

## **Geo-Politics of Most Favoured Nation (MFN) Status under the WTO and Future of Trade between India-Pakistan**

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*Received: February 10, 2020*

*Published Online: September 18, 2020*

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### **Abstract**

This paper presents the impact of political decision on regional trade between India and Pakistan from the prospect of Pakistan Most Favoured Nation (MFN). The study is based on pre and post MFN status, which shows substantial evidence that Indian decision of declaring Pakistan as MFN in 1996 has shifted the dimension of trade in favour of India. The study is based on qualitative and descriptive analysis, which shows consumerism in Pakistan and its trend of Indian exports to Pakistan. The broad objective of study is aimed at analysing the possibility of trade between India and Pakistan under the world trading system. However, Pakistan exports to India are indifferent to Indian economic situation and Pakistan's decision has insignificant impact on mutual trade. Thus, despite the volatile relationship, trade can play an important role for economic growth of Pakistan and the country can exploit the bigger market of India. Further, reduction in political tensions would eventually benefit both countries and means can generate larger benefits and trade facilitation measures. In this regard, trade routes should be opened, communications shall be restarted, and contracts should restore.

**Keywords:** Geo-politics, MFN, Trade Relations, Political Hurdles, Trade Barriers.

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### **1. Introduction**

The collapse of Soviet Union and the removal of Berlin Wall not only ended the Cold War but it also changed the confrontational politics, substantially reduced military arsenals and led to economic development top priority on the global agenda. On the other hand, in the post-Cold War era, economic interdependence became a popular concept and increased the value of globalization and marketism in the world (Singer, 2017). It has also proved that survival of the countries dependent on economic interdependence, which would benefit both sides through exchange of goods, services, and advancement. The scholars argue that the economic dependence on each other is one of the elements required for the development of a nation's economy as Taiwan, South Korea, Singapore and Thailand, who developed their economies with the help of America and European countries (Evans, 2018). Moreover, nations need goods, raw materials, know-how and skills from manufacturing and service-based economies for which they rely on other nations for development and advancement.

Furthermore, the development of global markets has made the world more economically interdependent than ever before. The concept of international markets has not only promoted the rise of China, India, Brazil and other emerging economies of the world but it also promoted

Mao's idea of South-South cooperation for trade and financial flows. During the Cold War, there was a problem for economic transactions but in the post-Cold War era, international markets reorganized the system of foreign exchange and improved the quantity number of existing business buddies (Tammen *et al*, 2000). The countries have changed their policies for economic gain, international alliances have been gradually replaced by alignments of self-interested actors, and strategic conflicts have less importance as compare to economic cooperation. So, in the changing environment, interdependence is perceived to be more need of hour. The economic and trade cooperation as commonly believed leads states towards prosperity and development (Nye, 1977). Moreover, it is also perceived that political and strategic interests provoke war and hostility whereas economic inter-dependence can create atmosphere of peace and tranquillity and promote a culture of democracy and cooperation. Thus, "there is a need to establish the principle of permanent interdependence between rich and poor regions of the planet." It has also proved that Third World countries have a sensitivity of interdependence with intertwined economic factors but it is a reality that interdependence can stabilize the country's position and dependence is worst level of vulnerability.

In the recent situation, the concept of "Most-Favoured-Nation" (MFN) is the best option to boost trade and socio-economic activities under the spirit of interdependence as MFN philosophy is based on mutual benefits and collective efforts in the progress of countries. Additionally, one of the core benefits of interdependence is that countries can involve in global trade competition and receive the goods and services, which are lacking in the country (Toye, 2010). This idea is also against the will of dependence, which is based on monopolization of economy and cannot provide open opportunity for development and improvement. Its spirit requires member countries to adopt the favourable tariff and regulatory treatment for products of member countries, which is necessary for sending goods to other member countries, and also imports important items as per requirement (Rosecrance, 1986). Under the MFN rules, the WTO member must negotiate with another country which might not be a WTO member and have right to reduce tariff on goods approximately five percent. Moreover, the "tariff rate" will apply to the other WTO members accordingly. It is mandatory that once a WTO member offer favourable conduct to another member country with regard to specific item then must apply to the other members of organization in order to provide special status.

