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Destination EU and USA: Improving Export Potential of Pakistan by Trading with India

By Zakee SAADAT^a & Dawood MAMOON^{b†}

Abstract. This paper is the extension of popular work of Murshed and Mamoon(2010) that suggests that India Pakistan proximity to global trade can significantly mitigate conflict between these two nations. The paper analyses bilateral trade patterns between India Pakistan with its major exporting destinations in a simple OLS framework. It finds that if bilateral trade between two nations increases that will improve exports of Pakistan in US, EU and UAE. This finding has significant implications for improvement of ties between the two countries. Furthermore, trading with India also full fills Pakistani Government's emphasis on Trade not Aid. This aspect of India Pakistan trade has not been investigated before.

Keywords. Economic Integration.

JEL. F15.

1. Introduction

Trade between India and Pakistan has been a crucial issue from inception of these countries in 1947. There have been seven wars or serious clashes in last sixty years. One of the major disputes over territory of Kashmir has remained an unresolved issue for both India and Pakistan. It has been observed over the past 60 years that Pakistani and Indian troops brazen out each other every day with fingers factually on the trigger, along the ceasefire line of control established on 1st January 1949 in Kashmir. Indian troops have also indulged collectively and unilaterally along the Pakistani borders in 1951 and 2002. Pakistan has been accused by India over involvement for fomenting, aiding and abetting the insurgency in Kashmir from 1989 (with considerable justifications). India has also accused Pakistan for being involved in wider acts of terrorism in India (with fewer justifications). There is a blame game from both sides of the borders (especially from Indian side) though most of the times it is just to portray the negative image by building up political pressures for getting national sympathies and popularity. Despite hostility issues there has been initiatives from both sides that has improved the economic activities in both sides of the borders.

Pakistan and India account for 90 percent of trade in South Asia. The trade of South Asia with rest of the world is also influenced by bilateral trade of India and Pakistan as these two countries also account for 60 percent of South Asian GDP.

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Disruption and discontinuation of peaceful relationship worsen the overall scenario of economic integration in the region of South Asia. It has badly influenced the thinking that South Asia could be emerged as one of the major trading region in the world. There have been attempts to cater the issues of regional trade by mitigating the conflicts between major countries of South Asia (Pakistan and India). SAFTA and SAARC are two major South Asian bodies that have influenced the process of trade and peaceful relationship between India Pakistan and other countries of the region.

In 1980s South Asian countries took the initiative to develop a South Asian Association of Regional Cooperation (SAARC). It was intended that SAARC will increase the regional trade and regional integration among the South Asian countries. SAARC conducted certain event and summits that certainly increased the integration in the regions but that was insignificantly low at 5% as compared to EU and NAFTA and ASEAN. On January 6 2006 SAARC members agreed on a treaty SAFTA focusing on elimination of trade barriers and improve the regional integration by allowing the free mobility of goods across the borders except some sensitive items to protect the national interests. It also focuses on lowering down of trade tariffs by majorly in two phases up to the level of 0-5 percent from January 2016.

Pakistan and India are involved on table talks as delegations from both the sides are visiting each other officially to normalize the trade relations. These are some of the vital measures being taken to enhance the regional trade. It is also assumed to improve the regional trade in order to enhance the trade with the world. Bilateral trade between India and Pakistan could double the trade of Pakistan with the world. Pakistan is looking forward to normalize the trade process with India by issuing the non-tariff barriers to rebuild the trade process. The normalized trade process with India will certainly bring down the prices of product in Pakistan and exports of Pakistan with other countries will also be enhanced.

Now a day's Pakistan and India are involved in the good gesture at official level to enhance the level of trade between the two countries. It is strategically crucial to resolve the issue of trade as it will normalize the relationship between the two countries. The global organizations like WTO is concerned to resolve the issues between the two countries by eliminating the trade barriers and lowering down the trade tariffs. These measures will enhance the economic integration between the two countries. Political instability and uncertainty in the Indo-Pak has led the policy makers and analysts alike to consider and think over the issues for normalizing the relationship between the two countries. Eventually, trade is identified as an important measure to enhance the level of integration in the region which will certainly normalize the peace process between India and Pakistan.

