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INDO-PAKISTAN TRADE COOPERATION AND SAARC

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ABSTRACT

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 on each other. As a result, both were forced to import many items from the world market at much higher prices. The potential gains from mutual trade with each other range between Rs. 15,000 and 20,000 crores during the last five decades. These gains could be, in terms of lower/competitive prices, compared to global prices, and much lower transport and transshipment costs due to proximity with each other. The official trade of US \$602 m between the two countries could increase to US 8802 m in 2004, if both could have removed certain irritants in the way of trade. The boost in trade requires political will with very little investment. During 1997-2004, Pakistan's actual imports from India were 4.8 per cent and India's actual imports from Pakistan were 6.4 per cent only of the respective potential imports, on an average per annum. The establishment of SAARC (South Asian Association for Regional Cooperation) in December 1985 has also played an important role in boosting the intra-trade ties between India and Pakistan. Both the countries account about 87 per cent of total population and 90.7 per cent of the total area of SAARC. The agreement of South Asian Free Trade Area (SAFTA), effective from January 1, 2006 would further boost trade between the two countries. This paper looks deep into the problems and potentials of trade between India and Pakistan.

Introduction

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 on each other. India's share in Pakistan's global exports and imports was 23.6 per cent and 50.6 per cent, respectively, in 1948-49. These shares went down to 1.3 per cent

and 0.06 per cent in 1975-76, and 1.1 per cent and 2.7 per cent, respectively in 2005-06. Similarly, Pakistan's share in India's global exports and imports was 2.2 per cent and 1.1 per cent, respectively, in 1951-52. These shares went down to 0.02 per cent and 0.4 per cent in 1975-76, and 0.7 per cent and 0.13 per cent in 2005-06¹. This shows that the trade between these two neighbouring countries has been much below the potential.

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 neighbouring countries remained suspended for nine years and created problems for both the countries. Both were forced to import many items from the world market at much higher prices. The same could have been imported from each other at much lower prices, involving substantially lower transport and transshipment costs. On December 3, 1971, second war started between India and Pakistan due to border violations by the latter in the civil war with East Pakistan (Bangladesh), which led to freedom of East Pakistan on December 16, 1971.²

The resumption of trade relations between them took place with the signing of bilateral trade agreement on January 23, 1975. But the flow of trade was restricted to government levels. This trade agreement expired on January 22, 1978 and thereafter trade has continued without any agreement. In July 1982, Pakistan declared a list of 40 items in which private sectors of the two countries could trade.³ The mutual trade has grown significantly since 1989, when Pakistan expanded the list of approved imports from India to 571 items, and further enhanced it to 600 items on July 17, 2000, and 1075 items on November 3, 2006. But this list is just 10 per cent of the total number of classified tariff lines, and does not include items like consumer durables, computer softwares, textiles machinery, automobiles, two wheelers, cars, etc.

This paper consists of four parts. Part I deals with the historical development of trade between India and Pakistan. It

pertains to volume and composition of trade. Part II pertains to gains from mutual trade between the two countries. Part III is subdivided into two parts. The first part pertains to the economic structure of India and Pakistan. The second part presents the potentialities of trade between India and Pakistan and identifies the items offering potential trade. Part IV analyses the role of two countries in SAARC (South Asian Association for Regional Cooperation).

I

India's exports to Pakistan increased from US \$ 1 million (mn) in 1975-76 to US \$ 689 mn in 2005-06. During 2005-06, its annual growth was 31 per cent. On the other hand, India's imports from Pakistan increased from US \$ 2 mn in 1976-77 to US \$ 214 mn in 1998-99. However, it decreased to US \$ 180 mn in 2005-06. Its annual growth was 87 per cent during this period. Since 1993-94, India's exports to Pakistan were higher as compared to her imports. The balance of trade was unfavourable to India during 1979-93, but it became favourable during 1993-2006, except 1998-99, when India imported a large quantity of sugar from Pakistan. India's total trade turnover with Pakistan was US \$ 4835 mn during April 1975 to March 2006, of which India's exports were US \$ 3087 mn and imports were US \$ 1752 mn. Hence US \$ 1335 mn remained surplus in India's favour during this period.

