

India-Pakistan Trade as a Catalyst for Peace process

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Abstract

Historically, the Indian sub-continent was well connected as one integrated economic entity. At the time of partition in 1947, India and Pakistan formed not only one political entity but also one integrated economy. Greater Punjab was one economic entity for centuries before partition bifurcated it between India and Pakistan in 1947. Karachi and Bombay were closely tied sister cities on the sea under the same administrative unit of Bombay Presidency of the British Raj. Today these regions are all but severed. Earlier, these regions enjoyed trade complementarities and thus interdependence between them. A salient feature of this interdependence that Pakistan produced raw materials while India processed thus earning a much higher rate of return. After 1950's, both countries tried to minimize their trade interdependence. Thereafter, trade volume witnessed a steep decline. The India-Pakistan war of 1965 brought to a halt even the limited amount of trade that was there at the time. This was followed by the Bangladesh War in 1971. Trade on a limited scale resumed only in 1975. In 1996, India and Pakistan became signatories to the South Asia Preferential Trade Agreement requiring member states to reform tariffs and increase intra-regional trade. In the same year, India granted to Pakistan the Most Favored Nation status and Pakistan decided to expand its positive list (imports from India) to include 596 items. The positive list went on expanding till 2012 when it was finally replaced by a negative list of 1209 items. The present volume of official bilateral trade hovers around US\$ 2.3 billion as on 2018. But the bilateral trade balance is heavily in favor of India. Greater India-Pakistan trade will increase the prospects of peace in South Asia.

Keywords: Trade, positive list, Kashmir, composite dialogue, peace

Introduction

Ever since their independence in 1947, the relations between India and Pakistan have been in a state of flux. They have had overt military conflicts on differing scales and close military confrontations in 1948, 1965, 1971, 1986-7, 1999, 2002 and 2008. There have been numerous unsuccessful attempts and meetings between the two countries at the highest levels to resolve the conflicts. Although they resolved the Indus Waters dispute in 1960 and the Rann of Kutch dispute in 1968 through negotiations, there was no agreed mechanism to navigate their enduring conflictual relationship. In the 1980s the two sides began to confer on the Siachen, Sir Creek and the Tulbul/ Wullar disputes and put in place a series of confidence building measures pertaining to conventional and nuclear weapons power. These negotiations had no set timetable and were held on a need-to-meet basis. It was in May 1997 that the then Indian Prime Minister Inder Kumar Gujral and his Pakistani counterpart Nawaz Sharif met at Male and floated the idea of a structured dialogue or the Composite Dialogue process (CDP).¹ The dialogue process is composite being focused on making progress simultaneously on all the major issues of bilateral dispute. The Foreign Secretary level meeting of June 23, 1997, agreed to constitute Joint Working Groups (JWGs) on eight issues that were identified to be discussed between India and Pakistan.² Based on a compromising approach, the peace process enabled the two countries to discuss all issues including Jammu and Kashmir simultaneously. It was a compromise in the sense that while India agreed to include Kashmir in the agenda for talks, Pakistan relented to include terrorism—the two major irritants in bilateral relations.³ The Lahore Agreement of February 1999 had reiterated the desire of the two countries to move forward on the path of dialogue. The Kargil War in June-July 1999, the failed Agra Summit in July 2001, the attack on Indian Parliament on December 13, 2001, and the subsequent mobilization of troops on the border led to the difficult phase in the bilateral relations. This phase saw active US and British mediatory efforts whose significance cannot be under-estimated. A joint statement issued on 27 March 2003, after a Bush-Blair summit at Camp David laid down a detailed road map which both India and Pakistan followed. It bears recalling:

“The United States and the United Kingdom condemn all terrorism wherever it occurs and whatever its purported justification, we will continue to work with our partners to eliminate this scourge, violence will not solve Kashmir's problems. Pending the resolution of these problems, the LoC should be strictly respected and Pakistan should fulfill its commitments to stop infiltration across it. Pakistan should also do its utmost to discourage any acts of violence by militants in Kashmir. Both sides should consider immediately implementing a ceasefire and taking other active steps to reduce tension including by moves within the SAARC context. The differences between India and Pakistan can only be resolved through peaceful means and engagement.”⁴

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Revival of Composite Dialogue process

India and Pakistan agreed to revive the process of Composite Dialogue in February 2004.⁵ This became possible only after the then President of Pakistan General Pervez Musharraf assured Indian Prime Minister Shri Vajpayee that he would not allow any part of the territory under Pakistan's control to be used to support terrorism against India.⁶ In a significant move, troops along the border disengaged following the cease-fire along the LoC, International Border (IB) and the Actual Ground Position Line (AGPL)⁷ in November 2003.⁸ The 12th SAARC summit of 2004 saw a change in the history of this conflict. Specific suggestions were made by the PM of Pakistan Zafarullah Jamali in the context of India-Pakistan relations to resume civil aviation links, road and rail links, sports events etc.⁹ Subsequently, the foreign secretaries of the two countries met on February 18, 2004 to restart the process of Composite Dialogue. The Composite Dialogue process (CDP) dealt with eight issues:

Peace and Security including CBMs;
Jammu and Kashmir;
Siachen;
Wullar Barrage Project/Tulbul Navigation Project;
Sir Creek;
Terrorism and Drug Trafficking;
Economic and Commercial Cooperation, and
Promotion of Friendly Exchanges in various fields.¹⁰

