Enhancing Trade with Neighbors for Economic Development

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Abstract

Different nations followed different paths to achieve development/growth and managed varying degrees of success. As various countries are different in their physical, economic, political and other characteristics, the theoretical basis and strategies followed by them to achieve their goal are also varied. A large number of economists have empirically examined the relation between trade and development. Some have extended this to include the issue of poverty also. Most of the studies show that the countries which have followed policy of trade expansion, have achieved better growth rates, though it is difficult to conclusively prove that trade has resulted in higher growth rate. The present study aims at examining the experience of India, Pakistan and China in this regard. These countries are not only important for South Asia but also for the whole world, because two most populous countries of the world with a huge market for all kinds of commodities are included in this. They are close neighbors but unfortunately have always faced the problem of strained relationship. There are many compelling historical and political factors which continue to obstruct process of normalization of relationship.

Following are the main objectives of this paper:

1. To analyze the relationship between trade and growth.
2. To examine the views and findings of various experts on trade and growth experience of various countries.
3. To examine the role of trade in the growth experience of India, Pakistan and China.
4. To examine the scope and potential of trade between India and Pakistan for achieving growth.

There is evidence to show that between India and Pakistan, a huge volume of trade is through unofficial route, also known as unofficial trade. In other words there is a huge potential of untapped possibilities of trade between two countries. A conscious and deliberate effort in this direction may not only help both nations to achieve many economic goals but also ease political tensions between two countries.

Enhancing Trade with Neighbors for Economic Development

Introduction

A country's destiny is linked to its neighbourhood", said Prime Minister Narendra Modi in his historic address to the United Nations General Assembly on 27th Sep 2014. Although, destiny in this context embraces many aspects, economic growth and development is one of the most crucial aspects. There are a large number of divergent theories and models to explain how development can be achieved in a country. This paper deals with the proposal that trade (particularly with neighbours) can be used as a means to achieve growth and development.

The first part of this paper deals with the views of economists, who turned to international trade as an important catalyst to growth as well views of those who are opposed to free trade. Under the 'review of literature', the experience of different nations that used trade as a means in their quest for growth, development and removal of poverty, is examined. In the next section, the experience of India and its neighbors (China and Pakistan) is examined in this context. This paper also examines the potential of India's trade with neighbours, particularly with Pakistan. Among the South East Asian countries these three countries form a big chunk of market. So it is strongly recommended that efforts should be made to realize the full potential of trade with neighbours. This will increase economic activity and income, resulting in higher income and growth for all participant neighbours.

Considering the present state of political atmosphere in the Indian subcontinent, it may sound impractical. The fact that Prime Minister of Pakistan attended installation of Prime Minister Modi and the Chinese President decided to visit India soon after the new government took office, point towards some hope for future. Lack of friendly relationship with neighbours has a serious negative effect on the process of growth. All these three countries are raising their defense budget each year and there is a serious race to acquire better arms particularly between India and Pakistan. If we realize the importance and scope of economic ties and improve bilateral relationship, it may reduce very heavy expenditure on defense. It will release large resources for investment for economic development.

Following are the objectives of this paper:

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Theoretical views

Among the recent economists, Myint (1958), Haberler (1961) and Viner (1953) had argued along lines similar to the classical doctrine of Adam Smith, Heckscher, Ohlin and Samuelson that trade and specialization can increase the 'extent of the market'. Free trade was considered as trade policy that could promote economic well-being and development of all the trading partners. However, many economists like Nurkse (1986), Singer (1982) and Prebisch (1950) raised doubts on this account**.** This idea that gained popularity since 1950s may be loosely termed 'structuralism'. The 'structuralist' thesis, called attention to the distinct structural problems of the third world countries.

One of the distinctive features of third world development was that, unlike European development, it was supposed to occur while these countries existed alongside already- developed Western countries and were tied to them through trade. This could give rise to distinct structural problems for development. Raul Prebisch (1950)**,** economist associated with The United Nations Commission on Latin America, formulated the famous 'dependency' theory of economic development, wherein he argued that the world was drawn into a 'center-periphery' relationship among nations, where the third world was regressing into becoming the producer of raw materials for first world manufacturers and were thus condemned to a peripheral and dependent role in the world economy. Prebisch, concluded that some degree of protectionism in trade was necessary if these countries were to enter a self-sustaining development path. Import-substitution enabled by

protection and government policy, rather than free trade and export-orientation was therefore, considered a preferred strategy.

