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Abstract

Purpose – This study aims to examine the possible gains and challenges for the enhancement of bilateral trade ties between India and Pakistan. It is interested specifically in analyzing and deliberating an attempt to identify the key challenges and bottlenecks in cross-border trade.

Design/methodology/approach – This paper offers in-depth case study of trade between India and Pakistan using time-series data and through various stake holders' interviews. As further discussed in the paper, the data investigation and interviews highlight impediments in India–Pakistan trade from trade policy to other policies involved in this process.

Findings – Based on time series data and stakeholders' interviews, the study concludes that poor trade logistics and abysmal transport infrastructure, high tariffs and non-tariff measures, lengthy customary procedures, heavy import duties, port restrictions, lack of appropriate storage facilities, strict visa regime, financial transaction barriers and lack of telecommunication facilities are the major challenges in the way of regional trade.

Originality/value – The study proposes some key reforms and policy measures to boost the formal trade to minimize the trade obstacles such as public–private partnerships and inclusion of private sector in a joint trade commission to strength the business relations between the two countries.

Keywords Investment, Non-tariff measures, Trade logistics, Transport infrastructure

Paper type Research paper

1. Introduction

The current body of literature on regional trade in South Asia suggests that there is often less trade among neighboring countries than there is with geographically distant countries (Ahmed *et al.*, 2014). Perhaps, this notion also applies to the trading relationship between India and Pakistan. Even though both countries have relatively large economic size within South Asia, they have a less than optimal level of bilateral trade, which stands around 3 per cent of the total trade volume. The volume of exchange as of 2010, stood at US$2.6bn – far lower than the estimated trade potential of US$20bn (Taneja *et al.*, 2016). Despite numerous efforts to promote trade between India and Pakistan, there has not been tangible progress (Batool and Ahmed, 2014).

Trade also takes place either through informal channels or personal baggage scheme through the land borders or third countries via UAE, Singapore and Thailand. The actual volume of informal trade is unknown, but there are different informed "guesstimates" of informal trade between India and Pakistan (Ahmed *et al.*, 2014).

Export categories may change if tariff and non-tariff measures are lowered and informal goods are allowed to gradually come through formal channels. Additionally, this will also require addressing the complex, non-transparent or divergent regulatory requirements (e.g. custom formalities, technical regulations and sanitary standards) that markedly increase the

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transaction costs of trade, thereby encouraging traders to escape formal procedures and duties (e.g. in Pakistan, traders often lack information on often changing regulatory requirements and face lengthy and costly custom delays when trading formally).

Informal cross-border trade can also arise due to lack of land routes and banking facilities, dissimilar custom procedures, visa restrictions, labeling and packaging requirements and the excessive checking of consignments among others. Finally, weakness in the "rules of origin," resulting in trade routed through a third country, results in leakages in transit trade in turn further distorting domestic policies and lead to higher indirect taxes and give rise to illegal transport of goods.

This study therefore is an attempt to identify the key challenges and bottlenecks in cross-border trade. Section 2 describes literature review which resulted in identification of research gap. Section 3 presents methodology and findings focusing on identification of key challenges and bottlenecks in cross-border trade between India and Pakistan. Based on the results, focus will be on reforms and policy measures for formalizing and encouraging trade in both countries in Sections 4 and 5. Section 6 concludes.

2. Literature review

Bilateral trade between India and Pakistan seems to be one of the challenging and daunting tasks for policymakers of the present and past. Hiccups and measures in this regard are mostly associated to:

- retaining the existing trade;
- scaling up the trade;
- India–Pakistan trade and investment cooperation.

So when one looks at the challenges in bilateral trade, it is to note that despite creation of South Asian Cooperation (SAARC) in 1985 and South Asian Free Trade Area (SAFTA) in 2004, economic integration in South Asia has been far surpassed by the economic activity witnessed in other regions due to hostility and volatile nature of relations (Taneja *et al.*, 2015).

Similarly, there are several regulatory impediments in increasing the level of cross-border trade in South Asia in general and trade between India and Pakistan in particular (Sahai and Laxmi, 2014). Taneja *et al.* (2013) pointed out the limited transportation routes and vehicles in addition to the negative lists and bureaucratic hurdles involving transport protocols and procedural clearances along with transportation costs as hindrance to bilateral trade.

To achieve benefits from pre-existing bilateral and regional frameworks for further help in sustaining political and economic linkages, there is need to have focus on:

- logistics;
- management of positive and negative lists; and
- product diversification (Dash, 2013).

Further to scale up trade, continuity in the existing volume can be achieved through the elimination of non-tariff barriers to facilitate the cross-border movement of goods and services and help cement a cordial relationship both the countries (Ali *et al.*, 2015).

Beside continuity, a politically stable Pakistan with an improved infrastructure and power system is deemed essential to economic development and trade promotion in the country. Specifically, measures by federal and provincial governments to improve the present trade logistics and services at borders would positively alter the state of cross-border trade with the SAARC neighbors (Raihan *et al.*, 2014).

While further going into the trade integration, SAARC has potential to play role by providing structure to the opportunities present, but it has unfortunately not developed wide ownership amongst the two neighbors (Zaidi *et al.*, 2017).

