Analysis of Trade liberalization between India and Pakistan

Ahmed Ali Naqvi* & Tasmia Tahira**

Abstract

States' trade policies are primarily determined by their desire to increase their domestic benefit in international economic transactions and to minimize their adverse consequences. Mercantilism and liberalism have been competing ideologies based on fundamentally different concepts of states' relationships and transactions among them.[1] *The purpose of the paper is to analyze the issue of trade liberalization between India and Pakistan from the prevailing multi dynamic perceptions of Mercantilist as well as the liberalist and understand its impact on the inter-state relationship in case of Pakistan-India. Pakistan and India have checkered history of unresolved territorial dispute and historical animosity that prevents both states to develop bilateral trade ties and to benefit of their geographical contiguity, comparable GNPs and population. Statistics indicates that the level of trade between India and Pakistan is considerably lesser than what would be estimated of their GNPs, distance, and population, geographical and cultural peculiarities.*

Keywords: Pakistan, India, Trade, Peace, Stability, Tariff.

Theoretical approach on trade liberalization and Inter-state Relations

In inter-state trade, Mercantilism is an economic philosophy, prompted government's quest for power and wealth. Governments resorts it as a trade policy in order to maintain a balance of trade surplus and to prop up domestic production by reducing imports and promoting exports. Whereas liberal economic theory or liberalism or commercial liberalism is an economic philosophy that encourages laissez fair economics and opposes government interference in market economy. Mercantilism emerged in Europe after the industrial revolution. It triggered the European designs of

* Ahmed Ali Naqvi, Lecturer, Department of Political Science, University of the Punjab, Lahore. Email: ahmad.polsc@pu.edu.pk

** Tasmia Tahira, M. Phil Scholar, Department of International Relations, National Defense University, Islamabad

expansionism and stimulated them to imperialistically acquire overseas colonies and to accumulate more and more wealth to enhance state power.[2]

Policy of powerful states to regulate transactions and trades in the manner, which may protect their interests is the best way even at the expense of others. When England colonized the American territory and afterwards sub-continent, it restricted the colonies to trade with it only, hence all the balance of trade went in the United Kingdom's favor. She was among the biggest powers of its time during the multi-polar era. The trade barriers were making the American economy weaker and United Kingdom as stronger. British policy of Mercantilism and thrust for wealth instigated American colonies to rebel against British to such extent that they dumped British tea into the Boston Harbor in 1773. Marginalization of middle class's interests lead to the eruption of variant theories of trade. One of them, which became the hallmark of new generics, was Free trade theory. It implied that there must be no trade barriers and least tariff, so as the consumer has the variety to purchase the goods. The notion of free and open trade became the cornerstone of post-World War II global economic order, which was introduced by United States, when it emerged as a great military and economic power.

Adam Smith, founder of economic liberalism, purported theory of free trade and economic liberalization and fervently condemned the doctrine of mercantilism, which aims to increase wealth of state by imposing trade rules in order to promote exports and reduce imports.[3] In 1920s and 30s world major economies still practiced mercantilism and economic nationalism. a policy that mercantilist states opted to protect indigenous industries from foreign competition by imposing tariffs and quotas on imports, so economic nationalism and mercantilism undermined trade, economic efficiency.

Smith and Ricardo's theory of free trade is based on two simple concepts; division of labor and comparative advantage. Some people are specialized in production of certain commodities and they exchange them with others who are proficient in producing some other commodities, which they can't. Thus free trade is necessary to address peoples' demands and needs. Question arises here that why trade should be free from barriers like tariffs, taxes and quotas? David Ricardo answers in his "Theory of Comparative Advantage"[4] that if states want to fulfill the needs and desires of their people; they have to specialize in the production and trade of certain commodities because complete self-sufficiency is not an economical option. Each state possesses different assets and resources, which lead them towards different comparative advantages, and free trade, enable them to get benefit from their different comparative advantages. Adam smith argued "that foreign countries can supply us with a commodity cheaper than we ourselves can make it, better buy it of them."[5]

The interests of consumer are given central importance in free trade theory. Consumers are given opportunity to buy things at the lowest possible prices regardless of where they are produced. If the interest of individual is satisfied in best possible way it implies that interests of state as a whole are satisfied. Ricardo remarks that 'the pursuit of individual advantage is admirably connected with the universal good of whole, as free trade gives benefits to all, brings harmony and prevent conflicts.[6] Hence international trade is not a zero sum game, in which advantages of one consumer or state becomes loss of other one rather it is a positive sum game, in which all can be benefited simultaneously.

