of cartoons, which are currently being handled manually. There is a demand of at least three lifters for this purpose”. “On the Indian side, there is a need to establish pallet facility, like airports, for speedy loading/unloading of goods from trucks. Immediate required step is establishment of branches of banks on both sides for speedy payments in both countries.”⁸⁸

⁸⁵ Ibid.

⁸⁶ Interviewed on 8 January 2016.

⁸⁷ Ibid.

⁸⁸ Interviewed on 3 June 2015.

Similarly, Imtiaz Alam, the president of the SAFMA opines that Pakistan and India should provide modern facilities at the Wagah–Attari border and include the ‘establishment of Peace Park’. He identified that

“By creating ‘Peace Park’, ‘sub-regional market’ and providing modern facilities in terms of clearance at the Wagha-Attari border, bilateral trade can be maximized. Procedural simplicity should be adopted. Especially, checking of luggage and goods at five different points on the Indian side cause delay and their attitude should be more friendly.”⁸⁹

Likewise, M. Ziauddin, Editor and Columnist affiliated with The Express Tribune, is of the view that “West Punjab–East Punjab and Sindh–Rajasthan trade arrangement can be initiated that could further enhance bilateral trade.”⁹⁰ Asif Majeed, President of the Eviol Group, observes that Pakistani importers do not face “any significant barrier regarding importing items from India.”⁹¹

To summarize the challenges regarding the land route related trade, it can be stated that the lack of modern facilities at the Wagah–Attari border such as weighing, scanning, lack of pallets, minimal operational hours, inept infrastructure and a lack of computerized facilities at entry points at the Wagah–Attari border are key impediments. In addition to this, strict visa regimes, particularly the issuance of city-specific visas and non-tariff barriers are significant barricades to Pakistan–India economic and trade relations.

Likewise, secondary sources also indicate land route related barriers, such as the absence of modern facilities at the Wagah–Attari border; the lack of infrastructure in both countries is necessary for expanded trade (M. Khan, 2013) (Taneja, 2006) (Taneja,

⁸⁹ Interviewed on 12 January 2016.

⁹⁰ Interviewed on 8 January 2016.

⁹¹ Interviewed on 27 May 2015.

2013b); while poor parking facilities, testing laboratories and wide-ranging security checks cause significant obstructions on the Attari–Wagah trade crossing (Taneja, 2013a) (Taneja, Mehra, et al., 2013); inadequate scanners and weighbridges (Taneja, Prakash, & Kalita, 2013) restrictions are imparted on route choices, inhibit trade flow (Pasha & Imran, 2012), transportation costs are increased due to poor infrastructure, truck operating speeds are restricted, with all of this leading to a low quality of connectivity and productivity-enhanced infrastructure (S. Ahmed & Ghani, 2008). While improvements in trade facilitation will not only increase bilateral trade, these changes will also augment regional trade in South Asia (De, 2011).

As far as the measures to overcome these limitations are concerned, the Key Informants have proposed several measures that Pakistan and India should undertake to increase bilateral trade in particular and economic cooperation in general. These measures include the provision of modern facilities for trade routes, especially the Wagah–Attari border, an increase in the number of tradable items over land routes, continuity in bilateral negotiations between Pakistan and India, procedural simplification and the adoption of sub-regional trade regimes between Pakistan and India. Figure 6.4 portrays these measures proposed by the KIs.

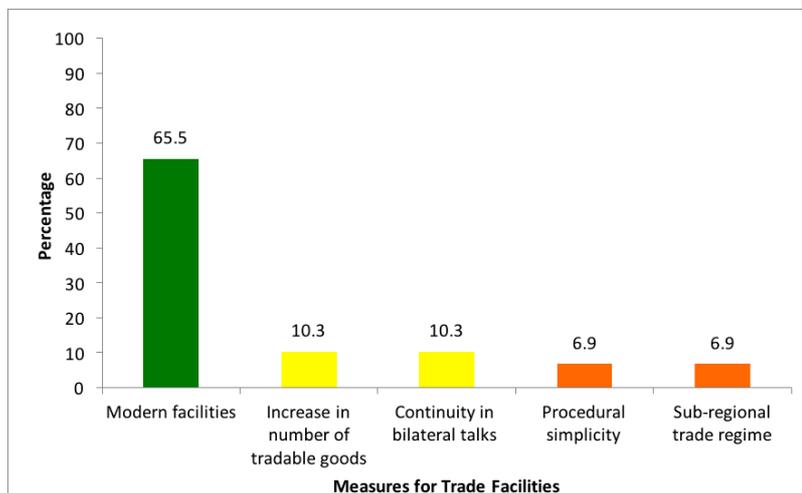


Figure 6.4: Measures for Facilitation of Trade

Source: Authors' own calculations on the basis of interviews of KIs.

6.5.2 Railway Route-related Barriers in Pakistan–India Bilateral Trade and Prospects for Controlling

Section 6.5.1 discusses land route barriers, especially those principally related with the Wagah–Attari trade artery. However, to enhance trade between Pakistan and India, it is also important to identify the barriers that are related to the railway route. Therefore, Section 6.5.2 discusses the railway route related barriers and attempts to propose measures for the removal of these barriers. Regarding the railway route related barriers Ayushman Jamwal, Senior Editor and Analyst of CNN-IBN, India, emphasizes the need to increase the number of trade goods and expand land routes because with the limited number of tradable goods, expanding the rail network for freight becomes meaningless. He opines that

“Expanding the rail network for travel and freight first requires expanding the land routes. With a limited list of traded goods, expanding the rail network for freight is not a prudent option. That would be stage three of an economic plan,

after expanding the trade goods list and land routes across the border. Yet, they are all subject to security conditions at the Line of Control.”⁹²

Similarly, Ahmed Rashid, senior research fellow with the Institute of Strategic Studies, Islamabad, considers railway traffic as “symbolic and token”. He does not foresee any significant enhancement in promoting rail connections between Pakistan and India. He is of the view that

“With outdated and limited compartments, the very idea of rail connection is a failure. Long delays just at both starting points remind of colonial days. They need faster trains and running several times a day. They should facilitate visas but they more concerned with security. With this it is not possible to promote rail connections.”⁹³

Contrary to this, SD Muni, a renowned academic and analyst affiliated with JNU and a distinguished fellow at IDSA, New Delhi, thinks of railway route related barriers as ‘bureaucratic hurdles’ and can be addressed with ‘political will’. He indicates that “this is a problem of bureaucratic hurdles and economies of shortages. Only firm political push can remove these lethargies.”⁹⁴ Similarly, Irfan Husain, a freelance journalist and columnist affiliated with DAWN newspaper points out that “the railways on both sides can designate senior officers to monitor and supervise cross-border traffic. If trade expands, the border crossings can be widened to accommodate more trucks, and more customs officials can be posted.”⁹⁵ However, Irfan Husain proposes to “generate space for the private sector” because “the business potential is too attractive for the private sector to ignore.”⁹⁶ While Riaz Ahmad, strategic analyst at the Centre for Policy and

⁹² Interviewed on 8 February 2016.

⁹³ Interviewed on 7 January 2016.

⁹⁴ Interviewed on 1 December 2015.

⁹⁵ Interviewed on 10 February 2016.

⁹⁶ Interviewed on 10 February 2016.

Media Studies, Islamabad, thinks that “India can be helpful in this regard, provided its commercial interest dictate it so.”⁹⁷

Regarding the railway route related barriers between Pakistan and India, Mubarak Zeb Khan, an economic analyst affiliated with DAWN newspaper opines

“At the moment, Pakistan's trade with India through containers and trucks. Even both countries have not allowed trucks to cross borders and that's big issue, which needs to be addressed. Containerized trade is not in operation that is key hurdle in enhancing of bilateral trade. And, loading and unloading of goods at the Wagha border is carried out thorough labourers, which is time-consuming. Though containerized trading is on the agenda yet no talks are going to be held to address this barrier.”⁹⁸

Hamid Raza, a businessman from Lahore, identifies the railway route related barriers to the Pakistan–India bilateral trade and indicates that

“Regarding railway-route trade, less number of bogeys is a key barrier. Therefore, seeking of warehouse on rental in Amritsar becomes an important issue that increases cost of transportation as well as risk to perishable items. Movement of goods to warehouse and then onward transportation to railway station is time-consuming as well as costly.”⁹⁹

However, he opines that this problem can be resolved by “introducing reservation and booking of bogeys via online system and it should be operationalized.”¹⁰⁰

Regarding the railway route related detriments in bilateral trade between Pakistan and India, the KIs have identified the limited number of bogeys, visa-related issues, the limited number of tradable goods, a lack of political will, security concerns and the bureaucratic hurdles. Figure 6.5 portrays railway route related barriers.

⁹⁷ Interviewed on 9 February 2016.

⁹⁸ Interviewed on 8 January 2016.

⁹⁹ Interviewed on 11 September 2014.

¹⁰⁰ Interviewed on 11 September 2014.

In addition, secondary sources also ascertain transport related barriers such as the absence of containerized goods for transport (Taneja, Prakash, et al., 2013), fewer rakes¹⁰¹, goods wagons¹⁰², lower numbers of parcel¹⁰³, wagons and the insufficient duration of operational hours (Taneja, 2006).

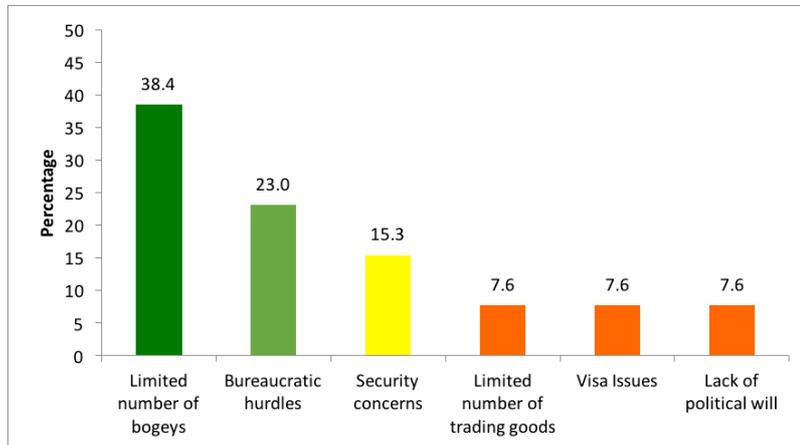


Figure 6.5: Railway-Route Related Barriers to Pakistan-India Bilateral Trade

Source: Author's own calculations on the basis of responses of Key Informants.

6.5.3 Likely Low cost Land routes in Pakistan-India Bilateral Trade

Section 6.5.2 discusses barriers related to the land-route and principally related with the railway route. The Interviewees of this study suggest some measures related with the provision of modern facilities at the Wagah-Attari entry point, especially the establishment of Integrated Checkpoints along with new facilities. They have also identified fewer numbers of bogeys, inadequate operational hours, bureaucratic hurdles,

¹⁰¹ One rake carries 1,750 tons.

¹⁰² The capacity of a goods wagon is 24 tons.

¹⁰³ The capacity of a parcel wagon is 55.5 tons.

visa-related issues and the time consuming process of booking of bogeys. While emphasizing the need to address these restrictions, the KIs have proposed measures such as the maximization of operational hours; the adoption of an online system for registration and booking of railway bogeys; the inclusion of containerized trade; an improvement in political will on the part of the governments of Pakistan and India; and an increase in the role of the private sector. It is essential that additional land routes are opened for the enhancement of trade and economic cooperation between Pakistan and India. Section 6.5.3 provides information for the discussion about the potential of other land routes between Pakistan and India for the enhancement of bilateral economic and trade connections.

Concerning the likelihood of low-cost trade routes between Pakistan and India, Ayushman Jamwal, Senior Editor and Analyst for CNN-IBN, India, is of the view that “land routes along the India–Pakistan border are the only logical low cost way of enhancing trade.”¹⁰⁴ Similarly, Ahmad Rashid an analyst and senior research fellow of the Institute of Strategic Studies, Islamabad, Pakistan, indicates that

“All trade routes between India and Pakistan are low-cost and economically beneficial. All routes with Punjab (Pakistan’s) should be opened as well as with Sindh. Both Kashmir’s should extend their LoC’s trade which quite marginal at this point. Either side as a political weapon of victimization should not use trade.”¹⁰⁵

Irfan Husain, freelance journalist and columnist affiliated with DAWN, also termed the Karachi–Mumbai sea route as feasible. However, he highlighted the importance of the Wagah–Attari trade route as the obvious option as far as low-cost is concerned. He mentioned that “The Wagah border is the obvious trade artery; the Khokhrapar border crossing in Sindh is another road link. But a Mumbai–Karachi sea route is also

¹⁰⁴ Interviewed on 8 February 2016.

¹⁰⁵ Interviewed on 7 January 2016.

feasible.”¹⁰⁶ On the other side, Tridivesh Singh Miani, a columnist and analyst affiliated with the Jindal School of International Affairs, Sonapat, Haryana, India, considers the Wagha-Attari as the most cost-effective trade route and indicates that the Indian Punjab has been proactive in urging the centre to open more land crossings and address barriers to trade with Pakistan.”¹⁰⁷

Likewise, Afshan Subohi, Business Editor for DAWN and policy analyst, also observes “There can be many along the shared border in Sindh and Punjab and via sea.”¹⁰⁸ However, Riaz Ahmad, Director of the Centre for Policy and Media Studies and a strategic analyst, identified another potential low-cost trade route between Pakistan and India. According to him, “Other than Wagha-Attari routes, there is third one, Bhatinda (Bahawalnagar) which remains closed since long. The whole railway infrastructure is there to be exploited for the benefit of trade.”¹⁰⁹

On the other side, Saeed Ahmad an academician and researcher affiliated with the National Institute of Pakistan Studies, Islamabad, has identified likely trade openings between Pakistan and India, especially across the LoC between both sides of Kashmir. He explains

“The two governments are contemplating on opening nine routes for trade and travel across the Line of Control. These routes include the Jammu-Sialkot, Jhangani-Mirpur, Mendhar-Kotli, Skardu-Kargil and Chamb-Nonian to strengthen trade ties and increase people-to-people contact. Moreover, the India-Pakistan Joint Working Group in 2012 had also discussed a new land route for trade at Munabhao-Khokhrapar. Apart from this Wagha-Attari is the most suitable as well.”¹¹⁰

¹⁰⁶ Interviewed on 10 February 2016.

¹⁰⁷ Interview on 20 April 2016.