### **1.1. Complex Interdependence and the Politics of the MFN**

The creation of most favoured nation status (MFN) was initiated in 11th century but popularize in 18th century due to trade expansion in the world. The idea divided in terms of conditional and unconditional status of most Favoured Nation for trade interest of the countries. In fact, the commencement of world trade enhances the idea of most Favoured Nation status in the developed and developing countries for dual-party partnership and state-to-state concerns. It was clearly mentioned in the charter of GATT and later in the objectives of WTO that there would be no pre-condition for countries to enter into a 'most favoured nation' position with any country. In fact, "MFN" means that the both countries can enjoy the equal trade benefits and to receive trade profits including less tariffs (Henderson, 1998). In reality, the country, which has attained the MFN status, will be responsible to offer same status to another country.

The vision of MFN status has a long history and it was in existence even before the creation of GATT in the world. It was normally involved in bilateral trade business and this concept significantly promoted the liberalization of trade. Historically, Anglo-French treaty of 1860 initiated by Richard Cobden and Michel Chevalier, who introduce inter-locking tariff

reductions and extended to the world under the most-favoured-nation (MFN). The Treaty of Madrid (1667) has given status of MFN to England for trading and under the Jay Treaty (1794), the United States also granted special status to Britain (Das, 1999). Thus, the concept of most favoured nation (MFN) is unique opportunities for two countries in which one country have to provide the equal status to the other as per the rule of trade law. This facility will be applicable internationally to the duties charged on imports goods, but its rules and regulation will binding by the MFN rules and other areas of international economic trade (Cebi, 2002). Moreover, after the Second World War, the GATT (General Agreement on Tariffs and Trade) members review the case of tariff and trade and in the result, World Trade Organisation came into being in 1995. It was an unanimous decision of WTO members that countries must provide MFN status to one another, which became a tradition that members include "most favoured nation" clause in all bilateral investment treaties/agreements among WTO members (Hoekman, 2000)). In general, most favoured-nation (MFN) declared that the regular trade relations between the countries would be based on equal trading facilities to all the concerned countries. Therefore, MFN status requires to maintained equality of trading facility with the countries who signed bilateral agreements with others (Jackson, 1998).

In the 1930s, GATT actions confined the activities of the MFN codes due to the division of East-West trade polls. However, after the World War II, the unconditional category of MFN rules was included in the GATT on a multilateral basis, which ultimately contributed to the stability of world trade system. In this regard, most-favoured-nation (MFN) rules desire a country to give privileges to one another country under the trade agreement, and provide equal status to countries. Therefore, MFN needs same action for all member countries because MFN status is purely non-discriminatory and guarantee of identical trading with all WTO member. Moreover, MFN privilege is an economic opportunity for a country that will provide the same status to other trading partner. In this regard, the country will obtain the lowermost tariffs, reduction of trade difficulties, and will increase import quotas (Krueger, 1982). In this way, under the WTO rules, all MFN members will be treats equally, the MFN clause between the two nations will called free trade agreement, and both countries have to confirm status each other. Moreover, these rules are particularly for the utilization of trade exchange and it can be used for loan agreements and marketable businesses. Thus, the World Trade Organisation (WTO) desires MFN members act fairly amongst each other and by all means encompasses equal benefits and protections provided to one country will apply to all members. Therefore, the idea of MFN is completely non-discriminatory in terms of equal trade guarantee for all WTO members (Krueger, 1998).

Under the WTO rules, member's countries are bound to fairly treat each other, which means to equal treat, all the nationals and foreigners. Moreover, equal treatment is non-discriminatory and without conditional conduct. This status can extend to other nations who are qualified for MFN position. In addition, the conditional MFN status compels the country to provide equal opportunity and reward for potential benefits from the MFN prestige (Amsden, 2003). Nonetheless, MFN status is a global trading system between two countries on tariff and can extend to other nations. The MFN status can also be used to exploit other nations just to gain trade benefits. In addition, there are two types of most-favoured-nation conduct: one is conditional and the other is unconditional. In this manner, the "conditional" action is unnecessarily for the party and can offer economic advantages to the concerned party under the win-win conditions (United Nations, 2010). However, the "unconditional" act is any tariff support to the third party and it can extend to the party, which is already on board. This principle has mentioned previously in the charter of GATT, which is also written in the World Trade

Organisation (WTO) objectives. Moreover, members of WTO are bound to provide discounts to the main supplier country in order to obtain reciprocal discount for the country that is ready for the same status as per rules.

