The Dilemma of MFN between Pakistan and India

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This article ascertains the theoretical parameters of "MFN Treatment" and the hurdles regarding trade between Pakistan and India. MFN status is one of the fundamental rules of GATT / WTO to promote multilateral trade. It is remarkable to revitalize global economic integration. After the end of the Second World War under the Bretton Woods System it was held necessary to grant MFN status to all the member states of GATT for the promotion of reciprocity in international trade. Similarly WTO inherited this principle to avoid protectionist trends in the world trading system. It flourished mutuality among states in terms of economic interests. MFN clause under WTO also stipulated liberal rhetorics like comparative advantage. It invigorated the sense of commitment among states to flaunt global trade. This article also envisages the pitfalls for Pakistan to grant MFN status to India. Various apprehensions have been epitomized to comprehend the dilemma of trade between both the states. It is also encompassed that political mistrust and misperceptions restrained the leaders on both sides to postulate unconditional support to liberalization of trade.

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Every state tries to operationalize its diplomatic channels to pursue its trade interests in the age of globalization. In this backdrop the rationality of the state becomes very significant with the view of making right decisions and stepping ahead towards right direction. Similarly the grant of 'MFN Treatment' to India is considered to be a regional flash point. Pakistan and India both are the largest economies of the South Asian region which have almost every feature

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of diversity and heterogeneity. They can augment bilateral economic relations to increase the volume of trade. Both of them can utilize their market potential. But various direct or indirect trade barriers do not let both Pakistan and India to postulate mutual trade. Infact this research paper enlightens the dilemma of 'MFN Treatment' between both the states to scrutinize the pros and cons of the issue. It comprises those factors which constrain the rationalization of mutual trade. This study also attempts to explore the relevance of trade initiatives from both sides.

Methodology

This article includes both qualitative and quantitative research tools. The analysis of historical experiences and political dynamics has been made to develop a link among multiple factors related to the issue of 'MFN Status' between Pakistan and India. Primary and secondary sources are consulted to infer authentic results. The underlying assumption is to epitomize the theoretical parameters of 'MFN Principle' under GATT / WTO and to imply the validity of this principle in the context of Pak – India trade relations. The quantitative part of this research article contains the explication of survey results through descriptive statistics.

Research Questions

This research substantiates the following research questions:

1. Which factors constrain the grant of 'MFN' to India?
2. What are the prospects of trade between Pakistan and India?
3. What are the trade possibilities in textiles, agriculture and pharmaceuticals?

MFN – A Contextual Analysis

The principle of MFN under article 1.1 of the General Agreement on Tariffs and Trade (GATT) refers to the non – discriminatory trade by giving equal status to the products of all the number states of GATT / WTO. It means that if any concession is extended to one member state, it should be given to all other member states in order to remove segregations in international trade. The history of "MFN Principle" can be traced back to 12th century. It was included in various treaties related to commerce, navigation and trade. During the early modern period the "Treaty of Amity and Commerce between USA and France, 1978" was the example of reciprocal trade. Under this treaty various exemptions and immunities were given by the states regarding navigation and trade. Then "Navigation and Commerce Treaty between USA and Great Britain, 1974" was another example of bilateral trade immunities. But after the World War – I these trends were replaced by protectionism. However the end of World War – II was perceived as the dawn of the new era in the field of trade and commerce. New trends of multilateralism and global economic integration became more prevalent. The “MFN Treatment” was revived in GATT charter 1947.

Significance of MFN

The principle of MFN increases economic efficiency of the states. Under this principle states are forced not only to give equal status to the export products of other states but also apply equal tariff rates. These rules promote unconditional multilateral trading system and states remain comfortable to make economic exchanges with each other. The principle of MFN also contains the exception of Generalized System of Preferences (GSP) which refers to some positive and negative conditionality. Positive conditions enhance reciprocity while negative conditions impose tariff restrictions. GSP was developed to introduce preferential treatment to the products of developing states to integrate them into the world economy.