Each round of dialogue is initiated and reviewed by the foreign secretaries and the overall progress is reviewed at the Ministerial level. The first four rounds of Composite Dialogue were smoothly conducted from 2004 to 2007. The fourth one was started in March 2007 and completed in August 2007. The fifth round was in progress when it was paused in the wake of the Mumbai terrorist attacks in November 2008. Apart from dialogue on the eight issues mentioned above, technical and expert level talks on Nuclear CBMs, Conventional CBMs, Cross Line of Control CBMs, Cooperation between Coast Guards, Narcotics Control Agencies, Civil Aviation, etc., were also held regularly.¹¹

Trade cooperation between India and Pakistan was a direct outcome of the partition of Indian sub-continent on August 14, 1947. At that time, India and Pakistan were highly dependent on each other for trade. Thereafter, both resorted to deliberate measures to minimize their trade dependence. Thus, in spite of the close interdependence of the two countries in respect of many commodities, we find a declining trade between them. The percentage of imports into India from Pakistan to India's total imports decreased gradually from 9.3 in 1951-52 to 3.03 in 1952-53, 1.3 in 1961-62 and 1.0 in 1964-65. The percentage of exports from India to Pakistan to India's total exports decreased from 6.3 in 1951-52 to 4.2 in 1952-53, 1.5 in 1953-54 and about 1.2 in 1964-65.¹² From 10th September 1965 the trade between India and Pakistan was suspended because of the war. In fact, the period between 1965 and 1971 witnessed two wars between India and Pakistan. Immediately after the war, Pakistan imposed official embargo on her trade with India. The trade relations between the two neighboring countries remained suspended for nine years and created problems for both the countries. The resumption of trade relations between them took place with the signing of bilateral trade agreement on January 23, 1975.¹³ But the flow of trade was restricted to government levels. This trade agreement expired on January 22, 1978 and, thereafter, trade continued without any agreement.

In March 1983, India-Pakistan Joint Commission (IPJC) was established to build co-operation in different areas of inter-state relations.¹⁴ The Joint Commission held its first meeting in Islamabad from 1 to 4 June 1983. The Indian delegation was led by the Minister of External Affairs Shri P. V. Narasimha Rao.

The Joint Commission consisted of four sub-commissions dealing with:

Economic Matters;
Trade;
Information, Culture and Social Sciences; and
Travel, Tourism and Consular Matters.¹⁵

Several proposals were made by both sides for improving relations in these fields, including those relating to the signing of a Tourism Protocol, a Cultural Agreement, relaxation of visa formalities and increase of commercial exchanges on a non-discriminatory basis. Suggestions were made for improvements in telecommunication facilities, reduced postal rates, and increased cooperation in areas such as health, family welfare, science and technology, education, archaeology, social sciences, agriculture and the performing arts.

In July 1989, India-Pakistan Joint Business Council was set up in the aftermath of third meeting of India-Pakistan Joint commission. After the Lahore Declaration, India-Pakistan Chamber of Commerce and Industry was established on April 10, 1999 to identify the major roadblocks to economic co-operation and to broaden their economic engagements to include collaboration in the areas of banking, insurance, medical, travel and human resource development.¹⁶ However, despite all these efforts, the overall extent of bilateral trade between India and Pakistan remained abysmally low.

Economic Reforms and Impact on Trade

Despite the overall economic liberalization and globalization in both India and Pakistan, bilateral trade relations have been highly “managed.” Official trade stood at US\$129 million in the fiscal year 1996 and reached an average of less than US\$250 million during fiscal years 2001-03. In comparison, merchandise trade between India and the rest of the world increased from close to US\$70 billion to US\$101 billion during the same period.¹⁷ It is only after the two countries revived the Composite Dialogue process in January 2004 that there has been a sizable increase in bilateral trade. The Commerce Secretaries of the two sides met on 11-12 August 2004 in Islamabad to discuss various proposals to expand their economic and commercial relationship. The India-Pakistan Joint Study Group (JSG) which has been constituted to discuss trade and economic issues in a detailed manner met on 22-23 February 2005. The Indian delegation was led by Mr. S.N. Menon, Commerce Secretary, Govt. of India and the Pakistani delegation was led by Mr. Tasneem Noorani, Commerce Secretary, Govt. of Pakistan.¹⁸ The JSG constituted two Working/Sub Groups on Customs Cooperation and Trade facilitation and Non-Tariff Barriers (NTBs) and mutually agreed upon the Terms of Reference (TOR) for the Sub Groups. The two sides identified issues relating to bilateral trade and deliberated upon the future roadmap in order to enhance trade and commercial cooperation. The second round of talks on Economic and Commercial Cooperation was held on 9-10 August 2005.¹⁹ The two sides agreed that the aeronautical talks would be held in Pakistan in September 2005 to review the existing Air Services Agreement, bilateral meeting to review the Shipping Protocol of 1975 would also be held in Pakistan in September 2005 and the second meeting of the Joint Study Group (JSG) would be convened at an early date in Islamabad. The JSG meeting would be preceded by the meeting of the Sub- Groups on Non-Tariff Barriers and Customs Cooperation and Trade Facilitation to formulate recommendations for consideration by the JSG.²⁰

The third round of Economic and Commercial cooperation meeting was held on 28-29 March 2006 at Islamabad. A broad range of issues were discussed from opening of scheduled branches of banks in each country, tea trade, shipping procedures, problems of transportation of goods to enlargement of export items from India to Pakistan and the feasibility of trade in IT-enabled medical services. Both sides expressed satisfaction over the ratification of the South Asian Free Trade Agreement (SAFTA) by all SAARC member states which can potentially boost intraregional trade to a great extent.²¹

Subsequently, the fourth round of India-Pakistan talks on Economic and Commercial Cooperation within the framework of the Composite Dialogue was held on 31 July - 1 August 2007 in New Delhi. The Indian delegation was led by Commerce Secretary, Shri G.K. Pillai and the Pakistani delegation was led by its Commerce Secretary, Syed Asif Shah.²² The talks were held in a cordial and constructive atmosphere.