¹⁰⁸ Interviewed on 7 January 2016.

¹⁰⁹ Interviewed 9 February 2016.

¹¹⁰ Interviewed on 28 February 2016.

Similarly, SD Muni, a renowned academician affiliated with JNU, New Delhi, India, also identifies trade openings between Pakistan and India at the Punjab, Rajasthan and Kashmir borders as likely low-cost trade routes for expansion in trade between the two neighbours. He expresses that “Bilateral trade can be expanded through land borders in Kashmir, Punjab and Rajasthan. Gujarat–Sind trade links can be explored if geographically it is possible.”¹¹¹

Contrary to this, Imtiaz Gul, policy analyst and executive director of the Centre for Research and Security Studies (CRSS), Islamabad, underscores the need to utilize the maximum potential of the existing trade routes between Pakistan and India before the initiation of additional trade lanes between them. According to him

“Existing trade routes are not being maximally and optimally utilized. Before exploring alternative routes both countries should utilize maximal and optimal utilization of existing trade linkages i.e. Wagha, Sialkot–Jammu or Rajasthan.”¹¹²

Imtiaz Alam, President of the South Asian Free Media Association (SAFMA), also identified the “Sialkot–Jammu” trade route as a feasible trade link for connecting Northern India with Jammu via Sialkot. Also, Northern India is closer to the Karachi seaport than the Mumbai seaport. According to him

“Jammu through Sialkot is at three-hour distance from Amritsar while Jammu is eight hours travel direct from Amritsar. So, Jammu–Sialkot border can be utilized better if Pakistan–India opens it up. Northern India and Pakistan sub-regional market with opening up of the Wagha–Northern India route can be a great use to both Pakistan and India. Karachi seaport is closer to North India than Mumbai port.”¹¹³

¹¹¹ Interviewed on 1 December 2016.

¹¹² Interviewed on 6 January 2016.

¹¹³ Interviewed on 12 January 2016.

Similarly, Mubarak Zeb Khan, Business Reporter and Analyst affiliated with DAWN newspaper, opines regarding the likelihood of low-cost trade routes between Pakistan and India:

“Low-cost trade routes, surely, include the Wagha–Attari land route and India is very keen to increase the trade through this artery. However, infrastructure on the part of both sides is a key barrier. Another economical land route is the Khokhrapar–Munabao or Sindh–Rajasthan borderland route that can play great role in maximizing trade volume while reducing its cost.”¹¹⁴

Likewise, M. Ziauddin, resident editor and columnist affiliated with The Express Tribune, identifies the “Sialkot–Jammu” trade route as an additionally feasible option while terming it as a historic route for imports and exports for the Jammu and Kashmir. According to him, a “Punjab–Punjab trade route is a feasible one. However, the Sialkot–Jammu trade route is the shortest route, which is the historical route for exports and imports of the Jammu and Kashmir valley.”¹¹⁵

Hamid Raza, a businessman from Lahore, considers “the land route as low-cost trade route between Pakistan and India.”¹¹⁶ Similarly, Talat Butt, an export/import businessman from Lahore, also considers the land route as “the cheapest route for the Pakistan–India bilateral trade” and believes “the Wagah–Attari route as the best option because of proximity of the traditional market of Amritsar”. He points out that

“The best trade route for Pakistan–India bilateral trade is land route, which is the cheapest route as compared to sea route. Yes, there are other options regarding openings of land-routes like Kasur–Gandapour border and Bahawalnagar–Rajasthan border. However, the Wagha–Attari land route is the best option because Amritsar, being traditional market, is closer this border.”¹¹⁷

¹¹⁴ Interviewed on 8 January 2016.

¹¹⁵ Interviewed on 8 January 2016.

¹¹⁶ Interviewed on 11 September 2014.

¹¹⁷ Interviewed on 3 June 2015.

Likewise, Awais Bin Aslam, Manager of Corporate Sales for Patron Chemicals, is of the view that “the Wagah land route is the safest and viable route for bilateral trade between Pakistan and India.”¹¹⁸ Similarly, Asif Majeed, President for the Evyol Group, underlines the prominence of the Wagah–Attari route and opines that

“The Wagha land-route is the most viable trade route for bilateral trade between Pakistan and India. Within 24 hours duration Pakistani businessmen get delivery of their shipments on the Wagha border. The Khokhrapar–Munabao and any other trade opening on the Sindh–Rajasthan border are the other land routes for boosting Pakistan–India bilateral trade.”¹¹⁹

Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry, proposed that “Khokhrapar–Munabao and Sialkot–Jammu trade routes as the low-cost trade routes that can be utilized by Pakistan and India to enhance bilateral trade and economic cooperation between them.”¹²⁰

Concerning the likelihood of low-cost trade itineraries between Pakistan and India, Mian Riaz Husain Pirzada, the Federal Minister for Inter-Provincial Coordination and the Member National Assembly of Pakistan from NA-186 (Hasilpur–Khairpur Tamewali–Cholistan), indicates that “Amrooka–Fazilka railway crossing on the Pakistan–India border” as another prospective trade opening that should be developed as a low-cost trade route between Pakistan and India while “connecting the former princely state Bahawalpur with the Indian states of Bikaner and Rajasthan.”¹²¹

To end the discussion regarding the low-cost trade routes between Pakistan and India, it can be submitted that all the land routes between Pakistan and India are feasible, especially the Wagah–Attari border because traditional business markets like

¹¹⁸ Interviewed on 27 May 2015.

¹¹⁹ Interviewed on 27 May 2015.

¹²⁰ Interviewed on 10 September 2014.

¹²¹ Interviewed on 4 January 2016.

Lahore and Amritsar are closer to it. However, there is room for the proliferation of trade arteries between Pakistan and India. Among the prospective trade lanes between Pakistan and India are the Munabao–Khokhrapar trade route, the Sialkot–Jammu trade link, trade openings at the LoC between the two sides of Kashmir, trade opening at the Kasur–Ferozpur border and the Amrooka–Fazilka railway crossing on the Bahawalnagar–Rajasthan border. Figure 6.6 presents a graphical presentation of the opening of the potential low-cost trade routes between Pakistan and India on the basis of the viewpoints of the KIs of this study.

Also, research studies and secondary sources identify potential land routes such as the Munabao–Khokhrapar (T. S. Maini, 2014) (T. Maini & Vaid, 2012) (Mahmood, 2013) (M. Khan, 2013; P. S. Mehta, 2014b) for the enhancement of economic links between Pakistan and India. However, the trade opening at the Bahawalnagar–Bhatinda on the Pakistan–India border is the sole contribution of this study.

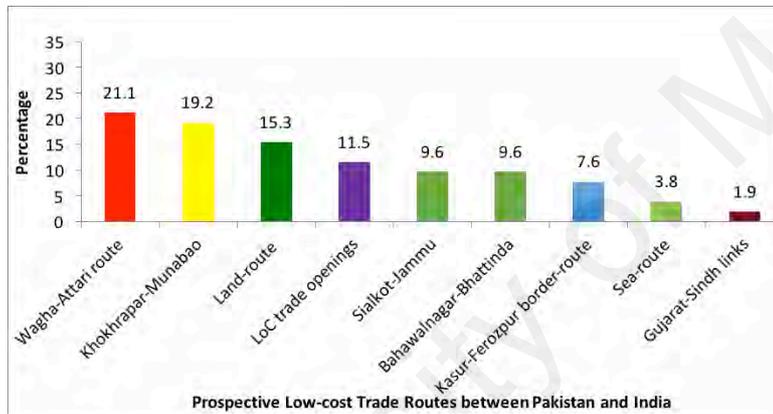


Figure 6.6: The Likely Low-Cost Trade Routes between Pakistan and India

Source: Author’s own calculations on the basis of viewpoints of KIs.

6.6 Potential of Joint Ventures between Pakistan and India

Section 6.5.3 has discussed potential costs between Pakistan and India on the basis of the low cost of transportation, less time-consuming and the delivery of goods and items in less time as compared to sea routes as well as bilateral trade between Pakistan and India through other countries such as Dubai and Singapore. It is suggested that all the land routes between Pakistan and India are feasible, especially the Wagah–Attari border. Nevertheless, it is essential that modern facilities are provided at the Wagah–Attari border to harness its maximum potential for the enhancement of economic relations between the largest economies of South Asia. Moreover, the section has identified likely trade lanes between Pakistan and India. These prospective trade lanes include the Munabao–Khokhrapar crossing, the Sialkot–Jammu trade link, trade crossings at the LoC between the two sides of Kashmir, a trade opening at the Kasur–Ferozpur border and the Amrooka–Fazilka railway crossing on the Bahawalnagar–Rajasthan border. Section 6.6 explores the prospective areas for joint ventures between Pakistan and India so that these two conflicting countries can establish sustained economic cooperation and enjoy mutually profitable circumstances.

Concerning the possibility of joint ventures between Pakistan and India, 61 percent of the KIs provide an affirmative answer, while 15 percent are not optimistic about the commencement of joint ventures between Pakistan and India. No answer was given by 23 percent of the KIs about the probability of the launching of joint ventures between Pakistan and India. Figure 6.7 illustrates the responses of the KIs regarding the possibilities of joint ventures between Pakistan and India.

The possibility of joint ventures between Pakistan and India can be envisaged in the old trading centres of Lahore, Peshawar and Sind which could take advantage of abundant labour and lower transportation costs (Nabi & Javaid, 2011).

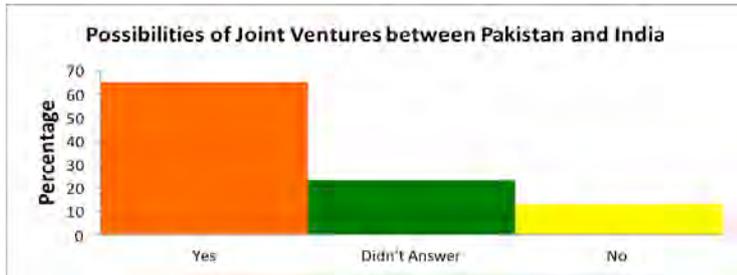


Figure 6.7: Possibilities of Joint Ventures between Pakistan and India

Source: Author's calculations on the basis of responses of KIs.

6.6.1 Potential Sectors for Joint Ventures between Pakistan and India

Regarding the potential sectors for joint ventures between Pakistan and India, Ahmed Rashid, senior research fellow at the Institute of Strategic Studies, Islamabad, is of the view that Pakistan and India can initiate joint ventures in all sectors except defence. He identifies the possible sectors for joint ventures as follows:

“Except defense, they should investment in all sectors. Pakistani investors should also invest in India. Precious stones, jewelry, textiles, garments, wool, carpet industry, shoes, sports items, cutleries, chemicals, autos, bicycles, motor-cycles, tires and tubes, cosmetics, pharmaceuticals, medical sector, publications, TVs, films, and many more areas.”¹²²

Similarly, Irfan Husain, a freelance journalist and columnist affiliated with DAWN, also indicates that

“Hotels could be the starting point; already a couple of Indian hotel chains have expressed interest in Lahore as a holiday destination for Indians. Tour companies would be interested in boosting tourism. Textiles could be a sector for joint ventures.”¹²³

¹²² Interviewed on 7 January 2016.

¹²³ Interviewed on 10 February 2016.

Likewise, Afshan Subohi, business editor for DAWN newspaper and economic analyst, opines about the potential of joint ventures between Pakistan and India as “There are immense possibilities in agriculture, industry and service sector provided the environment is made comfortable for enterprising people on both sides of the border.”¹²⁴

In contrast, Riaz Ahmad, a strategic analyst affiliated with the Centre for Policy and Media Studies, Islamabad, is not hopeful about the beginning of joint ventures because “India will take time to trust a democratic Pakistan. Also, the business lobbies are weak in Pakistan. They can not influence the decision making process in Pakistan like agricultural lobby does with the help of religious right.”¹²⁵ While SD Muni, Emeritus Professor at JNU, New Delhi, believes that “India is too keen to open investment market, but Pakistan is very hesitant. There is a resistance from business as well as political communities.”¹²⁶

Ayushman Jamwal, Columnist and Analyst for CNN-IBN, India, while identifying limitations to joint ventures highlights that

“Some blockades in India–Pakistan trade need to be cleared before firms on both sides can actively initiate joint ventures. The two nations need to prune their Negative and Sensitive trade lists to boost active trade. There are three categories with the largest export potential from India to Pakistan—textiles, chemicals, and machinery. However, 13 of the top 25 related products with the highest potential are currently on Pakistan’s Negative or Sensitive lists. The three categories with the largest import potential include textiles, jewelry and precious and base metals. However, 6 out of 25 products with the highest import potential are on India’s Sensitive list for non-LDCs (Least Developed Countries) under the South Asia Free Trade Agreement. Reviewing and amending the

¹²⁴ Interviewed on 7 January 2016.

¹²⁵ Interviewed on 9 February 2016.

¹²⁶ Interviewed on 1 December 2015.

Negative and Sensitive lists is the fastest and practical way to give a boost to economic ties.”¹²⁷

This indicates the existence of potential for bilateral trade as well as joint ventures between Pakistan and India. However, both nations have to take, what Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry, indicated to be, “some bold steps” to enhance trade and economic relations between them.¹²⁸

While identifying likely sectors for joint ventures between Pakistan and India, Zohra Yusuf, journalist and Chairperson for the Human Rights Commission of Pakistan, is of the view that

“The joint ventures could address common needs—even in areas of healthcare and housing, it can be made profitable due to large numbers of people to be served. Of course, energy is an obvious area and TAPI one hopes will go ahead. Urban transport and management of water resources are other areas.”¹²⁹

Concerning the possibilities of the joint ventures, Imtiaz Alam, the president of SAFMA opines that

“There are many sectors where Pakistan and India can initiate joint ventures such as infrastructure, railways, air links, communication lines and energy grids. Because, both countries have such common history of thousand years and share common culture, language and eating habits which can create such a situation which will become beneficial.”¹³⁰

In contrast, M. Ziauddin, analyst and columnist affiliated with The Express Tribune, is not optimistic about the launch of joint ventures between Pakistan despite the prospects. He suggests that

¹²⁷ Interviewed on 8 February 2016.

¹²⁸ Interviewed on 10 September 2014.

¹²⁹ Interviewed on 13 January 2016.

¹³⁰ Interviewed on 12 January 2016.