As regards the composition of India's exports to Pakistan, Soyabean, p-xylene, iron ores, sugar, polypropylene, norfloxin, tyres, bidi leaves, and reactive coloured chemicals were the major items during 1985-2005. Their total share in India's exports to Pakistan was 11.5 per cent, 7.2 per cent, 5.9 per cent, 10.3 per cent, 3.6 per cent, 3.4 per cent, 3.3 per cent, and 2.9 per cent, respectively. All these items continued to figure in India's exports to Pakistan since 1996-97. It may be noted that India was not exporting sugar and polypropylene to Pakistan before 1996-97. Further, soyabean has also been figured in India's exports to

Pakistan since 1989-90. Before 1990-91, iron-ores and bidi leaves wrapper were the two major items of India's exports to Pakistan. Further, India also exported wheat worth US\$ 1.54 mn during 2002-03.

The most important item of India's imports from Pakistan were dates fresh/soft/hard during 1985-2005. It accounted for 23.1 per cent in India's total imports from Pakistan during this period. The other major items of India's imports from Pakistan were foreign cotton (7.6 per cent), petroleum and bitumen oils crude (7.2 per cent), sugar (10.4 per cent), naptha (3. per cent), raisins and sultanas (2.4 per cent), etc. It may be noted that India has not been importing foreign cotton from Pakistan since 1993-94, except during 1998-2000, when some small quantity was imported. Further, petroleum and bitumen oils crude were also not being imported by India from Pakistan since 1994-95. However, Sugar was imported by India from Pakistan during 1994-2002.

II

Gains from mutual trade to India and Pakistan

It is gainful to India and Pakistan to promote mutual trade as both are neighbouring countries and can have trade by land route, which would save a lot in terms of transportation and transshipment costs. At present, major portion of trade between India and Pakistan is through the ports of Karachi and Mumbai. From economic point of view, it is illogical to confine trade to ports only, when a large common land border is shared by both the countries. Land route is cheaper, faster and safe. In fact, there is a need to open up more trade traffic by Wagha/Attari and Hussainiwala check posts. Besides, there are other land trade routes in Kashmir, Rajasthan and Gujarat. All these trade routes were operational on the eve of partition. There is an immediate need to revive and strengthen these land trade routes. The infrastructure, including the customs clearance, needs to be strengthened at all border check posts in order to promote trade. It would also help a smooth and speedy

trade of the agricultural and perishable commodities from both sides of the border. It would greatly facilitate the movement of high bulk, low value cargo. Pakistan's allowing imports of onions, garlic, potatoes, tomatoes, meat and livestock through Wagha border in July 2005 is a welcome step in this regard.

India has a cost advantage over Pakistan in engineering goods, bicycles, agriculture products, tyres, textile machinery, plastics, transport equipments, tea, leather goods, etc. The difference in the price of Suzuki Mehran 800/Maruti 800 at Lahore (Pakistan) and Amritsar (India) is about Indian Rs one Lac. Pakistan imports about 8 lac tyres and 45 lac ton diesel per annum, which could be had from India. Pakistan can gain from the import of agricultural produce like wheat, spices, tea and other edibles to meet the production shortfalls at competitive prices. Further, the current price of bicycles in Pakistan is 20 per cent higher than that in Ludhiana (Indian Punjab). During 2004, Pakistan was the fifth largest tea importer in the world after USA, U.K., Russian Fed., and Japan, and India was the fourth largest tea exporter in the world after Sri Lanka, Kenya and China. But Pakistan has never imported more than 4.5 per cent of its total tea requirements from India. Pakistan imports tea from Kenya and Rawanda at high cost. According to Indian Tea Association, India can meet one-fifth tea requirements of Pakistan. But Pakistan imposes 49 per cent excess duty on the import of Indian tea, in addition to 20 per cent basic duty. The other items of cost advantageous to Pakistan from India are iron ores and sewing machines. India can also benefit from Pakistan by importing sugar refined, almonds, etc. Pakistan has excess capacity of 3000 MW electricity which can be easily given to northern Indian states if the required arrangements are done. Prices of mutual trade items between the two countries are also competitive.

It is estimated that the unofficial trade between India and Pakistan stands at more than US \$ 2 bn annually. Much of the trade between them is in respect of banned items like tyres, medicines, cosmetics, viscose fibers, textile machinery, chemicals, ayurvedic

medicines, cashew nuts, etc. It has been routed through third country like Afghanistan, Dubai, Hong Kong, Singapore and Gulf States. This tortuous route costs both India and Pakistan dearly in terms of foreign exchange outflows as well as third party trading commissions. The lack of land route is also the reason for unofficial trade. It appears from the high volume of unofficial trade that there exists tremendous trade potential between the two countries. Though there is no restriction on the import of goods from Pakistan to India, Pakistan has placed several restrictions on imports from India.