Although free trade has been keystone of post-world war liberal economic order, but the idea could not be materialized fully. Countries kept on imposing tariffs on the sale of goods and services among nations. Even United States itself, the chief proponent and propeller of free trade theory, has a 32 percent tariff on acrylic sweaters, 17 percent on polyester bras and 28 percent on drinking glasses. Sometime States attempt to protect their domestic industry by resorting to complex government regulations known as non-tariff barriers that discriminate against imports without levying direct taxes because the practice of free trade is neither feasible nor desirable in all cases.[7] Critiques of free trade theory argue that for most of the time it can be a wise choice but in certain circumstances it cannot be granted.

Friedrich List, a German economist and critic of free trade theory, did not discard the advantages of philosophy of market economy but he argues that in certain situation, states, for a very legitimate reason, should not observe the logic of free trade system. According to List, if a state has to bear heavy cost to produce commodities that it really needs, it should do so in order to avoid dependence on others. Protagonists of a free trade argues if a state can purchase them more cheaply from abroad then it should buy it rather imposing tariffs on imports to protect indigenous industries from competition. But List vehemently criticized this very logic as it will make a state dependent on others for vital commodities and this dependence will give the other state power leverage on that state. States need to worry about the potential of economic dependence, seeing that it may turn into political power. So states must preserve its ability to produce some of vital commodities and opt for strategic trade policies to enhance national power. Generally, national power rests on its capacity of production, not on her consumption .List sees free trade as a zero–sum game like realists, in which power or economic efficiency of one state will reduce the power or economic efficiency of other states. Trade policies of a state cannot be separated from political and national security context.[8]

The linkages between the International Economic integration and peace and stability between/among states are matter of intense debate rooted in history. The mercantilists and classical liberal economists have been at loggerheads since long over the economic openness and its relative benefits and pitfalls for interstate relations.[9] According to the former, the economic interaction among states is more likely to lead to conflict among them because of the issues like access to and control of resources, equitable division of the gains from trade or the resultant trade imbalances. They assert that in a world like today, where anarchy rules, economic interaction has become a zero-sum game. In such a scenario, states pursue or attempt at least to pursue their respective national interests even at the cost of other states. However, according to the latter (Smith, Ricardo etc),

> *"Free trade contributes to the diffusion of economic prosperity and tends always towards balanced trade; economic interaction is a positive-sum game contributing to peace and stability. Thus the relations between economic openness and peace and security could thus – theoretically – be positive or negative. In both approaches, causality runs from (International) economic interaction to peace and security, and not the other way round".*[10]

The existence of (positive) linkages between regional economic integration and stability, peace and security is accepted by many and is an assumption behind many contemporary discourses in favor of more cooperation and integration at the regional level in order to avoid or end bilateral, regional and even domestic conflicts. European post-world War II history and the initial phases of European integration are thereby explicitly or implicitly presented as a demonstration of the validity of the assumption. Same can be said about ASEAN and NAFTA that were originally meant to have economic integration but ultimately led to comparative peace and stable regions facing no or very few low-level conflicts.

In case of Pakistan, its foreign and economic policies have always been security oriented. Trade with India always remained negligent because of the security policies and the rivalry among both countries, especially after the 1965 war.

Trade between India and Pakistan

India and Pakistan have a checkered history, and the main reason behind this fluctuating behavior is the territorial dispute which also led to three major armed conflicts and other border skirmishes. The normalization and the possibility of the mutual benefits of the bilateral trade tarnish due to the impediments in permanent solution of the territorial dispute between Pakistan and India. Unresolved territorial dispute and historical animosity has a negative impact on trade and indicates that the level of trade between India and Pakistan is considerably lesser then what would be estimated of their GNPs, distance, and population, geographical and cultural peculiarities .perpetual hostility and animosity of both stated prevented them to get benefit of their geographical contiguity, comparable GNPs and population.