Various developing states have been given special incentives under GSP rules i.e. India was given incentives by European Union under GSP scheme. Similarly Pakistani export products have also been given GSP plus status by E.U in 2014. Although the GSP scheme includes certain constraints like Pakistani government is supposed to ensure that child labour is prohibited in industrial sector, but overall these incentives can contribute to the country’s export.[1]

Issues of MFN Status among States

There are certain issues which have reduced the significance of the MFN clause:

1. Sanitary and Veterinary restrictions.
2. Tariff restrictions.
3. Imposition of Quotas.
4. Bilateral trade agreements.

*1. **Sanitary and Veterinary Restrictions***

Sometimes states impose trade restrictions on primary or agricultural products due to pesticides or animal diseases on the grounds of security and health. Usually such prohibitions are obtruding by the developed states on the products of third world due to low quality standards.

*2. **Tariff Restrictions***

Sometimes states grant more concessions to one state or impose high tariff on the other due to their supposed political or ideological interests. States pursue their shared interests through economic exchanges. In this way the interest of some other state gets affected. These incompatibilities in the international trading system make MFN inoperative.

*3. **Quota Restrictions***

There are also some non-tariff barriers applied by the states. These include quota restrictions on the imported goods. The fixation of quota reduces opportunity for trade regarding specific goods. But on the other hand the principle of MFN demands[2] that quota should be proportionate or fairly allocated to remove discriminatory trade.

*4. **Bilateral Commercial Agreements***

Moreover bilateral commercial agreements between states to complement each other also create hurdles to implement the principle of MFN. Usually states make bilateral agreements due to geographical contiguity, ethnic harmony and historical considerations to reciprocate each other. Sometimes states use such agreements as a protectionist device against some other states to pursue their specific interest. Bilateral reciprocity constrains multilateralism in international trade.[3]

Trade Relations between Pakistan and India – Historical Context

To analyze the issue of MFN between Pakistan and India it is significant to have an overview of trade relations between both the states. Pakistan and India had strained economic relations due to a long history of traditional rivalry. But despite this perpetual dichotomy they signed "Standstill Agreement" during the initial years of independence. The agreement provided an opportunity of tariff free trade to both the states. However the conflict existed on the transportation of jute from Calcutta to West Pakistan where India imposed high tariff rates. Afterwards "Customs Agreement" was repel and duties were levied on trading goods. Then quotas were fixed for Pakistani Jute and cotton to restrict their trade. Infact these constraints hampered bilateral trade between Pakistan and India. Apart from these developments another agreement was signed in 1949 to stipulate trade of coal, iron, yarn, mill cloth, chemicals, sea salt and edible oil. But the ongoing hostility between both the states did not let them to put forward their economic relations.

However a new agreement was signed in 1951 to determine the currency value between both the states. According to which 144 Pakistani rupees were equal to 100 Indian rupees.[4] Afterwards, the 1965 and 1971 wars caused deadlock between both the states. In 1972 'Shimla Agreement' was signed and trade was also resumed but there could not be a big breakthrough during late 1970s and 1980s. The most important step regarding the liberalization of trade between both the states was taken in the sixth SAARC summit, held in Colombo in 1991, where Inter-Governmental Group (IGG) was established. This initiative paved a way for SAARC Preferential Trading Arrangement (SAPTA). SAPTA was signed in April 1993 and stipulated to ensure overall reciprocity for trade and economic development in South Asia.[5] It also focused on the tariff reforms to extend economic co-operation through the inclusion of all sorts of products raw material, manufactured goods etc. Under SAPTA various items were included in positive list of tradable goods between Pakistan and India.