Pakistan also offers India a highly restrictive access to its domestic market, which is counterintuitive and counterproductive. In this case, it is strict trade and regulatory environment needs to re-evaluate, especially in light of the better productive capacity and purchasing power that countries such as Sri Lanka and Bangladesh have achieved after strengthening trade ties with India through the minimization of tariff and non-tariff barriers (Batool and Ahmed, 2014). Table I highlights and summarizes key findings of the studies mentioned in the literature review section:

2.1 Research gaps

The research conducted on bilateral trade between Pakistan and India generally pertains to the relevant transaction costs, informal trade, border management and other political issues such as the MFN status. The significance of the non-tariff measures and customary hurdles between Pakistan and India has not been adequately addressed by most previous studies.

Researcher/researchers/ organizations (Year)	Findings
Taneja *et al.* (2015)	Economic integration in South Asia has been surpassed by the economic activity due to hostility and volatile relations
Sahai and Laxmi (2014)	Regulatory impediments are hindering the increase in cross-border trade in South Asia generally and particularly for India and Pakistan
Taneja *et al.* (2013)	Hindrance in bilateral trade is due to: limited transportation routes and vehicles; negative lists; Bureaucratic hurdles involving transport protocols and procedural clearances; Transportation costs
Dash (2013)	Benefits from pre-existing bilateral and regional frameworks for sustaining political and economic linkages should focus on: logistics; management of positive and negative lists; and product diversification
Zaidi *et al.* (2017)	Further going into the trade integration, SAARC has potential to play role by providing structure to the opportunities present, but it has unfortunately not developed wide ownership amongst the two neighbors
Ahmed *et al.* (2015b)	Simulation of regional integration within South Asia can be through strengthening the value chains in the region. High cost of doing business needs to be brought down. Understanding coordination and cooperation between the institutions of different countries for standardization of product quality requirements and harmonization of licenses and permits
Batool and Ahmed (2014)	Pakistan offers India a highly restrictive access to its domestic market which is counterintuitive and counterproductive. Trade and regulatory environment needs to re-evaluate especially in light of the better productive capacity and achieve better purchasing power like other South Asian countries by reducing tariff and non-tariff barriers

Table I.

One gap that has impacted bilateral trade and deserves more research attention is the negative reports that some sections of the media on both sides air. These reports often, then, become rallying points for different pressure groups in the respective countries that ensure investment and trade does not grow. Another important gap has been comparing the size of the informal trade as opposed to the formal trade and finding mechanism(s) to improve formal trade environment (Taneja and Dayal, 2016).

3. Methodology

The design of the study consists of a four-pronged approach, as data are derived from various relevant sources. First, the vast body of empirical literature, specifically pertaining to India-Pakistan trade, was consulted. Second, a comprehensive desk review was carried out to extract data on India–Pakistan trade – including formal and informal trade. Regarding the formal component of this trade, the data from International Trade Center were referred to obtain the top commodities which were imported and exported between both countries from 2006 to 2016, using HS 2 and HS 6 codes.

Third, in-depth interviews with 18 public officials were conducted. These included officials from the Ministry of Commerce in Islamabad, Rawalpindi, Lahore and Karachi and officials from the National Tariff Commission, Ministry of Foreign Affairs, Ministry of Interior, State Bank of Pakistan, National Logistic Cell and the Federal Board of Revenue. For in-depth interviews of key informants, a semi-structured questionnaire was developed to gather information on maximum aspects of trade flows.

The fourth source consisted of an informal interaction with the local business community.[1] From 85 interviews, 40 were conducted with importers, 40 with exporters and 5 with clearing agents. Of the exporters consulted for this study, 10 were exporters of manufactured goods and 30 hailed from the larger trading community. This community primarily constituted the exporters of commodities such as textile, cotton, salt and stone, mineral fuels, edibles and organic chemicals. On the other hand, the importers comprised those who were primarily importing residues and waste from the food industries, plastics, edible vegetable, organic chemicals and cotton. Initially, a selective number of informed respondents were identified. After interviewing them, they were requested for identifying active business communities deemed relevant to our target population. Thereafter, a snowball approach, which involved our past respondents using their personal references[2] to recruit respondents for future interviews, was used for this study.

During the data collection process, problems of accessing official and non-official data were encountered due to limited time and because of prior engagements of senior officials. Consequentially, representatives of these individuals were nominated to provide input on their behalf. Some of the feedback received was also presented during the public seminar organized by the Sustainable Development Policy Institute to receive comments from stakeholders.

4. Pakistan–India trade: situation analysis

This section provides a brief analysis of the trading relationship between India and Pakistan. We analyze the pattern of bilateral trade along with prospects for improving its future scope. The section contains the analysis of imports and exports of Pakistan and India at the six-digit level HS code and two-digit level HS code. Data have been obtained from the International Trade Commission (ITC).