Pakistan is looking forward to assign MFN status to India. Thinkers are seeking to analyze the new dimensions over the trade that how the Indo-Pak bilateral trade would benefit the economy of Pakistan. The trade between Pakistan and India could enhance the level of exports from Pakistan to different regions. There was urgent need to study the advantages of low cost and technology transfer that could benefit Pakistan to enhance the level of trade with different countries like EU, UAE and USA to gain the advantage resulting in generation of sufficient level of reserves thus leading to the economic prosperity.

In this study we are proxing the economic progress as Pakistan's capability to trade with other countries by focusing Indo-Pak bilateral trade.

2. Pakistan and India Bilateral Trade Relation

In literature there are two dimensions in which different strategic writers have analyzed the trade relation in Sub-continent. In the first category thinkers are of the view that there is a sufficient role of inter-state conflict which has adversely affected the trade process between the two major countries of Sub-continent. Second category is of those thinkers who analyzed the problem of trade in the context of global scenarios. Most of the Pakistani thinkers are of the view that changing global scenarios more often disturbed the process of trade among India and Pakistan. Few of these thinkers are discussed below.

Tabish & Khan (2011) analyzed the trade process of India and Pakistan in the light of disputes between the two countries. In 1948-49, the exports between India and Pakistan were 56 percent of total exports and in the same way imports from India were 32 percent of its total imports. It indicates that Pakistan was trading 56 percent of its trade to India. The trade relationship between these two countries doesn't last for long period of time. The political scenario in both the countries doesn't help for well-structured trade patterns, as the disputed region between these two countries destroyed the trade relations. In 1960s Trade policy was changed in Pakistan to facilitate the international traders.

DRI-McGraw Hill (1997) studied the free trade between India and Pakistan that doesn't last for longer period of time. In 1950s Pakistan used to have highly restrictive policies, other economists also suggests these kinds of policies are known as highly protected trade policies. In this time period domestic user of agricultural raw material were given privilege over other consumers or raw material buyers. Domestic producers were purchasing the agriculture raw material at low price as compare to international prices.

Naqvi (2009) discussed the reasons to analyze the dinted process of trade due to the unstable and troubled political/ strategic situation between Pakistan and India. The trade history of both the countries has seen an uneven pattern of the trade right from British independence. In 1948-49, majority of Pakistan exports were traded with India. It is estimated that Pakistan's 56 percent of exports were with India. Pakistan and India got involved in severe political issues that resulted into the closure of trade flows. These trade relations were at the troubled line till 1965. Later, in 1972 after a war between these countries a resumption of limited trade was produced by both the sides. After 1975 Pakistan and India engaged themselves 14 times to sign bilateral agreement on trade to facilitate the trade in the region. Trade ties between these countries were negligible and ultimately these conditions nurtured the seed of mistrust enmity further worsening the political relationship of Pakistan and India.

Economists in Pakistan see the scenario in different spheres. Few economist hints the first trade dispute back in 1949 in this time period, India devalued its currency and Pakistan clearly refused to follow the measure. Nabi (2010) discussed, the reprisal India imposed import duty on "jute", as jute was one of the major exported items of Pakistan. This measure of India reduced the trade between the two countries. In response Pakistan revised its trade policy with India and imposed trade restriction on the traded items.

Hussain (2013), Nabi (2013) have shown different causes for decline in Indo-Pak trade as initially 50 percent of Pakistan's exports were with India and on the other side 40 percent of Pakistan's imports came from India. It denotes a greater ratio of Pakistan's bilateral trade with India. Both the researchers talked about pre-partition trade ties that exist in this region. Pakistan and India followed the pre-partition trade patterns right after the independence, it was due to the fact that trade was supporting both the regions equally due to distribution of raw products and

industries. In this context both sides were enjoying the status of free trade flow across the borders. After partition in sub-continent, the strategic liability that effected the situation was break down of Korean War. This war changed the scenario for the whole world for that specific time period, as it resulted into the scarcity of “commodity products”. Pakistani intellectuals and think tanks took it as an opportunity and it was opted as a new opening for developing the trade relations. Economist’s review at that point of time Pakistan and India were having same value for rupee as currency for both the states were tied with British Pound.