The two sides agreed on the following:

To allow two banks from both countries to operate branches across the border by December 31, 2007. State Bank of India and Bank of India had applied for opening branches in Pakistan while United Bank and National Bank of Pakistan are keen on starting operations in India;

To facilitate import of cement from Pakistan, the Indian side informed that India will complete all statutory certification related formalities on a fast track. The Indian side informed that it is also in the process of making appropriate policy changes to accept third party certification;

To facilitate import of tea from India it was agreed to facilitate and encourage the trading of tea through rail. Pakistan side noted the request for providing duty concessions on import of Indian tea;

Pakistan will nominate representatives to the Joint Working Group to discuss the issues relating to joint registration of Basmati rice as Geographical Indication (GI) and the first meeting of the Group will be held at an early date. The Pakistan side raised the issue of Notification issued by India declaring ‘Super Basmati rice’ as an approved variety for export. India agreed to look into this issue;

The Indian delegation handed over a list of 484 tariff lines for inclusion in the Positive List of items importable from India. The Pakistan side agreed to examine the request in consultation with stakeholders;

The Indian side informed that a Task Force comprising of representatives from various ministries and departments of Government of India has been constituted to address the issues of Non-Tariff Barriers (NTBs) and para-tariffs. The Task Force will make recommendations in a time bound manner for removing these barriers to provide greater market access to all members of SAARC;

In order to address the issue of imbalance in bilateral trade, the Indian side invited the Pakistan side to identify twenty products of its export interest so that India could inform Pakistan about the detailed import regime on these products with a view to facilitating their import into India;

Both sides will facilitate holding of trade exhibitions in each other's country. The Indian side invited Pakistan to organize a "Made in Pakistan" Trade Fair in India;

A delegation from Pakistan was invited to visit India to see some of the IT-enabled tele-medicine facilities, with the objective of exploring avenues of cooperation in this field;

Both sides noted with satisfaction the initiative to allow cross border movement of trucks, up to designated points at Wagah/Attari, for unloading/reloading of cargo. It was decided that the first technical level meeting to work out modalities would be held on 20th August 2007 at the Wagah border on the Pakistan side;

Indian side also proposed that in order to reduce pressure on Attari-Lahore Rail route and to improve trade, the Munabhao-Khokrapar route should be opened for freight movement. Pakistan side noted the proposal; and

Both sides agreed to constitute a Joint Group headed by Joint Secretaries of Commerce of both countries to monitor and coordinate the decisions taken during the fourth round of talks on Economic and Commercial Co-operation within the framework of Composite Dialogue.²³

After a long pause, the fifth round of India-Pakistan talks on Economic and Commercial Cooperation was held on 27-28 April 2011 in Islamabad. The Indian and Pakistani delegations were led by their Commerce Secretaries, Rahul Khullar and Zafar Mahmood respectively. Both sides agreed that increase in trade and economic engagement would help not only in the mutual quest for national development, but also contribute to building trust between the two countries. The discussions were guided by the mutual desire to realize the full potential of bilateral trade. To facilitate this objective, they agreed to make efforts to create an enabling environment for trade on both sides. The two sides also agreed to encourage greater engagement between the private sectors of the two countries. They agreed that in order to promote trade, both tariff and non-tariff barriers (NTBs) need to be reduced and finally removed. It was decided to establish a Working Group, specifically dedicated to address and resolve clearly identified sector specific barriers to trade.

Both sides agreed to expand trade through Wagah-Attari by, inter-alia,

- (a) Increasing trading hours taking advantage of the new infrastructure;
- (b) Expeditious clearance of cargo; and
- (c) Facilitating movement of large vehicles and containerized traffic.²⁴

It was also agreed that Pakistan side would remove its present restrictions on trade by land route as soon as the infrastructure to facilitate mutual trade is completed. Currently, Pakistan allows only 137 items to be traded through Attari-Wagah border. During the fifth round of talks both sides also agreed that the cooperation in the IT sector would be encouraged through the private sector route. Pakistan recognized that grant of the MFN status to India would help in expanding the bilateral trade relations. Both sides agreed that facilitating the grant of Business Visas was essential to expansion of trade.

The Commerce Ministers of India and Pakistan met in September 2011 and gave a clear political mandate to the respective Commerce Secretaries to lay down specific timelines for full normalization of the trade relationship, dismantling of remaining non-tariff barriers, and full implementation of the legal obligations under the SAARC Agreement on South Asian Free Trade Area (SAFTA). Both sides appreciated that the visit of Commerce Minister of Pakistan to India after a gap of 35 years in September 2011²⁵ and the political ownership of leaders of both the countries has not only given the trade normalization process further strength and direction but a great hope and confidence to the business community also. They expressed hope that positive developments in the trade track would encourage similar progress in other components of the dialogue process.

The Prime Ministers of India and Pakistan met on the sidelines of the 17th SAARC Summit held in Maldives from 9-11 November 2011. Building on positive momentum generated by Pakistan granting India Most Favoured Nation (MFN) status in principle, Indian Foreign Secretary Ranjan Mathai said that the two countries are now planning to move towards a preferential trade agreement as part of the shared vision to significantly expand bilateral trade.²⁶ During the meeting, the Pakistan side informed that its Cabinet has given a mandate to the Commerce Ministry for complete normalization of trade with India. It appreciated India's support in World Trade Organisation (WTO) for the European

Union (EU) concession package for Pakistan which would give the Pakistani business community confidence and create an environment of trust and cooperation. The Indian side welcomed the Cabinet decision and reiterated its support for the normalization process and building trust.