The Prebisch-Singer thesis resounded particularly with Marxian thinkers as it included shades of arguments against imperialism. Many third world governments adopted the language and policies of the structuralists and/or the Neo-Marxians in the 1960s and 1970s. 'Neo-Colonialism', 'core-periphery' and 'dependency' were the catch-words of those days. However, as time moved on, these policies of import substitution and protection, seemed to fail to yield their promised fruit, and a Neoclassical (or, more accurately, Neo-Liberal) countermovement initiated by the voices of Bauer (1973), Balassa (1978) and Krueger (1990) began to gain more adherents. Their thesis was simple i.e. government intervention did not improve development, it in fact thwarted development. The emergence of huge bureaucracies and state regulations, they argued, suffocated private investment and distorted prices, making developing economies extraordinarily inefficient.

Review of Literature

Bhagwati and T.N. Srinivasan(2004) have taken up theoretical and empirical analysis of impact of free trade on poor countries. They have used both static and dynamic arguments to state that expansion of trade has helped poor countries. The low income population in a country is most affected by inflation. When a country aims at expansion of trade, it is important for them to control inflation and maintain stability. This definitely helps the low income group.
Dynamic argument is provided by citing the example of two countries –China and India, which have a large part of population below poverty line. During 1980-2000 real GDP grew at an annual average rate of 10% in China and 6% in India. During these two decades both countries achieved significant reductions in poverty when they grew rapidly. The incidence of poverty, by agreed measures, declined from 28% in 1978 to 9% in 1998 in China. By the Government of India's estimates, poverty incidence fell from 51% in 1977-78 to 27% in 1999-2000. This is also the period when these two countries integrated themselves into world market. On the other hand, the period prior to 1980 is marked by low growth rate, no reduction of poverty level and restrictions on external relations.

Roemer and Mary Kay Gugerty (March 1997), have examined the relationship between economic growth and poverty, the question, whether growth reduces poverty. They conclude that there is every reason to believe economic growth reduces poverty. GDP growth of ten percent per year is associated with income growth of ten percent for the poorest 40% of the population. For the poorest 20% the elasticity of response is 0.921; GDP growth of 10% is associated with income growth of 9.21%. This study also indicates that more outwardly oriented countries grow more quickly, leading to greater poverty alleviation.
There is little evidence to support the contention that economic growth and outward-oriented policies will hurt the poor. Countries with higher rates of economic growth over the last 30 years have achieved greater reductions in poverty.

Dollar and Aart Kraay (2007) have provided evidence that, increased trade has strongly encouraged growth and poverty reduction and has contributed to narrowing the gaps between rich and poor worldwide. They have focused on the experiences of a small group of developing countries that have seen large increases in trade over the past 20 years. These countries are referred as the "post-1980 globalizers", for example, Argentina, Bangladesh, China, India etc. Per capita GDP growth in the post-1980 globalizers accelerated from 1.4 percent a year in the 1960s, to 2.9 percent a year in the 1970s, to 3.5 percent in the 1980s and 5.0 percent in the 1990s. It is also seen that those countries which did not participate in the process of expansion of external sector did lag

behind. Their conclusion is that trade liberalization leads to higher growth of average incomes and growth of average incomes increases the incomes of the poor proportionately. However, Dollar and Kraay do agree that this result cannot be considered as conclusive and the experience is not exactly same for all the nations.

Howard L. M. Nye and Sanjay G. Reddy have critically examined the proposition given by Dollar and Kraay in their paper, "Trade, Growth, and Poverty". Dollar and Kraay claim to present evidence that trade liberalization leads to faster growth in average incomes, and that this growth in average incomes in turn increases the income of the poor "proportionately", thus leading to decreased absolute poverty. Dollar and Kraay suggest that one of the surest ways for less developed countries to alleviate poverty is to pursue policies of trade liberalization. Nye and Reddy do not agree with this. They argue that growth in national income need not increase the income of the bottom quintile. Further, even if this were true in a particular country, it would not imply that the bottom quintile benefits to the same *extent* as does the rest of the nation from an increase in national income. In any event, there is evidence that the incomes of poor (as distinguished from those of the bottom quintile of the income distribution) do grow at a slower rate than do average incomes. In particular, there is some evidence that the factor of proportionality between growth in average incomes and growth in the incomes of the poor becomes progressively smaller.