Trade works as a catalyst to improve bilateral relations between nations and prevent them dipping in an armed conflict. Trade relations between India and Pakistan started after the partition. Soon after the independence, trade volume with India was almost 70% and heavily in the favor of Pakistan. It was plummeted for a short while, during 1948-1949, because of first armed conflict on Kashmir issue. By 1951, Pakistan exported US $113 million worth of items and imported $0.08 million items from India. Trade again broke down between two countries because of another armed conflict in 1965. The war led to a halt in trade process which never gained the same momentum again and it could not be resumed until 1975. The third time armed conflict erupted in 1971, it prevented both states to improve their bilateral ties. In 1975, Pakistan and India signed bilateral trade agreement for three years. It expired in 1978, and was not renewed. Balance of trade between two countries remained in Pakistan favor until 1993. But since 1993, terms of trade has shifted in India's favor and the trade gap of US $27 million in 1993-1994 has augmented to US $1.47 billion in 2010-2011.[11]

India granted Most Favored Nation Status to Pakistan in 1996. In reciprocity, being a member of WTO, Pakistan is obliged to grant MFN status to India as well. But Pakistan opted Positive

List approach and maintains a Positive List of importable items from India, which included 596 items in 1996. Pakistan gradually expanded its positive list and it had increased to 1075 items by 2006.

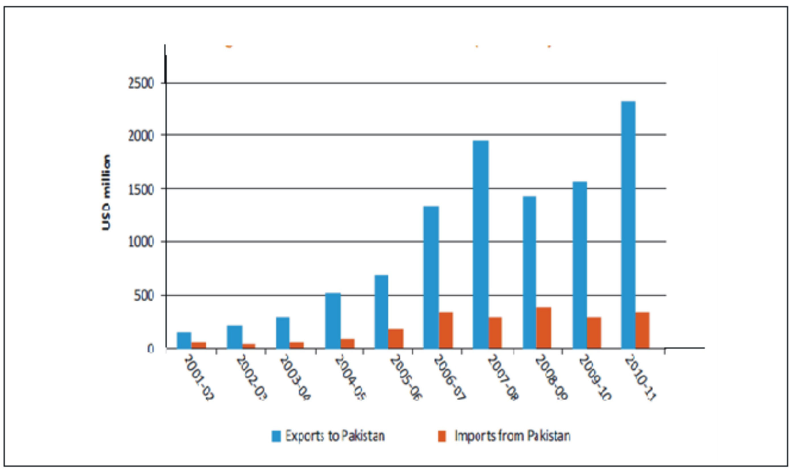
Table 1: Positive list of items for import from India

Section of HC	Description	Total Tariff lines	Lines in Positive List	Percentage of Tariff Lines
I	Live animal, animal products	248	33	13.3
II	Vegetables and products	311	157	50.5
III	Animals, vegetable fats/oils	53	2	3.8
IV	Prepared food stuffs	228	11	4.8
V	Mineral products	195	74	37.9
VI	Chemicals and Allied industries	1149	574	50.0
VII	Plastics and articles	300	93	31.0
VIII	Hides and skins, leather goods	92	45	48.9
IX	Woods and articles	106	52	49.1
X	Paper and paper board	182	37	20.3
XI	Textiles and articles	929	104	11.2
XII	Footwear and personal articles	59	2	3.4
XIII	Ceramics and glass products	189	28	14.8
XIV	Jewelry, etc.	55	5	9.1
XV	Metals and articles.	744	156	21.0
XVI	Machinery	1193	353	29.6
XVII	Vehicles and transport equipment	245	15	6.1
XVIII	Optical and precision instruments	269	103	38.3
XIX	Arms and ammunition	52	-	-
XX	Miscellaneous	186	5	2.7
XXI	Works of art.	72	1	1.4
Total		6,857	1870	27.3

Source: Ministry of Commerce, Government of Pakistan, 2012

The list which had 1918 tradable items in 2012 has been increased to 5,800. Now there are mere 1209 items in negative list.[12] Pakistan has particularly restricted product groups such as prepared food, foot wears, and personnel articles, textiles, vehicles and transport equipment. However, despite maintaining restrictions, Indian exports had soared to US $1734 million in 2010/11 from US 238 million in 2000/01. Simultaneously, Pakistani exports to India are declining despite it enjoys MFN status with respect to India and the major reason being the NTBs by Indian Governments over the years and the security crisis in Pakistan.