“Joint ventures could be possibility but at this moment to keep bilateral relations at the level of bilateral trade and eventually investment from Indian side would also come into Pakistan at later stage perhaps after five to six years. I feel joint ventures and investment between the two countries would not start quickly but it has prospects. Non-tariff barriers and standardization and quality control in India are some of key barriers. This is real CBMS that both countries should enhance bilateral trade while handling these issues.”¹³¹

Likewise, Mubarak Zeb Khan, Business Reporter and Analyst affiliated with DAWN newspaper, opines

“Pakistan and India are on the negative list on the investment regime. Political mindsets and several other factors can discourage investment from other countries. But, Pakistan and India do not have bilateral investment. Contrary to it both countries have indirect investment through MNCs. For example, Tetley owned by Indian-origin man has invested in Pakistan.”¹³²

According to Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry, prospects for joint ventures are available between Pakistan and India, but these are not going to be materialized soon. He identifies that

“Furniture is another sector where Pakistan has potential and ‘Interwood’ has opened its franchise in India. Banking sector is important tool of CBMs where Pakistan and India can open. Pakistan and India has great potential in SMEs. However, I don't foresee any joint venture in Pakistan–India in near future.”¹³³

Hamid Raza, a businessman from Lahore, believes that there is great potential for joint ventures, especially in SMEs. According to him

“There is a lot of room for initiatives of joint ventures between Pakistan and India especially in SMEs. Likely sectors regarding joint ventures between Pakistan and India include tires, granite marbles factory, tea and beans. There is an opportunity for establishment of joint ventures in tires as Indian want to open tire manufacturing factories in Pakistan.”¹³⁴

¹³¹ Interviewed on 8 January 2016.

¹³² Interviewed on 8 January 2016.

¹³³ Interviewed on 10 September 2014.

¹³⁴ Interviewed on 11 September 2014.

On the other hand, Lieutenant General (Retired) Aminul Karim, former Corps Commander of the Bangladesh Army and expert on South Asian Regionalism, observes, “joint venture as a difficult proposition”. However, “SAFTA, cooperation in Human Resource Management (HRM) under the rubric of SAARC and South Asian University are good options and it should be widened.”¹³⁵ Likewise, Tridivesh Singh Miani, a columnist and analyst affiliated with the Jindal School of International Affairs, Sonapat, Haryana, India, is of the view that “in the near future, possibility for joint ventures seems bleak.”¹³⁶

Lieutenant General (Retired) Naseer Akhtar, former corps commander of the Pakistan Army perceives “great potential for Pakistani businessmen in launching joint ventures in South India with the Indian businessmen”.¹³⁷ Similarly, Nisha Taneja, a professor at the Indian Council for Research on International Economic Relations (ICRIER), considers “fashion and textiles, packaged food and spices” as the prospective sectors where Pakistan and India can initiate joint ventures.¹³⁸

About the potential opportunity for joint ventures, Khawaja Riaz Hussain Siddiqi, Chairman of Patron Chemicals “anticipates the positive impact of the joint ventures in enhancing economic cooperation between Pakistan and India”. However, he opines “Pakistan has not prepared itself for open trade. And, Pakistani business community, in general, is not in position to compete with the Indian business community”.¹³⁹ According to him, the Indian business community is relatively rich as compared to

¹³⁵ Interviewed on 28 February 2014.

¹³⁶ Interviewed on 20 April 2016.

¹³⁷ Interviewed on 11 September 2014.

¹³⁸ Interviewed on 31 March 2016.

¹³⁹ Interviewed on 27 May 2015.

Pakistani competitors and it has modernized its industry on the basis of research and development, low-cost input and abundant raw materials. Contrary to this, representatives of the Pakistani business community, Sohail Lashari, President of the Lahore Chamber of Commerce and Industry¹⁴⁰ and Atif Aziz, president of the Bahawalpur Economic Development Forum, does not agree with the perception that “Pakistani business community is against the enhancing of trade links with India”.¹⁴¹

Asif Majeed, president of the Evyol Group and an importer/exporter, is of the view that “there is a potential for joint ventures in agricultural-related products. United Phosphorus, an India-based agri-business firm, is interested in launching joint ventures with Pakistani firms in Pakistan.” However, “uncertainty is a key barrier in launching of joint ventures between Pakistan and Indian business community.”¹⁴² Consequently, Pakistan and India can address this issue, as SD Muni, distinguished fellow at the Institute of Defense and Security Analyses, New Delhi, has aptly emphasized “with strong political push.”¹⁴³ The point here is “the real CBM is that Pakistan and India should increase bilateral trade and enhance economic cooperation while handling these issues.”¹⁴⁴

On the basis of the viewpoints of the KIs discussed in the above paragraphs, it can be surmised that there is enormous potential for joint ventures between Pakistan and India. The likely sectors in this regard are tourism, especially religious tourism, infrastructure, energy grids, communications, housing, healthcare, urban transport and SMEs. Also, the

¹⁴⁰ Interviewed on 10 September 2014.

¹⁴¹ Interviewed on 22 May 2014.

¹⁴² Interviewed on 27 May 2015.

¹⁴³ Interviewed on 1 December 2015.

¹⁴⁴ Personal Interview with M. Ziauddin, Senior Journalist and Columnist affiliated with The Express Tribune on 8 January 2016.

prospective sectors for joint ventures between Pakistan and India can be presented in Figure 6.8.

On the other hand, secondary sources have also explored possibilities for joint ventures between Pakistan and India. Potential joint ventures have been identified (Nabiha Gul, 2009) (Akmal, 2010) (Taneja, 2006) (Taneja, 2013b) in the field of petrochemicals, information technology, manufacturing of LPG cylinders, the automobile industry, especially the auto component manufacturing industry and steel; while investment ventures include drip irrigation, tissue culture, seeds, herbal extracts, mining, mining equipment, heavy engineering and earth moving machinery (Taneja, Mehra, et al., 2013). There is also potential for joint ventures and outsourcing between Pakistan and Indian entrepreneurs in cosmetics, pharmaceuticals, technical training, hospitality and organized tourism (K. Amin, 2010).

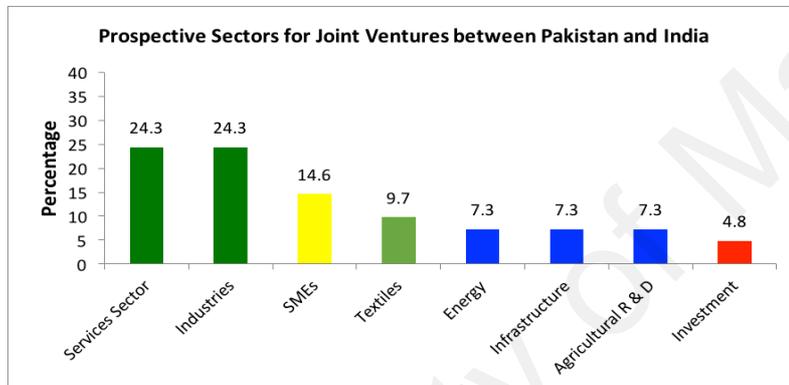


Figure 6.8: Prospective Sectors for Joint Ventures between Pakistan and India

Source: Author's calculations on the basis of interviews of KIs.

6.7 Pakistan–India Economic Cooperation and SAARC’s Prospective Role

Section 6.6.1 has included information that could indicate potential sectors for joint ventures between Pakistan and India. On the basis of the viewpoints of the KIs, the section has detected the likely sectors for Pakistan–India joint ventures. Section 6.7 explores the prospective role of the SAARC in enhancing economic cooperation between Pakistan and India.

It is important to mention here that intra-SAARC trade is low in comparison to other regional groups such as the EU and ASEAN; moreover, this intra-SAARC trade is growing at a very modest pace (R. Jain & Singh, 2009) and intra-SAARC trade in South Asia is about US\$ 25 billion, or 4.8 percent of South Asia’s trade with the world (Husain, 2011). In 2009, the percentage of intra-SAARC exports were 5.4 percent of its total exports in comparison with ASEAN at 24.5 percent, CIS at 14.8 per cent and the East African Community with 18.9 percent (Husain, 2012).

Concerning the prospective role of the SAARC in enhancing bilateral economic cooperation between Pakistan and India, Ayushman Jamwal, Columnist and Analyst for CNN-IBN, India, is of the view that

“For all intensive purposes, SAARC has been unaffected by friction in India–Pakistan ties. Pakistan cannot compete with India to push economic and strategic power in South Asia. South Asian nations have different political and strategic priorities and pan-regional pacts have little chance of execution. Similar to the United Nations, it is difficult for SAARC to agree and actively enforce binding pacts to expand regional trade.”¹⁴⁵

However, “SAARC nations can immediately revise their visa regime and negative and sensitive trade lists” to increase trade and economic links between them.¹⁴⁶ Ahmed Rashid, senior research fellow at the government think-tank, Institute of Strategic

¹⁴⁵ Interviewed on 8 February 2016.

¹⁴⁶ Ibid.

Studies, Islamabad, proposes to amend the structure of the SAARC and anticipates that “all SAARC structure should be framed according to ASEAN regional architecture. SAARC has to move forward irrespective of the size and politics of its members.”¹⁴⁷ Similarly, Zohra Yusuf, a Karachi-based journalist and Chairperson for the Human Rights Commission of Pakistan, strongly suggested the need to adopt a regional model to move forward. She opines “It can become a strong regional economic organization if it can contribute to reducing tension—and not just between India and Pakistan. Some regional models should be looked into.”¹⁴⁸

In contrast to this, Irfan Husain, a freelance journalist and columnist affiliated with DAWN, considers SAARC’s movement to be linked with the normalization of bilateral relations between Pakistan and India. According to him, “Until India–Pakistan relations improve, SAARC will remain moribund. So it all boils down to increasing trade and travel between the two countries for the regional association to thrive.”¹⁴⁹ The prospective role of SAARC in the development and connectivity of South Asia depends upon the nature of the relationship between Pakistan and India. Also, Afshan Subohi, business editor for DAWN newspaper and economic analyst, highlights that “India needs to learn to behave like a leader of this group and try to command instead of demanding respect.”¹⁵⁰

Regarding the prospective role of the SAARC in augmenting the Pakistan–India economic co-operation, Saeed Ahmad, a researcher affiliated with the National Institute of Pakistan Studies, Islamabad, points out that

¹⁴⁷ Interviewed on 7 January 2016.

¹⁴⁸ Interviewed on 13 January 2016.

¹⁴⁹ Interviewed on 10 February 2016.

¹⁵⁰ Interviewed on 7 January 2016.

“SAARC has suffered most because of the India–Pakistan conflict. On several occasions SAARC has provided a platform to the Indian and Pakistani leadership to meet and launch or re-launch the peace process. It was the 2004 SAARC summit in Islamabad where peace process between India and Pakistan had officially started. But still officially you cannot discuss political issues in SAARC. In my understanding SAARC’s future lies with the resolution of the India–Pakistan conflict. If relations improve between them SAARC can also benefit otherwise very little chance of any future for SAARC.”¹⁵¹

However, he proposes to “enlarge the scope of SAARC now to include political issues.”¹⁵² Similarly, SD Muni, Professor Emeritus of JNU, New Delhi, also thinks “SAARC should open itself to political discussions more vigorously, at least at the summit level. It is politics that is holding SAARC.”¹⁵³ Because he indicates that, “there are problems in SAARC beyond India–Pakistan relations as well. India still needs to be more accommodating and other smaller neighbours have to shed off their reservations on engaging with India more closely.”¹⁵⁴

Imtiaz Gul, strategic and policy analyst, affiliated with a private think-tank, Centre for Research and Security Studies, Islamabad, differs slightly in his position and opines that Pakistan and India should not wait for the SAARC to play the role of the engine in South Asian economies. He is of the view that

“Pakistan–India are at odds so there is no way for SAARC to move forward. SAARC is all-about Pakistan and India. Bilateral trust is essential. We can’t wait for SAARC to move as engine. So, Pakistan and India should move forward. They should not expect hopes from SAARC.”¹⁵⁵

¹⁵¹ Interviewed on 28 February 2016.

¹⁵² Ibid.

¹⁵³ Interviewed on 1 December 2015.

¹⁵⁴ Ibid.

¹⁵⁵ Personal interview on 6 January 2016.

Likewise, Imtiaz Alam, the president of the SAARC Free Media Association, considers the implementation of the SAARC Declarations as the key to the SAARC as a feasible economic block and specifies that

“SAARC can become a viable economic block just only by implementing SAARC Declarations. There is no implementation mechanism among SAARC countries. Now, SAARC has become a declaratory body. SAARC has very useful agreements at regional and bilateral level that provide basis to move forward. Regional organizations tend to increase intra-regional trade but intra-SAARC trade volume is less than five percent of the total volume of its total trade. Therefore, primary focus of SAARC should be to enhance intra-SAARC trade.”¹⁵⁶

Similarly, Nisha Taneja, a professor and economic researcher at ICRIER New Delhi, also urges the need to implement SAARC Declarations to move the SAARC forward. She opines that the SAARC can go forward by “implementing upon the declarations and discussions of the SAARC summits in a timed manner.”¹⁵⁷

Regarding the prospective role of the SAARC in the enhancement of the Pakistan–India bilateral economic and trade links, M. Ziauddin, senior journalist and columnist affiliated with The EXPRESS TRIBUNE, opines that “Pakistan can become regional hub by providing transit facility to India”. He is of the view that

“SAARC can become an effective and viable economic organization because it is only Pakistan–India conflict which is holding SAARC back. SAARC countries are mainly the importer courtiers and their total share in international trade is less than five per cent. Unless they are integrated into a viable regional block like ASEAN they would not become exporters to the world trade market. Pakistan can become regional hub with the provision of transit facility to India and resultantly SAARC would become global hub in international trade.”¹⁵⁸

In contrast, Tridivesh Singh Miani, a columnist and analyst affiliated with the Jindal School of International Affairs, Sonapat, Haryana, India, points out that

¹⁵⁶ Personal interview on 12 January 2016.

¹⁵⁷ Interviewed on 31 March 2016.

¹⁵⁸ Personal interview on 8 January 2016.