The measure of trade restrictions from India turned out to be the major point to bring down the trade between India and Pakistan. In a reaction of restrictive policies from India, Pakistan as a major trade partner of also tuned up the trade policy for India and revisited her trade policy. The changes in behavior and patterns of trade policy showed several incidences of sharp trade cuts between India and Pakistan.

Hye (2011) studied the trade policy of Pakistan and India. It was the immediate effect of war broke down between these two countries right after independence and effected the whole trade cycle of India and Pakistan. The trade deteriorated with the passage of time, after the war of 1965 the trade was almost negligible and this situation prevailed till 1971. Although, there were 14 bilateral agreement signed between Pakistan and India to facilitate the trade process in 1947 to 1965. We cannot neglect the fact that nine branches of six Indian banks were operational in Pakistan till 1965 the year at which Pakistan and India went to war. In 1971 India and Pakistan was involved in another war, it resulted to severe political circumstances and the governments on sides decided not to allow trade across the borders. The situation of political gap lasted for longer period of time. Governments of both the countries were not even concerned to increase any type of economic, political or social cooperation. In this time period all the borders were closed for the trade of any type of item, even people were not allowed to cross the borders. These policies were adopted till 1975; the time period of 1965-74 was the adverse time period for trade between both the countries.

Little *et al.* (1970) observed that in late 1970s Pakistan took major liberalization measure including elimination of bonus scheme, devaluation, and elimination of restrictive export/import policies. These measures didn’t support the trade as it remained trivial to \$ 132 million. It was the time at which Bangladesh was emerged as a separate country on the world map. It caused a major loss to the socio political and economic indicators of Pakistan.

Murshed & Mamoon (2010) noted that Pakistan and India were involved in six major conflicts out of these six conflicts the war of 1971 caused the major economic loss especially for Pakistan. In this time period Pakistan and India has suffered with the largest time spam in which there was no significant interaction or trade across the border. Authors has observed the occurrence of major conflicts is due the Kashmir issue as

“Indian and Pakistani troops confront each other every day with fingers literally on the trigger, along the ceasefire line or line of control established on 1st January 1949 in Kashmir”

Hye (2011) observed three major indices of economic growth through trade openness as.

“First the trade openness causes economic growth through efficient allocation of resources. Second, trade shifts the technology from developed to developing countries. The last learning by doing: developed countries innovate and developing countries imitates”

In these lines Hye has evolved the idea of trade openness in developing countries by describing it in three major factors. The trade openness empirically allows the economic growth as it replicates the efficient resource allocation in different sectors of the economy. In developing countries, issue of scarce resources is more severe when compared with developed countries as the growth of economy is slow where as more funds are needed to be generated by injecting extra valued revenues into the economy. Trade stream lines the resources at macro level to assess the resource allocation by reprioritizing the economic activity in the country. In case of Indo Pak trade both of these countries have developing economies and the long unified borders allows trade at a reducing cost as compared to other countries. Pakistan and India should follow the regulations for lowering the trade tariffs to allow free trade within the region.

The economic models have always suggested that whenever there are barrier of limitations of the trade or in the economic activities it has always dinted the process of economic activity within the domestic circle of the country. The South Asian countries have the lowest trade ratio among the neighboring countries. India and Pakistan are the two major contributing countries of South Asia. These countries should be focusing on lowering the trade limitations in order to enhance the economic integration of South Asia.

Burki *et al.* (2006) discussed the fact that even in the period of high trade rate doesn't last for long period of time as Pakistan enjoyed this session till 1980s. Trade patterns and relation in this region changed soon after 1980s. The major cause for cut down of trade growth rate was Pakistan's growth rate. It has been observed that growth rate of Pakistan's economy has consistently low as compared to India. In generic terms growth rate of Pakistan was low most of the times so it was difficult for business community to carry the trade with India, whereas, per capita income for Pakistan has remained above from India for most of the time. World Bank (2007) has clearly stated that per capita income of Pakistan has remained as above of India till 2006-07. In a same way cost of doing business has also been lower in Pakistan till 200-5-06 when compared with India. Now there is a huge difference as Pakistan is considerably low in per capita income.