An attempt has been made here to compute mutual gains from trade between India and Pakistan by way of actual and potential gains. In this context, the import prices of various commodities from each other and from rest of the world have been compared. It has been seen that the prices of various items which they have been importing from each other, are either competitive or lower than the world prices. It is relevant to mention that only those items have been taken up in which the two countries have the capacity to meet each other's requirements and also for which relevant data were available. The quality of imported commodities from each other is assumed to be comparable with the quality of the commodities imported from the rest of the world.

Rock salt, surgical instruments, oil cake, ayurvedic and unani herbs, foreign cotton, sugar, degressed wool, denim, etc. were the major items in which India gained from her imports from Pakistan during 2004-05. India had net actual gains worth US\$ 486.3 lacs for imports from Pakistan during this period. The major items of India's import from Pakistan were cane moles of sugar, and dates fresh/soft/hard, sugar moles, oil cake, foreign cotton, naptha, solvent crude, raisins and sultanas, etc.

Iron ores, cutch extracts, bidi leaves, vegetable seeds, tea black, ginger, ayurvedic and unani herbs, polypropylene, etc. were the major items in which Pakistan gained from her imports from India during 2004-05. Pakistan had net actual gains worth US\$

590.4 lacs for imports from India during this period. It may be noted that there are certain other items like P-xylene, soyabean, petro oil products, tyres for buses/lorries/tractors, ayurvedic and unani herbs, benzene, denim, lentils, etc. in which Pakistan did not have any advantage by importing from India during this period.

III

Economic Structure of India and Pakistan

Before we discuss the potentialities of trade between India and Pakistan, it would be better to have a glance at the economic structure of India and Pakistan. India and Pakistan are the neighbouring and developing countries of the SAARC region. India is comparatively larger in terms of her size, population, GDP, etc. During mid 2005, the population of India and Pakistan was 1107 mn and 156.4 mn, respectively. The economic structure of both the countries is almost similar as far as sectoral composition of GDP is concerned. During 2004-05, the share of agriculture, industry and services in GDP was 23, 23.8, and 53.2 per cent in case of India, and 21.6, 25, and 53.4 per cent in case of Pakistan.⁴ However, the annual growth rate of Real GDP during 2004-05 was 8.1 per cent in case of India and 7.8 per cent in case of Pakistan.⁵ During 2005, India's Gross Domestic Product (GDP) at factor cost was US\$ 785.5 billion (bn) as compared to Pakistan's US\$ 110.7 bn. India's per capita income was US\$ 720 as compared to US\$ 690 of Pakistan during this period.⁶

The role of external sector, mainly of trade, assumes significance in the development of India and Pakistan economies since the partition in 1947. Foreign trade registered a phenomenal increase in India and Pakistan during 1950-51 to 2005-06. During 1950-51 at current prices, India's exports and imports were US\$ 1.269 bn and US\$ 1.273 bn respectively, and Pakistan's exports and imports were 0.77 bn and 0.55 bn respectively. However, during 2005-06 at current prices, India's exports and imports were US \$ 100.6 bn and US \$ 140.2 bn respectively, whereas Pakistan's

exports and imports were only US \$ 16.5 bn and US \$ 24.9 bn respectively.⁷ Thus, India's exports and imports increased by 79.3 and 110.1 times, respectively, in US \$ terms during this period. As against this, Pakistan's exports and imports increased by 21.4 and 45.3 times, respectively, in US\$ terms during the same period. Hence the growth of India's foreign trade was higher than that of Pakistan during this period.

India's major exports during 2004-05 were engineering goods (20.7 per cent), gems and jewellery (17.3 per cent), chemicals and related products (16 per cent), ready-made garments (10.1 per cent), cotton yarn fabrics (4 per cent), petroleum products (8.6 per cent), etc. The major imports of India during this period were petroleum, oil and lubricants (27.9 per cent), gold (9.6 per cent), pearls and precious stones (8.8 per cent), chemicals (5 per cent), iron and steel (2.4 per cent), and edible oils (2.2 per cent).⁸