Within the framework of Composite Dialogue process, the sixth round of India-Pakistan talks on Commercial and Economic Cooperation was held during 14- 16 November 2011 at New Delhi. The delegations were led by Commerce Secretaries of India and Pakistan Rahul Khullar and Zafar Mahmood respectively. Both sides agreed that the momentum of work and the determination to move forward had transmitted positive signals about advancing the bilateral trade agenda. In this context, India welcomed the decision taken by Pakistan to accord Most Favoured Nation status to India and to the mandate given for full normalization of the bilateral trade relations, as also meeting of all legal obligations.

During the sixth round of talks the following decisions were taken on the trade front:²⁷

The move to full normalization of trade relations shall be sequenced. In the first stage, Pakistan will make a transition from the current Positive List approach to a Negative List. The consultation process on devising this Negative List is almost complete. A small Negative List shall be finalized and ratified by February, 2012. Thereafter, all items other than those on the Negative List shall be freely exportable from India to Pakistan. In the second stage, the Negative List shall be phased out. The timing for this phasing out will be announced in February 2012 at the time the List is notified and it is expected that the phasing out will be completed before the end of 2012.

In terms of the clear mandate given by the political leadership, both sides agreed to move towards enhancing the preferential trading arrangements under the SAFTA process. As agreed earlier, bilateral trade can be significantly expanded by extending tariff concessions on products of commercial interest. Both sides designated the Joint Secretaries in their respective Ministries of Commerce as Chief Negotiators for working on how to improve preferential trading arrangements under SAFTA.

The first meeting of the Joint Group of Experts to examine feasibility of trade of electricity was held on 20th October 2011 at New Delhi. Central Electricity Authority and Power Grid Corporation of India Limited have been designated as the nodal technical agencies from the Indian side. They are interacting with National Transmission and Dispatch Company Ltd of Pakistan to work out the optimal technical solutions for grid connectivity between both countries. A broad understanding has been reached on possible grid connectivity between Amritsar-Lahore to enable trade of up to 500 MW of power.

To boost bilateral business confidence for enhanced bilateral trade, both sides agreed to encourage greater interaction amongst the business entities. It was noted with satisfaction that Apex Chambers of Commerce and Industry on both sides have formed a Joint India-Pakistan Chamber at the apex level (FICCI and FPCCI). Similarly, arrangements have been worked out for regional-level Chambers between Bombay and Karachi. It is expected that a similar joint arrangements between the Lahore and Punjab-Haryana-Delhi (PHD) Chambers would also be worked out.

Both sides agreed that the present visa regime for businesspersons was a significant barrier to the rapid expansion of trade. It was agreed that best efforts would be made by the respective Commerce Secretaries to push for further liberalization of the business visa arrangements.

On the opening of bank branches in each other's countries, it was agreed that the Central Banks of both countries need to discuss this issue further.

The seventh round of India-Pakistan talks on Commercial and Economic Cooperation was held during 20-21 September 2012 at Islamabad. The delegations were led by the Commerce Secretaries of India and Pakistan Mr. S R Rao and Mr. Munir Qureshi respectively. The transition towards full normalization of trade relations with India was initiated by moving from a 'positive list' regime to a 'negative list' regime. Following the visit of Commerce Minister Shri Anand Sharma to Pakistan in February 2012, Pakistan side notified its negative list on 20th March 2012.²⁸ The understanding at the previous Ministerial level talks has been that after the approval by the Cabinet this negative list would be dismantled before the end of 2012.

During these talks Commerce Secretaries showed satisfaction that Commerce Ministers of India and Pakistan as well as the Chief Ministers of Punjab on either side of the border had jointly participated in the inauguration ceremony of the new Integrated Check Post (ICP) at Attari on April 13, 2012.²⁹ Commerce Secretaries appreciated that better trading opportunities provided through land route would enhance mutual prosperity of the business communities and consumers on both sides of the border. They, however, noted that there is need to further strengthen infrastructure on both sides. They directed the customs and the port authorities to resolve all the issues through mutual cooperation, harmonization of customs procedures, provision of laboratory facilities, scanners, weigh bridges, cold houses, containerized services

and automation of the business processes. The need for more trade traffic to be carried through the Railways was also emphasized.

On exploring the possibilities of opening new land routes for trade, Pakistan side informed that a working group on Munabhao-Khokrapar has been constituted. It was agreed that meeting of the JWG on Munabhao-Khokrapar would be held in the 4th week of October, 2012 at New Delhi. Both sides appreciated the signing of the new liberalized bilateral visa regime in September 2012. This fulfills a long pending demand of the business communities of both sides to ensure a better enabling environment for bilateral trade.³⁰

On the issues relating to the removal of Non-Tariff Barriers, Commerce Secretary of Pakistan highlighted that certifications/ licensing/ lab testing/ are not the only NTBs but issues like delays in customs clearance, non-availability of railway wagons for cargo transport, absence of direct flights or any problem which delays the clearance of goods with no end results or change, faced by importer/exporter amounts to NTB. While noting the views expressed by the Commerce Secretary of Pakistan, his Indian counterpart emphasized the need for elimination of such NTBs on both sides. Both sides expressed satisfaction on signing of the three agreements i.e. Redressal of Trade Grievances Agreement, Mutual Recognition Agreement and Customs Cooperation Agreement and directed the relevant authorities to frame rules and procedures to fully implement these agreements. These agreements are expected to substantially facilitate bilateral trade mechanisms.