Khan, Moeed Yusuf et al (2007) have examined informal trade between India and Pakistan. Their study estimates the value of informal trade, its size and composition. It also assesses whether such trade would be rerouted through official channels if trade barriers between India and Pakistan were removed under two alternative trade regimes, i.e., if Pakistan would grant India most-favored nation (MFN) status and if there is a free trade regime as envisioned under the South Asia Free Trade Agreement (SAFTA). The potential revenue impact on Pakistan of switching from informal to formal trade is also examined.
It is estimated by them that in 2005 the value of goods sent through informal trade route, from Pakistan to India was about $ 10 million (main items are cloth, cigarettes, dry fruits), and from India to Pak items sent was about $ 535 million (main items included cloth, medicine, cosmetics and tires), that means total trade was worth $ 545 million. The study identified five major and six minor routes of informal trade, that includes smuggling and quasi-legal trade. These routes include trade via countries like Afganistan, Dubai, Singapore, Hong Kong etc.

Keshab Bhattarai (2010), examined relation between trade, growth and poverty in South Asia for the period 1991 to 2008. Impact of international trade has differed significantly among South Asian countries. While India and Bangladesh doubled their export ratios to around 26 percent of GDP during the 12 years between 1995 and 2007, Pakistan, Nepal and Sri Lanka are struggling to maintain them even at 1995 level. International trade has contributed to higher rate of growth of per capita income in Bangladesh, India, Bhutan and Sri Lanka but it did not have any growth impacts in Nepal or Pakistan. The rising trade ratios, however, have raised both inequality and poverty of the low income households in the bottom three quintiles of income distribution. In absolute terms the income of poor households had grown along with the per capita income though the gap between the rich and poor is widening. While increased trade is likely to bring more growth in these countries, the structural imbalances between imports and exports and income gaps between rich and poor are likely to rise even further in coming years. Poverty has increased in Nepal, Bangladesh and Pakistan and slightly reduced in India and Sri Lanka during the period of study.

Higgins and Susan Prowse (2010), wrote a working paper for ODI London. This paper examines the importance of aid for developing countries, so that they can improve their capacity to trade.

The study outlines the linkages between trade, growth and poverty and some of the critical contextual factors that influence these linkages. The paper suggests entry points and approaches for Aid for Trade programming that have the potential to support trade expansion as well as trade-induced poverty reduction. Aid for Trade should be programmed in such a way that it optimizes the positive, and limit the negative impacts of trade expansion on poor countries and poor people.

Khan, and Rashid Sattar (2010) analyzed the causality between the trade, growth and poverty for Pakistan using annual time series data from 1973-2009. They concluded that trade has significant impact on growth (and vice versa) and growth decreases poverty. In the case of Pakistan there exists two way relationship between trade and growth in the long-run but for the short-run, there is only one way relationship, that is, growth enhances trade. For relationship between growth and poverty, there exists long-run relation from growth to poverty while for the short-run no relationship could be established. It may be concluded that international trade can play an important role towards growth and ultimately alleviation of poverty. From the policy perspective government should focus on trade. It will promote growth and it may reduce poverty.

Wei Tian and MiaojeYu (2012) examined and analyzed trade pattern and its relation with development in India and China since 2000. They looked into pattern of trade in the two countries and the factors that resulted in difference in performance of two countries. Important indicators used for analysis are trade openness, factor productivity, export sophistication etc. China had adopted the strategy of export promotion for development since 1980 where as India followed inward-looking policy till the year 1991. Only by year 2000, export became a major factor in India. A very interesting aspect of China's trade is dominance of processing trade rather than ordinary trade. Processing trade means importing intermediate or raw materials and exporting final products. Trade balance has been in favor of China in the recent years and gap has been widening. Labour productivity has become much higher in China compared to India. India's technological progress has been commendable but in the field of manufacturing China has made significant gain over India.

Le Geoff and Raju Jan Singh (2013) examined the relationship between trade openness and poverty reduction. Theoretically, the impact of trade openness on poverty reduction is ambiguous. Various empirical evidences also reflect this ambiguity. Le Geoff and Singh examined how the effect of trade openness on poverty may depend on complementary reforms that help a country take advantage of international competition. Using a non-linear regression specification that interacts a proxy of trade openness with proxies of various country structural specificities and a panel of 30 African countries over the period 1981-2010, the analysis finds that trade openness tends to reduce poverty in countries where financial sectors are deep, education levels high and governance strong.

Taneja, Nisha (Jan 2013) examined trade between India and Pakistan. According to this study, the potential for trade between the two countries is about 10 times more than the actual trade that is taking place between two countries. The study examines the physical and regulatory impediments between India and Pakistan in realizing the trade potential, and suggests how the trade potential can be realized. Pakistan has maintained negative list and a sensitive list of items for which there are many trade restrictions particularly with India. Many items like automobile parts, which can have great impact on industrial development are on such lists, restricting trade

between two countries. There are also many perceived barriers of trade because of which businessmen from these countries donot take the risk of entering each other's markets. The author suggests not only flow of goods between two countries but also flow of capital and modifications in visa regulation. These will be in the interest of both countries.