Similarly, the major exports of Pakistan during 2004-05 were cotton items (57.3 per cent) with readymade garments (12.6 per cent), cotton yarn and thread (12.2 per cent), and synthetic textiles (2.2 per cent); rice (5.9 per cent), sports goods (2.1 per cent), leather goods (5.4 per cent), etc. The major imports of Pakistan during this period were petroleum and products (19.1 per cent), machinery non-electric (21.1 per cent), chemicals (16.3 per cent), transport equipment (5.8 per cent), edible oils (3.6 per cent), iron-steel (4.3 per cent), tea (1.2 per cent), wheat (0.3 per cent), etc.⁹

As regards the direction of trade, major export partners of India during 2004-05, were USA (16.7 per cent), UAE (9 per cent), China (5.8 per cent), Singapore (4.8 per cent), Hong Kong (4.6 per cent), UK (4.5 per cent), Germany (3.3 per cent), Italy (2.7 per cent), Japan (2.5 per cent), and Sri Lanka (1.7 per cent). Similarly, India's major import partners during this period were China (6.3 per cent), USA (5.9 per cent), UAE (4.3 per cent), Germany (3.6 per cent), Australia (3.3 per cent), UK (3.2 per cent), South Korea (3 per cent), and Sri Lanka 0.3 per cent).¹⁰

On the other hand, the major export partners of Pakistan during 2004-05, were USA (25.6 per cent), Dubai (7.3 per cent), UK (7 per cent), Germany (4.9 per cent), and Hong Kong (4.2 per cent). Similarly, Pakistan's major import partners during this period were Saudi Arabia (12 per cent), Japan (7.2 per cent), and USA (7.8 per cent).¹¹

Trade Potentials between India and Pakistan

There are great potentials of trade between India and Pakistan. The official trade of US\$ 602 mn between the two countries could increase to US\$ 8802 mn in 2004, if both could have removed certain irritants in the way of trade. Assocham estimates bilateral trade potential worth US\$ 10 bn in 2010. The boost in trade requires political-will with very little investment. There exists high potential for bilateral trade in case of engineering goods, transport equipments, tea, coffee, pharma, textile machinery, tyre, chemicals, plastics, and agriculture. However, the potential can only be realized, when Pakistan grants Most Favoured Nation (MFN) status to India. Though India has accorded MFN status to Pakistan in 1995, yet Pakistan has not reciprocated this gesture, and continues to restrict import from India to 1075 items, despite the fact that both countries are the signatories to World Trade Organization (WTO).

This is a clear violation of obligations under WTO rules. Pakistan should at least allow imports from India for those items, which are not manufactured in Pakistan. There is immense scope for Pakistan's imports from Indian Punjab of wheat, bicycles, vegetables, sugar, textile machinery, etc. The opening of mutual trade through Wagha and Hussaniwala borders can give a great push to trade potentials. However, it was expected that South Asian Free Trade Area (SAFTA), effective from January 1, 2006 would boost trade between the two countries, and resolve the dispute over non-extension of MFN treatment by Pakistan to India. But during negotiations between the two countries on March 27-28, 2006, Pakistan refused to give MFN status to India on the ground that the Kashmir issue has to be resolved first.¹² This was even under the

recently ratified SAFTA. India could approach the Dispute Settlement Body (DSB) of SAFTA but it may not take such an action for the sake of maintaining peace with its neighbour, as it refrained to go to the DSB of the WTO.

Pakistan's Import Potentials from India or India's Export Potentials to Pakistan

Pakistan has great import potentials from India. By way of comparing the composition of India's global exports and Pakistan's global imports during 1997-2004, thirty-six common items have been identified which India could export to Pakistan or Pakistan could import from India. It has been found out that there had been political-will on the part of both the countries, Pakistan could import from India, goods worth US \$ 3615.9 mn in 1997 and US \$ 6495.1 mn in 2004. But actual imports of Pakistan from India were 3.9 per cent and 7.8 per cent, respectively, of the potential during this period. Pakistan's actual annual imports from India during 1997-2004, on an average, were 4.8 per cent only of the potential imports. The annual average share of Pakistan's import potentials from India in her global imports works out to be 39.7 per cent during this period, whereas the respective share in India's global exports comes out to be 10 per cent during the same period. Thus, India could easily divert 10 per cent of her global exports to meet Pakistan's 39.7 per cent of her global import requirements during 1997-2004, on an average.