Another step was taken in 1995 when Inter Governmental Expert Group (IGEC) was established to chalk out those areas where economic collaboration could be extended. Meanwhile India gave MFN status to Pakistan. Though Pakistan did not grant MFN to India due to certain considerations. However in 1998 Committee of Experts (COE) was formed in tenth SAARC Summit in order to formulate a policy framework to flourish bilateral trade.[6] But 1998 nuclear tests by Pakistan and India made the political relations tense which also affected the bilateral trade. In addition to it during Musharraf era in Pakistan composite dialogues were proceeded between Pakistan and India to break avenues for mutual trade. The representatives from both sides focused on the liberalization of trade. These negotiations continued till 2007.[7] In this perspective South Asia Free Trade Agreement (SAFTA) was signed in 2006 to enhance trade liberalization. All SAARC countries also committed to remove tariff barriers.

Table 1.1: India's Trade Balance with Pakistan (US $ in Millions)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	164.6	187.7	183.6	522.1	593.1	1235	1584.3	1772.8	1455.8	2235.8
Imports	69.9	33.9	68.1	79.1	165.9	286.5	286.7	372	272.1	248.4
Trade	94.7	153	115	442	427	948.6	1297	1400	1183	1987
		8	5	9	1		6	8	7	4
Balance										

Source: P.S. Mehta, 'Trade Relations between Pakistan and India', Pakistan Institute of Legislative Development and Transparency (PILDAT), (January, 2012) p 12..

Various positive developments took place during 2011-2013 to accentuate regional trade. It was being assumed that these trade talks would be fruitful in future but unfortunately the terrorist[8] act of 'Mumbai Attacks' held this dialogue process. This had not only affected grant of MFN status but also the Iran, Pakistan, India gas pipeline project. India practically quit this project. Similarly the failure of conflict resolution mechanism regarding Kashmir, Sia Chen and Sir Creek halted the bilateral trade. Moreover SAARC[9] has not been so effective to promote regional trade. Similarly the history shows that intra-regional economic integration is quite fragile, especially due to the contentious relations between Pakistan and India.

Table 1.2: Leading Regional Groupings: Intra-Regional Trade

Regional Group	1970	1980	1990	1995	2000	2008
MERCOSUR	9.4	9.7	11	19.2	19.9	15.5
NAFTA	36	33.2	37.2	42	46.8	40
ASEAN	22.4	15.9	17	21	22.7	25.8
ASEAN+3	25.8	29	26.8	34.9	33.7	34
GCC	4.6	3.9	8.1	7.5	6.2	5.5
SAARC	3.2	3.5	2.7	4.3	4.5	4.8
EU 25	61	61.8	67.4	66.4	67.2	66.7
APEC	57.9	57.5	67.7	71.7	72.5	65.5

(Share of intra-regional trade in total trade of respective regional groups)

Source: T.K. Jayaraman and Chee-Keong Choong, 'Economic Integration in the Indian Subcontinent: A Study of Macroeconomic Interdependence', Journal of Economic Integration, 27:4 (December 2012), p.p 584-608.

There is another important dimension of Pak – India trade that whether the SAFTA would ensure to change the informal trade channels into formal ones because it is generally perceived that high tariff rates encourage informal trade routes. Therefore SAFTA is assumed to abandon these hurdles.

Table 1.3: India's Official Trade with South Asia ($ in Millions)

	Exports	Imports	Trade Balance	Total Trade
Bangladesh	349.1	7.8	341.2	356.9
Sri Lanka	174.5	11.5	163	186
Pakistan	157.2	36.1	121.1	193.3
Nepal	47.7	14.9	32.8	62.6
Bhutan	7	3	4	10
Myanmar	24	120	-96	144

N. Taneja, 'Informal Trade in SAARC Region', Economic and Political Weekly, 36:11, (March 17-23, 2001) p.p 959-964.

The Issue of MFN Treatment between Pakistan and India

As far as the issue of 'MFN' status between Pakistan and India is concerned the basic problem is that Pakistan did not reciprocate India when India gave 'MFN' status to Pakistan[10] in 1996. In this connection various apprehensions are needed to be pondered to analyze the gravity of the issue. It is also significant to have an insight of ratio of imports and exports between Pakistan and India. The following tables 1, 2 highlight the bilateral trade between Pakistan and India during 2010-11.