The Pakistan side expressed appreciation of the steps taken by India to reduce its SAFTA sensitive list by 30 per cent from 878 tariff lines to 614 tariff lines as agreed earlier during the sixth round of talks. The Indian side explained that out of 264 tariff lines which have been removed from India's SAFTA sensitive list, 155 tariff lines pertain to agricultural commodities and 106 tariff lines relate to textile items.³¹ It was agreed that after Pakistan has notified its removal of all restrictions on trade by Wagah-Attari land route, the Indian side would bring down its SAFTA sensitive list by 30 per cent before December, 2012 keeping in view Pakistan's export interests. Pakistan would transition fully to MFN (non-discriminatory) status for India by December 2012 as agreed earlier. It was agreed that before the end of 2017, both India and Pakistan would have no more than 100 tariff lines in their respective SAFTA sensitive lists. Before the end of year 2020, except for small number of tariff lines under respective SAFTA sensitive lists, the peak tariff rate for all other tariff lines would not be more than 5 per cent.

The Commerce Secretaries also reviewed the progress on other issues, such as enhanced trade for petroleum products, trade in power and reciprocal opening of bank branches. Based on this review, the Commerce Secretaries exhorted the relevant stakeholders on both sides to speed up the mutual consultations so that concrete progress is achieved within the next six months. During this review, Indian side informed its willingness to consider export of gas up to 5 million cubic meters per day for an initial period of five years. Pakistan side informed that India's offer has been received and is under active consideration. The Bharat Heavy Electricals Limited BHEL (an Indian PSU) made an offer to cooperate with the Pakistan side in setting up 500–2000 MW capacity in coal/hydro or gas power plants as per their requirements. Indian side also made an offer for meeting the requirements of Pakistan Railways for up to 100 locomotives.

As a part of this round of talks, representatives of the Civil Aviation Authorities of both the countries undertook discussions to ensure better air connectivity between New Delhi and Islamabad. It was noted that against an average of about 23 flights per week between New Delhi and other important national capitals of the SAARC countries, there is as yet no direct air connectivity between New Delhi and Islamabad. It was agreed that a Joint Working Group (JWG) would be formed before 15th November 2012, which would work out a more liberalized regime of reciprocal bilateral rights for commercial flights, to ensure economic viability of this air route. This JWG would also explore mechanisms for more efficient courier services.

Trade in energy can bring about a quantum leap in India-Pakistan trade. The opening of a US\$ 4 billion plant in April 2012 on the northern border with Pakistan at Bhatinda by Mittal Energy Investments and Hindustan Petroleum was expected to gain significantly from the energy talks. The slowdown in the process of strengthening trade and economic relations between the two countries was reversed on August 1, 2012 when India's Department of Industrial Policy and Promotion (DIPP) notified changes in the consolidated FDI policy to allow investment from Pakistan in sectors/activities apart from defense, space and atomic energy through government route and made the requisite amendment. Following this, India has removed Pakistan from the negative list under the Foreign Exchange Management Act, paving the way for investment from Pakistan. Pakistan, on the other hand, has maintained a liberal investment policy with no restrictions on inward investment from, and outward investment to India. In this context, the circular issued by the Reserve Bank of India (RBI) allowing Indians to invest overseas in Pakistan under the "government" route is an important confidence building move.³² This opening up of investment opportunities has been hailed by businesses on both sides and is likely to open up other multi-dimensional opportunities. There is no doubt that encouraging two-way investments will enhance business confidence on both sides. An enabling business environment between the two countries will promote joint ventures and allow firms to access technologies, which in turn will lead to productivity improvement, generating growth and employment opportunities.

The private sector is expected to step in to assess bilateral investment possibilities. At the moment it appears that investment possibilities for Pakistani investors are limited. If we look at the year 2011, Pakistan's total outward FDI flow was only US\$ 62 million, while India's was US\$ 14.8 billion. Further, Pakistan's inward FDI flow for 2011 was US\$1.3 billion, while that of India was US\$ 31.6 billion.³³ The chambers of commerce in the two countries have identified clothing, clothing accessories, fabric, surgical instruments and cutlery as some of the possible sectors for Pakistani investment.³⁴ There are larger possibilities for Indian investors in Pakistan in sectors, such as chemicals, pharmaceuticals, automobile components and information technology. In the seventh round of talks on Economic and Commercial Cooperation, the Pakistani side recognized efforts by India to remove restrictions on inbound and outbound investment to Pakistan. However, they raised concerns about the "government" route and its implications for Pakistani investors in India. Under India's FDI policy, an Indian company can receive foreign direct investment under two routes – automatic route and government route. According to the RBI guidelines, under the automatic route, investors do not require any prior approval from either the government or the Reserve Bank of India. On the other hand, under the government route, investors require prior approval from the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance.³⁵ The FIPB is the government body that provides a single window clearance for foreign investment proposals into the country that is not permitted via the automatic route. This agency discusses and examines proposals for investments in sectors that are not allowed via the automatic route under FDI policy. For investors from Pakistan and Bangladesh, the "government route" applies to all sectors. The investors from these countries are concerned on two fronts – transparency and time taken for approvals.

Another important issue that needs to be addressed in facilitating bilateral trade and investment between the two countries is allowing banking operations on a reciprocal basis. This would also promote further economic interaction. Action on this front has already been initiated with the commencement of talks between the Reserve Bank of India and the State Bank of Pakistan in 2012. As India moves towards completing the important task of liberalizing investment flows, it will reinforce its commitment to the trade and investment agenda laid down by the two countries in April 2011.³⁶ Stronger and deeper economic ties will not only benefit the two countries but will also facilitate the greater regional integration in South Asia.