Figure 1: India Pakistan Bilateral Trade (2001-2011)



Source: Ministry of Commerce & Industry, Govt. of India

Increasing trade deficit on the part of Pakistan, has amplified criticism against trade liberalization by some factions of society. It is assumed that opening up of trade with India will lead to a flood of Indian imports in Pakistan. Consequently it may displace or outdo indigenous products.[13] On the other hand, the Indian narrative propagates that Pakistan's policy over trade liberalization issue is influenced by military establishments .India accuses that security apparatus in Pakistan has been incessantly thwarting government's efforts to extend MFN to India. Moreover it disseminates that Pakistan has invoked the false idea of Pakistan-specific 'nontariff barriers' to only delay the normalization process.[14] Amid all rivalry and criticism against trade barriers have created the frail environment in South Asia, which is certainly not conducive for both the countries as well as the region as a whole.

SAFTA

SAFTA is an offshoot of SAARC; a Regional Organization established on December 8, 1985 to speed up the economic and social progress of Member States. The intra SAARC economic cooperation and opening up of trade opportunities to enhance the stability of the region has been benchmark of SAARC member countries. Liberalization of trade could have proved to be a significant precedent of cooperation among the south Asian countries. On the contrary this dream could not be materialized. The trade ratios among the South Asian countries remain miserably low. South Asian region is India centric and India is having bilateral conflicts with all the neighboring countries, which has hampered regional economic cooperation. Though now India has realized to conform to the increasing aspirations of regional integration as explosion of worldwide regional trade organizations has boosted the economies of many developing countries. The regional countries finally signed The Agreement on South Asian Free Trade Area (SAFTA) at Islamabad during the 10th SAARC Summit on 6 January 2004.

SAFTA proposes to build the SAARC Preferential Trade Agreement (SAPTA) signed in 1993, at Dhaka between the six member countries to liberalize the trade among SAARC member countries. It envisioned curtailing of tariff and non-tariff barriers on intra-regional trade to a greater level than previously practiced by the states in the region.[15] It provided the seven South Asian countries an abundant opportunity to trigger of their economic prosperity by joining a multilateral trade agenda. It aims to slash down custom duties on all traded goods to zero by 2016 and came into force on January 1, 2006, and requires the non-LDC (India, Pakistan and Sri Lanka) to cut down their custom tariff to 20% by January 1, 2008. In so far as the LDC Member States (Bangladesh, Bhutan, Maldives and Nepal) are concerned, they would reduce their customs tariff to 30%.

These tariff reductions are not to be applied on sensitive list. Each country retains such list, which include those items that are not granted tariff concessions. India has 25 items on the sensitive list for the LDCs and 695 for the non-LDCs and Pakistan had 1,169 in its sensitive list but has cut its sensitive list by 20% to 936. In the Seventh Meeting of the SAFTA Committee of Experts (Islamabad, 14-15 February 2012), it has been urged to all delegations to further trim down items in the Sensitive Lists of Member States in order to increase trade and exports, especially elimination of those products which are more likely of being traded under SAFTA.[16]

SAFTA is intensely criticized by some officials in Pakistan. As it is argued that it would prove disaster for agricultural sector in Pakistan and it is backed by only industrial lobby. It is substantially assumed that it would allow India to import its goods in Pakistan at concessionary prices, but would endanger Pakistani agricultural products as Pakistani farmers would not be able to compete with Indian cheaper goods because of various shortfalls. According to officials, the commerce ministry was unwilling to move ahead with SAFTA during Musharraf's rule, arguing that India was a closed economy and free trade would only be beneficial for Delhi contrary to Pakistan. "SAFTA was a disaster which was signed during the Musharraf regime. It was only a political move, opposed by the commerce ministry at that time,"[17] (It is said that IMF pressurized government to sign SAFTA. According to IMF, excessive government control of economy and attempts to push away liberalization of trade and government subsidies to domestic industries make the economy stagnant and inefficient as a substitute, it considered that market openness, fiscal discipline and non-interventionism trigger economic development and sustainable growth (IR) thus IMF compelled government to reduce subsidies which had been part of import substitution strategies and to cut off tariffs ,quotas and other barriers on imports to bring domestic industries to international competition. Government had to sign SAFTA despite the apprehensions of ministry of commerce.[18]