Table 1.4: Composition of India's Major Exports to Pakistan in 2010-11*

Sr. No.	HS Code	Commodity	Exports (2010-11)	
			Value (U.S $ Millions)	Share**(%)
1	1701	**Cane/beet Sugar pure in solid**	652.31	27.95
2	5202	**Cotton, not carded or combed**	384.76	16.49
3	5407	**Woven fabrics of synthetic filament yarn include woven fabrics obtained from materials of hdg no. 5404**	233.23	9.99
4	2902	**Cyclic hydrocarbons**	197.17	8.45
5	0713	**Dried Leguminous vegetable oil w/n skinned / split**	59.6	2.55

6	2304	**Oil-cake and other solid residues whether or not ground or in the form of pellets, resulting from the extraction of soyabean**	51.13	2.19
7	4011	**New pneumatic rubber**	42.01	1.80
8	3204	**Synthetic organic coal matter w/n chemically defined**	32.92	1.41
9	0904	**Paper of the genus piper; dried or crushed or ground fruits of the genus capsicum or of the genus pimento pepper**	29.82	1.28
10	2710	**Petroleum oils and oils obtained from battens minerals other than crude product 70% or more by weight of these oils**	28.76	1.23
11	9993	**Special transactions & commodities not classified according to kind**	27.06	1.16
12	3808	**Chemical like Sulphur**	25.1	1.08
13	7202	**Ferro-alloys**	24.28	1.04
14	0902	**Tea**	23.25	1.00

Table 1.5: Composition of India's Major Imports from Pakistan in 2010-11*

Sr. No.	HS Code	Commodity	Exports (2010-11)	
			Value (U.S $ Millions)	Share**(%)
1	0804	**Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens, fresh or dried**	62.56	18.81
2	2710	**Petroleum oils and oils obtained from battens mineral other than crude 70% or more by weight of these oils**	40.98	12.32
3	2523	**Portland cement, slag cement etc & similar w/n clad/in the form of clinkers**	37.00	11.13
4	7801	**Unwrought lead**	20.56	6.18
5	2711	**Petroleum gases and other gaseous hydrocarbons**	15.99	4.81
6	2903	**Halogenated derivatives of hydrocarbons**	12.53	3.77

7	2917	**Polycarboxylic acids, thr anhydride, halides, chemical like sulphates or nitrates derivatives**	10.67	3.21
8	5209	**Woven fabrics of cotton, counting >=85% cotton by wt weighing >200 gm per sqm**	10.13	3.05
9	2902	**Cyclic hydrocarbons**	9.47	2.85
10	5101	**Wool not carded or combed**	9.27	2.79
11	2836	**Carbonate counting ammonium carbonates**	8.80	2.65
12	7404	**Copper waste and scrap**	6.42	1.93
13	5208	**Woven fabrics of cotton counting>85% by wt of cotton weighing not more than 200 g/ m2.**	6.10	1.83
14	3923	**Things for the packing of good stoppers lids caps & other class of plastics**	5.93	1.78
15	4107	**Leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine (including buffalio)**	5.69	1.71
16	4104	**Crust hide and skin of bovine (including buffalo) or equine animal without hair but not further prepared**	5.58	1.68
17	0713	**Dried leguminous vegetable w/n skinned/ split**	5.58	1.68
18	5205	**Cotton yarns (other than swung thread) counting 85% or more by wt of cotton not put up for retail sale**	5.09	1.53

** Presents for those having 1% and above share in total imports.*

*** Share in India's total imports from Pakistan.*

Source: S. Raiham and D. Pralir, 'India – Pakistan Economic Cooperation: Implications for Regional Integration in South Asia', Commonwealth Secretariat (April 2013), p 5.