It is important to mention the uneven trade patterns are due to political scenarios on both sides of borders. The data of trade between India and Pakistan shows a clear cut down of trade as a steep turn down of import and export for both the countries. It is a fact that political influence has disseminated trade relations between Pakistan and India. Experts states these words as "Politics of Pakistan – India trade has affected the region a lot". Further it is explained, Pakistan has lost its quintessence as a trading country due to weakening competitive essence as compared to India.

Pakistan and India are operating at negligible level of trade. Even in this modern globalized world neither country falls into the top ten category of trading partners. This is because of their past political history. The numbers show that India has increased its trade steadily till 2000 but still stands at 31 percent in trade openness index as compare to this Pakistan stands at 38 percent. The trade openness in South Asia has remained at 65 percent and in this region both these countries have remained quite low as compared to the overall trade openness of the region. The regional analysis shows that the regional trade in Subcontinent remained at one percent as compared to Latin America and Sub Saharan Africa where the trade integration remained at 3.5 to 4 percent. Whereas, trade integration for APEC, European Union (EU), North America Free Trade Area (NAFTA) and Association of South East Asian Nation (ASEAN) stood at 73, 61, 57 and 23 respectively.

3. Data and Methodology

Trade has been a decisive indicator for nurturing the economy. There are so many researches available that have studied the impact of trade on economic development. The review of literature suggests that trade has always been beneficial for the economy to grow. In the current economic cycle a country or economy cannot survive in isolation. To cater this issue economies spend a lot of the research and development of trade. In developing countries a new debate has emerged to flourish the trade for getting the rapid growth in economy. Pakistan and India are two developing countries of South Asia striving for getting a peaceful relationship in the region.

Trade is a core concept related to the economies. Usually the data on trade is explored on the basis of imports and exports. In this research data used for analysis is carried out as a secondary data. The data is extracted from different official sources. Majority of data is taken from Trade Development Authority of Pakistan, World Development Indicators and Trade Map. These are the only useful and healthy resources available for the collection of data especially on world trade. The data of exports and imports of Pakistan is somehow also extracted from the State Bank of Pakistan for some time period as it was not available in US \$ on the other sources. The data of India bilateral trade and India's trade with rest of the world is collected through the Ministry of Commerce, India. All these resources are available online on the websites of respective ministry. In some of the cases data is also assessed through the statistical bureau of Pakistan as historic data was mostly available through statistical bureau of Pakistan. Data is extracted from the time period of 1990-2013. Data on exchange rate has been extracted from State Bank of Pakistan and it is for the years 1990-2013. The exchange has been calculated on the basis of indices as given by State Bank of Pakistan (A table for calculating the indices of exchange rate is attached in the annexure II). The data of trade has been extracted majorly from Trade Development of Pakistan. The trade data has been considered from 1990 to 2013. The data is taken for 23 years the reason lies in the non availability of data. Before 1990 the data of trade has not been taken because before this time period the trade between India and Pakistan has remained close to zero for few years, considering that data set can result into the elimination of OLS model result by distorting the results.

OLS regression is one the most important and frequently used technique by the economists for development of model by data analysis. It is considered one of the powerful tool as it is easy to check linearity, constant variance and effect of outliers to check the assumptions of the model.

OLS is a useful technique to assess the trading patterns of the countries. In number of researches it has been used to indicate the significance of trade with the countries. In this research work OLS method is used to assess the significance of bilateral trade between India and Pakistan. The assumptions of OLS model are as

1. The impact of bilateral trade between India and Pakistan is checked on the exports to USA from Pakistan
2. Effect of Bilateral trade of Pakistan and India is checked on the exports to European Union from Pakistan
3. The impact of bilateral trade between India and Pakistan is checked on the exports to UAE from Pakistan.
4. All these three equations carry a third explanatory variable of Exchange rate to check whether exchange rate appreciation have positive or negative impact on the exports of Pakistan to USA, EU and UAE.