Non-Tariff Barriers and restrictive Trade Regimes

India has more restrictive trade regimes relative to other developing countries in order to protect its indigenous industry. India is placed at 115th out of 125 countries on the World Bank's latest (2006–08) Trade (MFN) Tariff Restrictiveness Index (TTRI).[19] These restrictions are being applied more rigorously against Pakistan, which includes a wide range of Non-Tariff Barriers (NTB).[20] Imposition of excessive non-tariff barriers, which includes visa and travel restrictions, protracted customs clearance procedures, controls on the movement of goods, maintenance of limited number of ports and customs ports to handle Pakistan exports, and usage of trade defense measures, against Pakistan hampers Pakistan to enhance its exports with India.[21] Usage of extensive NTBs violates the very logic of free trade agreement or MFN status, which India has granted to

Pakistan. India argues that NTB are applied to all countries uniformly but Pakistani exporters complain that regulations are applied more strictly on Pakistani consignments by customs staff and Indian commerce department. India observes general tariff of 12.5% on imported goods but tariffs on agriculture, garments and textiles, which Pakistan is liable to export, are extreme higher as they are subject to 'composite tariffs' in addition to ad valorem tariffs.[22] For instance, on the imports of cereals, fruits, and vegetables India imposes 30 to 32 percent average tariff as compared to 18 to 19 percent in Pakistan. Thus practice of dual tariff structure on agricultural and textiles products with an ad valorem duty or tariff preclude Pakistani exporters' access to Indian markets.

Pakistan specializes in producing textile and agricultural products. As David Ricardo argues in his *Principle of political economy and taxation to* favor of free trade policy among nations that free trade allows nations and consumers to benefit from their different comparative advantages. It holds that a state should produce whatever it can produce most efficiently and cheaply, and trade it with others in which they have an edge or specialization. Hence Ricardo's theory of comparative advantage, in India Pakistan case, as a result of free trade agreement with India has not been advantageous for Pakistan.[23] The low trade complementarities between India and Pakistan continue to exist as Pakistan lacks in diversified exports base. Agricultural items and textiles share 60% of Pakistan's entire exports and 17% of India. Pakistan even then has potential of relative comparative advantage in agricultural and textiles products over India and can develop 'niche' in Indian market. But excessive usage of NTBs and discriminatory policy against Pakistan kept it deprived of its even relative advantage.

Relative Trade Liberal Regimes

As contrast to this Indian exports to Pakistan has been rapidly growing since 1994, despite Pakistan maintains limited positive list. India has more diversified export base as compared to Pakistan because of relative level of development in past decades. Thus it leads to high level of complementarily between Indian exports and Pakistani imports. Indian exports augmented because Indian exporters' have relatively trouble-free access to Pakistani markets as of Pakistan has more trade liberal regime. Pakistan regulates its protection policy through practicing import tariffs and SROs, rather than NTBs (LSE). Pakistan also suffers sometimes due to its liberal trade policies, as the domestic commodities become worthless and the domestic investor gets some losses. This directly leads to a permanent loss, that if an investor bears a loss in a specific commodity, he will feel restraint in investing in the same thing, which will cause a permanent dependence on the Indian market for the same commodity. Also the non-tariff trade makes Pakistan lose the custom duty revenue, which by applying can generate huge money for Pakistan. Hence without granting MFN status, Pakistan is cooperating with India. But India along with granting MFN status, it has put trade restrictions on Pakistan. According to a Dawn Report, Pakistan will reduce the sensitive list to a 100 items, and India will reduce them to a 100 items by 2017. This will give both nations to cooperate more in trade. The US-China bilateral trade is a precedent for India-Pakistan that besides having apprehensions on both sides, they are the largest trade partners of each other. On the contrary Pakistan and India have the least trade with each other, i.e. India's trade with Pakistan is less than half percent and Pakistan 4.7% of her total trade.[24]