Positive Apprehensions

There is one perception that Pakistan and India have great potential for trade through comparative advantage. Therefore they should eliminate "Country Specific Trade Restrictions" to enhance price advantage for their goods. Here the interests of the consumers and producers become very significant. If the elimination of restrictions reduces the price of goods, it ameliorates the interest of the consumer.[11] On the other hand if the tariff reduction increases the price of goods, it maximizes the advantages for producers. The proponents of Pak – India trade partnership assert that informal trade routs between both the states hamper the official trade and reduce the opportunities for economic growth. There is a long list of goods including food items, chemicals traded unofficially. Formal trade relations would make it possible to restrict unofficial trade between Pakistan and India. For example smuggling of 'Black Tea' is an important issue. Pakistan imports tea from Sri Lanka, Kenya and Bangladesh. While tea can be imported on cheap rates from India. But when the trade negotiations and efforts for the normalization of relations get started the tea mafia of foreign states also get alerted to dismantle these efforts.[12] Similarly these are reports of drugs and arms trafficking to India from Balochistan coastal areas.

Then there is another hurdle to "MFN Treatment". Various items like textiles, motorcycles, plastic products coffee etc. are included in negative list. Although these items have trade potential and Pakistan has to import from other states on high rates. But the negative list intricate the issue of "MFN Status" to India. Apart from it both Pakistan and India share a long border. Trade can be promoted through road links, railways and ferry service. Important land routes are Lahore – Amritsar, Dehli – Attari or Wahga border.[13] These arrangements can reduce the transportation cost. Moreover several Indian companies intended to invest in Pakistan in automobiles and service sector. Indian High Commissioner Satyabrata Pal said at the roundtable on SAFTA on 18th April 2007 that Indian companies wanted free trade with Pakistan. He explained that Pakistan's total international trade was about $45 Billion[14] while India's trade with ASEAN states was almost double.

The proponents also assert that both the states should promote 'bilateral investment flows' to enhance their GDP. They should make joint ventures in knowledge – based industry. Small manufacturers can also avail an opportunity to share knowledge and skills with the Indian manufacturers to increase their capacity. Various Pakistani traders are of the view that economic exchanges are very significant to explore the areas of mutual economic interest.[15] Various items have not been included in the export list due to the information gap. There is a need to broaden the horizon of traders from both sides.

Negative Apprehensions

However trade liberalization between Pakistan and India has also been criticized during last several decades. There are some issues of visa restrictions on the part of India. Pakistani business community cannot have an easy access to Indian market to enhance their export potential which becomes a hurdle to 'MFN Treatment' to India. Pakistani policy makers also perceive that Pakistan India 'MFN Treatment' is not compatible to 'Article XXIV of GATT / WTO'. Under this article it is not mandatory for the member states to extend MFN status to all the states. Moreover the successive governments in Pakistan have always been articulating the issue of Kashmir that the normalization of trade between both the states depends upon the possible solution to Kashmir issue.

Then it is generally perceived that India always violated the spirit of SAARC due to its hegemonic design to become a regional power. India put various hurdles to Pakistani exports under SAFTA which abstained the Pakistani governments to grant 'MFN status' to India. Although India being the largest state in South Asia can play a pragmatic role to accelerate mutual trade in the region as Indonesia is doing in the Asia – pacific. Indonesia strengthened economic integration among ASEAN members through liberal approach and magnified ASEAN as one of the most successful model of economic co-operation. Apart from it the trade balance could not be maintained between both the states. The following table shows the trade deficit on the part of Pakistan.

Table 1.6: Amount in US $ per years.

Years	Amount in U.S Dollars
2008-2009	719.857 Million
2009-2010	802 Million
2011	1.158 Billion

Sometimes traders have to face financial irregularities regarding the confirmation of Letter of Credit (LC). The procedures are so lengthy which results in the delay of shipments. There is also a lack of celerity on what grounds LC should be granted. Another reason of this trade deficit is that intermediate and manufactured / finished products are imported from India while Pakistani exports raw – products to India. This situation has created an impression that India has made Pakistan a 'raw material supply country'. Therefore Pakistani exporters agitate against these trade imbalances.