Export (USA) = Imp Exp (Pak, Ind), Exchange rate

Export (EU) = Imp Exp (Pak, Ind), Exchange rate

Export (Afghanistan) = Imp Exp (Pak, Ind), Exchange rate

In this study the ordinary least square regression is used to analyze the impact of Pakistan India bilateral trade on the exports of major trading partners of Pakistan. It has been identified through EDA that Pakistan's most important trading partners are developed nation and if we name the regions preciously it is United States, European Union and United Arab Emirates. The linear model developed for the OLS model contains the three sets of equations. The equations are as:

$$ExpUSA = \alpha_{1i} + \beta_{1i} TradePI_i + \gamma_{1i} Xchange_i + \varepsilon_{1i} \quad (1)$$

$$ExpUSA = \alpha_{2i} + \beta_{2i} ExportsPI_i + \gamma_{2i} Xchange_i + \varepsilon_{2i} \quad (2)$$

$$ExpUSA = \alpha_{3i} + \beta_{3i} Im portsPI_{3i} + \gamma_{3i} Xchange_i + \varepsilon_{3i} \quad (3)$$

These three equations explain the linear model for checking the different explanatory variables variations and its impact on the response variable of Exports of Pakistan to USA.

First equation (1) explains the model for assimilating the two important variables of trade in the prospects of Pakistan. It aims to develop the reference for checking the status of Pakistan and India bilateral trade on the exports of USA. The equation tries to explain does the increase in Pakistan's bilateral trade with India increase the trade with the Unites States or vice versa.

Second explanatory variable is Exchange rate. Exchange rate of Pakistan over the period of last 22 years is regresses with exports to United States to check whether these are positively or negatively associated with each other.

Second set of linear equations is formed as:

$$ExpEU = \alpha_{4i} + \beta_{4i} TradePI_i + \gamma_{4i} Xchange_i + \varepsilon_{4i} \quad (4)$$

$$ExpEU = \alpha_{5i} + \beta_{5i} ExportsPI_{5i} + \gamma_{5i} Xchange_i + \varepsilon_{5i} \quad (5)$$

$$ExpEU = \alpha_{6i} + \beta_{6i} Im portsPI_{6i} + \gamma_{6i} Xchange_i + \varepsilon_{6i} \quad (6)$$

In these equations Exports with European Union are regressed with three important factors of bilateral trade of Pakistan with India. In first equation EU trade is regressed with bilateral trade with India. It is important to mention that these parameters are measured with reference to Pakistan. EU is a major trading partner of Pakistan. In exports most of the exports of Pakistan flow towards EU though it is categorized at fourth level while ranking the exporting partners of Pakistan. Secondly exports with EU are also explained by exchange rate fluctuations of Pakistan. It is expressed in each equation, for each equation holds the explanatory variable exchange rate in it. In this context exchange is regressed for all the three categories of exports to check the significance of bilateral trade

Third set of equations are formed as:

$$ExpUAE = \alpha_{7i} + \beta_{7i} TradePI_{7i} + \gamma_{7i} Xchange_i + \varepsilon_{7i} \quad (7)$$

$$ExpUAE = \alpha_{8i} + \beta_{8i} ExportsPI_{8i} + \gamma_{8i} Xchange_i + \varepsilon_{8i} \quad (8)$$

$$ExpUAE = \alpha_{9i} + \beta_{9i} Im portsPI_{9i} + \gamma_{9i} Xchange_i + \varepsilon_{9i} \quad (9)$$

The third set of variables is formed to check the relationship with the exports to UAE from Pakistan. The first equation (1) is formed to check the relationship between bilateral trade of Pakistan and India and Exports of Pakistan with UAE. United Arab Emirates is one of the major regions where 15 percent of Pakistan's

total exports are exported. Under this contribution UAE is one of the important exporting partners of Pakistan. Exchange rate fluctuations are also regressed with the exports of Pakistan to UAE. In this equation exports to UAE is explained by two explanatory variables i.e. bilateral trade between India and Pakistan, exchange rate fluctuations in Pakistan.