International concerns on the treatment of most-favoured-nation have decreased, as new devices of trade regulation (import quotas, exchange control, and state trading) became greater obstacles to trade than tariffs. In this regard, the discretionary and arbitrary nature of regulations refused to rendered specific guarantee for equal trading benefits to any party. It is interesting to note that the most-favoured-nation concept came under severe opposition by the European Union and reduced duties for EU member countries but not for others nations (Kaempfer, 1989). However, majority of countries provided most-favoured-nation position to their trading allies, which were not for others countries.

### **1.2. Developing Countries Advantages of MFN Status**

Under the rules of WTO, all members (164) of the organization and 23 observers are bound to provide Most Favoured Nation status to each-others. Its means members will receive the trade benefits from other members. In this regard, the developing countries are exempted for regional trade areas and customs unions or which are not directly members of the organisation. However, developing countries can obtain special favour without having to return it and they can boost their economies. This is also best method for the developed countries to improve their economy and consumer desire of imports will mature along with these economies to produce a larger market access for their products (Stiglitz, 2002). However, MFN status is important in economic and commercial terms for small developing countries, as the status will provide direct access to the larger markets. There are chances that MFN will reduce the charges of the export items for the benefit of such countries. Therefore, the products will be cheaper and less competitive. In this regard, the countries industries have better chances to increase their quality of goods to compete the requirement of large markets. Their industries can enhance technological improvement to meet the challenge of modern demands. Therefore, the developing countries can receive economic benefits and can increase the exports by economic growth. In this way, various tariffs have not access to be measured for each import due to the same status.

### **1.3. Disadvantages of MFN**

Most Favoured Nation status have certain disadvantages for the under-developed nations and the cost is more economical rather political. The main disadvantage of MFN status is that the countries have to open its markets to the other member countries for the trade benefits, which are within the periphery of WTO. It is also clear that there are rear chances to protect country's domestic industries due to cheaper items of the other countries including goods of developed countries. This factor is a challenge for the developing countries because they cannot compete the situation and the leading disadvantages of free trade agreements (Toye, 2004). Consequently, these advantages are inevitable, as developing countries cannot defend home industries due to quality of goods and advancement of technology. Thus, it is also core disadvantages of free trade agreements, which are normally without tariffs and small countries, are bound to subsidize their goods. They are bound to export their finishing goods in cheap prices while this practice will give hard time to their companies in trade and commerce.

On the other hand, developed economies can benefit for unforeseen time as economies flourish

in developing countries to fulfil their demand for imports. This policy can also provide a larger market space for the developed countries products. However, developing countries can use the policy of subsidization to their domestic industries and the countries can enhance export by lower charges. This harmful exercise is not helpful for companies and it can put the country in a weaker position in trade business (Sampson, 1999). In the past, some nations shown interest for MNF status and initiated to export low price goods to the rich countries as to cover-up their agricultural products and finishing-goods industry. In fact, developing countries industries cannot face the challenges of developed countries with subsidized items due to which governments are also poor to rescue their companies. Thus, the developing countries have no other option to take the shelter of WTO, accommodate their agricultural products, and face the challenges of Western countries.

## **2. Research Methodology**

The current research is qualitative and descriptive in nature where the available data and information in the contents are critically evaluated. The data is collected through secondary sources. Like all political and security studies the current study does not claim to address the issue in completeness, yet it paves the one of the ways forward to understand the fault lines in Indo-Pakistan trade relationship in the broader strategic and regional context. Data related to the problem is quite scattered and was extracted from different sources that included; some of the sources of these secondary data include Ministry of Commerce, National Sample Survey Organization (NSSO), and South Asian Association for Regional Cooperation (SAARC) Section in Foreign Office and Directorate General of South Asian Desk (Ministry of Foreign Affairs Islamabad). The paper uses time series data on agricultural exports to Pakistan and agricultural imports from Pakistan, which is taken from Export-Import Section, Ministry of Commerce (Islamabad). The data also has been taken from International Trade Centre website on India and Pakistan's exports and imports to different countries. Information on tariff and non-tariff barriers was taken from WTO, the respective Government and the MacMap website. Information related to SAFTA was obtained from the SAARC Website. Besides, various websites like faostat, and agricoop with referrers for the study.