Data Base and Methodology

This study uses secondary data published by World Bank and other National or International Agencies.

A period of three decades (1981-90, 1991-2000 and 2001-2011) is covered in this study for India, Pakistan and China to examine how trade has affected growth in these three countries. Trade is measured in terms of export as percentage of GDP (E); import as percentage of GDP (I) and trade openness defined in terms of merchandize trade as percentage of GDP (T).
Correlation is used to determine the relation between (E) & GDP growth rate, relation between (I) & GDP growth rate and relation between trade openness and growth in per capita income.
Regression is used to find the effect of E and I on GDP growth rate and effect of T on per capita income for all the three countries separately for the three decades under study.

The Indian Experience

At the time of independence Indian economy was poor and undeveloped in every respect. The government adopted mixed economy and launched into a program of planned economic development. In terms of external policy to be followed, there are two options: 'outward looking policy' or 'inward looking policy'. India adopted 'inward looking' policy in the initial period of about 30 years after independence, but later on, particularly in 1990s the policy shifted to 'outward looking'.

Economic conditions have changed in many ways particularly after 1991. Infrastructure improved in some sectors. Highest improvement is in the field of communication, some improvement has taken place in the transport sector but hardly any improvement in electricity generation. Literacy rate has improved in the recent years and with the private sector investing in higher education in a big way, supply of skilled worker has improved. Despite many weaknesses of our political system and corruption, there is a political stability and freedom that is better than what we find in many of our neighbours.

To examine trade and economic growth in India during the three decades under study, following table is used and conclusions are drawn.

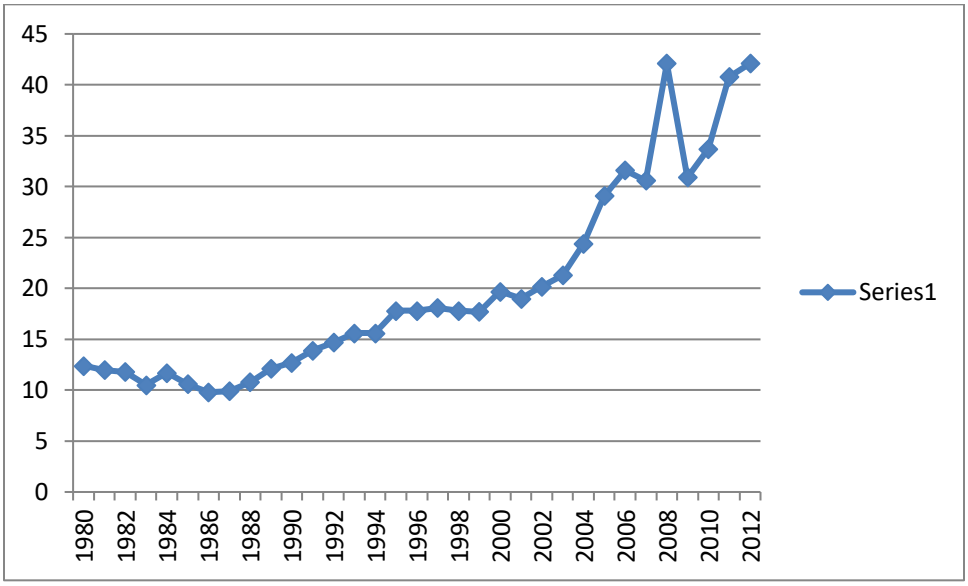
INDIA

Year	GDP Gr Rt	Export as % of GDP	Import as % of GDP	Per capita income	Merch. Trade as %of GDP
1980	6.7	6	9	271	12.4
1981	6	6	8	275	12
1982	3.5	6	8	279	11.8
1983	7.3	6	8	297	10.5
1984	3.8	6	8	282	11.7

1985	5.3	5	8	303	10.6
1986	4.8	5	7	317	9.8
1987	4	6	7	348	9.9
1988	9.6	6	7	362	10.8
1989	5.9	7	8	354	12.1
1990	5.5	7	8	376	12.7
1991	1.1	8	8	310	13.9
1992	5.5	9	9	324	14.7
1993	4.8	10	10	309	15.6
1994	6.7	10	10	355	15.6
1995	7.6	11	12	384	17.8
1996	7.5	10	11	411	17.8
1997	4	11	12	427	18.1
1998	6.2	11	12	425	17.8
1999	8.8	11	13	455	17.7
2000	3.8	13	14	457	19.7
2001	4.8	12	13	466	19
2002	3.8	14	15	487	20.2
2003	7.9	15	15	565	21.3
2004	7.9	18	19	650	24.4
2005	9.3	19	22	740	29.1
2006	9.3	21	24	830	31.6
2007	9.8	20	24	1,069	30.6
2008	3.9	24	29	1,042	42.1
2009	8.5	20	25	1,147	30.9
2010	10.3	22	26	1,417	33.7
2011	6.6	24	30	1,540	40.8
2012	4.7	24	31	1,503	42.1