The revival of Composite Dialogue process coincided with a steady upward trend in Indo-Pak trade. 'Economic and Commercial Cooperation' was one of the pillars of the dialogue process. It was the first step towards delinking trade negotiations from political issues. Since 2004, any major political event between India and Pakistan has neither met with any major impact on trading relations nor an imposition of a ban on trade. Rather, bilateral trade has only been rising over the years.

Table 4.1: India's Bilateral Trade with Pakistan (2005-06 to 2012-13)
(Value in US \$ Million)

Year	Exports	Imports	Total Trade	Balance of Trade
2005-06	689.23	179.56	868.79	509.67
2006-07	1350.09	323.62	1673.71	1026.47
2007-08	1950.53	287.97	2238.50	1662.56
2008-09	1439.88	370.17	1810.05	1069.71
2009-10	1573.32	275.94	1849.26	1297.38
2010-11	2039.61	332.51	2372.12	1707.10
2011-12	1534.72	421.85	1956.57	1112.88
2012-13	2064.79	541.87	2606.66	1522.92
2013-14	2274.26	426.88	2701.15	1847.38
2014-15	1857.18	497.31	2354.49	1359.87

The yearly data is from April to March e.g. 2012-2013 means April 2012 to March 2013.

Source: Annual Reports, Ministry of Commerce & Industry, Government of India.

At the invitation of the Commerce & Industry Minister of India Shri Anand Sharma, the Commerce & Textile Industry Minister of Pakistan Mr. Khurram Dastgir Khan visited India from 16th to 18th January 2014 to attend the 5th SAARC Business Leaders Conclave in New Delhi. The Ministerial meeting on the margins of the Conclave was preceded by consultations at the level of the Commerce Secretaries of the two countries on matters related to economic and trade relations between India and Pakistan. Both Ministers reaffirmed the commitment of their Governments to expeditiously establish normal trading relations and in this context to provide Non-Discriminatory Market Access (NDMA) on a reciprocal basis. They decided to intensify and accelerate the process of trade normalization, liberalization and facilitation and to implement the agreed measures before the end of February 2014. The Ministers noted with satisfaction that arrangements have been implemented by both sides to keep the Wagah/Attari Land Customs Station operational on all seven days of each week. The Ministers emphasized the importance of trade facilitation measures and directed their respective Ministries to work out modalities for containerization of cargo, allowing all tradable items by

land route at Wagah, liberalization of business visa regime and enhancing operational hours at Wagah/Attari and to consider such other measures as deemed necessary by the business communities of the two countries.³⁷

The Ministers agreed that both sides will convene the meetings of the technical working groups of Customs, Railways, Banking, Standards Organizations and Energy to devise the modalities for effective implementation of all requisite measures. The Ministers noted with satisfaction that there has been enhanced interaction between the business communities of both countries. Several trade delegations have been received on either side. A Joint Business Forum of Chief Executive Officers in different sectors has also met twice after the formation of present Nawaz Sharif led Government. Several sub-groups have been formed by this Joint Business Forum to enhance trade cooperation in diverse sector such as textiles, tourism, energy, light engineering, pharmaceuticals and others.

With the objective of enhancing bilateral trade opportunities, FICCI and the Trade Development Authority of Pakistan have coordinated an “India Show” in Lahore from 14-16 February 2014. Around 120 stalls have been set up to exhibit different Indian products including textiles, gems, jewellery, embroidery, herbal medicine, electric products, paint, designing and engineering. The “India Show” aimed at:³⁸

Boosting bilateral trade and investment between the two countries with fresh vigour;

Highlighting the possibilities of a huge potential market in the region;

Showcasing the finest & latest Indian products, technology and equipment's in the focus sectors;

Exploration of investment and joint-venture opportunities; and

Excellent networking opportunities with business counterparts and others.

4.1. Modi-Sharif Bonhomie and Trade

The SAARC ambition for greater economic cooperation has been suffering serious jolts due to bilateral rivalry between the two regional giants, India and Pakistan. The Indian Prime Minister Narendra Modi's invitation to Pakistan Prime Minister Nawaz Sharif to his inauguration ceremony and the latter's acceptance along with other SAARC leaders presence can be seen as a welcoming gesture for a possible step towards stability in the region. Except Maldives. Modi has visited all SAARC countries including a stopover at Lahore. Many believe the pro-business approach of both Modi and Sharif can make a France-Germany or Brazil-Argentina – each of which share significant trade relations despite a past of political hostilities – possibly by keeping economic ties independent of ‘other’ issues.

Commenting on the India-Pakistan trade relations, former President of the Karachi Chamber of Commerce and Industry in Pakistan, Majid Aziz, who has been very emphatic of his views on liberalization of trade and investment within SAARC and primarily between India and Pakistan, says,

“I have been very vocal when it comes to trade and investment between both the neighbors. Yes, I do agree that the process is not easy. My assertion has always been that trade and investment should never remain a hostage to other contentious issues or even the usual accusations that emanate out of the hallowed halls of officialdom in New Delhi and Islamabad.”³⁹

He further adds,

“Examples galore among countries where trade and investment have been shielded from getting overpowered by troublesome issues that are the domain of diplomats, military or bureaucracy. China-India, China-Taiwan, China-Japan, China-USA, France-Germany, just to name a few.”⁴⁰

In fact, India-China trade presently stands at around US\$ 80 billion, despite both countries being archrivals. Most certainly then Indo-Pak trade which today stands at less than US\$ 3 billion with a possibility of reaching US\$ 40 billion is a huge potential that needs to be exploited.⁴¹ Modi is riding the wave of his success on promises of economic development. For him to come across as a leader committed to greater investment, infrastructure and job creation, he needs to have a secure and peaceful region apart from using foreign relations to create more businesses at home. Modi's invitation to SAARC members is probably a sign of his intent to have long term economic alliances in the region.