4.1 Pakistan's export to India

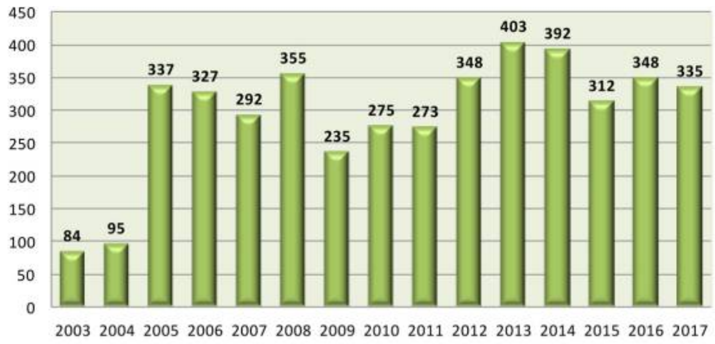
Figure 1 illustrates Pakistan's total exports to India from 2003 to 2016. Pakistani exports have fluctuated widely over the given time period. In 2003, exports from Pakistan to India were at their lowest at US$83m. They then rose rapidly to US$337 in 2005, subsequently following a pattern of intermittent increases and decreases.

In the given timeframe, exports to India were at their highest in 2013 at US$402m, subsequently falling to US$384m in 2016. Yet according to a recent report by the State Bank of Pakistan, Pakistan's exports to India grew during the first eight months of 2016-17 fiscal, while imports fell by 23 per cent.

4.1.1 Top-5 export commodities of Pakistan to India at six-digit. Figure 2 shows the top five export commodities of Pakistan to India, as measured in the revenues generated (see tables in Annexure-2). As of 2015, the exports of fresh or dried dates from Pakistan were valued at a total of $67.92m. An export of Portland cement was estimated to be $36.9m, with cotton exports having a valuation of $25.85m. Waste and scrap and medium oils, valued at $9.22m and $0.54m, respectively, were among the least lucrative commodities out of the top five exports.

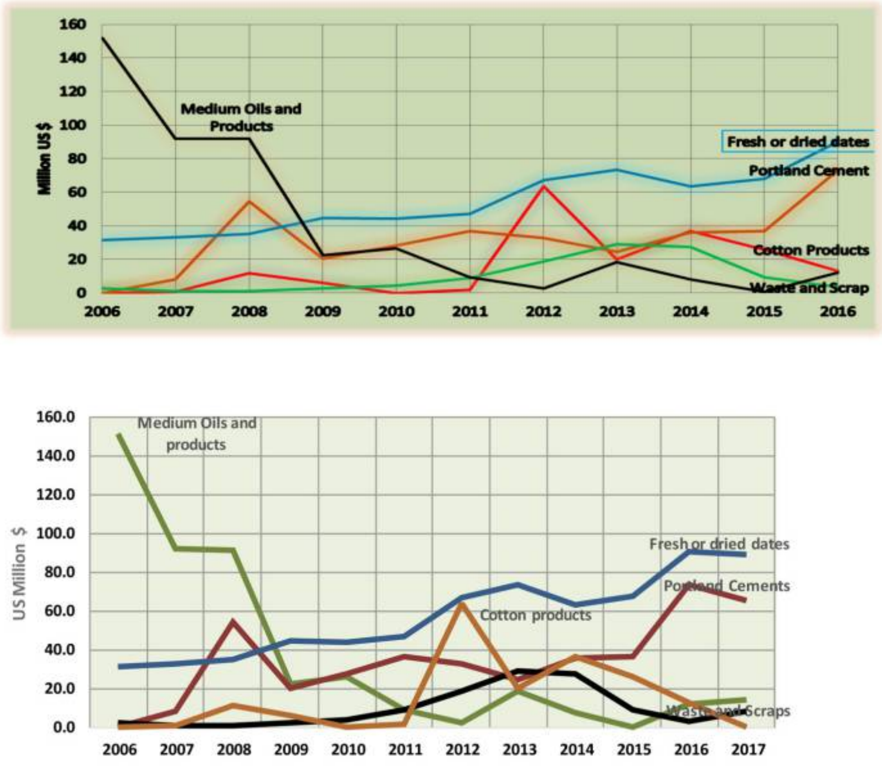
The graph shows considerable variations in the exports of the top five export commodities over the course of the past 10 years. One of the main reasons for these variations along with the lack of a discernible trend is the hostility between both countries, which dramatically raises the proportion of undocumented trade. The hostility exists due to longstanding border disputes which have led to border skirmishes and both countries accusing each other of fomenting instability in the other along with terrorist attacks in India. Other than the aforementioned reasons, another reason for the variation in the trend for exports from Pakistan to India may be non-tariff barriers, particularly high border costs.

Table II shows the metric of trading across borders as measured by a Distance to Frontier (DTF) score, which basically depicts how distant an economy, on average, is from its performance frontier of 100. A low DTF score can serve as a disincentive to traders and depress the trade volume. According to the Doing Business reports published in 2016 and 2017, yet providing scores for the following years, while both, India and Pakistan, made marginal improvements, Pakistan consistently had the lowest DTF score when compared to India and China.



Source: ITC Database, 2017

Figure 1.
Pakistan's total exports to India (million US dollars)



Source: ITC Database, 2017

Figure 2.
Pakistan's top-5 export commodities to India at six-digit (million US dollars)

4.2 Pakistan's imports from India

The pattern of Pakistan's imports from India is analogous to the export pattern seen earlier. Fluctuations in the volume of Pakistani imports from India are primarily due to the long-standing hostility between the two countries. This enmity is rooted in sharp disagreements over the issue of the disputed region Kashmir. As a result, the animosity between both countries has caused a huge rise in the share of undocumented trade. High border management costs and other non-tariff barriers have aggravated the current situation.