Source: Collected from World Development Report, World Bank

TRADE OPENNESS



Following conclusions can be drawn from the analysis of given data:

1. Growth rate has been comparatively low in the first decade and higher in the 2nd and 3rd decades when export and import also went up, although there are certain years of inconsistency.
2. Correlation between export as percentage of GDP and growth rate as well as import and GDP growth rate are weak during all the decades.
3. Regression analysis shows that export as well import could not impact growth rate in India.
4. Trade openness does not have significant correlation with per capita income in the 1st decade, but in 2nd and 3rd decade it is significant (.91 and .78). Regression analysis shows that trade openness explains 83 % of change in per capita income for 1991-2001, 62% of change in per capita income for 2001-2011.
5. The graph based on the given data shows how trade openness has risen consistently in India, highest in 2008, after which it dropped but regained in 2012 although in certain years it has dipped a bit.

The Pakistani Experience

From the time of birth, both India and Pakistan have followed similar path of economic growth with some variations. Both have started opening up in the recent years. Most of the economic indicators show that India has done better than Pakistan. In terms of governance and political stability Pakistan is much behind India. There has been occasions of the Army taking over the governance from the elected government and long period of Army rule. The elected government has most of the time been under the shadow of Army. Having common border with Afganistan and Iran on the western side and strong influence of terrorist organizations have compounded the problems for Pakistan.

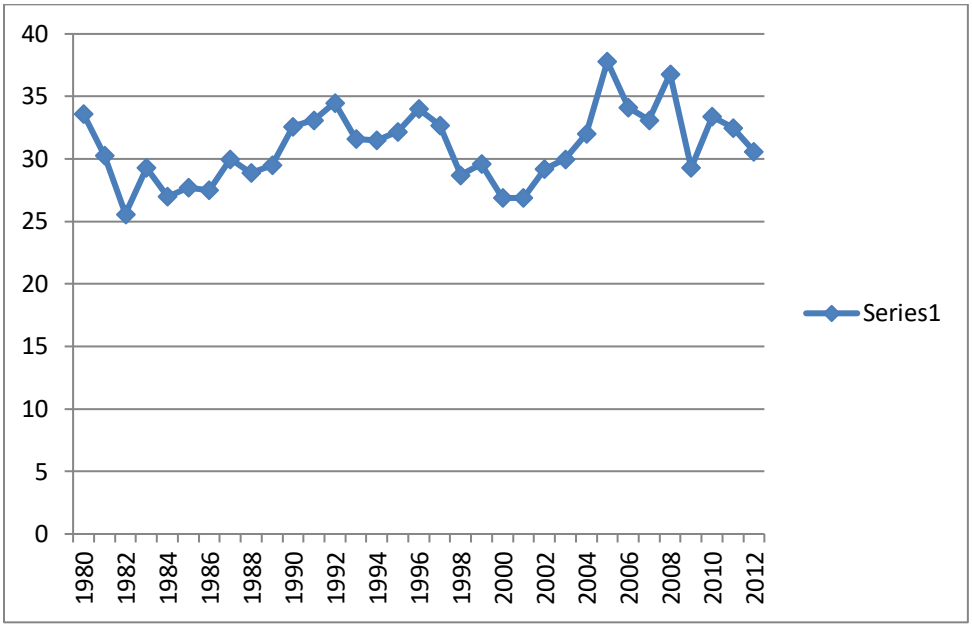
Following table has been used to examine Pakistan's experience in relation to trade and growth:

PAKISTAN

Year	GDP Gr Rt	Export as % of GDP	Import as % of GDP	Per capita income	Merchandise Trade as % of GDP
1980	10.2	12	24	296	33.6
1981	7.9	12	23	340	30.3
1982	6.5	10	22	359	25.6
1983	6.8	12	23	324	29.3
1984	5.1	11	23	340	27
1985	7.6	10	23	329	27.7
1986	5.5	12	23	326	27.5
1987	6.5	13	21	329	30
1988	7.6	14	22	368	28.9
1989	5	14	22	372	29.5
1990	4.5	16	23	360	32.6
1991	5.1	17	19	398	33.1
1992	7.7	17	21	415	34.5
1993	1.8	16	22	428	31.6
1994	3.7	16	19	420	31.5
1995	5	17	19	479	32.2
1996	4.8	17	21	487	34
1997	1	16	21	467	32.7
1998	2.6	16	18	453	28.7
1999	3.7	15	17	448	29.6
2000	4.3	13	15	514	26.9
2001	2	15	16	492	26.9
2002	3.2	15	15	483	29.2
2003	4.8	17	16	546	30
2004	7.4	16	15	631	32
2005	7.7	16	20	693	37.8
2006	6.2	14	22	853	34.1
2007	4.8	13	20	930	33.1
2008	1.7	12	23	1,018	36.8
2009	2.8	12	20	987	29.3
2010	1.6	14	19	1,023	33.4
2011	2.8	14	19	1,213	32.5
2012	4	12	20	1,255	30.6

Source: Collected from World Development Report, World Bank

Trade Openness



Following conclusions can be drawn from the analysis of given data for Pakistan given above:

1. Growth rate has been comparatively high in the first decade and lower in the 2nd and 3rd decades. Overall there is no consistent pattern in changes in export or import or growth rate.
2. Correlation between export as percentage of GDP and growth rate as well as import and GDP growth rate are weak during all the decades.
3. Regression analysis shows that export as well import could not impact growth rate in Pakistan.
4. Trade openness does not have significant correlation with per capita income in any of the three decades. It is highest in 3rd decade (.54). Regression analysis shows that trade openness cannot explain change in per capita income.
5. The graph based on the given data shows that trade openness was highest in 2005 but there is no consistent pattern.

The Chinese Experience

There are so many similarities in India and China, but there are many basic differences as well. In 1950s both countries were more or less at the same level of development in terms of industrialization and per capita income and both faced problem of high population. Both are labour abundant countries so that they have cost advantage in production of labour intensive goods. India had adopted system of mixed economy with greater leaning towards socialism under democratic system of government. China followed strict socialism under Communist party that was totalitarian and not subject to popular vote. China's contact with the rest of the world was perhaps even less than India's contact. But all that changed for both countries.

While India began the process of reforms at a slow pace in mid 1980s with decisive policy changes in 1991, China began reform much earlier in 1978. In many countries as in India, drastic changes happened in the face of a crisis. In the case of China perhaps there was no serious crisis, rather it could have been disappointment with the system that they were following. Deng Xiaoping who was the leader of the economic reforms, considered choice between system that they followed in

the past and policy of reform as a choice between distributing poverty under the old system and distributing wealth under the new system.

Though all the three neighbours were at the same level of development in 1950s, China jumped ahead of India and Pakistan in every respect. It has become a major manufacturing hub in the world. China is still not included in the category of developed countries but even the developed countries cannot ignore China any more. All the infrastructure facilities (transport, communication and power generation) are very strong points for China.

Conclusions of Chinese experience in trade and development can be drawn from given table:

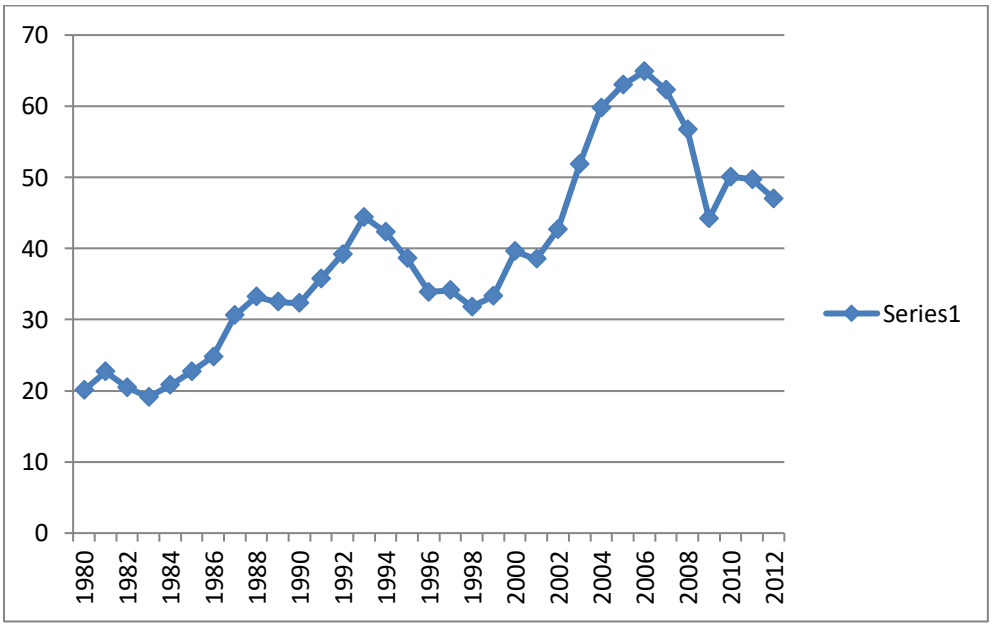
1. Growth rate has been comparatively low in the first decade and higher in the 2nd and 3rd decades, while in all the decades more than 10% growth rate was achieved in selected years. Same pattern can be seen in export and import performance also.
2. Correlation between export as percentage of GDP (E) and growth rate as well as import as percentage of GDP (I) and growth rate, remained weak during the first and second decades but was high (.82 and .74) in the last decade.
3. Regression analysis shows that (I) could explain 68% of change in growth rate in the 3rd decade but for 1st and 2nd decades (I) does not have any significant impact on growth rate.
4. Trade openness does not have significant correlation with per capita income in 2nd and 3rd decade, but it is significant (.69) in 1st decade.
5. The graph based on the given data shows how trade openness has risen consistently in China, although after reaching its highest level in 2006 it has dipped a bit.