A major development related to trade in South Asia took place with the formulation of South Asia Free Trade Agreement (SAFTA), which came into effect in 2006. The study compares trade trends by dividing the relevant period in two phases i.e. before the formulation of SAFTA and after the formulation of SAFTA, which also assessed the influence on the trade flows between the two countries. Thus, the years of 1950 and 1960s were taken as the benchmark year for analysing trade trends between India and Pakistan and its effect of the regional trade agreement on bilateral agricultural trade.

## **3. History of India-Pakistan Trade Relations**

Indo-Pak economic relations always remained hostage of political tension and acrimony and both countries have made some efforts for improvement in this realm but vain. History has seen to be an unequivocal commitment to in the field of economic cooperation and which has resulted in little progress has happened for economic engagements between the two nations. In this regard, Pakistan has initially decided to provide India Most-Favoured Nation (MFN) status and planned to open Attari check post in April 2012 but the idea plan was postponed due to domestic pressure on the government (Dawn, 2012). On the other hand, at the same time, Pakistan also demanded new trade routes, tariff removal, and reduction of non-tariff barriers

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(NTBs) which were perceived to be necessary for better trade relations. In this context, Pakistan has to present “China Model” to introduce de-hyphenation of political ideology and economics programme (Raiser, 2019). Although trade relation between the two nations traditionally has been a serious uphill task but there is an utmost need to improve trade size between India and Pakistan. The most valuable time of cooperation between the two nations was 1947-1965 when both countries’ economies were rationally involved to maintain India and Pakistan standstill agreement in which trade and commerce was exempted from customs duty. In addition, the closeness of economic ties also can see by the fact that after the partition of British India, the volume of trade was better as compare to present time between the two nations. However, there are possibilities to increase mutual trade through socio-cultural exchange and can use road link which will be cheaper link to foreign markets.

India and Pakistan have a volatile history, and the core reason behind this instable relation is the Kashmir dispute, which is the cause of three major armed conflicts (1965, 1971, and 1998) and many border skirmishes. The normal relations needs sound steps from the both sides and it is only possible by bilateral trade and economic interdependence. It is also necessary because historical hostility has given a grave negative impact on trade relations and it can realize by the lowest level of trade between the two countries (BBC News, 2019). It has also effected growth of population; geographical and cultural particularities of both countries and increasing hostility damaged both countries rather achieving any potential benefits. However, it is fact that trade relations can improve bilateral relations between the two nations and may prevent them from armed conflict. It is also on record that the trade volumes normally favour Pakistan as compared to India.

Since the beginning, Pakistan’s trade with India was in favour of the country as it was \$113 million during 1951. The country exported many items to India and imports were only \$0.08 million from India (Ashraf, 2019). However, trade relations broke down between two countries after the Indo-Pakistan war of 1965. The conflict led to a halt in trade process, which never returned to the same position due to third armed conflict in 1971 until 1980. The fourth time trade relations came to a halt in 1998 armed conflict, which prevented both states to improve their bilateral ties. During 2009-2010, Pakistan trade with India was around \$2 billion and this percentage could move faster provided the governments take bold initiatives to promote trade relations with India apart from formal and informal barriers. It is on record that the balance of trade between two countries remained in Pakistan favour but since 1993 trade balance shifted to India (Ashraf, 2019). The export from Pakistan gradually declined US \$27 million in 1993-1994, which amplified to US \$1.47 billion in 2010-2011. Thus, India apparently supported reducing trade imbalance through different means and gave Most Favoured Nation (MFN) Status to Pakistan in 1996. It was expected for a member of WTO, Pakistan reciprocally to provide MFN status to India, but Pakistan refused due to countable problems with India including Kashmir dispute.

In the WTO trade list, which had 1918 tradable items and increased to 5,800. However, there are still around 1209 items in negative list where Pakistan is in restricted product groups such as prepared food, footwear, and personnel articles, textiles, vehicles and transport equipment (The News, 2018). Thus, trade deficit on the part of Pakistan, has amplified criticism against trade liberalization by some factions of society. It has assumed that trade with India will lead to a flood of Indian imports in Pakistan. On the other hand, the Indian narrative propagates that Pakistan’s policy over trade liberalization issue is influenced by its security establishment rather than civilian government. India has also blamed ministry of trade and commerce at

Islamabad for being incessantly frustrating by its security guardians to extend MFN to India (Suneja, 2019). Moreover, it disseminates that Pakistan has invoked the false idea of Pakistan specific 'nontariff barriers' to only delay the normalization process. Therefore, 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.