Trade Facilitation

India simultaneously pursuits of commercial liberalism through granting MFN status to Pakistan and Mercantilism by practicing protectionist means i.e. NTB to enhance its own benefits ,reducing the benefits of Pakistan. Until and unless India continues to practice neo-mercantilist approach, it would be unlikely for Pakistan to grant MFN to India. Several studies demonstrate that increasing trade facilitation measures may bring greater economic and trade gains for both states than reduction in tariffs. If Pakistan and India are really anticipating to increase volume of bilateral trade, greater focus needs to be given on trade facilitation measures. A Land border station such as Wagah Attari border has potential to become a trading hub, especially due to lower freight costs. It would be indispensable to reduce the bottlenecks through regulatory measures in order to draw real benefits by opening up trade. Trade facilitation measures that can be practiced unilaterally, comprises of simplification of processes (remove multiple checking by different agencies, introduce single window concept) and coordination of clearance processes, advance processing of documents, automation of processes and facilities for payment of taxes in advance. Trade facilitation measures That require to be negotiated and implemented bilaterally contain: introducing joint one stop border systems, allowing transshipment of goods, permitting multiple entry passes for drivers, rising opening hours from the recently increased 16 to a full 24 hours, initiating riskprofiling, and opening of other border points such as the Hussenini wala-Sialkot crossing.[25]

Pakistan apprehensions regarding liberalization of trade with India

As List argues that the theory of free trade and its benefit cannot be discarded but some time states, for a legitimate reason, should not pursue it in order to protect its very national interests. When a state, like Pakistan, is already in jeopardize by other state's relative comparative advantage and its economic growth. Pakistan perceives India its arch enemy and vice versa. Pakistan apprehensions are that free trade agreement with India may endanger Pakistan's domestic products and Pakistan fragile economy is not in a position to compete with Indian cheap goods. India even may use dumping policy to capture Pakistani market. Consequently it would be beneficial for only India, as international politics is based on real politick in which advantages of one state gives the other state power leverage on it. Theory of realism accounts for Pakistan's impulse to practice neo-mercantilist protectionism policy against India. Uncertainty about India's expansionist aims pushes Pakistan to spend "a portion of its efforts, not forwarding its own goods, but in providing the means of protecting itself against others (India)".[26] So the relative gain in favor of India explains that why Pakistan is reluctant to extend MFN status to India despite the fact that free trade between two countries will increase economic growth and prosperity.

But Hasan Askari recommends that Pakistan should give MFN status to India in order to forestall negative propaganda against Pakistan in international community, that Pakistan is reluctant to improve bilateral ties with India. While, simultaneously, it should highlight the issue of reducing India's non-tariff bureaucratic obstacles to supply of Pakistani goods to Indian markets. India is also obliged to take meaningful steps to improve bilateral relations in reciprocity. It should abandon its practice of being free rider, enjoying all benefits and paying little to Pakistan. It cannot adopt an imperialistic disposition by asking Pakistan to do this or that without showing any meaningful flexibility. India has currently reduced its relations with Pakistan to a single-issue relationship, i.e., terrorism. Its leadership often argues that unless Pakistan assures India of its noninvolvement in terrorism-related issues, there cannot be progress in other sectors of relations. India cannot hang up the entirety of relations on terrorism. Similarly, Pakistan cannot make the solution of the

Kashmir problem as a pre-condition for progress in other areas of bilateral relations.[27]

Some scholars professed the idea that free trade between India and Pakistan would bring stability in region it would hamper India to not upset status quo as of its any such action may jeopardize its huge market in Pakistan. Michael Kugelman is also optimistic about Pakistan image in international community if it extends MFN status to India. In one of his articles he endorses upon this idea that Pakistan can gain much with this move as it would accelerate the potential volume of trade between two countries. Its trade with India which is lower than $3 billion can go up to $40 billion.[28] He generally floats the idea that South Asian region can be stabilized if India Pakistan trade relations grow up in positive direction. If India became a major trading partner of Pakistan then it would avoid to threaten Pakistan territorial integrity because it would not take risk to endanger its market, but as the chronology illustrate that whenever crisis erupted, trade cooperation could not impede them dipping into conflict.