“SAARC has become hostage by the India-Pakistan conflict. With regard to economic cooperation, the role of SAARC is likely to reduce for both India and Pakistan. While India has established strong links with Bangladesh, Bhutan and Sri Lanka and is focusing on strengthening ties with Southeast Asia, Pakistan has strong ties with Middle East and now it is focusing on China-Pakistan Economic Corridor (CPEC).”¹⁵⁹

Baladas Ghoshal, an expert on South Asia and Professor, Jawaharlal Nehru University, New Delhi, India indicates that “SAARC can become a viable economic organization, if only Pakistan obliges.” He terms “Pakistan as spoiler” while indicating that “trade and investment relations are increasing considerably between India and other SAARC countries.”¹⁶⁰

On the other hand, Mubarak Zeb Khan, a business analyst affiliated with DAWN newspaper, contemplates that the “future of the SAFTA under SAARC is conditional to the advancement on bilateral front between Pakistan and India” and opines

“India and Pakistan are dominating SAARC discourse. SAFTA has sensitive list and India and Pakistan have included all those products, attracting the interest of the other country, in her sensitive lists for the other country. But, it seems that Pakistan-India bilateral trade from the SAARC platform be increased provided that bilateral trade between Pakistan and India increases. Future of the SAFTA under SAARC is conditional to the advancement on the bilateral front between Pakistan and India. SAARC is not the fora that can compel its all members to adopt measures to increase intra-regional trade. Increase in oil prices also compelled Pakistan and India to reduce their freight charges and purchase from the neighbouring markets to save their foreign exchange reserves and this worked well. Concepts like regional trade, regional energy cooperation and regional integration attracted the attention of policy makers and got popularity in policy circles of both countries.”¹⁶¹

Likewise, Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry, is of the view that “India is our natural trade partner and Pakistan should keep eye on markets of Nepal and Bhutan. And, in this regard SAARC should be our main

¹⁵⁹ Interviewed on 20 April 2016.

¹⁶⁰ Interviewed on 7 August 2016.

¹⁶¹ Personal interview on 8 January 2016.

tool.”¹⁶² Similarly, Khawaja Shafiq, the Patron-in-Chief of the Pakistan Chamber of Small Traders, believes that “Pakistan and India should play as driver of this regional framework and put their differences at arm length”. He points out that

“Pakistan–India, being the major economies of South Asia, should move forward while putting a side their bilateral disputes and it would bring peace to the whole region of South Asia. SAARC has not become productive organization because Pakistan and India were at the opposite poles of the SAARC. And, like European Union and ASEAN, SAARC can move forward and become viable provided that Pakistan and India play as driver of this regional framework and put their differences at arm length.”¹⁶³

Contrary to this, Lieutenant General (Retired) Aminul Karim, an expert on South Asian regionalism, opines that

“It is a difficult proposition at the moment when more geopolitical tensions are vitiating the environment centering India–Pakistan–China. SAARC is at least one forum where leaders of South Asia can go for a dialogue. One-to-one contact/dialogue is an effective means, at least to maintain status quo. Socialization is a good step-forward.”¹⁶⁴

On the other hand, M. Ziauddin, senior journalist and columnist affiliated with The EXPRESS TRIBUNE, is of the view that “there are a lot of opportunities once Pakistan realizes that geo-economics has more importance than geo-politics and the current government in Pakistan under the Prime Minister Nawaz Sharif has this realization.”¹⁶⁵

Regarding the prospective role of the SAARC to enhance Pakistan–India bilateral economic co-operation, an official from the Government of Pakistan recommends

“SAARC Visa regime should be made more effective regarding trade facilitations to the business community of the SAARC countries. The duration of SAARC Multiple Visa should be increased from existing three months to at

¹⁶² Personal interview on 10 September 2014.

¹⁶³ Personal Interview on 11 May 2015.

¹⁶⁴ Interviewed on 28 March 2016.

¹⁶⁵ Personal interview on 8 January 2016.

least two years so that business community of the SAARC countries should get better facilities and intra-regional trade should be maximized.”¹⁶⁶

On the basis of the above included viewpoints, it can be stated that the SAARC has become a hostage of the India–Pakistan conflict because these are the two major economies of South Asia. Furthermore, the future of the SAARC has become conditional to the advancement of the Pakistan–India relations at the bilateral front. However, the necessity of discussions on political issues to be included with the agenda at least for the summit level has been present for some time now and should be addressed. Also, it is noteworthy that the SAARC visa regimes should be more effective regarding trade facilitations to the business community to augment intra-regional trade generally and Pakistan–India bilateral trade especially.

Additionally, secondary sources also reflect that the SAARC has become a hostage of the Pakistan–India conflictual relationship and has not moved forward as desired regarding regional integration in South Asia (Taneja, Prakash, et al., 2013). For the process of integration in the SAARC region, Pakistan and India will need to implement extended trade liberalization but there is a divergence of interests and strategic desires amongst them (Weerakon, 2010).

The SAARC has provided an informal forum for the negotiation of significant regional cooperation challenges and without the SAARC “the deterioration in the regional strategic environment would have been greater and moved faster (Sáez, 2011).

¹⁶⁶ Personal interview on 3 June 2015.

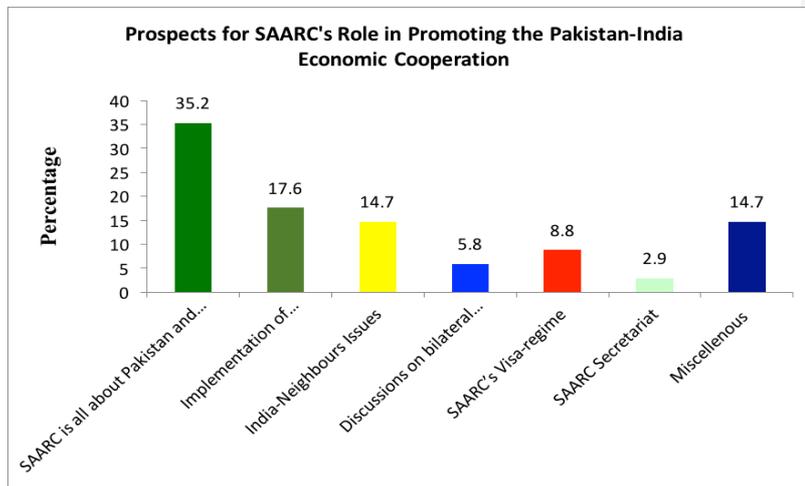


Figure 6.9: Prospective Role of SAARC in Enhancing of Economic Cooperation between Pakistan and India

Source: Author's own calculations on the basis of responses of KIs.

6.8 The Existing Environment and Prospects for Economic Cooperation between Pakistan and India

Section 6.7 discusses the prospective role of the SAARC for enhancing economic cooperation and trade relations between Pakistan and India. It has been argued, on the basis of the viewpoints of the KIs that the SAARC is all about Pakistan and India. The Pakistan–India conflict is holding back the SAARC. Therefore, the potential of the SAARC has become provisional to the progress of the Pakistan–India relations at the bilateral front.

Section 6.8 attempts to estimate the prospects of the Pakistan–India economic cooperation while providing an evaluation the existing prevailing environment regarding Pakistan and India, especially with the Pakistan Muslim League Nawaz (PML-N) and the Bharatiya Janata Party (BJP) coming into power in Pakistan and India respectively. This section also attempts to analyze the dynamics of the geo-economics

relations between Pakistan and India that contribute toward the improvements of political relations between Pakistan and India.

Relating the existing environment as conducive to the bilateral relationship between Pakistan and India, Ahmed Rashid, senior research fellow with a government think-tank, Institute of Strategic Studies, Islamabad, opines, “If they discuss all issues of bilateral conflict, relations will improve. Bilateral relations will move after the Pathankot incident.”¹⁶⁷ Likewise, Afshan Subohi, business editor for DAWN, considers “political will” as essential and is of the view that “political will is prerequisite, everything else can be dealt with.”¹⁶⁸ This is because, “both governments are hostage to their nationalists and their security establishments especially Pakistan is under the army’s thumb as far Pakistan’s relations with India are concerned.”¹⁶⁹

Similarly, SD Muni, Professor Emeritus, JNU, New Delhi, adds that Pakistan’s response to terrorism is an important determinant to decide the future course of India–Pakistan relations and opines that

“The key to India–Pakistan dialogue lies in Pakistan responding on the issue of terrorism. This is where Pak army has a decisive role. Without their approval, the dialogue will not move because Modi’s India will not be able to carry on with this dialogue without meeting their concerns on terrorism.”¹⁷⁰

¹⁶⁷ Interviewed on 7 January 2016.

¹⁶⁸ Interviewed on 7 January 2016.

¹⁶⁹ Interviewed Irfan Husain, Columnist affiliated with DAWN on 10 February 2016.

¹⁷⁰ Interviewed on 1 December 2015.

Contrary to this, Riaz Ahmad, a strategic analyst affiliated with the Centre for Policy and Media Studies, Islamabad, identifies a significant change in the approach of Pakistan's civilian government as well as its military junta and indicates that

“There is realization in Pakistan that good ties with India will boost the confidence of foreign investors in its economy. The US and its western allies have also be instrumental to bring the two countries closer due to the reason that it will spare Pakistan's energies to play effectively its frontline state role.”¹⁷¹

Likewise, Naseer Akhtar, former corps commander of the Pakistan Army also shares similar views and opines that

“There is realization on both sides to make peace between the two countries and reduce sufferings of their masses. Things are improving. Civil society and private organizations, working for better relationship between the two countries, have positively contributed at all levels and it has produced positive results.”¹⁷²

Whereas, Asif Majeed, Chairman of the Evyol Group and engaged in export/import business, thinks that “the normalcy may come in Pakistan–India relations if the civilian governments in Pakistan become powerful in decision-making process. Because, they can bring normalcy in Pakistan–India bilateral relations and things can improve and get betterment.”¹⁷³

Saeed Ahmad, a research analyst affiliated with Quaid-i-Azam University, Islamabad, Pakistan, urges Pakistan and India to “de-link terrorism from peace negotiations, sports and people-to-people contacts” and states that

“We are now entering into ‘Bilateral Comprehensive Dialogue’ framework but the real problem is a permanent threat of derailment of the peace process because of the possible terrorist incident in India. Pakistan and India will have to find a joint mechanism to issue with the issue of terrorism to move ahead on the

¹⁷¹ Interviewed on 9 February 2016.

¹⁷² Personal interview on 11 September 2014.

¹⁷³ Personal interview with him on 27 May 2015.

peace process. They have to de-link terrorism from peace negotiations, sports and people to people contacts.”¹⁷⁴

Concerning contemporary gestures as signals of the betterment in Pakistan–India relations, especially on the economic front, Sohail Lashari, the president of the Lahore Chamber of Commerce and Industry is of the view that

“There are positive changes since the last twenty years. Change has been occurred in visa regime and liberalization of visa regime especially for businessmen. India has stopped calling Kashmir as *ATOOT AANG*¹⁷⁵ while Pakistan has also stopped terming Kashmir as *SHAH RAG*.¹⁷⁶ They have started to think 'out-of-the box' solution to the Kashmir issue. Heavy flow of people-to-people contacts especially India has conducted trade shows twice in Lahore. Also, exchange of visits of trade delegations has become a routine practice and this is very visible change that is a sign for an improvement between Pakistan–India relations.”¹⁷⁷

Similarly, Imtiaz Gul, a policy analyst affiliated with the Centre for Research and Security Studies (CRSS), Islamabad, thinks that the current regimes in both countries are willing to move forward in the Pakistan–India relations. They have moved towards pragmatism and “a gradual paradigm shift” can be particularly noticed in Pakistan’s army. He opines that

“Indian Prime Minister Modi’s visit to Pakistan in December 2015 may be termed as ‘watershed’ for bilateral relationship due to realization on the part of both countries that talks and negotiations should not be stopped. A gradual ‘paradigm shift’ and change in the focus of Pakistan’s army can be noticed. Role of the US and China are instrumental in it. Due to proposed China–Pakistan Economic Corridor (CPEC), it might be prompting the Pakistan army to shift its focus from stated positions on Kashmir issue and terrorism to pragmatism. One can be optimistic regarding the recent developments on both sides as indicators towards fostering of normalization in Pakistan–India relations.”¹⁷⁸

¹⁷⁴ Interviewed on 28 February 2016.

¹⁷⁵ ‘ATOOT ANG’ means integral part

¹⁷⁶ ‘SHAH RAG’ means juggernaut.

¹⁷⁷ Personal interview on 10 September 2014.

¹⁷⁸ Personal interview on 6 January 2016.

Likewise, concerning the existing environment between Pakistan and India relations, Imtiaz Alam, the president of the South Association of Free Media Association is of the view that “anti-peace lobbies are weakening in Pakistan and India”. He indicates that,

“Optimism exists because Pakistan and India have initiated several good steps for diluting the conflict but the important thing is persistence and continuity in bilateral dialogue. Anti-peace lobby is weakening in Pakistan and India. But, there is powerful vested interest that flourishes in conflict situation. We can still find anti-Pakistan lobby in India or anti-India lobby in Pakistan. There is great need for joint mechanism against terrorism under which military and civil agencies would be able to meet at some level and cooperate at some level. Dialogue should be uninterrupted and should not stop cross-border people-to-people movement. Dialogue process should be started from the point where it was left instead of starting afresh.”¹⁷⁹

Also, M. Ziauddin, senior journalist and columnist affiliated with The EXPRESS TRIBUNE, finds a “maturity-stage” in the bilateral relationship between Pakistan and India. He considers “Pakistan's recent policy of abandoning of Jihad as an instrument of foreign policy is a good starter in this direction.”¹⁸⁰

Similarly, Mubarak Zeb Khan, business analyst affiliated with DAWN newspaper, opines that

“There are positive signs in Pak-India bilateral relationship. There is big change in bilateral trade regime between Pakistan and India. In the wake of the Composite Dialogue Pakistan and India have shifted from the positive/negative lists to only negative list, which has increased number of tradable items between them. This is big achievement in Pakistan-India bilateral relations. Pakistan and India still need more maturity in political relationship. Despite the fact that both sides especially India shown maturity on the eve of the Pathankot incident, contrary to the 2008 Mumbai incident, and restrained political rhetoric. However, conditionality attached to bilateral talks by India is not a healthy sign.”¹⁸¹

Likewise, Awais bin Aslam, Manager, Corporate Sales of Patron Chemicals, opines

¹⁷⁹ Personal interview on 12 January 2016.

¹⁸⁰ Personal interview on 8 January 2016.

¹⁸¹ Personal interview on 8 January 2016.