Political analysts argued that India and Pakistan trade relations possibly can be promote if Pakistan use soft diplomacy and grant India as Most Favoured Nation (MFN) status, which will enhance its image in the international community. There is no doubt that Pakistan will gains more as compare to India and the country can earn foreign exchange rather looking towards international financial institutions. However, SAARC report of 2016-2017 mentioned that trade strength can go up to \$12 billion only for MFN status countries and it can be more with respectable to trade in goods (Department of Commerce for South Asia, 2017). It is fact once Pakistan grant MFN status to India the country can gain more as compare to strategic considerations. However, in order to negative response from Pakistan, India imposes unhealthy tariffs on Pakistan's goods particularly on textiles and leather. Experts argued that Pakistan economic diplomacy could create dynamic enthusiasm and goodwill if the country will grant MFN status to India and this action will work as an instrument to put pressure on New Delhi for the solution of Kashmir dispute. It is also necessary to establish cordial and pleasant relations, which will enhance both countries economic development. Moreover, joint understanding and cooperation can discourage illegal trade, and cross border smuggling. It was estimated that Pakistan could gain \$13 billion through the trade with India. It can also be assumed that Pakistan can send its goods to India through third parties, such as Dubai, UEA and other channels and can take some benefits. The economist argued that Pakistan's light engineering sector has better chances of export because they have cheaper item as per requirement of Indian markets (Business Today, 2019). In this context, India can take advantages to export cheaper goods to Pakistan such as textile items, general consumer goods and steel goods. Additionally, many textile and household items are popular in India and have good capacity to export India and these can further extend to Haryana, Punjab, Himachal Pradesh, and North Rajasthan, which has great demand of Pakistani goods.

### **3.1. South Asian Free Trade Area (SAFTA)**

SAFTA is the creation of SAARC, which was established on 8<sup>th</sup> December 1985 to promote socio-economic progress of the member countries. It is the prime objective of SAARC to extend the area of economic cooperation through trade facilities for enhanced stability in the region. The progress of trade and commerce could have been significant step for cooperation among the South Asian countries. However, at the moment it is perceived to be difficult to materialize this vision because of the political disputes in the region. Trade activities between the South Asian countries are still very poor due to India's rigid attitude, which has bilateral conflicts with other member's countries and this factor is hampering regional cooperation in the region (World Bank Report, 2019). Although major actors of the region (India and Pakistan) have the commitment that they will promote trade and socio-economic cooperation and both conform to increase aspirations of regional integration. On the other hand, there is an utmost need to boost worldwide regional trade, which is the main message of WTO for developing countries. Under which commitment of regional South Asian countries has accepted South Asian Free Trade Area (SAFTA) proposal at Islamabad during the 10th SAARC Summit on 6 January 2004 but SAFTA is remain the victim of political and strategic interests of the countries.

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In the same way, SAARC also established SAPTA in 1993, at Dhaka between the member countries to liberalize the trade among SAARC member countries. It changed tariff and non-tariff barriers on intra-regional trade and made it acceptable for all member countries. It provided the seven South Asian countries an abundant opportunity to trigger of their economic prosperity by joining a multilateral trade agenda. The organization slashes down custom duties on all goods for the purpose of export in 2016 and requires the non-LDC countries such as India, Pakistan, and Sri Lanka to reduce their custom tariff to 20 percent by January 2008. Member countries council also directed to the other LDC member countries such as Bangladesh, Bhutan, Maldives, and Nepal to reduce their customs tariff up to 30 percent for better trade benefits (Sorensen, 2020). The member countries did not reduce tariff as per required percentage and concerned countries just retains such list, which includes those items that do not require tariff reductions. Thus, in the seventh Meeting of the SAFTA Committee of Experts in Islamabad, which was held on 14-15 February 2012, and the committee urged members to further reduce items in the sensitive list of their country in order to increase trade and exports. On the other side, Pakistan seriously criticized SAFTA because its policy damaged its agricultural sector and organization lobby only backed to industrial sector. It was also assumed that the management of organization only allows India to import its cheapest goods to Pakistan with the sole purpose to harm its agricultural products because the country farmers are not in position to compete with India due to various shortfalls. In this regard, the Ministry of Commerce (Islamabad) also shown its unwillingness to move forward with SAFTA and argued that India was a closed economy and free trade would only be beneficial for Delhi contrary to Pakistan (Ramay, 2018). At that time, IMF criticized Islamabad policy and argued that Pakistan objections are political rather than economic benefits and put pressure on the government to sign SAFTA (Raihan, 2012). According to the IMF officials, that Islamabad's move is to push away liberalization of trade with the aims to subside its domestic industries (IMF and SAFTA, 2017).