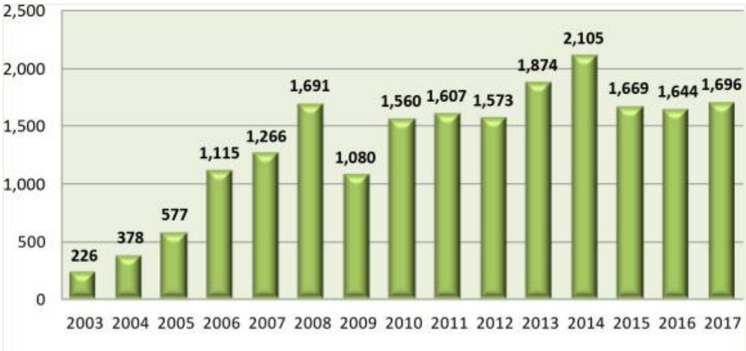
4.2.1 Top five import commodities of Pakistan from India at six-digit. Figure 4 shows the top five import commodities of Pakistan from India (for further details, see tables in Annexure 2). The figure depicts the increase in cotton imports from \$65.3m to \$273.5m over the given time period. A key reason for India dominating Pakistan's cotton imports was the decline in cotton manufacturing in China and the USA. Indian exports of cotton were especially high during 2003-04 and 2004-05 when they constituted 31 per cent of agriculture exports (Chand and Saxena, 2016). Cotton is exported and imported from India because countries recently have started to carry out "intra-industry" trade.

Similarly, propylene has been imported from India since 1996-97(Ghuman and Madaan, 2006). Till 2005, it constituted a relatively small portion of total imports at 3.4 per cent. Pakistan's dependence on propylene since then has been subject to dramatic variations. The minimum value of propylene imports was in 2010 at $25.2m, and after having continuously declined till 2010, the imports of this product started to climb and reached $84.62m in 2015. Besides this, the imports of tomatoes rose precipitously from their lowest in 2006, at $0.1m, to $128.16m in 2013. Subsequently, they declined to $69.2m in 2015, which in part was due to hostilities resulting in the suspension of imports.

Additionally, Pakistani imports of petroleum products, primarily oil cake and solid residuals fell and rose in the two years preceding 2008, only to decline again in 2008-09. Afterwards, these products witnessed a continuous increase before dwindling to their lowest in 2015, when they were valued at 68.7m. The p-xylene, which had initially followed the opposite trend of the other petroleum products, only to rise in 2010-2011, thereafter underwent a consistent decline to about $27.5m in 2015.

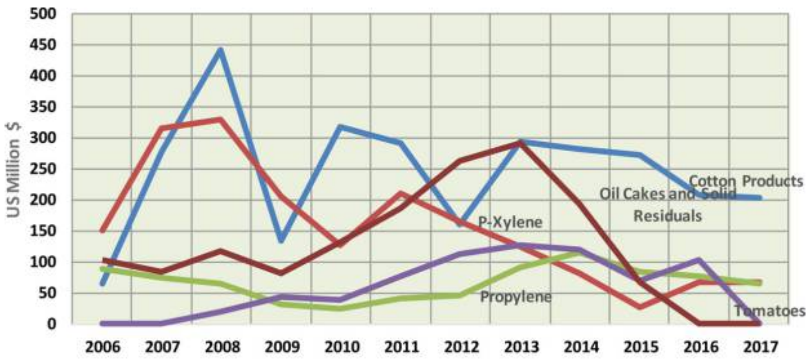
5. Field responses

The information gathered from the interviews of our main informants reveals that bilateral trade between India and Pakistan still stands at a dismally low level as there is a substantial portion of the potential trade volume that remains unrealized.



Source: ITC Database, 2017

Figure 3. Pakistan's total imports from India (million US dollars)



Source: ITC Database, 2017

Figure 4. Pakistan's top-5 import commodities from India at six-digit (million US dollars)

The normalization of trade ties began in 2012, with the roadmap laid out being geared toward the reduction of tariff barriers, such as duties and surcharges, as well as nontariff barriers, such as licensing, quotas and other requirements. Pakistan has made substantial progress in liberalizing trade with India while India has taken measures to address non-tariff barriers4 as part of this process. Pakistan has permitted all items, with the exception of 1,209 items on the negative list, to be imported from India. Despite concerted efforts, there still exists a monumental difference between potential and actual trade between India and Pakistan. In fact, bilateral trade has only increased marginally and there has actually been a marked decrease in the annual growth rate of bilateral trade, which dropped from 11 per cent from 2007 to 2010 to 3 per cent from 2011 to 2015.

The experience of Pakistanis involved in the trade with India indicates that bilateral trade suffers due to certain constraints. The most potent concerns are discussed below.

5.1 Bottlenecks restricting trade between India and Pakistan

The vast trade potential remains unrealized largely due to non-tariff barriers, poor infrastructure resulting in high cost, poor trade facilitation measures due to stringent customs, procedural barriers and restrictive visa regimes, etc. Major bottlenecks include the following.