Belonging to a business family Nawaz Sharif seems to share the same sense of economic diplomacy. He is seen as a leader keen on eliminating roadblocks towards trade liberalization and creating friendlier environment for investment. In fact, a few days after the Modi-Sharif meeting in New Delhi, Pakistan's Commerce Minister Khuram Dastgir Khan [told](#) the media that India would be granted Non-Discriminatory Market Access status⁴² despite issues like Kashmir, Siachen, Afghanistan and Sir Creek.

Majyd Aziz is very optimistic about the future of India-Pakistan trade. He says,

“The advent of a Corporate Prime Minister in New Delhi and the business-oriented thinking of Nawaz Sharif coupled with their commonalities have enforced the hopes and aspirations of the Pakistani businessmen who see a new paradigm in the bilateral relations and, by extension, in the intra-SAARC trade and investment scenario.”⁴³

Will trade and investment then be the necessary game changer to bring about the long awaited and often thwarted peace between India and Pakistan?

Mr. Aziz Ahmed Khan, the former Pakistan High Commissioner to India, also shows optimism that the future holds good for India-Pakistan trade. But he puts a caveat that the talks must continue to find for amicable solutions to the unresolved bilateral issues. He said,

“As for trade relations during Modi’s era, I am quite confident that the regime of Non- Discriminatory trade relations will be established soon and the trade relations will grow and be mutually beneficial. Of course India would need to address Pakistan’s concerns about non-tariff and par-tariff barriers. Good trade relations will be beneficial for the promotion of peace. However, it is absolutely essential that for peace to be durable serious political issues like Kashmir, Siachen etc. need to be resolved justly and amicably. Non-resolution of Kashmir can trigger tensions and even hostilities and thus threaten peace.”⁴⁴

Shri Mani Shankar Aiyar, Member of Parliament (Rajya Sabha) and former Consul-General in Karachi from 1978-1982, favours the cause of uninterrupted and uninteruptible dialogue between India and Pakistan. He is of the opinion that trade in itself is not a panacea to all problems, but it can create a favorable atmosphere for bilateral dialogue process. He said,

“As Modi represents the business class, and it is in the interest of the business class to trade with Pakistan, it is possible that trade will increase, but for such trade to reach its full potential, the BJP will insist on the fulfillment of several preconditions before it engages in an uninterrupted and uninteruptible dialogue with Pakistan, without which untoward incidents will upset the dialogue process and adversely affect the realization of the full potential of Indo-Pak trade and economic relations.”⁴⁵

On the issue of Kashmir, he added,

“The Kashmir issue is not the cause but the symbol of the unstable India-Pakistan relationship. The way forward on Kashmir was signaled in the Simla Agreement of 1972 and the back-channel discussions between Ambassadors Satinder Lambah and Tariq Aziz during the Manmohan Singh-Pervez Musharraf period. The bottom line was that the outstanding issues will be resolved without exchange of territories and population and the softening of the LoC to the point that it does not inhibit intra J&K exchanges of every kind. But the Nawaz Sharif Government is in denial of the progress made under Musharraf and it is entirely possible that the Modi government will take the same line. In that case, we will have to start all over again. I believe greater trade engagement is desirable in itself but cannot, of its own accord, make an adequately constructive contribution to the resolution of outstanding issues, including the “final settlement” provided for in the Shimla Agreement”.⁴⁶

The initiative of inviting the SAARC leaders by Mr. Narendra Modi at his swearing-in ceremony is taken as a good omen by the people of South Asia. There is a lot of optimism that the new government in India will take bold steps on the trade front. Professor Maya Chadda, Professor of Political Science at William Paterson University, New Jersey, US, maintains that Modi has an ambitious plan to use South Asia as a path to bolster India’s interests in larger Asia. She says that Modi is keen on developing an investment and trade corridor from Northeast to Bangladesh and beyond, so also with Myanmar.⁴⁷ Pakistan is, however, a different order of challenge. Not only the instability in Pakistan is an impediment but also the level of distrust between the two countries. Even the events such as the militant attack on the Karachi airport on June 8, 2014 have raised anxiety in India.⁴⁸ These episodes make India cautious and reluctant to implement a roadmap to peace.

The gesture to invite PM Nawaz Sharif was sincere and a first step in India’s and Modi’s larger design to build connections to Central Asia. But, as Prof. Chadda puts it, trade will always take back seat to security imperatives in India’s book. Trade relations have the best chance of taking off under Modi if other things hold but will not do so until Pakistan can restore a degree of confidence in the longevity of its government.

To the question whether trade can bring peace between the nuclear weapon states of India and Pakistan Prof. Chadda believes that the nuclear weapons put a damper on war or escalation of clashes for sure. If Pakistan can reciprocate India’s ‘no first use’ promise, things will move in the right direction. But Prof. Chadda questions the possibility of trade building a pathway to friendship. As she said,

“China and India have substantial trade ties and they are growing but that has not reduced the anxieties and sensitivities in New Delhi to hostile or considered to be hostile gesture China might make on the border or in collective security and trade organizations. However, if in the future, Indo-Pak trade assumes large proportions, the chances of negotiated resolution of most conflicts are not impossible. The most important question is the strength and breadth of peace and business constituencies in each country. Traders want to make money as business lobbies but there needs to be a perception of benefits beyond trade among the larger populous. This constituency can be built only if there is an end to anxieties over buttressed by thicker ties of interdependence.”⁴⁹