“As recent phenomenon a segment especially in youth is growing in the society that has more tilt towards peaceful relationship between Pakistan and India. And, this is a positive signal towards enhancement of the Pakistan–India relationship. For the last fifteen years this generation has been emerged that thinks that Pakistan and India should move forward and establish trade relations.”¹⁸²

While Zafar Iqbal Siddiqi, president of the Chamber of Small Traders, Multan, also expressed that

“In short-term one can not foresee any significant break-through especially in geo-political relations between Pakistan and India. However, in long-term objectives, it would have positive impact on bilateral relationship between the two neighbours. An immediate benefit in this regard can be the granting of MFN status to India. And, the present government in Pakistan has inclination towards the grant of MFN status to India that is a good sign.”¹⁸³

Similarly, Khawaja Shafiq, Chairman, All-Pakistan Anjuman e Tajiraan, is of the view that

“Negative approach in Pakistan regarding India has been lowered down. And, it is further lowering down. There are positive signs regarding lowering of bitterness on both sides of the Pakistan–India border.”¹⁸⁴

Lieutenant General (Retired) Aminul Karim, former corps commander in the Bangladesh Army and security analyst considers “no alternative to dialogue in the Pakistan–India case as both nations are equipped with nuclear weapons”. He indicated that

“Composite Dialogue must be sustained no matter how insignificant is its progress. These players are playing with nuclear weapons that can be cataclysmic so no alternative to dialogue.”¹⁸⁵

¹⁸² Personal interview on 27 May 2015.

¹⁸³ Personal interview on 11 May 2015, Sheza Inn, Multan.

¹⁸⁴ Personal interview on 11 May 2015, Sheza Inn, Multan.

¹⁸⁵ Interviewed on 28 March 2015.

On the basis of the viewpoints of the KIs, it can be stated that the Pakistan–India relationship has developed maturity and stability. Since 1971, both countries have not resorted to war as an option to settle their differences. Similarly, Pakistan and India have continued along the road to peace while simultaneously discussing all eight identified issues under the framework of the ‘Composite Dialogue’ since 2004. It was in the “Composite Dialogue” process where Pakistan and India started to discuss the eight identified issues like Kashmir, Siachin, Sir Creek, Economic CBMs and other issues simultaneously. But, the phenomenon of terrorism, especially the Mumbai attack in 2008 which derailed the peace process between Pakistan and India. However, with the start of the “Comprehensive Bilateral Dialogue” as a result of the Indian Minister of External Affairs Ms. Sushma Swaraj’s visit to Pakistan in December 2015, both countries have realized that there is no alternative to dialogue.

It has also been noted that Pakistan’s abandoning of “Jihad as an instrument of foreign policy”¹⁸⁶ and the “gradual paradigm shift and change in focus of Pakistan’s army”¹⁸⁷ are positive indicators regarding normalization in the Pakistan–India relationship. Consequently, either party used no “war rhetoric” during the Pathankot incident, which portrays that Pakistan and India want to move forward to normalize their bilateral relations while not allowing the non-state actors to sabotage their peace overtures.

¹⁸⁶ Personal interview with M. Ziauddin, senior journalist and columnist affiliated with The EXPRESS TRIBUNE, on 8 January 2016.

¹⁸⁷ Personal interview with Imtiaz Gul, a policy analyst affiliated with the Centre for Research and Security Studies (CRSS), Islamabad, on 6 January 2016.

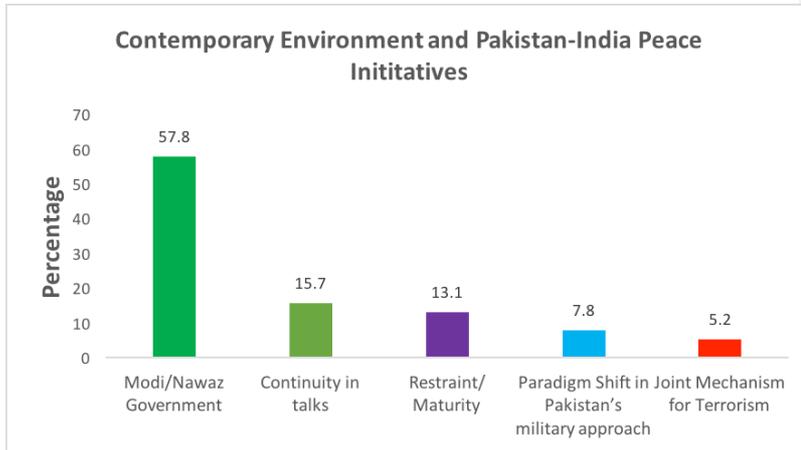


Figure 6.10: Contemporary Environment and the Peace Initiatives for Enhancing of Economic Cooperation between Pakistan and India

Source: Author's calculations on the basis of responses of KIs.

6.9 Research Findings and Discussion

Sections 6.3, 6.3.1, 6.4, 6.4.1, 6.4.2, 6.4.3, 6.5, 6.5.1, 6.6, 6.7 and 6.8 have provided detailed discussions concerning the viewpoints of the KIs. On the basis of the responses of the KIs, section 6.9 includes information that allows for an identification of the findings of this study.

The principal objective of this study is to determine prospects for economic cooperation between Pakistan and India as an instrument of confidence-building measures. Economic Cooperation involves two aspects, which include investment and trade links. Pakistan and India do not have a bilateral investment regime until 2012. Accordingly, Pakistan has been removed from the negative list under the Indian Foreign Exchange Management Act (FEMA), enabling investment from Pakistan and allowing Indians to also invest in Pakistan. There are prospects for bilateral investment, provided that bilateral trade between Pakistan and India becomes a "routine-business". However,

international Multi-National Corporations (MNCs) that operate in India also manage investments in Pakistan. Likewise, Indian-owned companies have invested in Pakistan. For example, TATA, the owner of Tetley-UK, has entered the Pakistani market in partnership with a Pakistani company. Similarly, *Dabur*, the manufacturer of *Ayurvedic* medicine, invested in Pakistan with the partnership of a Pakistani company through their Dubai subsidiary (S. Ashraf, 2009a). Also, the Daewoo Commercial, the Korean Company, which is now owned by TATA, has started manufacturing these vehicles in Pakistan with the Pakistani manufacturer. No significant direct investment can however, be found in Pakistan or India from either side. Hence, bilateral trade; economic links between Pakistan and India featuring joint ventures; cooperation in various sectors such as energy; R&D; ICT; health sector; and the services sector are a few examples in this regard. Therefore, joint ventures between Pakistan and India have great potential and can be vital alternatives for mutually beneficial situations in Pakistan–India economic relations.

The relationship between Pakistan and India is currently held as a victim by the geo-strategic environment prevailing between them. The dominance of geo-politics in shaping the policies of Pakistan and India with regard to each other has not permitted them to enhance bilateral economic cooperation and increase bilateral trade. “Political will” is crucial in the normalization of a bilateral relationship between the countries. However, “political will” is lacking in Pakistan–India relations. Despite taking several peace initiatives such as the Tashkent Declaration (1966), the Simla Accord (1972) and the Lahore Declaration (1999), enhanced cooperation between both countries has not become possible. Now, imperatives of geo-economics, especially Pakistan’s slow economic growth and domestic compulsions in the form of war against terrorism have created an environment where economic considerations are being considered as important drivers of Pakistan’s policy towards neighbours.

Since 2004 a gradual shift in Pakistan's approach to bilateral negotiations with India has been noticed with the adoption of the "Composite Dialogue".¹⁸⁸ Under the framework of the "Composite Dialogue" eight issues were identified and to be discussed simultaneously. However, the Mumbai attack¹⁸⁹ in 2008 derailed the process and Pakistan and India could not move ahead as it was envisioned. Therefore, it appears that Pakistan and India should adopt an alternative strategy. As such, this study explores that alternative approach i.e. economic cooperation containing bilateral trade, bilateral investment and joint ventures.

Regarding the alternative strategies for Pakistan and India to move forward, the respondents of this research have identified 'people-to-people contacts', opening up trade links, regional economic cooperation and 'bilateral economic cooperation'. Bilateral economic cooperation has been considered, as the most viable option, because opening up trade links is the chief component of it. And, people-to-people contacts and enhanced economic cooperation are the cause and effect of each other. Contrary to this, regional economic cooperation does not seem to be attractive because the Pakistan-India conflict has made SAARC a hostage. A separate section has been reserved for discussion regarding the role of the SAARC to develop peace between Pakistan and India. Therefore, bilateral economic cooperation between Pakistan and India can be assumed as a viable option for creating sustained peace between them. The viable alternative strategies to normalize bilateral relations between Pakistan and India are

¹⁸⁸ At the Malé Summit in 1997 the Pakistan and Indian Prime Ministers worked to engage in a 'Composite Dialogue' that enabled them to discuss all 'eight issues' simultaneously without linking the development of one issue with other issues. These eight issues include Kashmir; Peace and Security; Siachen; Sir Creek; Wullar Barrage; Terrorism and Drug Trafficking; Economic Cooperation; and Friendly Exchanges. However, the 'composite dialogue' process was re-initiated in the wake of the Musharraf-Vajpayee meeting on the sidelines of the 12th SAARC Summit held on 4-6 January 2004.

¹⁸⁹ On 26 November 2008, a group of terrorists carried out a series of coordinated shootings and bomb attacks on different sites including the Taj Mahal Hotel in Mumbai. Pakistan was accused by India for being in support of these militant outfits, but Pakistan denied these allegations. As a result of these attacks, 164 people were killed. Consequently, Pakistan-India negotiations were halted and a deadlock emerged in the Pakistan-India bilateral relations.

presented in Table 6.1

Table 6.1: Alternative Strategy for Normalization of Bilateral Relations between Pakistan and India

Dimensions/Categories	Critical Issues
People-to-people contacts	<ul style="list-style-type: none"> • Exchange of delegates • Relaxation in visa regime
Opening up trade links	<ul style="list-style-type: none"> • Bilateral trade • Granting of MFN Status to India • Facilitating to India-Afghanistan trade links
Regional economic cooperation	<ul style="list-style-type: none"> • Energy sector • Communication • Infrastructure • Investment
Bilateral Economic Cooperation	<ul style="list-style-type: none"> • Infrastructure • Education • Healthcare • Housing • Industries • Investment • Energy • Agricultural Research • Mining • Petro-chemicals • Pharmaceutical Industry & business • Services sector

Concerning economic cooperation as an instrument of confidence building measures between Pakistan and India, the KIs of this study consider economic cooperation between Pakistan and India as an alternative option for contributing peace between the two nuclear weapon states of South Asia.

Figure 6.2 on page 197 portrays the possible means to create economic cooperation between Pakistan and India to achieve sustained and irreversible peace between them. Eighty percent of the KIs opine that economic cooperation can be an alternative approach to promote peace between Pakistan and India. Eight percent of the KIs have dubbed it conditional and interconnected it with simultaneous progress and talks on

long-standing issues like the Kashmir Issue and water rights. It is also important to mention here that four percent of the KIs did not provide clear answers, vis-à-vis the viability of economic cooperation between Pakistan and India as an alternate method to peace.

To identify the ways for enhancing Pakistan–India economic co-operation, this study finds that easing visa restrictions, doing away with expensive and time-consuming trade routes, enhancing bilateral trade, building economic connectivity, promoting economic interdependence, the role of the SAARC and FDI can be utilized to enhance economic cooperation between Pakistan and India. On the basis of the primary data (Interviews of KIs) and secondary data, it can be stated that bilateral trade relations are the chief component of economic co-operation. Bilateral trade is the area that needs focus regarding Pakistan and India. The enhancement of bilateral trade between Pakistan and India will lead towards the opening up of additional avenues for mutual co-operation, such as joint ventures and cooperation in other areas. Table 6.2 presents the categorization of options for Pakistan and India that will promote the enhancement of economic connections and bilateral trade links between them.

Table 6.2: The Ways For Enhancing of Economic Cooperation between Pakistan and India

Dimensions/Categories	Critical Issues
Easing Business	<ul style="list-style-type: none"> • Pruning of Negative and Sensitive lists • Removal of Non-Tariff Barriers • Establishment of 'Neutral Zone' at the Pak-India border as the Meeting Point
Easing Visa Restrictions and Increase in People-to-People Contacts	<ul style="list-style-type: none"> • Facilitation to Business Visas • Revision of Strict Visa Regime
Doing away expensive and time-consuming trade routes	<ul style="list-style-type: none"> • Maximum and Optimal Use of Potential of Existing Trade Routes • Exploring the Likely Low-Cost Trade Routes
Enhancing bilateral trade	<ul style="list-style-type: none"> • Expansion of the Presence of Pakistani Business in the Indian Economy and Vice Versa • Cooperation between Smaller Business and SMEs as well not just amongst those at the top
FDI	<ul style="list-style-type: none"> • Less Controls in Inflow and Outflow of Money by the Federal and State Governments in Both Countries
Use of SAARC's platform	<ul style="list-style-type: none"> • Regional Economic Connectivity • Making SAARC as an Effective Platform
Economic Connectivity and Interdependence	<ul style="list-style-type: none"> • Economic Corridors • Economic Interdependence through Oil and Gas Pipelines • Sharing Waters System

To augment bilateral trade between Pakistan and India, the foremost step is to view the nature of the bilateral trade relationship between them. The Pakistan–India bilateral trade has been held hostage by the politico-security relationship. Despite enjoying a significant share of involvement with each other just after independence, bilateral trade between them has been especially low after the 1965 war when the two neighbours suspended it. It resumed but remained low. Bilateral trade achieved an important milestone when both countries permitted the crossing of trucks carrying goods at the Wagha–Attari border in 2007 (S. Ashraf, 2009a). Therefore, it is important to identify the barriers to the Pakistan–India bilateral trade before moving to enhance economic relations between them.

On the basis of the interviews of the KIs, this study has identified the following impediments to the Pakistan–India bilateral trade. These include physical barriers, NTBs, psychological barriers, geo-political barricades and visa-related barriers. Table 6.3 on page 247 exhibits the barriers that Pakistan–India bilateral trade is facing.