Table 1.7: Pakistan's Total Trade + Trade with India 1992-2002

(Dollars in Millions)

	1992-93	93-94	94-95	95-96	96-97	97-98	98-99	99-2000	2000-2001	2001-2002
Total										
Export	6819	6812	8141	8707	8323	8627	7779	8568	9201	9134
Import	9963	8561	10401	11804	11894	10118	9431	10309	10728	10339
India										
Export	83	42	42	41	36	89	175	54	55	49
Import	67	70	64	95	197	153	146	127	235	187

Source: S.M. Taha, 'Pakistan – India Trade Policy Under WTO', Pakistan Horizon, 57:3 (July 2004), p 114.

The supporters of 'MFN Treatment' to India perceive that Pak – China trade affected various Pakistani infant industries but Pakistan did not constrain Chinese products. Similarly the deficit faced by Pakistan – India trade could be compensated through the trade with other countries. This apprehension is severely criticized by the proponents, who are against the trade with India on 'MFN Level'. They behold multiple factors supporting Pak – China economic collaborations. China has invested immensely to develop infrastructure in Pakistan i.e. Gawadar deep sea port, coastal highway, maintenance of Karakoram highway and various other power generation projects.

Moreover Pak – China political history is fraught with mutual trust, amicable relations and various strategic partnerships. On the other hand Pakistan and India have several border issues, water disputes, political animosities and deep – rooted conflicts which refrain the conducive environment for trade. In addition to it various non-tariff and para-tariff barriers including strict security checking, lack of transportation facilities, inadequate banking networks, cumbersome official procedures, high freights, administrative obstacles, fixation of quotas etc impede the way to grant 'MFN Treatment' to India.

Table 1.8: Major Impediments to India - Pakistan Trade

Tariff barriers	Custom duties Special additional duties (SAD) Countervaling duties

Non-tariff barriers	Stringent visa regimes Trade distorting subsidies Overland transportation limitation Air travel restriction Sea transportation restriction Transit restriction Port of call restriction Railway carriage restriction
Finance measures	Cumbersome payment system Restrictive official foreign exchange allocation* Regulations concerning terms of trade for import payments** Non-acceptance of letter of credit High commission of foreign banks offering letter of credit Lack of Bank branches
Quality control measures	License with no specific ex-ante criteria*** License for selected importers Sanitary and phytosanitary measures
Technical barriers to trade	Marking requirements Labeling requirements Testing, inspection and quarantine requirements Pre-shipment inspection / certificate acquisition

** Indian firms and individuals are subject to capital account restrictions.*

*** If imports of physical capital exceed US$ 15,000, an international bank must cover the advance remittance through a bank guarantee.*

**** A special import license is required to import certain goods.*

Source: S. Raiham and D. Pralir, 'India – Pakistan Economic Cooperation: Implications for Regional Integration in South Asia', Commonwealth Secretariat (April 2013), p 7.

Trend Analysis

Data was analyzed using the Statistical Package for Social Sciences (SPSS), version 16.0 (Microsoft, 2007). The issue of MFN treatment between Pakistan and India and the opinions of different industrial sectors including textile, pharmaceutical and agriculture were calculated by descriptive statistics. The hypothesis to be tested was denoted by 'H_1' as alternative hypothesis and null hypothesis is denoted by ‘H_0’. ‘N’ is the size of population. The significance of different industrial sectors was tested by using Chi – Square Analysis at P<0.5. The cross – tabulation of different industrial sectors and their opinions is given below where columns show different industries and rows show their opinions.

Table 1.9: Price Advantage between Pakistan – India Trade

H_0 – Pakistan – India trade does not provide price advantage to both the states.

H_1 – Pakistan – India trade provide price advantage to both the states.

		Industrial Sectors	
Opinions	**Textile**	**Pharmaceuticals**	**Agriculture**
No	20	24	30
Yes	30	26	20

P < .05.