5.1.1 Poor trade logistics and abysmal transport infrastructure. Both India and Pakistan have seen increments in the competence and quality of logistical services since 2010 as is evident through the following table; India's score still exceeds that of Pakistan, albeit by a lesser margin.

Poor cross-border infrastructure is a major constraint to increasing trade between India and Pakistan. Border areas of both countries lack appropriate storage facilities and the capacity to load and unload cargo due to which an increase in truck traffic usually incurs exorbitant costs. There are several bottlenecks as far as rail links are concerned, ranging from issues of inaccessibility of wagons, the necessities of wagon adjusting, the non-containerized rail wagons and the inadequate framework at the rail cargo stations.

5.1.2 Inadequate custom processing. Another barrier hampering the flow of goods and services between both the countries is the poor state of custom processing. Traders are frequently confronted with the sheer absence of custom freedoms and the standards of cause

Table II. Trading across borders: distance to frontier

Year	China	India	Pakistan
DB 2017	69.91	57.61	39.41
DB 2018	69.91	58.56	41.94

Source: World Bank, 2017

Table III. Logistic competence

Year	India	Pakistan
Trade Logistics		
2010	3.16	2.28
2016	3.39	2.82
2018	3.13	2.59

Source: World Bank, 2016

confirmation. Trucks occasionally have to wait in long queues, incurring huge losses due to perishable commodities in their consignments. First-in-first-out measures can avoid consignments being treated on a preferential basis.

Table IV shows the score which India and Pakistan get on the efficiency of their custom clearance process. Even in this case, despite improvements in the speed, simplicity and predictability of these formalities, as reflected in the scores of both countries since 2010, India still outranks Pakistan.

5.1.3 Fluctuating standards and procedural steps. The institutions which are responsible for determining the standards and procedural steps in both countries regularly keep updating their rules and regulations. In India, the Bureau of Indian Standards is assigned this task, and in Pakistan, it is the Pakistan Standards and Quality Control Authority.

It was observed from the field responses that the standards and procedural steps followed by India and Pakistan are often subject to rapid changes. One of the respondents mentioned certain conditions which are in place on the Indian side.

It was pointed out that India has stipulated certain measures, for instance, the packaging of certain chemicals should be under the prescribed terms and conditions. Once the packaging is done, the product is sent to a testing facility in another city. The introduction of these conditions by India has increased the time and monetary cost for Pakistani exporters.

For example, in Pakistan, there is no quota system followed as opposed to India, where a specified quota system is in place. So, if an Indian importer seeks to import marble from Pakistan, he can only import it to specific destinations within India. Such measures have a dampening impact on the export of Pakistani goods, which is further worsened by the preferential treatment of traders and their commodities. Thus, different procedures are still being complied with by India even after the granting of MFN status to Pakistan, leading to costly exports via third countries, lowering revenues. As far as the requisite standards are concerned, there are a lot of disparities between the measures taken by Pakistan and India.

5.1.4 Heavy import duties. There are also differences between both countries when it comes to the levying of tariff duties. As has been mentioned in a study by the State Bank of Pakistan, for some products, India applies different tariff rates which vary from actual rates. The reason behind these duties is to protect domestic producers within the country. The adverse impact of such measures is amplified for a country like Pakistan because the

Year	India	Pakistan
Custom processing		
2010	2.70	2.05
2016	3.17	2.66
2018	2.96	2.12

Source: World Bank, 2018

Table IV. Custom processing index

Year	India	Pakistan
Average applied MFN rate (all products)		
2010	12.6	13.9
2016	13.4	12.1

Source: WTO, 2017

Table V. Average applied MFN rate

Pakistani rupee has a lower value than the Indian rupee. Similarly, in a case study, carried out by SDPI6 on the automobile sector, two-wheelers in Pakistan were found to be subjected to a high tariff and related regulatory duties. Even if the custom duty is removed, other costs such as the port expenses (almost 3 per cent) and the incidences of clearance (2 per cent of the CIF7 value) along with taxes accounting for a quarter of the duties would still push up the cost of bilateral trade between India and Pakistan.

As Table V shows, the average applied MFN rate for all products for India from 2010 to 2016 saw an increase. Conversely, Pakistan registered a decrease in its average MFN rate over the same time period.

5.1.5 Technical barriers to trade and sanitary and phytosanitary restrictions. Trade flows to and from Pakistan are often obstructed by many non-tariff barriers, especially those of a technical nature. Technical barriers primarily comprise the technical/manual inspection of commodities. Various losses such as damage to the quality and quantity of goods are incurred due to such checks, exacerbating trade losses. Traders who face such issues frequently use alternate routes through a third country to bypass these inspections.

Technical barriers also constitute sanitary and phytosanitary (SPS) and Technical Barriers to Trade (TBT) standards. After the implementation of these standards (SPS and TBT) by India, there was widespread confusion among Pakistani exporters regarding the ambiguity around the actual standards, the certifying agencies and the relevant laws/regulations. Pakistani traders who export goods to India often complain about the stringency of the conditions imposed by India. Not only are products certified by Pakistani agencies often rejected but also those approved according to the relatively strict European standards often face rejection by the Indian authorities.