### **3.2. Non-Tariff Barriers and Restrictive**

India has more restrictive trade regimes relative to other developing countries in order to protect its indigenous industry. India is placed at 113th out of 125 countries on the World Bank's latest (2016-18) Trade (MFN) Tariff Restrictiveness Index (TTRI). These restrictions are being applied more rigorously against Pakistan, which includes a wide range of Non-Tariff Barriers (NTB). In fact, the imposition of excessive non-tariff barriers, visa and travel restrictions, and protracted customs clearance procedures with controls on the movement of items, which is not a facilitative measure for Pakistani business community (Aftab, 2016). In this matter, Pakistan perceived that India deliberately ignored Pakistan's position in terms of port facilities, lack of management of custom for exports (The News, 2017). Moreover, Pakistan has taken trade privileges under the NTBs and India also desire the same benefits but Pakistan claimed that rules more strictly applied on the country goods as compare to other countries including India (Dawn, 2016). In this regard, New Delhi intentionally increase tariff on Pakistan goods such as agriculture, garments and textiles, which perceived to be extremely higher than Indian goods. India has also imposed a higher tariff on the imports of cereals, fruits, and vegetables as compared to 18 to 19 percent in Pakistan and discouraged Pakistani exporters' access to Indian markets.

As David Ricardo argues in his book title "*Principle of Political Economy*", in which he discussed taxation of free trade strategy for nations. Ricardo mentioned that free trade authorizes to nations and consumers to take advantages of different comparative advantages.

He argued that a state must produce consumer goods efficiently and cost effective. Therefore, Ricardo's theory of comparative advantage easily applies to India and Pakistan and it is confirmed that free trade agreement with India has not been beneficial to Pakistan (Ricardo, 1817). The low trade dilemma is going on between India and Pakistan because Islamabad lacks diversified exports base. Pakistan has some level of rewards in agricultural and textiles products of unmatched with other countries including India. However, Pakistan has potential of relatively comparative gain in agronomic and textiles goods as compare to India and can approach to Indian markets. However, unnecessary utilization of NTBs and biased policy against Pakistan deprives country in term of relative benefits.

### **3.3. Relative Trade Liberal Regimes**

As compared to Pakistan, the evidence shows that Indian exports to Pakistan have been rapidly growing since long, although Pakistan maintains limited positive items to export India. In fact, India has more diversified export base in terms of relative level of development in previous years. Resultantly, it leads to high level of export to India apart from difficulties for Pakistani goods. In this regard, Indian exporters' have relatively trouble-free access to Pakistani markets because Pakistan has liberal trade regime (Khan and Ali, 1998). Pakistan regulates its protection policy through practicing import tariffs and SROs, rather than NTBs (LSE). The country suffers sometimes due to its liberal trade policies, as the domestic commodities become valueless and the domestic investor 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 again, which will cause a permanent dependence on the Indian market for the same commodity. Moreover, non-tariff trade makes Pakistan lose the custom duty revenues, which can generate handsome amount for Pakistani exchequer. However, without permitting MFN grade to India, cordial relations between India-Pakistan cannot be stabilize and the country will deprive to access the larger market of India (Suneja, 2019). On the other hand, India along with granting MFN status, it has put trade restrictions on Pakistan, which has harmed Pakistani industry. The economists argued that Pakistan will reduce the sensitive list to a 100 items, and India will reduce them to a 100 items by 2017-2018. This will give both nations to cooperate more in trade. In this regard, US-China bilateral trade is a precedent for both countries that besides having apprehensions on both sides, they are the largest trade partners.