CHINA

Year	GDP Gr Rt	Export as % of GDP	Import as % of GDP	Per capita income	Merch. Trade as %of GDP
1980	7.6			193	20.1
1981	7.8			195	22.7
1982	5.2	8	7	201	20.5
1983	9.1	8	7	223	19.1
1984	10.9	9	9	248	20.8
1985	15.2	9	13	292	22.7
1986	13.5	10	12	279	24.8
1987	8.8	12	12	249	30.6
1988	11.6	11	12	281	33.2
1989	11.3	11	12	307	32.5
1990	4.1	15	12	314	32.3
1991	3.8	16	13	330	35.8
1992	9.2	16	15	363	39.2
1993	14.2	14	16	374	44.4
1994	14	21	20	469	42.3
1995	13.1	20	19	604	38.6

1996	10.9	20	18	703	33.9
1997	10	22	17	774	34.1
1998	9.3	20	16	821	31.8
1999	7.8	20	18	865	33.3
2000	7.6	23	21	949	39.6
2001	8.3	23	20	1,042	38.5
2002	9.1	25	23	1,135	42.7
2003	10	30	27	1,274	51.9
2004	10.1	34	31	1,490	59.8
2005	11.3	37	32	1,731	63
2006	12.7	39	31	2,069	64.9
2007	14.2	38	30	2,651	62.3
2008	9.6	35	27	3,414	56.7
2009	9.2	27	22	3,749	44.2
2010	10.4	29	26	4,433	50.1
2011	9.3	29	26	5,447	49.7
2012	7.7	27	25	6,093	47

Trade Openness in China



From the review of literature and experience of three countries, it can be concluded that, majority of countries (not all) experienced positive correlation between trade and development but it is difficult to find strong causal relationship between the two. It seems that certain conditions or supportive factors should exist, only then trade results in higher growth rate. For example, if there is sufficient investment in infrastructure, improvement in governance, strong financial institutions, education and skill development, then trade can be an engine of growth and development. In India these conditions are slowly improving but there are many handicaps. One serious handicap is that India is surrounded by unfriendly neighbours, particularly Pakistan and China, which necessitates heavy expenditure on defence by all concerned nations. Despite efforts by leaders of all these three countries over the last so many years, progress has been very limited in building

relationships. A positive sign has been, recognition of the need to increase economic and trade relation, particularly by India and China in recent years.

India's Trade with neighbours

India-Pakistan

At the time of independence, India was Pakistan's major trading partner, accounting for 70 % of its total trade (**Acharya and Marwaha 2012)**. But after 1949, trade between two countries began to slide down. India accounted for less than 5 percent of Pakistan's trade in 2010-11. The share of Pakistan in India's trade at present is less than 1 percent. India Pakistan trade is regulated by many rules and restrictions. In 1975, Trading Corporation of Pakistan, a state owned company, was allowed to import 40 commodities. It was only in 1982 that private corporations in Pakistan were allowed to import from India.