As per the report published by the Rawalpindi Chamber of Commerce and Industry, there is a widely held perception in Pakistan that the country's top export products especially textiles and agricultural goods suffer due to relatively more strictly applied non-tariff barriers.

SPS measures generally pertain to the human, animal and plant health and food safety, and TBT measures relate to products belonging to machinery, industrial chemicals and processed food, household and consumer products. Pakistan applies SPS restriction to 79 product categories, and TBT restrictions are applicable to 186 product categories. As opposed to this, SPS restrictions in India have been introduced for 250 products, while 228 products are under TBT restrictions by India (Raihan *et al.*, 2014).

5.1.6 Port restrictions. Port restrictions are specifically one of the most cited issues in bilateral trade. India currently allows only 137 products to be exported to Pakistan only through the Wagah–Attari border. India has imposed port entry restrictions for itself also, whereby many products cannot be imported into the country. One of the major reasons behind such restrictions is the political considerations of the Indian Government. Pakistan, for its part, has introduced blanket prohibitions on the import of 585 products from India, citing non-economic reasons which are not specified.

5.1.7 Visa problems. One of the core obstacles in advancing trade with India is the rigid visa regime faced by Pakistani business persons. The tense political milieu and relations between the two countries further complicate the visa regime. Severe visa restrictions by both countries make it difficult for business persons from one country to develop contacts with business persons in the other. Consequently, business persons often argue that multi-city and multi-entry visas should be issued to them to streamline the trading process.

5.1.8 Financial transactions barriers. Pakistani business persons face difficulties when fulfilling payment requirements for doing trade in India. As Pakistani currency cannot be exchanged or used for carrying out trade in India, persons traveling to India can only carry up to a maximum of US$5,000, as proscribed by Pakistan's foreign exchange rules. Such a restrictive mode of transaction limits the traders from choosing to either transact via bank transfers or through an on-line facility. As bank transfers in lieu of services are taxed in both countries, high value transfers are generally not preferred through banking channels. Instead, in certain cases, payments are deposited in the bank account of another country. Furthermore, in spite of meeting being held between officials of central banks, i.e. the Reserve Bank of India and the State Bank of Pakistan in 2012, where they reached an agreement on the modalities of setting up branches of domestic banks in their respective countries, there has been no follow-up meeting in the five years that have elapsed since then, with the ambitious plan never reaching fruition.

5.1.9 Lack of telecommunication services. The lack of any cross-border connectivity in the provision of telecommunication services is a major hurdle to bilateral trade. As getting mobile connections for Pakistani business persons traveling to India is an arduous process, they are unable to contact Indian business persons, and this serves as a significant barrier to trade. Even though modern technology through applications such as Skype have made it easier for people to connect across borders, this still is not a feasible solution because a substantial share of traders often lacks computer literacy and are devoid of internet access in the remote parts of both countries.

5.2 Key reforms for formalizing India–Pakistan trade

This section deals with the desired regulatory and policy reforms in trade sector and possible entry points that can facilitate expansion of trade between India and Pakistan.

5.2.1 Build and strengthen business-to-business relations. The private sector needs to be empowered by pushing the business community at the helm of trade relations, as it can significantly reduce the bureaucratic hiccups and sluggishness normally associated with government negotiations. Therefore, pursuing Track-II diplomacy, which will involve the strengthening of non-governmental, informal and unofficial contacts, can prove to be keys in boosting trade ties between India and Pakistan.

To further complement the role of the private sector, the inter-sectoral linkage of public-private partnerships should also be strengthened. To this end, Pakistani business persons should activate, develop and fortify their liaison with the Indian business community. Exclusive business-to-business forums can serve as platforms to exchange information, experience and opportunities. The nature of such forums can range from roundtable discussions, trade fairs, business presentations, one-to-one meetings, exhibitions and visits to the local businesses by the SAARC Chamber of Commerce and Industry. Such endeavors will not only enable business persons from both countries to be directly in contact with each other but also provide an impetus to their enterprises by exponentially raising the business volume.

5.2.2 Streamline transport connectivity. To fortify the existent bilateral channels for Indo–Pak trade, the efficiency of land, maritime and aviation routes needs to be maximized. Thus, several changes need to be made to overhaul and boost the utility of the multi-modal transportation networks between India and Pakistan. All forms of transport connectivity will get a boost if both countries move toward effective implementation of TIR convention and SAARC Motor Vehicles Agreement.

5.2.2.1 Strengthening the land route. A new agreement can be formulated and promulgated in both countries, which would prescribe the opening of new border points for transit of goods through road and railway networks. Pakistan and India can assign transit rights to access markets in neighboring countries (Nepal, Bangladesh and Bhutan for

Pakistan and Afghanistan for India) to help revitalize the regional trade agreements such as SAFTA and APIBM (Afghanistan–Pakistan–India–Bangladesh–Myanmar) corridor.

The Integrated Check Post built by India at the Wagah–Attari border in 2012 has made it incumbent on Pakistan to fully upgrade infrastructure at its side of the border. To further strengthen rail and road linkages through the land route, other changes such as the inclusion of truck and rail movements is recommended to ease of the passage of trucks and railways so as to make the usage of land routes cost-efficient.