Trade normalization process

Academic discussion of trade normalization spilled over in business community, which persuaded governments of both sides through active lobbying that trade liberalization will be mutually beneficial. Hence it triggered the trade normalization process between the two neighbors in 2011 and policy makers, overcoming their reservations, deliberately started to proceed ahead.[29] Minister Fahim and secretary Mahmood made the first move to breakthrough impasse and initiated dialogue with India in 2011. Before that, Pakistan moved away from a positive list to a negative list for doing trade with India. As a result, India was permitted to export 6800 items to Pakistan.[30] The overwhelming success of bilateral trade liberalization in rest of the world has strengthened the position of the proponents of trade liberalization with India. Even the findings of a comprehensive research study conducted by the State Bank of Pakistan, supported the liberalization and predicted that trade will jump to fivefold and it would increase Pakistan net profit.[31] Pakistan business community and economists are confident that trade liberalization would not only stimulate economic growth but also will eradicate barriers to regional integration. It is expected that trade liberalization, on one hand will provide consumers goods on cheaper prices and sufficient variety, and on the other hand it will increase additional customs revenue on part of government. Economic theories and empirical evidences justify economists' claims that countries having large internal markets, have flourished their economies by opening up trade barriers. Moreover Pakistan can provide direct transit trade root to India to export its goods to Afghanistan and central Asia.

Despite all benefits, which are propagated by the protagonists of liberalization of trade, some factions in Pakistan are still afraid of being swamped by its large neighbor, India. Public discourse is stuffed with such misperceptions and myths. Leading economists, as Dr. Ishrat Hussein argues that it is not necessary that bilateral trade agreement with any country must be in Pakistan favor. In that case there would be no trade possible. "Pakistan would run a trade deficit with India just as it does with China, and surpluses with other countries"[32] because India is much larger and diversified economy. According to him the most determining factor is that cost of imports from India is comparably less than other sources, and it would be beneficial for Pakistan local industry and consumers as well. Since smith and Ricardo's theory of commercial liberalism also strengthens Dr. Ishrat's view that if an interest of individual is satisfied in best possible way it implies that interests of state as a whole are satisfied. Liberalization of trade would be a win –win situation for both India and Pakistan.

Conclusion

It is difficult to conclude that liberalization of trade would prove a zero-sum game as list supposed or a positive-sum game as smith and Ricardo perceived but now Pakistan government would not be able to withstand domestic and international demands of liberalization of trade with India. there is no doubt that relations between both countries have been contentious for entire period of history but global trends show that countries having hostile political relations, have engaged in bilateral trade agreements without moving on their principal stand on disputes and differences, i.e. trade between United States and china, china and Taiwan, china and Japan, India and china provide impetus and evidence to both states, Pakistan and India, to normalize relation by liberalization of trade.

It is therefore, not wise policy to postpone economic relations until the bilateral political disputes are resolved. It is an unsubstantiated idea, generally propagated in Indian discourses that Pakistan is averting of liberalization of trade with India because of dissent of military establishment. But Pakistan real apprehensions, that Indian products may overdo its indigenous industry, are not baseless. In point of fact, scant prospects of increasing Pakistan’s exports is real stumbling block to opening up of trade with India. Severe gas and power load shadings have crippled Pakistan indigenous industry and its potential to flourish as a result of trade liberalization.

But now it has become a widespread perception in business community on both sides of the border that if economic engagement is augmented and picks up steam as a result of trade liberalization with India, it would spur new stakeholders, who would benefit from such engagement, to hamper states tumbling again into conflict. Investors, traders, bankers, transporters, and business groups who will be working for Indian firms in Pakistan, and vice versa, will perform as strong lobby groups to foster, preserve, and advance peaceful bilateral political relations between the two countries.

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