India's Import Potentials from Pakistan or Pakistan's Export Potentials to India

Since 1993-94, Pakistan has been facing unfavourable balance of trade with India. This is due to small number of items being exported to India. In fact, Pakistan's capacity to meet India's requirement is very limited. Moreover, the volume of her global exports was only 12.8 per cent of India's global imports during 2004-05. However, there is a great potential of her exports to India,

if she could increase her productive capacity in those lines of production, and divert her exports to India.

By way of comparing the composition of Pakistan's global exports and India's global imports during 1997-2004, eleven common items have been identified, which Pakistan could export to India or India could import from Pakistan. It has been found out that if there had been political-will on the part of both the countries, India could import from Pakistan, goods worth US \$ 781.3 mn in 1997 and US \$ 2306.6 mn in 2004. But actual imports of India from Pakistan were 4.3 per cent and 4 per cent respectively, of the potential during this period. India's actual imports from Pakistan during 1997-2004 on an average per annum were 6.4 per cent only of the potential imports. The annual average share of India's import potentials from Pakistan in her global imports works out to be 3.1 per cent only during 1997-2004, whereas the respective share in Pakistan's global exports comes out to be 18.5 per cent during the same period. Thus, Pakistan could easily divert 18.5 per cent of her global exports to meet India's 3.1 per cent of her global import requirements during 1997-2004, on an average.

The newly-established India Pakistan Chamber of Commerce (IPCC) on May 25, 2005, announced constitution of a study group to work out measures for increasing bilateral trade to \$6 billion from existing \$500 million. The study group would identify the hidden irritants, which restrict entry of Pakistani goods into Indian market, trade items which might harm local industries in both countries and work out measures for facilitating trade between the two countries.¹³

IV

The establishment of SAARC in December 1985 has also played an important role in boosting the intra-trade ties among India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan and Maldives. SAARC countries account about 22.3 per cent of the world population and

3.4 per cent of the total land area of the world, but their share in world GDP and trade has been about 2.2 per cent and 1.5 per cent, respectively. The per capita Gross National Income (GNI) of the SAARC region was barely about US\$ 691 in 2005. GNI ranges from US \$ 270 (Nepal) to US\$ 2390 (Maldives) during this period. The per capita of exports and imports of the SAARC region accounted for US\$ 90 and US\$ 133, respectively in 2005. SAARC has succeeded in establishing SAARC Preferential Trading Arrangement (SAPTA) in December 1995, and now, replaced it with SAFTA from 1st January 2006.

The SAFTA agreement came into effect on 1st January 2006 with the aim of reducing tariffs for intra-regional trade among the seven SAARC members. Tariff concessions under the Article 7 of the agreement are effective from 1st July 2006 with the exception of 1st August 2006 for Nepal. Pakistan and India are required to bring down their tariffs to 0-5 per cent by 2013, Sri Lanka by 2014 and Bangladesh, Bhutan, Maldives and Nepal by 2015. There will be no tariff reduction on sensitive items of the members. India and Pakistan have 884 and 1183 sensitive items respectively. SAFTA will lead to free trade area in the region only on 1st January 2016. The first phase of the agreement covers the period from Jan. 1, 2006 to December 2007. Tariffs are to be reduced in two equal annual installments, to 20 percent for India, Pakistan and Sri Lanka, and 30 percent for Bhutan, Bangladesh, the Maldives and Nepal. Non-LDCs (India, Pakistan and Sri Lanka) would reduce tariffs below 20 per cent on the margin of preference basis of 10 per cent per annum. However, LDCs (Bangladesh, Bhutan, Nepal, and Maldives) would reduce tariffs below 30 per cent on a margin of preference basis of 5 per cent per annum. The second phase of SAFTA will begin in January 2008, in which tariffs would be reduced to 0.5 per cent within five years by non-LDCs and within eight years by LDCs.

The impact of trade liberalization in the SAARC region has been studied by Mukherji (1998). On the assumption of price import demand elasticity, he estimated that in the case of free trade, imports would increase by 26 per cent from SAARC, but only by 15

per cent in case of 50 per cent reduction in tariffs.¹⁴ In his study of December 2004, he found the continued increasing share in India's preferential imports from Pakistan since 1998-99. Both India and Pakistan were able to improve their preferential trade shares for products exchanged concessions during Second Round of SAPTA.¹⁵

India and Pakistan are two major countries of SAARC. India accounts for about 76.6 per cent of the total population and 73.3 per cent of the total area of SAARC. Pakistan accounts for about 10.7 per cent of the total population and 17.7 per cent of the total area of SAARC. Hence both account for about 87.3 per cent of total population and 91 per cent of the total area of SAARC. Both are the less developed countries of the world. Thus, the development of trade relations between India and Pakistan can make a positive contribution to the SAARC.