There is a need to develop and adopt the multilateral rail transport agreements by the Government of Pakistan to facilitate smooth movement across the South Asian countries. Such an agreement should encompass the provision of standardized documents; data transfer through IT; adequate loop lengths; multiple interchange points; and the elimination of double custom checking. This will make the clearance of goods and vehicles at border crossing extremely efficient, enabling the bulk transit and trade.

5.2.2.2 Utilization of the sea route. The shipment of goods between India and Pakistan is an unnecessarily arduous process because there is no direct call between the neighbors, with maritime trade having to be routed through another country. To add this complicated process, as per the India–Pakistan Shipping Protocol, 1975, a cap has been placed on the freight that can be transported to a third country by vessels for either India or Pakistan. Thus, the Protocol should either be amended to alter these provisions or an entirely new Shipping Protocol should be signed by both nations.

Pakistan, for its part, should initiate reforms in the operation and administrative management of its National Shipping Corporation, as well as the Karachi Port, Port Qasim and Gwadar Port, to augment the cost effectiveness. These reforms may include reducing interest charged on debt, providing specialized shipping vessels, boosting the working and storage capacity of the port infrastructure, dredging and marking channels to reduce "dwell times" and engaging capacity building initiatives for the marine workforce. Additionally, rail and road infrastructure should be built and upgraded in proximity to these ports so as to enhance trade connectivity with the hinterland.

5.2.2.3 Strengthening the airways. Pakistan can initiate several reforms in the aviation sector to augment its connectivity with the regional aviation gateways. With regard to aviation, Pakistan's airports suffer from tremendous capacity constraints, on-shore and off-shore, for both passengers and cargo, in terms of runways, parking areas for aircrafts, passenger handling areas, cargo processing facilities (green channel, cold storage, etc.) and security and baggage handling facilities. There is urgent need of pilots and ground handling staffs in airports. South Asian countries may also jointly set up a regional aviation training institute in the region.

5.2.3 Single window for custom clearance. The sheer amount of time lost in delay of custom clearance is one of the major impediments for foreign investors in Pakistan. To remedy this, business persons have put forth their desire to see the relevant government ministries to make the exemption and concession certificates of tradeable goods accessible through the internet. In response to this, Pakistan's Custom authorities have announced the creation of an online national single window to improve ease of doing business. This online window is expected to be made available in a year's time, with 30-40 departments linked to it for the facilitation of bilateral trade. In quest of this goal, Pakistan has also ratified the Trade Facilitation Agreement with the World Trade Organization and the National Single Window.

5.2.4 Strengthen the agreements of sanitary and phytosanitary measures and agreements of technical barriers to trade. To supplement trade facilitation measures, bilateral agreements on SPS measures and other technical barriers need to be rationalized and simplified. Currently, there is a huge disparity between the standards in both countries as enforcement is stricter in India than in Pakistan. In India, the total number of standard setting agencies at the center and the states is 24, but in Pakistan, this task is delegated to a single body. Ideally, more testing laboratories should be located at the border so that products can be immediately exported upon certification. Moreover, Pakistani exporters would be greatly facilitated if India provides assurances regarding the acceptance of products certified by Pakistani agencies, given that Pakistan adheres to international standards. Furthermore, SPS measures should be applied to the extent that they are mandatory and should be rooted in sound scientific evidence.

5.2.5 Simplifying and streamlining visa procedures. To facilitate the cross-border mobility of people, visa regimes need to be relaxed as well. This may include measures such as the reduction of time in visa authorization. Besides this, certain requirements such as the issuance of city specific visas and reporting to police officials on arrival at and exit from the port of entry can either be reduced or eliminated. Increasing the number of entries and the duration of stay for which the visa is issued can also be considered. Visa liberalization will also remain an important factor when both countries start talking about increase in bilateral services trade (Manzoor *et al.*, 2017).

5.2.6 Coordination between ministries associated with trade. The task of arbitration of disputes and the minimization of trade barriers should be delegated to a joint trade commission which may include representatives from both Ministries of Commerce and India–Pakistan Business Council. The decisions of this commission should be a binding on both parties involved.

5.2.7 Regulatory reforms in communication services. As both countries have very high penetration rates of mobile phones, they can use this to enhance communication between people and businessmen through the provision of roaming facilities to citizens of the other country. Beside this, there is a pertinent need for reduction in the cost of communication, which is presently very high. Such a cost reduction may come about through the following reforms.

Markets in both the countries should absorb new entrants irrespective of the border by following the licensing processes as proposed by WTO General Agreement on Trade and Services. To enhance the accountability and transparency in these bilateral dealings, the following things should be made publicly available before licensing:

- all licensing criteria and the average time period required to reach a decision concerning a license application;
- the terms and conditions of all individual licenses;
- the reasons for the denial of a license made known upon applicant's request; and
- the frequency with which licenses are accepted and rejected.