Professor Madhu Bhalla, an expert on ‘East Asian Studies’ at the University of Delhi thinks on similar lines. She holds that greater trade engagement is not a guarantee for durable peace between India and Pakistan. She cites the example of Germany and England who were good trade partners before the World War-I. Similarly, although China and India have bilateral trade of the order of US\$ 60 billion but it has not stopped China from displaying territorial assertions vis-à-vis India.⁵⁰

Both Modi and Sharif enjoy majority in their respective national legislatures. However, the context in both countries is different. As Michael Kugelman, Senior Program Associate for South and Southeast Asia, at the Woodrow Wilson International Center puts it,

“Even though Pakistan’s government was elected on a strong mandate, it is difficult for it to act with *carte blanche* given the power of the military. By contrast, India’s new government will truly be unencumbered, because there is no larger institutional player behind the scenes that can constrain—or attempt to constrain—its actions and policies.”⁵¹

Kugelman suggests the recent developments be taken with a ‘generous dose of pragmatism’. While Modi’s initial focus will be on economic diplomacy with Pakistan, he feels this will continue only as long as there is no provocation such as a terrorist attack in India traced back to Pakistan. He observes,

“And once this provocation occurs, all bets are off and we can expect Modi will revert to his more hard-line, security-focused side. After all, while Modi is an economic pragmatist, he is above all a nationalist. And as a nationalist, he will not let his country stand idly by if it is provoked by its long-time nemesis.”⁵²

Modi is more likely to resort to a muscular foreign [policy](#) on the eve of any border provocation. In the recent past, his party has been very vocal in criticizing inaction from the UPA government over the alleged [beheading](#) of Indian soldiers by Pakistani troops. During the bilateral meeting after his swearing in, Mr. Modi asserted that Pakistan brings those accused of 26/11 [attacks](#) and other terrorism in India to task. Even if the Modi government would like to pursue an economic diplomacy independent of security issues pressure will mount from various factions in India to take tough actions.

This is the tragedy of India-Pakistan relations. Regardless of how much progress is made, and regardless of the various diplomatic efforts to inject momentum into a peace process, all it takes is one big terror attack in India traced back to Pakistan that can dissipate all the goodwill. It is important for the two sides to generate sufficient goodwill and trust so that the bilateral **relations** can survive a traumatic act such as a Pakistani-hatched terror attack on Indian soil.

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1. The Composite Dialogue is a type of structured dialogue process between Indian and Pakistan. Under this dialogue process eight issues of bilateral dispute are being discussed. The eight issues are: (i) Peace and Security including CBMs (ii) Jammu and Kashmir (iii) Siachen (iv) Wullar Barrage Project/Tulbul Navigation Project (v) Sir Creek (vi) Terrorism and Drug Trafficking (vii) Economic and Commercial Cooperation and (viii) Promotion of Friendly Exchanges in various fields. The Composite Dialogue process was originally started in 1997 but due to the Kargil war it was halted. It was only in 2004 that the dialogue process was revived by Pakistan President General Pervez Musharraf and Indian Prime Minister Shri Vajpayee in Islamabad.
2. Wirsing, Robert (2004). *Kashmir in the Shadow of War: Regional Rivalries in a Nuclear Age*. Gurgaon, India: Spring Books, p. 17.
3. The two foreign secretaries agreed to discuss ‘all outstanding issues of concern including, inter alia: (a) Peace and security, including CBMs, (b) Jammu and Kashmir, (c) Siachen, (d) Wullar Barrage Project/Tulbul Navigation Project, (e) Sir Creek, (f) Terrorism and drug-trafficking, (g) Economic and Commercial Cooperation (h) Promotion of friendly exchanges in various fields. It was decided that the first two issues would be dealt with at the level of Foreign Secretaries who will also coordinate and monitor the progress of work of all the working groups.
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6. For details, see Joint Statement: President Musharraf and PM Vajpayee, Islamabad, January 6 2004. Retrieved from: http://www.satp.org/satporgtp/countries/india/document/papers/indo_pak-6jan04.htm
7. The Actual Ground Position Line refers to the existing position that divides Indian and Pakistani troops in the Siachen Glacier region. The line extends from the northernmost point of the LoC to Indira Col. The AGPL is about 110 kilometers long.
8. On the eve of Id ul Fitr, Pakistani Prime Minister Zafarullah Jamali announced a ceasefire offer to India along the International Border (IB) and the Line of Control (LoC) on 23 November 2003. India proposes extension of the ceasefire along the Actual Ground Position Line (AGPL) in Siachen. Formal ceasefire between India and Pakistan along the International Border (IB), Line of Control (LoC) and the Actual Ground Position Line (AGPL) in Jammu and Kashmir began at the midnight of 25th November 2003.
9. The Composite Dialogue process between India and Pakistan has been replacing enmity with amity. The peace process between India and Pakistan has been on a cordial path. Since the rapprochement began in April 2003, significant progress has been made in normalizing relations between the belligerent neighbors. This began after then Indian Prime Minister A.B. Vajpayee's Srinagar statement in April 2003. The goodwill gesture was well received by the then Prime Minister of Pakistan, Zafarullah Jamali. He responded positively not only rhetorically, but he also took practical initiatives to materialize the good will gesture. Consequently, diplomatic representation at the two capitals has been restored; a cease fire declared at the Siachen and LoC; road, rail and air links have been revived; delegations of businessmen, Members of Parliament, artists and poets have exchanged visits, and cricket ties resumed after a break of nearly a decade and a half. Above all, both sides' rulers and higher government officials met number of times to ameliorate India-Pakistan relations.
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