Table 6.3: Barriers to Pakistan and India Bilateral Trade

Dimensions/Categories	Critical Issue
Physical	<ul style="list-style-type: none"> • Manual loading/unloading • Lack of gates • Scanners • Lack of computerized facilities • Weighing facilities • Inept infrastructure
Psychological	<ul style="list-style-type: none"> • Mindset • Enemy attitude • Uncertainty
Non-tariff barriers (NTBs)	<ul style="list-style-type: none"> • Pakistan-specific NTBs • Procedural delays • Bureaucratic red-tape • Non-uniformity in quality and standards in Pakistan and India
Visa related	<ul style="list-style-type: none"> • City-specific visa • Police reports • Strict visa regime
Geo-political	<ul style="list-style-type: none"> • Dynamics of security relationship • Conflictual nature of bilateral relationship • Uncertainty

In addition to these general barriers, Pakistan–India bilateral trade is also facing land route related barriers, especially at the Wagah–Attari trade artery. With regard to the primary and secondary data, this study includes information to help identify the following land route related barriers that include fewer tradable goods at the Wagah–Attari trade crossing; the absence of modern facilities at the Wagah–Attari border; complicated and time-consuming customs procedure; and inadequate operational hours for the purpose of bilateral trade. The study discovers the measures required for increasing bilateral trade such as expanding the number of tradable goods, the provision of modern facilities, procedural simplification, the adoption of sub-regional trade regimes such as the Punjab–Punjab and the Sindh–Rajasthan with the foremost one being continuity in bilateral talks. Table 6.4 displays the land route related barriers at the Wagah–Attari border and measures for addressing these issues. Table 6.4 also presents the ways to address the issues related with the Wagah–Attari trade crossing.

Table 6.4: Measures for Increasing Bilateral Trade at the Wagah–Attari Trade Artery

Dimension/Categories	Critical Issues
Increase in number of tradable goods	<ul style="list-style-type: none"> • Phasing out Sensitive/Negative Lists • Expansion of trade items
Provision of Modern facilities	<ul style="list-style-type: none"> • Increase in Number of Gates • Establishment of 'Peace-Park' • Establishment of Integrated Check-Posts • Provision of Computerized Scanners • Installation of Pallets • Installation of Computerized Lifters • Establishment of Branches of Banks in Both Countries
Continuity in bilateral talks	<ul style="list-style-type: none"> • Lack of Political Will • Existence of Trust-Deficit
Procedural simplicity	<ul style="list-style-type: none"> • End of Multiple-Checking of Luggage at the Indian Side
Sub-regional trade regime	<ul style="list-style-type: none"> • Creation of Trade Regime between the Two-Punjab • Establishment of Sub-Regional Trade Regime between the Bahawalpur–Rajasthan Region

Likewise, railway route related barriers are also hindering the flow of bilateral trade between Pakistan and India. This study attempts to trace the railway route related barriers chiefly on the basis of the interviews conducted with KIs. These barriers include an inadequate number of bogeys, visa-related issues, the limited number of tradable goods, the scarcity of political will, security concerns and bureaucratic obstacles. Figure 6.5 on page 210 exhibits railway related barriers to Pakistan–India bilateral trade.



Figure 6.11: Railway Route Related Barriers to Pakistan–India Bilateral Trade

Pakistan–India economic relations present another significant issue that can be included as a barricade to enhanced economic and trade links. This substantive issue involves the limited number of trade routes between Pakistan and India despite having the potential for opening up additional routes. Pakistan and India share a 1,280-kilometer long border, but only one trade artery at the Wagah–Attari border. To augment bilateral trade as well as enhance people-to-people contacts in the larger framework of enhanced economic cooperation between Pakistan and India, this study on the basis of primary data, presents low-cost trade crossings at the Pakistan–India border that can be utilized for the above said purposes. Therefore, the likely low-cost trade routes include the Wagah–Attari, Khokhrapar–Munabao, Sialkot–Jammu, Kasur–Ferozpur border route, Bahawalnagar–Bhatinda, Cross-LoC entry points and Sind–Gujarat links. It is important however, to mention that the Wagha–Attari border should be utilized maximally. Moreover, sea routes are viable as an option regarding the

connectivity between Karachi and Mumbai. Figure 6.12 displays the likely low-cost trade routes between Pakistan and India on the basis of primary data collected in this study.



Figure 6.12: Prospective Low-Cost Trade Routes Between Pakistan and India

Joint ventures can be a vital segment of economic cooperation between Pakistan and India. It may be an essential way to not only create confidence, but rather enhance and sustain this confidence between conflicting parties. Pakistan and India should initiate joint ventures. On the basis of the interviews of KIs, this study explores potential sectors for joint ventures between Pakistan and India. The study highlights immense potential for joint ventures between Pakistan and India. The likely sectors in this regard include tourism, especially religious tourism, infrastructure, energy grids, communications, housing, healthcare, urban transport and SMEs. Table 6.5 presents the

prospective sectors for joint ventures between Pakistan and India on the basis of primary data collected in this study.

Table 6.5: Prospective Sectors for Joint Ventures between Pakistan and India

Dimension/Categories	Critical Issues
Services sector	<ul style="list-style-type: none"> • Hotels & Tourism • Housing • Urban Transport • Banking • Packaged food &spices
Industries	<ul style="list-style-type: none"> • Tires & tubes • Pharmaceuticals • Medical • Cosmetics • Shoes • Chemical • Garments • Automobiles • Precious stones • Carpet • Sports
Energy	<ul style="list-style-type: none"> • Management of water resources • Energy grids • Communication lines
Textiles	<ul style="list-style-type: none"> • Garments • Wool • Raw cotton
Agriculture R&D	<ul style="list-style-type: none"> • Agricultural-related products • Seeds • Pesticides
Infrastructure	<ul style="list-style-type: none"> • Railway links • Air links • Communication lines
Investment	<ul style="list-style-type: none"> • Pakistan and India, currently, do not have investment from each other
SMEs	<ul style="list-style-type: none"> • Granite marbles • Tea • Beans • Furniture

Table 6.5 outlines massive potential for joint ventures between Pakistan and India. On the basis of primary and secondary data, it can be assumed that there is enormous

potential for joint ventures between Pakistan and India. Joint ventures may be initiated by a few sectors at first and then their scope may gradually be expanded horizontally and vertically. Energy pipelines such as the Tajikistan–Afghanistan–Pakistan–India (TAPI) and Iran–Pakistan–India (IPI) may be cited as good starting points. Similarly, joint ventures may be commenced by industries such as tires, tubes, automobile, sports, the health sector and pharmaceuticals. Research and Development in the agricultural sector is an additional sector that has significant potential and it may be another useful area where Pakistan and India can establish joint ventures. Likewise, small and medium enterprises have vast potential for introducing joint ventures.

This study has attempted to estimate the prospective role of the SAARC in enhancing economic cooperation between Pakistan and India. Despite having an age of thirty years, the SAARC has not emerged as the economic block that it was conceived to be on the occasion of its launching. In contrast to the European Union and ASEAN it could not enhance intra-regional trade. In this context, this study attempts to trace the prospective role of the SAARC in augmenting economic cooperation between the two major economies of South Asia. The primary data of this study anticipates a minimal role of the SAARC for the enhancement of economic cooperation between Pakistan and India as well as for managing their bilateral conflict. Figure 6.9 on page 232 displays the prospective role of the SAARC in enhancing economic cooperation between Pakistan and India.

On the basis of interviews of KIs, this study finds that the SAARC plays a minimal role in enhancing economic cooperation between Pakistan and India because the Pakistan–India bilateral relationship dominates the SAARC and more importantly, the adversarial relationship between them is a key hurdle. Article 10 of the SAARC Charter prohibits member countries from raising bilateral issues at SAARC forums (SAARC

Charter, 1985). Therefore, Pakistan and India can play their role in making SAARC an effective economic grouping instead of forcing SAARC's role to be primarily centered on enhancing Pakistan-India bilateral trade links. However, this study indicates how imperative it is that bilateral issues now be permitted for discussion at the SAARC summit. This is because SAARC member countries have matured to the extent that there is no threat to SAARC regarding dismemberment as it was perceived at the time of its establishment. Also, implementations of SAARC declarations are another significant cause for the lesser role of SAARC regarding integration of the region. India's bilateral issues with its neighbours are also working as barriers in making SAARC an efficient regional economic block. Moreover, strict visa regimes among SAARC countries may be another barricade to the emergence of SAARC as a successful economic association. Table 6.6 exhibits the issues that restrict SAARC and do not allow the fulfillment of its role in enhancing economic cooperation between Pakistan and India.

Table 6.6: Obstructions to the Role of SAARC in Enhancing Pakistan–India Economic Co-operation

Dimension/Categories	Critical Issues
SAARC is All About Pakistan and India	<ul style="list-style-type: none"> • Pakistan and India are major economies in South Asia
Implementation of Declarations of SAARC	<ul style="list-style-type: none"> • Various Political and Strategic Priorities of the South Nations • Lesser Chances of Executions of Pan-Regional Pacts
India-Neighbours Issues	<ul style="list-style-type: none"> • India Needs to Behave like a Leader of SAARC • Problems in SAARC Beyond India–Pakistan Relations
Discussions on Bilateral Political Issues	<ul style="list-style-type: none"> • Enlargement of the Scope of SAARC • Initiation of Discussion on Bilateral Political Issues at the Summit-Level
SAARC's Visa-Regime	<ul style="list-style-type: none"> • Revision of SAARC's Visa-Regime • Enlargement of the Scope of SAARC's Multiple Visa • Increase in Duration of the SAARC Multiple Visa
SAARC Secretariat	<ul style="list-style-type: none"> • Appointment of Professional as Secretary General • Appointment of Officials in SAARC on Professional Competence

Regarding the prospects for economic cooperation as an instrument of confidence-building measures, this study indicates potential for this. The pro-business governments in Pakistan and India seem to be inclined towards peace initiatives. Despite the incident of the Pathankot in December 2015, the leadership of both countries, especially India, displayed restraint concerning war-rhetoric on the occasion of the 2008 Mumbai incident. On the basis of the interviews the study finds a gradual paradigm shift in Pakistan's military approach from geo-politics to geo-economics. In this regard, normalized economic relations with India seem to be a key component of this approach.

Moreover, the study estimates that business constituencies are rising in Pakistan and India that have potential regarding government influence to encourage the initiation of substantive measures for enhancing economic cooperation between Pakistan and India. Likewise, anti-peace lobbies are weakening in both countries, which is another promising indicator for initiating measures to enhance economic cooperation between Pakistan and India. Figure 6.13 shows the taxonomy of the contemporary environment that is conducive to the launching of initiatives for economic cooperation between Pakistan and India.

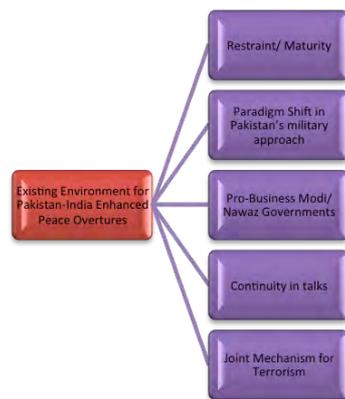


Figure 6.13: Existing Environment for Initiatives For Enhancing of Economic Cooperation Between Pakistan and India

Concerning the role of economic cooperation as a tool of CBMs, the KIs are of the view that economic cooperation between Pakistan and India has a long-term impact on the Pakistan–India conflictual relationship. Economic cooperation has only a long-term, if not marginal capacity to offset political pressure. It is useful over the long-term and depends upon the willingness and commitment of the government of Pakistan toward continuous investment in this process. The existence of pro-business governments in

both Pakistan and India are trying to work toward creating a space for initiating overtures for enhanced economic cooperation between Pakistan and India for sustained peace in South Asia. This is because a sustained growth trajectory between Pakistan and India over an extended period is hard to envisage as long as they choose to be hostile. However, once both sides have a vested interest in building trade links, there would be influential constituencies in both countries that would be involved in the cultivation of peace. Bilateral trade will reap benefits for consumers in both countries and will eventually develop stakes among them. Creating and enhancing economic stakes between the people of India and Pakistan would surely help to strengthen the India–Pakistan peace process while simultaneously making it more sustainable.

On the basis of the in-depth interviews of the KIs, this study explores the potential for initiatives for enhancing bilateral economic cooperation and augmenting bilateral trade links between Pakistan and India. Figure 6.14 presents avenues for enhanced economic cooperation between Pakistan and India.

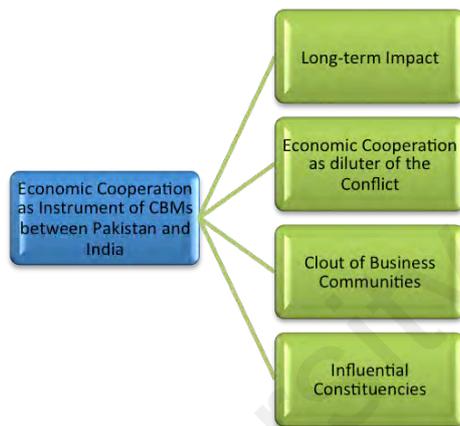


Figure 6.14: Ways for Economic Cooperation As An Instrument of CBMs Between Pakistan and India

6.10 Conclusion

This chapter has analyzed the data of this study “Economic Cooperation as an Instrument of Confidence-Building Measures: A Case of Pakistan and India” according to the research questions and objectives that were set. A detailed analysis on the basis of viewpoints of the KIs has been carried out in the first section of the chapter. The viewpoints of the KIs have been presented and analysed according to the sequence of the research questions. On the basis of the responses of KIs, the findings of the research have been deduced. Qualitative data analysis has been done manually and presented on the basis of the research questions. In addition to this, the data regarding the demographic profiles of KIs as well as the dimensions and categorization of the responses have been presented in tables and charts. A narrative description has been provided in this chapter. Research findings are also organized accordingly.

Alternative approaches to the Pakistan–India conflict were initially introduced, then the chapter explores economic cooperation and enhanced trade links between Pakistan and India as a viable option to move forward from the unstable nature of the relationship. It also investigates the potential of bilateral trade between Pakistan and India as part of economic CBMs for the enhancement of economic cooperation between them.

To move forward on the bilateral front between Pakistan and India, it is essential to explore the causes behind the low-volume of bilateral trade. In this regard, this chapter has traced the barriers to the Pakistan–India bilateral trade, while especially focusing on the land route related barriers at the Wagah–Attari trade artery and railway route related barricades. On the basis of the viewpoints of the KIs (businessmen, traders, industrialists, policy analysts and researchers), significant barriers to Pakistan–India

bilateral trade and economic links have been identified. Also, the measures to enhance economic cooperation between Pakistan and India have been explored.

The secondary data regarding bilateral trade between Pakistan and India displays that the balance of trade between Pakistan and India is in the favour of India. To address this issue for a mutually beneficial situation between two rivals such as India and Pakistan, this study has investigated the prospects for joint ventures between them. Also, the study finds significant potential for initiating joint ventures in numerous industries, the services sector, energy sector, R&D as well as small and medium enterprises.