### **3.4. Trade Facilitation**

India concurrently adopted the policy of commercial liberalism through granting MFN status to Pakistan and mercantilism by practicing protectionist to enhance its own benefits, reducing the benefits of Pakistan. It must be clear to India as long as it practice neo-mercantilist approach, it would be unlikely for Pakistan to grant her MFN. There is no doubt that increasing trade facilitation measures can bring greater economic and trade gains for both countries rather reduction in tariffs. Both can also promote bilateral trade and both must focus on trade facilitation measures. In this regard, land route such as Wagah Attari route has much more better position to increase trade and cost will be lower. It would be indispensable to reduce the bottlenecks through regulatory measures in order to draw real benefits by opening up trade. Trade facilitation can be practiced unilaterally, comprises of simplification of processes and coordination of authorization procedures, monitoring process of official documents and easy facilities to pay taxes and other revenues. Both must negotiate and implemented bilateral measures including one-stop border systems, transshipment of goods, multiple entrance licenses for transport drivers including opening of Husseni Wala-Sialkot border points.

### **3.5. Pakistan Fears on Trade Liberalization with India**

Theory of free trade and its benefit cannot be ignored but some time countries for their legitimate motives cannot pursue in relations to secure its core national interests. In case of Pakistan which is the victim of other country relative comparative advantage and economic growth. It is inevitable because India is hostile towards Pakistan and its apprehensions on free trade agreement are not hidden. Pakistan has perceived that India have desire to damage Pakistan's domestic industry and products. It is fact that India may use dumping policy against Pakistan to capture its market. Therefore, 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. Therefore, India's expansionist policy pushes Pakistan to use possible efforts and protect home industry from Indian economic aggression. Thus, Pakistan's strategic and economic interests compel the country not to extend MFN status to India until New Delhi will not resolve all outstanding disputes with Pakistan.

However, some scholars have opinion that Pakistan has to give MFN status to India, which will create soft image of the country, and its action will remove the negative propaganda against Pakistan in the world community. However, civilian governments are reluctant to improve bilateral relations with India because of security establishment of the country. While, the government should highlight the issue of reducing India's non-tariff obstacles to supply goods of Pakistan to Indian markets. On the other side, India is also bound to take purposeful actions to normalize its bilateral relations with Pakistan. It should not adopt an imperialistic attitude towards Pakistan and should not show rigid attitude. Presently, India has reduced its relations with Pakistan due to Kashmir dispute and terrorism. Pakistan leadership is not willing to talk with New Delhi until New Delhi assures Pakistan for its non-involvement in the internal affairs of country and have to talk about the Kashmir issue. Similarly, Pakistan will accept India's pre-condition for progress in bilateral relations. Michael Kugelman is also optimistic about Pakistan image in international community provided Islamabad should extends MFN status to India in which Pakistan can gain more benefits as compare to India. (Kugelman, 2016). Scholars have opinion that South Asian region can be stabilized in case India and Pakistan trade relations grow up in meaningful direction.

## **4. Conclusion**

In the discipline of international relations liberalization of trade has proved a zero-sum game as David Smith and Ricardo assumed but there is a difficulty with Pakistan policy makers that they are not prepare to withstand domestic and international demands of liberalization of trade with their neighbour i.e. India. There is no doubt that relations between India and Pakistan have never been fruitful and healthy since independence. There is short history in which both countries were engaged in bilateral trade without moving on their principal stand on Kashmir dispute. It is therefore, not a wise policy to postpone economic relations until the bilateral political disputes are resolved. Moreover, there is a sarcastic propagated in Indian discourses that Pakistan is averting of liberalization of trade with India because of dissent of security establishment. However, Pakistan real apprehensions are the Indian products, which may overdo its indigenous industry. The apprehensions are not baseless, as Pakistan needs exports with India for the promotion of indigenous industry and its potential to flourish as a result of trade liberalization. However, there is a widespread perception in business community of both countries that only economic engagement can normalize relations in terms of trade liberalization rather than continue hostility, which will disturb normalcy. Finally, traders,

transporters, and business community of both countries can play effective role for stable relations between the two countries and only economic interests can prevent conflict and war.

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