Second equation explains the relationship of exports from Pakistan to UAE and exports from India to Pakistan. In other words it could be explained as it is a function of exports between India and Pakistan and Export of Pakistan to UAE. It is to analyze those fluctuations in exports with India does impact Pakistan's exports to UAE and second explanatory variable is exchange rate fluctuations.

Third equation derives a model to check the fluctuations in Imports between India and Pakistan to exports with UAE. Second explanatory variable is exchange rate. In these equation exports of Pakistan to UAE is regressed with imports of Pakistan to India and exchange rate of Pakistan.

4. Analysis and Discussion

Table 1, 2 and 3 (appendices) show the results of OLS models. In the tables all the values are significant and showed a positive trend with the exports of major countries/regions. All the results show the significant increase in the values of exports with the major trading partners

For equation 1, exports of Pakistan to US are regressed with bilateral trade of Pakistan and India. The results are significant at 0.46. This indicates that increase in bilateral trade with India certainly increases the trade with USA. USA being an important and biggest exporting partner of Pakistan gains a more importance and increase in exports with US will definitely benefit the trade development in Pakistan.

In the second equation of first set i.e. equation 2, Exports of Pakistan are analysed with exports of India and these have also shown as significant as increase in exports with India has increased the exports with USA as OLS shows significant results at 0.49. It clearly indicates that 1 percent increase in exports to India Pakistan can gain 46 percent increase in the exports to USA. Next explanatory variable is imports to Pakistan from India i.e. equation 3 of first set.

OLS results have shown significant results for this model as well. In this model the values are significant at 0.46 which shows that 1 percent increase in imports from Pakistan to India enhances Pakistan trade by 46.9 percent of exports to USA. In all the above three cases depreciation in exchange rate have also shown significant positive relationship. In all the three cases depreciation in exchange rate has increased the exports with USA as explained by three different explanatory variables.

The second set of variables (i.e. equation 4,5 and 6) is identified through OLS regression method. In the second set of equation the results have shown a positive significant relationship. It can be seen from the table that exports to EU are positive related to the bilateral trade of India and Pakistan. It is significant at 0.75 which shows that 1 percent increase in bilateral trade with India Pakistan has previously experienced a 75 percent increase in the exports to European Union and it is assumed to be the case in the future. It is a significant result at a very high percentage in increase of export to European Union. In the second equation the exports between India and Pakistan are regressed with Exports to EU. It has also shown a positive significant result at 0.34 on OLS. Similarly in imports it is the same percentage which shows that an increase in export with India Pakistan can enhance the exports to EU by 34 percent and at the same time an increase in imports will tend to increase the exports to EU at the same rate. In all the three

equation of second set exchange has shown a positive significant result denoting that gradual but narrowed depreciation in exchange rate tends to increase the exports to Pakistan to EU in a long run especially.

Lastly, third set of equations are transformed into the number by running the OLS approach. In the last set, for equation 7, exports of Pakistan to UAE is analyzed with the bilateral trade of India and Pakistan (exports and Imports). The results show significant positive relationship between these two variables. Exports to UAE as a response variable tend to act positively when bilateral trade between India and Pakistan has increased. It is a significant result at 0.65. This shows an increase in bilateral trade between India and Pakistan, increases the exports of Pakistan to UAE by 65 percent which is a pretty decent amount of leverage to Pakistan while exporting to UAE. Similarly, second equation i.e. equation 8 explains the result for exports to UAE and exports of Pakistan to India. It has also shown a significant positive result at 0.34 which shows an increase in exports to India enhance the exports to UAE by 34 percent. Imports with India have also shown significant results at 0.64. These results are significant at 0.3, 0.6 and 0.3 respectively, which shows the positive impact of bilateral trade, with India to the exports with UAE. The depreciation in exchange rate has also shown a positive relationship with the Pakistan's exports to UAE.

5. Conclusion

In this study the analysis has been done to check the status of bilateral trade. Trade between India and Pakistan has been viewed with a different view point. In case of Pakistan the major exporting partner from Pakistan is USA, UAE, Afghanistan and EU.