The chapter has also explored the potential of likely low-cost trade routes between Pakistan and India to augment bilateral trade and enhance economic co-operation. The likely low-cost trade routes include the Sialkot–Jammu, multiple trade openings across the LoC, initiatives of the Munabao–Khokhrapar land route, the Bahawalnagar–Bhatinda opening at the Pakistan–India border and the opening at the Rajasthan–Sind border. Moreover, provisions for modern facilities at the Wagah–Attari border for optimal and maximal use of this trade artery are additional measures.

The potential role of the SAARC in enhancing bilateral trade between Pakistan and India has also been investigated in the chapter. Regarding the role of the SAARC, the chapter finds that the SAARC has become a hostage of the Pakistan–India conflict. Pakistan and India should not wait for the SAARC to play its role as an economic engine to increase bilateral trade and economic co-operation. Rather, Pakistan and India should move forward and manage their conflict because it is the Pakistan–India relationship that currently drives the SAARC.

In the end, the chapter explores the prospects for economic cooperation as a tool for confidence building between Pakistan and India. On the basis of the viewpoints of the

KIs, it can be anticipated that Pakistan and India have become mature and manifested restraint concerning the occasion of the Pathankot incident.¹⁹⁰ Peace lobbies are gaining strength while anti-peace lobbies are weakening. Clout of the business communities is increasing and influential constituencies are exerting their influence on both sides of the border for pro-peace overtures. These business lobbies are backing the pro-business Nawaz-government and Modi-government in Pakistan and India respectively for maintaining restraint and moving forward to enhance economic cooperation between both countries.

¹⁹⁰ A heavily armed group attacked the Indian Air Force Station in Pathankot, Punjab on 2 January 2016. India suspected that the attackers belonged to the Pakistan-based militant organization *Jaish e Muhammad*. Unlike the 2008 Mumbai incident, Pakistan and India exhibited maturity and avoided tense rhetoric during the instance of the Pathankot attack.

CHAPTER 7:

7.1 CONCLUSION

Economic cooperation as an instrument of CBMs can be a good case for managing the Pakistan–India conflict from a functionalist perspective. Pakistan and India have had an adversarial relationship since their emergence as sovereign and independent states after the British withdrawal from India in 1947. The hasty British withdrawal from the subcontinent resulted in several unresolved issues like the Kashmir issue, the division of financial and military assets between the newly merged independent states i.e. Pakistan and India. Partition of the subcontinent in 1947 resulted in a massive migration between Pakistan and India. This hasty and inept partition process resulted in violence in Kashmir. Consequently, Pakistan and India waged a war in 1948, which cultivated the seeds of conflict between them.

The account of the Pakistan–India relations reveals that it has been an adversarial and conflictual relationship. There are many factors that have dictated Pakistan–India relations. The factors generally include the existence of various ideologies or religions, the legacy of colonial rule, the role of personalities, the imperfection of domestic as well as international political systems and mutual images. The hostile relationship between Pakistan and India can be traced to the emergence of the Kashmir issue after the occurrence of the partition in 1947. As a result, both countries became engaged in war in 1965. However, issues like the dismantling of the East wing of Pakistan (now Bangladesh) in 1971 in the wake of another war between Pakistan and India, territorial issues like the Siachin glacier dispute, Sir Creek, water issues which included the Wullar barrage/Tulbul Navigation project and terrorism are the key irritants between Pakistan and India.

Despite the prevailing hostility between Pakistan and India, both neighbours have made conscious efforts to mend ties and put forth scores of initiatives to dilute the intensity of the mutual enmity through attempts to establish cordial relations. The Karachi Agreement of 1949, the 1960 Indus Waters Treaty, the Tashkent agreement of 1966, the Simla Accord in 1972, the Lahore Declaration in 1999 and the 2004 Composite Dialogue Process later renamed as the Comprehensive Bilateral Dialogue in 2014 are the chief initiatives that Pakistan and India have taken to normalize bilateral relations between them. A massive mobilization of troops and the amassing of armaments on the border for almost one year in 2002 could not turn into a full-fledged war between the two nuclear weapon neighbours of South Asia. Despite having maturity in bilateral relationships between them, especially after the nuclearization of South Asia in 1998, these peace overtures have not resolved the differences between Pakistan and India. Therefore, the Pakistan–India peace process needs an alternative approach for managing what TV Paul terms “enduring rivalry” between Pakistan and India. Keeping in view this particular nature of the Pakistan–India conflict and the previous peace initiatives for the resolution of it, this study has adopted economic cooperation as an instrument of confidence building measures for managing the conflict between Pakistan and India from a neo-functionalist perspective in international relations. Functionalism explains the managing of bilateral conflicts between Germany and France. It has worked effectively in establishing the EU, ASEAN, and NAFTA as successful regional economic blocks. However, the South Asian regional initiative (SAARC) could not succeed and emerge relatively as a viable economic block.

The section on the conceptual framework in this thesis also approximately explained the weaknesses in regionalism with special reference to South Asia. The SAARC has

not produced desired results after thirty years of its establishment. Moreover, it has become a hostage of the Pakistan–India conflict.

The systemic theories of regionalism, neorealism and neoliberalism mainly focus on the compulsions of international systems. Neorealism considers change in international structures as a significant factor in the emergence of regionalist schemes. It attributes the emergence of European regionalism to the change in the structure of international systems after the end of the Second World War. Contrary to this, neoliberalism's notion of "complex interdependence" given by Robert Keohane and Joseph Nye when distinguishing among security issues, economic and social issues became blurred as result of interdependence established in the wake of regional groupings. According to neoliberals, neorealists ignore the fact when the competitive nature of an international system changes to become more cooperative over time.

Contrary to the systemic theories, which focus on external factors, interdependence theories cover the linkage between regionalism and regional interdependence. The main variants of interdependence theories include neo-liberal institutionalism, functionalism, neofunctionalism and constructivism.

Neo-liberal institutionalism contains some core postulates. Firstly, increasing levels of economic interdependence produce increased demands in international co-operation. Secondly, the state is considered as a key actor in co-operation. Thirdly, institutions are important due to benefits, which they provide through the provision of information, reductions in the cost of transactions and facilitating the productive use of issue-linkage strategies. Finally, regional cohesion would emerge not from impressive proposals to create new federal structures, but from the way in which issue-specific cooperation come to formulate a dense network where cooperation on

each new issue becomes implanted as a more complex whole. Deep rivalry between Pakistan and India is a major hurdle in producing internal demands for cooperation between them to the extent that the SAARC emerges as regional economic block.

Functionalism proposes an international order based on transnational co-operation. Mitrany's main preoccupation was linked to the "proficient administration of limited resources as vital premises for durable cooperation and for creating of" what he termed as being a "working peace system". Mitrany argues for functionally specific organizations managed by technical experts because functionally specific organizations are able to address a single specific international issue and technical experts play fundamental roles in the successful functioning of these functional organizations. Once an issue will be resolved by these functionally specific organizations there will be an increase in demand of functionally specific organizations in other areas as well. In this way, cooperation among nation-states in one sector will complement it in other sectors. This process, later known as "spillover" or what Mitrany calls "the doctrine of ramifications", will produce "ever-widening circles" of social and political integration.

Neofunctionalism emerged as a direct product of the confrontation of functionalist ideas with the experience of just such an organisation in Western Europe. In the European Coal and Steel Community, proposed by Robert Schuman in 1950, those who favoured integration turned away from the ambitious pan-European federalist schemes to the functionalist strategy of placing a sector of the economies of six countries under a supra-national authority. According to neofunctionalism, this structure would remove the states capacity for the re-occurrence of war and create the circumstances for the rapid expansion of other sectors such as agriculture, health and transport.

This also happened on the occasion of the establishment of the SAARC when India and Pakistan both had reservations on the basis of different perceptions. India considered the proposal of the SAARC as an alliance of small countries against her. In contrast, Pakistan considered it as a tool India could use for the manipulation of south Asian countries.

Neofunctionalism has two types of spillover: functional and political. Based on the premise that various sectors of modern industry are interdependent, Functional spillover argues for the expansion of sectoral integration from one sector to another in a way that one integrative action creates demand for another action which leads to the sustained process of integration. Political spillover focuses on the change in behaviour of the interest groups and political leadership within supranational institutions created by sectoral integration. To neofunctionalism, sectoral integrations pave the way towards a steady increase in the expectations of interest groups and political elites while changing their approach towards the positive outcome of regional integration. Contrary to functionalism, neofunctionalism is an advocate of connections between economics and politics in the integration process while underlining the inseparability of social, political and economic issues.

Neofunctionalism is more relevant to Pakistan-India economic relations. Haas's Neofunctionalism still has not been fully adopted in case of Pakistan-India. However, Neofunctionalism has capacity to explain economic and trade linkages between Pakistan and India. But, Haas's neofunctionalism, contrary to Europe, can be applied to enhance bilateral relationship between the two adversaries i.e. Pakistan and India. In this way, it can be said that neofunctionalism has been applied to bilateral relationship where 'technocrats', 'bureaucracies of Pakistan and India', 'interest groups' such as traders, business community and film industry, joint ventures

initiated by media such as '*Aman Ki Asha*', civil society's initiatives like Pakistan India Peoples Forum For Peace and Democracy (PIPFPD), and governments themselves with pragmatic interests can take initiatives to enhance cooperation. Starting with cooperation in less controversial areas such as people-to-people contacts; increases in trade and economic links; opening of more crossing points at the Pakistan–India border including the “Khokhrapar–Munabao” and the “Cholistan–Beknair” points; trade in food items; it may then successfully expand to other sectors such as textile, leather, chemicals and other fundamental commodities. Starting from trade and economic connections, this sectoral expansion may lead towards political and security related areas. Neofunctionalists believe that sectoral integrations pave the way towards a steady surge in the expectations of interest groups and political elites. Consequently, significant change can be noticed in their approach towards the positive outcomes of regional integration. Contrary to functionalism, neofunctionalism argues for intimate connections between economics and politics through an integrative process and term social, political and economic issues as inseparable. In this way, neofunctionalism provides a framework for an analysis of the Pakistan–India conflict. While providing a framework where social, cultural, economic and political issues cannot be separated; neofunctionalism can assess prospects for creating confidence and managing the long lasting conflict between Pakistan and India through bilateral economic co-operation. Pakistan and India concluded CBMs in social and cultural areas in 1988. These CBMs complemented conclusion of economic CBMs. Conclusion of an agreement in 1988 for avoidance of double taxation system, expansion of positive list of trade items between Pakistan and India, granting of MFN status to Pakistan by India in 1996, and opening several points at LoC for transportation of goods and movement of people are notable examples. And, these steps have incremented connectivity

between Pakistan and India. However, role of 'respective governments' is missing in case of Pakistan and India. And, this is significant according to view of Haas who describes it as "integration would progress not by the efforts of individual politicians, but through governments".

Having a political base in urban centres and enjoying the support of the business community, the ruling political party in Pakistan i.e. the Pakistan Muslim League—Nawaz is in a position to develop initiatives for the further liberalization of trade with India along with the relaxation of visa regimes. Similarly, the BJP has come into power in the wake of the general elections held in 2014 through heavy mandates. Having the support of hawkish elements in India, the BJP does not require any certificate of patriotism if it launches peace overtures with Pakistan. Therefore, the PML (N) and BJP can channel political support through their respective countries for the normalization of bilateral relations generally and economic cooperation specifically.

To know the nature of domestic support for bilateral economic cooperation between Pakistan and India, this study focuses on key informants (KIs). These KIs include businessmen, academics, media persons and traders. Though military establishments hold great weight in the decision-making process in developing countries, yet a gradual paradigmatic shift in Pakistan's military establishment can be noticed. In this regard, Pakistan's abandoning of support to militants as a tool of foreign policy is a tangible manifestation in this regard. Political leadership adopts preferences that are generally supported by the societal actors. Elites in South Asia possess great potential to influence the decision making process of governments. It is the elites that shape and transform public opinion, politicize issues, mobilize masses and increase the saliency of a specific issue. An instance of an issue becoming highlighted

involves the granting of the MFN status to India by Pakistan by means of discussions in the media, debates, mass mobilizations and also the exertion of influence on the decision making process at the national level. Knowing the complexities of the Pakistan–India conflict, pragmatism compels that neofunctionalism is the most useful approach for exploring the prospects of sustained peace between Pakistan and India through economic co-operation.

This study explores impediments to bilateral trade that Pakistan and India have been facing since their emergence as independent states. Providing an overview of bilateral economic interaction, it has pointed out several key factors, mainly the trust deficit, security and geo-political issues which have caused the dismal nature of the Pakistan–India economic relations in general and bilateral trade in particular. With the establishment of the SAARC in 1985, there were hopes of an increase in economic cooperation as well as bilateral trade between Pakistan and India, yet it remained confined primarily to commodities; Pakistan imported iron ore, tea, vegetable oil, fruit and dyestuff from India while cement, cotton, leather, fruit and rock salt was exported to India.

The SAARC's initiatives like FTA, SAPTA and SAFTA were taken to augment economic interaction among the member countries, but expected outcomes have not been realized due to the enduring rivalry between Pakistan and India. However, several measures have been taken by Pakistan and India to enhance economic cooperation and increase bilateral trade between them. Despite these measures for enhancing bilateral trade and intra-regional trade in South Asia, a significant rise in intra-regional trade has not been noticed. SAFTA came into effect on January 1, 2006 with the objective of eliminating duties and tariffs and facilitating the easy flow of goods among the member countries and creating a free trade agreement for

SAARC member countries. Despite the fact that SAFTA has focused on trade liberalization; para-tariff and non-tariff barriers; revenue compensation; sensitive lists; technical assistance to LDCs and sensitive lists; it has also allowed for safeguard measures and the full or partial surrender of preferences.

Popularity of the notion of regionalism across the world persuaded South Asian states to initiate an economic apparatus at a regional level to accrue maximum benefits. Consequently, SAARC was launched in 1985. However, an assessment of the functioning of SAARC discloses that SAARC has not become a successful regional organization due to the Pakistan–India rivalry. South Asia has had a different experience during the course of setting up the economic organizational structure. Despite the challenges faced, SAARC has achieved significant achievements such as the adoption of SAPTA, SAFTA and the launching of the SAARC Social Charter. The future of SAARC has become conditional to the advancement of Pakistan–India relations at the bilateral front. However, it is absolutely necessary that discussions on political issues should be included in the agenda at least at the summit level. Also, it is noteworthy that the SAARC visa regimes should be more effective regarding trade facilitations for the business community to augment intra-regional trade generally and Pakistan–India bilateral trade specifically. Therefore, it can be recommended that the scope of the SAARC multiple visas should be expanded to businessmen for at least five years with the condition of maximum stay for a single visit. Also, this multiple entry visa should be given to academicians, media persons, players and artists.