The results of x2 (N=150) highlight that trade between both the states can reduce the transportation cost.

Table 1.10: Trade Balance between Pakistan and India

H_0 – Trade balance between Pakistan and India cannot be maintained.

H_1 – Trade balance between Pakistan and India can be maintained.

		Industrial Sectors	
Opinions	**Textile**	**Pharmaceuticals**	**Agriculture**
No	20	30	24
Yes	30	20	26

P < .05.

The results of x^2 (N=150) envisage that the balance can be maintained between Pakistan India trade. In this backdrop the current vice president of Lahore Chamber of Commerce and Industry Mr. Mahmood Gahznavi[12] asserted that Pakistani business community can access the biggest market of South Asia by promoting Pak – India trade but there is a need to maintain the system of checks and balances to monitor the trade goods. Because some of the Pakistani exporters export raw material to India which disturbs the balance of trade. They must strive for value addition to get more benefits from regional trade.

Table 1.11: Visa Policy by India

H_0 – India does not need to relax visa policy.

H_1 – India needs to relax visa policy.

	Industrial Sectors		
Opinions	**Textile**	**Pharmaceuticals**	**Agriculture**
No	10	10	5
Yes	40	40	45

P < .05.

The results bring into lime light that India should relax visa policy to ensure communication facilities.

Table 1.12: MFN Status to India

H_0 – Pakistan should not give MFN status to India.

H_1 – Pakistan should give MFN status to India.

	Industrial Sectors		
Opinions	**Textile**	**Pharmaceuticals**	**Agriculture**
No	45	45	40
Yes	5	5	10

P > .05.

The results of x^2 (N=150) indicate the perception of the respondents that Pakistan should not give MFN status to India. In this perspective the current vice president of Lahore Chamber of Commerce and Industry Mr. Mahmood Gahznavi[16] said in an interview that there is a long list of negative items which were declared by India as non tradable goods. Pakistani government articulated the demand to review the negative list so that Pakistani business community may get due advantage.

Table 1.13:Political Tensions and Trade

H_0 – Political relations cannot be improved through trade.

H_1 – Political relations can be improved through trade.

	Industrial Sectors		
Opinions	**Textile**	**Pharmaceuticals**	**Agriculture**
No	20	20	10
Yes	30	30	40

P < .05.

The results of x^2 (N=150) show that bilateral trade can reduce the intensity of political conflicts between both the states.

Table 1.14: Refusal to Pak – India Talks

H_0 – Narindra Modi's refusal to Pak – India talks would not disappoint the Pakistani traders.

H_1 – Narindra Modi's refusal to Pak – India talks would disappoint the Pakistani traders.

	Industrial Sectors		
Opinions	**Textile**	**Pharmaceuticals**	**Agriculture**
No	5	5	10
Yes	45	45	40

P < .05.

The results of x^2 (N=150) encompass that the majority of the respondents are of the view that Indian government needs to show positive gesture in order to flourish bilateral trade. If Indian government adopts prejudiced approach then it will let down the Pakistani business community.

Conclusion

Infact granting MFN treatment to India depends upon the interests of Pakistani businessmen like textile sector is not in favor of granting MFN status to India. They have various reservations regarding non tariff barriers, para-tariff barriers and visa policy by India. Then in agriculture sector majority of the exporters do not want to trade with India. They prefer to explore global market for Pakistani crops like rice, wheat and cotton. Pakistani farmers have concerns that Indian government provides subsidies to their agricultural sector. Therefore there is unfair competition between Pakistani and Indian agricultural products. Moreover they perceived that GSP Plus status given by EU would elevate their interests.

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South Asian Association of Regional Cooperation (SAARC) was established in 1985 by seven states (Pakistan, India, Bhutan, Sri Lanka, Maldives, Nepal, and Bangladesh). Later on Afghanistan joined this regional organization in 2007. Although SAARC member states have 22% of total world population and plenty of natural resources but contribute only 1.5% and 2.4% of total international imports and exports.

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