The intra-regional trade among the SAARC countries has been significantly low over the period. Its share in global trade of SAARC was 2.7 per cent in 1985 and 4.9 per cent in 2004. It may be noted that other trading blocs like EU (European Union), NAFTA (North Atlantic Free Trade Area comprising USA, Canada and Mexico), and ASEAN (Association of South East Asian Nations) account for about 85 per cent in the world exports. The intra-regional trade of these trading blocs remained 66.9 per cent, 45.6 per cent and 22.8 per cent, respectively. But the intra-regional trade of SAARC has been hovering around 4.9 per cent only. These figures speak volumes on vast scope for trade expansion, which is also evident from the trade worth billions of dollar taking place through unofficial channels. If the share of informal trade could be taken into account, the share of intra-regional SAARC trade could be easily twice of the official figures.¹⁶ India and Pakistan have a dominant position in the intra-regional trade of SAARC countries.

SAARC remains one of the weakest trading blocs in the world because of inherent political factors between India and Pakistan. The fate of SAARC still hangs on the political relations

between these two big members. Progress is possible only if there is a manifestation of strong political will between the member countries. SAFTA will be fully implemented in 2016, when faster trade liberalization at multilateral and regional levels could make it irrelevant. Trade liberalisation should take place first, by complete removal of tariffs on goods traded by India and Pakistan followed by the removal of non-tariff barriers. Apprehensions have also been expressed in some circles, that the trade prospects under SAFTA are limited due to similarities in the structure of production in SAARC countries. This is not true, as the Customs Union Theory amply demonstrates that in cases where the economies are competitive, individual members, by specializing in the products and product categories in which they can produce at comparatively lower cost, can enhance the total welfare of the region by trade creation.

Summing Up

There is enormous potential of trade between both the neighbouring countries. However, they did not make any sincere and earnest efforts to exploit that potential. On the contrary, both the countries have been finding ways and means to reduce trade dependency on each other. The main hurdle in the way of promoting mutual trade has been the political rationalities/irrationalities. In fact, trade relations between India and Pakistan have always been governed by political interests rather than by economic interests. In the process, they have suffered huge economic losses over the period of time.

Though there are various estimates about the potential gains from mutual trade with each other, yet they range between Rs. 15,000-20,000 crores during the last five decades.¹⁷ These gains could be in terms of lower/competitive prices, compared to global prices, and much lower transport and transshipment costs due to proximity with each other.

Besides, both the countries have been spending a very high proportion of their GDP (between 6.52 to 7.22 per cent, during 1986-93 in the case of Pakistan and between 2.71 to 3.37 per cent during 1986-90 in the case of India).¹⁸ However, they could not

solve their waxed problems between them even after fighting three and a half low intensity wars with each other. All this has been largely due to fear-psychosis and a threat perception. The poor countries like them, cannot afford such a luxury. Apart from expenditure on defence, the cost of acrimonious relations has many other dimensions. It leads to breach of peace and stability which adversely affects growth and development and also results in a negative transformation of institutions. Human cost cannot be quantified in terms of money.

So far, most of the trade between India and Pakistan has been taking place via sea-routes from Bombay to Karachi and back. On the eve of Partition, a sizeable amount of trade used to be via land routes. Trade via land routes would fetch enormous savings in transport and transshipment costs. Wagah-Attari and Hussainiwala Checkposts can be the most suitable land route between India and Pakistan. These land trade routes were in operation on the eve of independence. The opening up of these trade routes would not only result in higher levels of trade but also create many economic activities on both sides of the border. In the process, a lot of employment opportunities would be generated. Both the countries stand to gain from higher levels of trade cooperation.

More so, increased trade and economic cooperation would generate pressure for having normal relations with each other which would give a fillip to economic development in the region. Higher levels of economic and trade cooperation would certainly result in more friendly relations between the two countries that, in turn, would usher in an era of peace, prosperity and development. Peaceful relations between the two neighbouring countries would also result in lot of savings in defence expenditure. The normalization of relations would certainly help them to reduce their expenditure on defense. That would help them to spare resources to address their more serious problems, such as poverty, unemployment and inequality.

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