On the basis of in-depth interviews of KIs, it can be stated that inequality in standards; inefficient mechanisms at border crossings and ports; strict visa regimes; delays in custom clearance; strict regime regarding movement of cargo; procedural

delays due to bureaucracy; and inadequate enforcement of contracts and agreements have impeded the likely pace of bilateral trade between Pakistan and India in particular and South Asia in general. Informal trade in the form of smuggling and trade through other countries are the prevalent trade patterns that exist between Pakistan and India which are also hindering the pace of their bilateral trade as well as intra-regional trade in South Asia.

Restrictions that constrain Pakistan–India trade relations have been identified which have been mainly considered as NTBs. These non-tariff barriers include positive/negative list approaches, technical barriers to trade, para-tariff measures, SPS measures and strict visa regimes. These measures have worked as discriminatory measures that have impeded the pace of bilateral trade between Pakistan and India. Since 2012 Pakistan has abolished the categorization of positive and negative lists and maintained only a negative list of 1,209 items that cannot be traded with India. This is a good omen for boosting economic relations. Simultaneously, Pakistan and India have surrendered their old view of ‘peace first, trade later’ and have instead adopted a ‘trade now, peace later’ approach.

Pakistan–India bilateral trade is facing several infrastructural related obstacles in addition to the non-tariff barriers and technical barriers to trade. Bilateral trade takes place through various modes of transport such as air, sea and land routes. Inept infrastructure and inadequate land routes are key hurdles that raise transaction costs and obstruct the flow of trade. Sea routes have so far been the dominant method of trade between Pakistan and India. Trade has also been below the desired level due to inefficient maritime protocols. Now, the share of trade via land routes has been increasing. Therefore, Pakistan and India should work to provide modern and state of the art facilities regarding weighing, scanning of goods, customs clearance at the

Wagha–Attari crossing points and the opening of additional points like the Khokhrapar–Munabao and Bahawalnagar–Bhatinda crossings to decrease the costs of transportation and enhance people-to-people contacts.

CBMs have been an important tool of diplomacy in international relations. The notion of CBMs involves a broad canvas. It includes gestures that range from small acts, such as a handshake between adversaries, or an unwritten understanding addressing a particular issue to a formal agreement between conflicting parties. CBMs have been in practice in almost all parts of the globe such as Europe, East Asia, South America and the Middle East. Similarly, South Asia has not been an exception to this. Pakistan and India initiated different acts of goodwill for diluting the intensity of conflicts between them. These measures include cultural, social, economic, military and security related measures that have a significant role in the normalization of Pakistan–India relations. However, an important aspect of CBMs in the Pakistan–India relations is the emphasis of economic cooperation as a tool of CBMs for the transformation of the Pakistan–India conflict.

Pakistan and India can move forward by adopting economic cooperation as an alternative strategy and succeed in bringing peace in South Asia while shifting their focus from geo-politics to geo-economics in their bilateral relationship. More importantly, these alternative strategies would include bilateral economic cooperation dominated by bilateral trade, people-to-people contacts, regional economic co-operation, change of mindset and a paradigm-shift from geo-politics to geo-economics. Also, the cultural exchanges through associations in movies, theatre and food could help enhance bilateral relations between Pakistan and India. Around eighty percent of the KIs are of the view that economic cooperation can be an alternative approach to contribute peace between Pakistan and India. While almost

eight percent of the KIs have termed it conditional and linked it to simultaneous progress and talks on long-standing issues like the Kashmir Issue and water rights.

Regarding the barriers to economic and trade relations between Pakistan and India, this study provides information that significant impediments include non-tariff barriers, land route related physical barriers, psychological barriers, strict visa regimes, inept infrastructure and geo-political issues. Likewise, the land route related trade barriers include the lack of modern facilities at the Wagah–Attari border such as weighing, scanning, regular shortages of pallets, inadequate operational hours, a disorganized infrastructure and the lack of computerized facilities at the entry points at the Wagah–Attari border are the key impediments. In addition to this, strict visa regimes, particularly the issuance of city specific visas and non-tariff barriers are the vital barricades to Pakistan–India economic and trade relations.

As far as the measures needed to overcome these obstacles are concerned, it can be stated that Pakistan and India should endeavor to increase bilateral trade in particular and economic cooperation in general. These measures include the provision of upgraded facilities at the trade routes, especially the Wagah–Attari border; increase the number of tradable items through land-routes; maintain continuity in bilateral negotiations between Pakistan and India; the promotion of procedural simplicity; and the adoption of sub-regional trade regimes between Pakistan and India.

Regarding the railway route-related setbacks in bilateral trade between Pakistan and India, this study has identified the absence of the containerized goods movement, limited numbers of rakes/goods wagons, fewer numbers of parcel wagons, an insufficient duration of operational hours, visa-related issues, a limited number of tradable goods, a lack of political will, security concerns and bureaucratic hurdles.

All the land routes between Pakistan and India are feasible, especially the Wagah–Attari border because traditional business markets like Lahore and Amritsar are closer to it. However, there is room for the proliferation of trade arteries between Pakistan and India. Among the prospective trade lanes between Pakistan and India are the Munabao–Khokhrapar trade route, the Sialkot–Jammu trade link, trade openings at the LoC between the two sides of Kashmir, trade development at the Kasur–Ferozpur border and the Amrooka–Fazilka railway crossing on the Bahawalnagar–Rajasthan border.

To enhance economic cooperation between Pakistan and India, joint ventures are a good start. Pakistan and India can initiate joint ventures to address the issue of the negative balance of trade, as Pakistan has a weaker economy as compared to the diversified economy of India. Joint ventures are a win-win approach for both countries. There is enormous potential for joint ventures between Pakistan and India. The likely sectors in this regard are tourism, especially religious tourism; infrastructure and communication lines; housing; healthcare; and urban transport. The potential sectors for joint ventures also include the services sectors, which have prospects in housing, urban transport, healthcare, banking, spices and packaged foods. Pakistan and India also have prospects for joint ventures in industries such as tires, tubes, pharmaceuticals, medical instruments, chemicals, shoes, cosmetics, garments, precious stones, automobiles, carpets and sports. They have potential in agriculture research and development especially agriculturally related products, seeds and pesticides. The energy sector is another prospective area, particularly in the management of water resources, energy grids and communication links. Pakistan and India also have possibilities for joint ventures in the textiles sector such as wool, garments and raw cotton. SMEs are an additional area where

both countries have significant potential for joint ventures. These SMEs include granite marble, tea, beans, furniture and numerous other fundamental commodities.

The Pakistan–India relationship has developed maturity and stability. Since 1971, both countries have not resorted to war as an option to settle their differences. Similarly, Pakistan and India have also moved forward on the road to peace while discussing simultaneously all eight identified issues under the framework of the ‘Composite Dialogue’ since 2004. It was the “Composite Dialogue” process where Pakistan and India started to discuss the eight identified issues like Kashmir, Siachin, Sir Creek, Economic CBMs and other issues simultaneously. But, the phenomenon of terrorism, especially the Mumbai attack in 2008 derailed the peace process between Pakistan and India. However, with the start of the “Comprehensive Bilateral Dialogue” in the wake of the Indian Minister of External Affairs Ms. Sushma Swaraj’s visit to Pakistan in December 2015, both countries have realized that there is no alternative to dialogue.

It has also been noted that Pakistan’s abandoning of ‘Jihad as an instrument of foreign policy’ and the ‘gradual paradigm shift and change in focus of Pakistan’s army’ are the positive indicators towards normalization in the Pakistan–India relationship. Consequently, no ‘war rhetoric’ concerning the Pathankot incident was used by either party, which portrays that Pakistan and India want to move forward to normalize their bilateral relations and not let non-state actors sabotage their peace overtures.

The existing pro-business governments in Pakistan and India seem to be inclined towards peace initiatives. Despite the incident of the Pathankot in December 2015, the leadership of both countries, especially India has displayed restraint contrary to war rhetoric during the occasion of the 2008 Mumbai incident. On the basis of

interviews of KIs, one can note a gradual paradigm shift in Pakistan's military approach from geo-politics to geo-economics. In this regard, normalized economic relations with India seem to be a key component of this approach. Moreover, business constituencies are rising in Pakistan and India that have the potential to influence the respective governments and to initiate substantive measures for the enhancement of economic cooperation between Pakistan and India. Likewise, anti-peace lobbies are weakening in both countries, which is another promising indicator of the initiating measures to enhance economic cooperation between Pakistan and India.

Economic cooperation has a primarily long term, if not marginal capacity to offset political pressure. It is useful in the long term and depends upon the willingness and commitment by the governments of Pakistan and India to this process with continuous investment. And, according to Haas's view, 'efforts of governments instead of individual politicians' are significant prerequisite, in addition to pressure groups, technocrats and bureaucracies, for progress in integration. The existence of pro-business governments in both Pakistan and India is to help promote the creation of a space for initiating overtures for enhanced economic cooperation for sustained peace in South Asia. This is because a sustained growth trajectory between Pakistan and India over the long term is hard to envisage as long as they choose to be hostile. However, once both sides have a vested interest in building trade links, there would be influential constituencies in both countries that would be involved in cultivating peace. An increase in bilateral trade and enhanced economic cooperation between Pakistan and India will reap benefits for the consumers in both countries and it will create stakes among them. Creating and enhancing economic stakes between the people of India and Pakistan would surely help in making the India-Pakistan peace process more sustainable and strong.

7.2 Recommendations

Considering the conclusion in the preceding section, it is obvious that Pakistan–India peace initiatives have not progressed forward due to a lack of political will and stereotype approaches held by policymakers of both countries. The attachment to the development of complicated issues like the Kashmir dispute and the handling of terrorism as a conditionality to the development of a generally normalized relationship has proven to function as barriers to sustained peace between Pakistan and India. Similarly, the initiative of SAARC has not achieved the desired objectives due to the long lasting rivalry between the two major countries of South Asia. SAARC has virtually, become a hostage to the bilateral conflict between Pakistan and India. Therefore, Pakistan and India need to develop pragmatic approaches to manage their bilateral conflicts and move ahead towards a sustained, mutual peace. In this regard, economic cooperation should be used as a tool for managing conflict. To enhance economic cooperation between Pakistan and India, the following recommendations are noted:

7.2.1 Enhancing of bilateral trade and Economic Connections

Pakistan–India bilateral trade has significant potential and it can be enhanced at least ten times greater than its current volume. In this regard, Pakistan and India should take these additional measures to remove obstacles to bilateral trade and economic links.

- I. Pakistan India should remove physical barriers to trade. These include NTBs such as bureaucratic complications, procedural delays, non-uniformity in quality and standards in Pakistan and India and Pakistan-specific non-tariff barriers. Moreover, physical obstructions include a lack of modern facilities at the Wagah–Attari trade artery such as a lack of scanners; a lack of pallets and lifters; the use of manual labour for loading and unloading; a lack of gates for the transfer of goods and

passengers; and inept infrastructure. A limited number of operational hours for business activity at the Wagha–Attari check post is an additional barrier. Its operational hours should be increased and a separate gate should be established for the crossing of trade goods.

- II. Connectivity is a key component of economic links. Pakistan and India have strict visa regimes that can be considered as the chief barricade to the enhancement of economic and trade connections. A more liberalized visa regime should be introduced, especially for businessmen. City specific visas and police reports should be ended for business category visas and business visas should be multiple entry.
- III. The adoption of sub-regional trade regimes such as the Punjab–Punjab and the Sindh–Rajasthan will be another significant measure for enhancing economic co-operation.
- IV. Low-cost trade crossings should be opened at the Pakistan–India border so that they can be utilized for enhancing trade and economic links. Therefore, the trade routes will likely be low-cost and include the Wagah–Attari, the Khokhrapar–Munabao, the Sialkot–Jammu, the Kasur–Ferozpur border route, the Bahawalnagar–Bhatinda, Cross–LoC entry points and the Sind–Gujarat links. Nonetheless, it is important to mention that the Wagha–Attari border should be maximally utilized. Furthermore, sea routes are a viable option regarding the connectivity between Karachi and Mumbai.

7.2.2 Initiatives of Joint Ventures between Pakistan and India

Joint ventures are considered as vital means to not only create confidence, but to rather enhance and sustain confidence between conflicting parties. There is immense potential for joint ventures between Pakistan and India. The prospective sectors in this regard include tourism, especially religious tourism, infrastructure, energy grids, communications, housing, healthcare, urban transport and SMEs. Joint ventures may be

initiated within a few sectors and their scope may be gradually expanded horizontally and vertically. Energy pipelines such as the Tajikistan–Afghanistan–Pakistan–India (TAPI) and the Iran–Pakistan–India (IPI) may be cited as good initial examples. Similarly, joint ventures may be commenced in industries such as tires, tubes, automobiles, sports, health and pharmaceuticals. Research and Development in the agricultural sector is an additional area that has numerous potential and it may be another useful industry where Pakistan and India can establish joint ventures. Similarly, small and medium enterprises have vast potential for the introduction of joint ventures.

7.2.3 Enhancing People-to-People Contacts

There is an urgent need to enhance people-to-people contacts between Pakistan and India, as it is vital for augmenting economic connections and co-operation.

7.2.4 SAARC's Role

Pakistan–India bilateral rivalry has sidelined the SAARC's initiatives towards regional connectivity and SAARC has consequently become a hostage of this rivalry. Article 10 of the SAARC Charter prohibits member countries from raising bilateral issues at SAARC forums. Pakistan and India can perform their role in making the SAARC an effective economic grouping. It is imperative that bilateral issues be permitted for discussion at the SAARC summit.

7.2.5 Long-Term Strategies for Complicated and Long-standing Issues

Pakistan and India should bring a halt to longstanding issues for a certain duration. Although finding resolutions to these longstanding issues is not in the purview of this study, certain steps can be recommended in this regard. Complex issues like the Kashmir dispute should be addressed according to the four-point Musharraf formula or the Chenab formula. Similarly, certain proposals, according to some studies and media reports regarding the resolution of the Siachen glacier dispute, the Wullar Barrage and

the Sir Creek issue have been under discussion between Pakistan and India. Therefore, a middle way can be developed once Pakistan and India engage in bilateral economic cooperation and enhance bilateral trade and continue to do so until reaching an irreversible stage due to established trade constituencies and strong peace lobbies.

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