In this study the analysis has shown that increase in bilateral trade with India certainly enhances the exports of Pakistan to other trading partners of the country. In this context Pakistan can avail the dual benefit of trade with India. As different researchers have conceptualized empirically, that Pakistan will be benefitted with trade as economic integration will bring normalization of relationships across both sides of the borders. In the same paradigm it is also important to look at the fact that enhancing imports or either exports with India benefit Pakistan to get a significant increase in trade with other trading partners as well.

6. Policy Guidelines

The developed world is prominent in gaining the exports from the developing countries likewise Pakistan is exporting most of its trade contribution to the developed world i.e. USA, EU and UAE. The easy and quickest way to gain the exports is getting the product or by products through the very next immediate neighbor India. Pakistan's economy could take some time to settle the level of production due to severe problems like energy crisis. In these circumstances it would be beneficial to enhance trade with India that will benefit Pakistan by getting peaceful relation ultimately contributing towards the prospects of the economy.

Pakistan is looking forward for the following guidelines and it is suggested in this study that these would be the most beneficial measure to undertake so as to gain economic prosperity.

It has been observed that Pakistan is emphasizing on its trade promotion. Pakistan is involved in the talks with the world for promotion of exports as its priorities are to "Trade but not Aid". This slogan has been floated in many platforms by the officials of Pakistan. This shows that Pakistan is intended to enhance its trading base.

Journal of Economics and Political Economy

Our study finds that promoting trade between Pakistan and India is expected to raise Pakistan's exports to USA, EU and UAE significantly.

Pakistan has been given GSP plus arrangement by European Union. The Generalized System of Preferences status for Pakistan will enhance the exports to EU. It is expected to raise the Pakistani exports by 2 Billion. If Pakistan settles down a good platform for trade, it could even benefit more from exports to European Union. In the light of this study Pakistan should be looking forward to enhance the regional trade so as to get significant results by exporting to EU.

As a first step to improve trade between India and Pakistan, we should give India MFN status. It should be noted that Pakistan has already moved from positive list to negative list that has improved the number of goods traded with India. Initially Pakistan was following the positive list of 1938 items (vide import policy orders of Pakistan, 2008). It is expected that the positive list is transformed into a negative list of 1100 items that is issued for non traded items. Pakistan is intended to lower down the number of items to 700 by end of this year. It is a step in a right direction.

Pakistan and India will also go a long way in improving the relationship between the two countries. There will be a greater motivation in solving bilateral issues between two countries if these two countries trade.

An anticipated benefit from bilateral trade would be improvement in the security climate which will enhance the investment and economic development for both the countries.

Appendices

Table 1. Pakistan's Exports to US

	India Pakistan Bilateral Trade shares	Exports (Pakistan to India)	Imports (Pakistan to India)	Exchange Rate	n
β -value	0.469 (2.321)**			0.448 (2.216)**	n 23 r ² 0.78
β -value		0.495 (3.199)**		0.461 (0.297)**	n 23 r ² 0.81
β -value			0.469 (2.321)***	0.448 (2.216)**	n 23 r ² 0.76

Notes: ***, **, * denotes significance level at 1%, 5% and 10%

Table 2. Pakistan's Exports to EU

	India Pakistan Bilateral Trade shares	Exports (Pakistan to India)	Imports (Pakistan to India)	Exchange Rate	n
β -value	0.753 (8.021)**			0.251 (2.672)**	n 23 r ² 0.95
β -value		0.374 (2.712)**		0.601 (4.364)**	n 23 r ² 0.85
β -value			0.374 (2.712)**	0.601 (4.364)**	n 23 r ² 0.85

Notes: ***, **, * denotes significance level at 1%, 5% and 10%

Table 3. Pakistan's Exports to UAE

	India Pakistan Bilateral Trade shares	Exports (Pakistan to India)	Imports (Pakistan to India)	Exchange Rate	n
β -value	0.651 (6.075)*			0.352 (3.284)**	n 23 r ² 0.94
β -value		0.347 (2.683)**		0.635 (4.907)*	n 23 r ² 0.87
β -value			0.645 (6.183)*	0.360 (3.453)*	n 23 r ² 0.93

Notes: ***, **, * denotes significance level at 1%, 5% and 10%

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