5.2.8 Streamline financial and banking services. To streamline financial and banking services, there is also a need to formalize the financial/transaction channels. To formalize banking services across the border, both the central banks, i.e. the Reserve Bank of India and the State Bank of Pakistan, should come up with a joint mechanism for the operation of cross-border banks to assist traders and transporters in closer vicinity of the border sites. Thus, banks should be allowed to start operations in phases across the border to help traders and investors in performing transactions with their own currency across the border.

5.2.9 Formulate a wholesome trade policy. Perhaps the most crucial way Pakistan and India can seek to reap wholesome benefits from bilateral trade in the long run is through the formulation of key strategies. In particular, Pakistan should be a strong proponent of open commerce. Pakistan can immensely benefit from India's growth if it chooses to draw on the skilled labor and the cutting-edge technology that its neighbor possesses. To facilitate traders, there is an urgent need for a restructuring of the trade policy. The formulation and formalization of this policy objective should be inclusive of the following measures:

- Visa facilitation at the borders should be implemented to avert losses due to lengthy waiting times.
- Common custom facilitation points should be set up at the border.
- The aforementioned steps will improve cross-border trade by faster transit of goods to the border.
- Additionally, Pakistan should grant MFN status to India to hasten the trade normalization process.
- Besides this, to ensure a uniform standard of checking, trader facilitation centers should be established at the border. Such centers will provide all types of laboratory testing facilities, all types of documentation facilities and all types of security clearance facilities.

The facilitation centers should also have representatives from the relevant government departments with their primary policy goals geared toward trader facilitation. There is a need to re-evaluate the utility of tariff and non-tariff measures currently in place. For the former, revenue authorities should operate through a single window with all members of the revenue boards, facilitating traders.

5.2.10 Role of media. There has been an exponential growth in media outlets in both the countries over the past few decades, with the media now playing a monumental role in swaying public opinion. Thus, the media, particularly through joint evidence-based outreach, can prove to be instrumental in projecting and augmenting the benefits of bilateral trade.

5.2.11 Capacity building of trade governance institutions. The capacity building of institutions regarding specific trade issues with India, particularly the Ministry of Commerce and the Federal Board of Revenue, is imperative for enhancing bilateral trade. Furthermore, to supplement these processes, human resources through better training and improved skills can also be boosted to augment the effectiveness of the changes.

India and Bangladesh have implemented an agreement to open ten markets or haats in contiguous border areas, with the goal of serving the nearby populace within a radius of 5 km. While several problems have arisen since 2010 due to the large-scale trade of non-listed goods, these can be effectively solved (Bose, 2016). Pakistan can emulate this example by co-operating with India to establish markets at border areas, while ensuring that these markets only satisfy the demand for insufficiently produced goods in border regions.

6. Conclusion

This study examined the present obstacles and hurdles in trade between India and Pakistan. India and Pakistan are the two largest economies within South Asia and have a dismal economic relationship between them. Trade of goods and services between the South Asian neighbors remains at a disparagingly low amount of 3 per cent.

Despite concerted efforts at times to alter the status quo, on part of the governments, business communities and even the citizenry, India and Pakistan still have an overwhelmingly hostile relationship. This animosity has often translated into poor bilateral ties and dim prospects for bilateral and regional trade. Due to the sheer lack of co-operation and co-ordination among both countries in the trading sector, various stakeholders are often negligent and oblivious of the problems that do stymie bilateral trade. As explored over the course of this study, the monumental impact of these problems on diminishing trade ties between the South Asian neighbors makes it imperative for the underlying issues to be discussed and brought to the forefront. Thus, the vast trade potential remains unrealized, largely due to non-tariff barriers, poor infrastructure resulting in high cost and poor trade facilitation measures such as stringent customs, procedural barriers and restrict visa regimes. It is further constrained due to fluctuating standards and procedural steps, technical barriers to trade and SPS restrictions, financial transaction barriers and lack of telecommunication services. The process of trade dialogue is difficult to sustain without addressing these challenges.

In response, as espoused in the study, numerous strategies can be used to tap into the huge trading potential that exists through building and fortifying public and private business relations and cementing agreements on sanitary and technical measures. These measures should be complemented by reforming visa procedures, custom clearances and the communication and financial services. Initiating such reforms can not only be instrumental in reviving and rejuvenating bilateral economic, financial and commercial ties but also prove pivotal in making India a hub of Pakistan's trade with Bangladesh, Myanmar, Nepal and Bhutan and Pakistan a hub of India's trade with Afghanistan, the Middle East and Central Asia.

The trajectory of trade ties between India and Pakistan and whether they consequently progress or regress will be contingent on whether the two are able to develop a trustworthy and dependable bond. A mutually beneficial relationship would be one in which bilateral trade relations are immediately impacted by the volatility and uncertainty of geopolitical events. The conventional style of South Asia's bureaucracy-driven approach, characterized by its reactivity and sluggish pace, needs to be urgently reconsidered and replaced. Perhaps, what is more needed is the private sector being at the helm of economic and financial bilateral relations as this approach is likely to yield faster and tangible results due to the private sector's problem-solving and hand's-on strategy. Thus, a mutually beneficially economic relationship between India and Pakistan would be where a proactive and practical liaison is established between the two with a holistic trade policy underpinning it. This study provides some specific policy recommendations which need to be urgently evaluated for effective implementation by relevant institutions.

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