In 1996, India and Pakistan both were signatories of South Asia Preferential Trade Agreement. India granted Pakistan MFN status and Pakistan decided to expand its positive list to include 596 items, bilateral trade stood at USD 180 million. By 2005 trade between the two countries had increased to USD 602 million and the number of commodities traded increased to 770 items. The number of commodities in Pakistan's positive list was increased to 1075 by 2006 and by 2009, 1938 items were in the positive list. The decline in global trade following the subprime crises impacted Indo-Pak trade as well. However, the bilateral trade picked up in 2009-10 and reached to USD 2.7 billion by 2010-11. As per a FICCI (2014) document, compounded annual growth rate of Indo-Pak trade has been 25 percent in the last 10 years. The bilateral trade balance at present is heavily in favour of India with exports pegged at USD 1.84 billion and imports at USD 0.51 billion in FY 2013. Exports have increased by 19% percent in FY 2013. Similarly imports from Pakistan have increased by 27%.

Although in absolute terms trade seems to be growing, the share of Indo-Pak trade is insignificant in the total trade for both the countries as shown in the table given below:

Years	Pak share in India's total trade	Export to Pak in India's total exports	Import from Pak in India's total imports
2006-07 to 2008-09	0.48	1.01	0.14
2009-10 to 2011-12	0.34	0.73	0.09

Source: PHD Research Bureau, Data compiled from Ministry of Commerce, GoI

A very interesting feature of Indo-Pak trade is the dual channels of trade: formal and informal. The formal route means trade through official channels according to the rules after paying the tariff and other charges. The informal trade between the two countries mainly takes place through two routes: One is smuggling across the borders and other is through a more circuitous route, involving a third country. Informal trade happens in goods that are not on Pakistan's positive list and hence cannot be imported legally, examples are Pharmaceuticals, cosmetics, jewellery and also items that have a high import tariff in Pakistan e.g. Beetle leaves, tractor tires. Other informal exports from India to Pakistan constitute mainly readymade garments, spices, livestock, machinery mainly textiles, chemicals, and informal imports from Pakistan to India includes mainly cloth, tobacco products, dry fruits, leather products mainly footwear. Estimates of informal trade vary from USD 500 million to five times the size of the formal trade.

Shaheen Rafi Khan et al (2007) undertook a detailed study on the informal trade between India and Pakistan. According to them the five major routes of informal trade are

i. Dubai–Bandar Abbas–Herat–Kabul–Jalalabad–Bara
ii. Dubai–Bandar Abbas–Herat–Kandahar–Wesh–Chaman
iii. Dubai–Bandar Abbas–Herat–Kandahar–Wesh–Noshki–Chaman–Quetta
iv. Sindh Cross-Border
v. India–Dubai–Karachi.

Trade through the first three channels is containerized. The containers are shipped to Dubai and from Dubai to Bandar Abbas, then transported overland in many stages following many modes of transport. Dubai–Karachi is the main channel for quasi-legal trade. The term refers to trade in Indian goods, which are stamped with a certificate of origin other than India.
Other than this there are six minor routes of informal trade:

- Delhi–Amritsar–Lahore
- Mumbai–Karachi (boats, launches)
- India–Singapore–Karachi
- India–Hong Kong–Karachi
- Mumbai–Kabul–Bara
- Afghan Transit Trade

Taneja (2013) estimated bilateral trade potential between the two countries to be $19.8 billion (U.S.), which is 10 times larger than the $1.97 billion in formal trade in 2013. Of this, export potential accounts for $16 billion and import potential accounts for $3.8 billion. The potential in mineral fuels is another $10.7 billion, of which export potential accounts for $9.4 billion and import potential $1.3 billion. Other experts have quoted that the potential trade between these two nations ranges from USD 5 billon to USD 42 billion (FICCI 2014).

The three categories with the largest import potential to India from Pakistan include textiles, jewelry and precious metals, and base metals, accounting for 45 percent. A substantial proportion of India's export potential – 58 percent – is in products that are on Pakistan's negative list for India or on Pakistan's sensitive list applicable to India under the South Asian Free Trade Area (SAFTA) agreement. Similarly, 32 percent of India's import potential from Pakistan is in items on the sensitive list for Pakistan applicable under SAFTA.

Other than export and import there are many possibilities of cooperation between two nations, like joint ventures, sharing of technology, and investment flows from one to another. Possible sectors are transport equipment, agriculture, I.T sector, textile machinery, plastics, chemicals, international marketing of tea (Acharya and Marwaha 2013).

The fact of so much trade taking place through unofficial routes, proves huge potential of trade expansion between two countries. Enhancing trade relations between India and Pakistan would ensure cheaper raw materials and low transportation and insurance cost which would translate into quality goods at competitive prices for both the countries. While consumers would gain in terms of lower prices, higher purchasing power and greater choice of traded goods; manufacturers will have access to the wider markets in the neighbourhood. The Government would have revenue gains by bringing informal trade into the formal channel. Ultimately, this would result in a win-win situation for everyone.

India-China

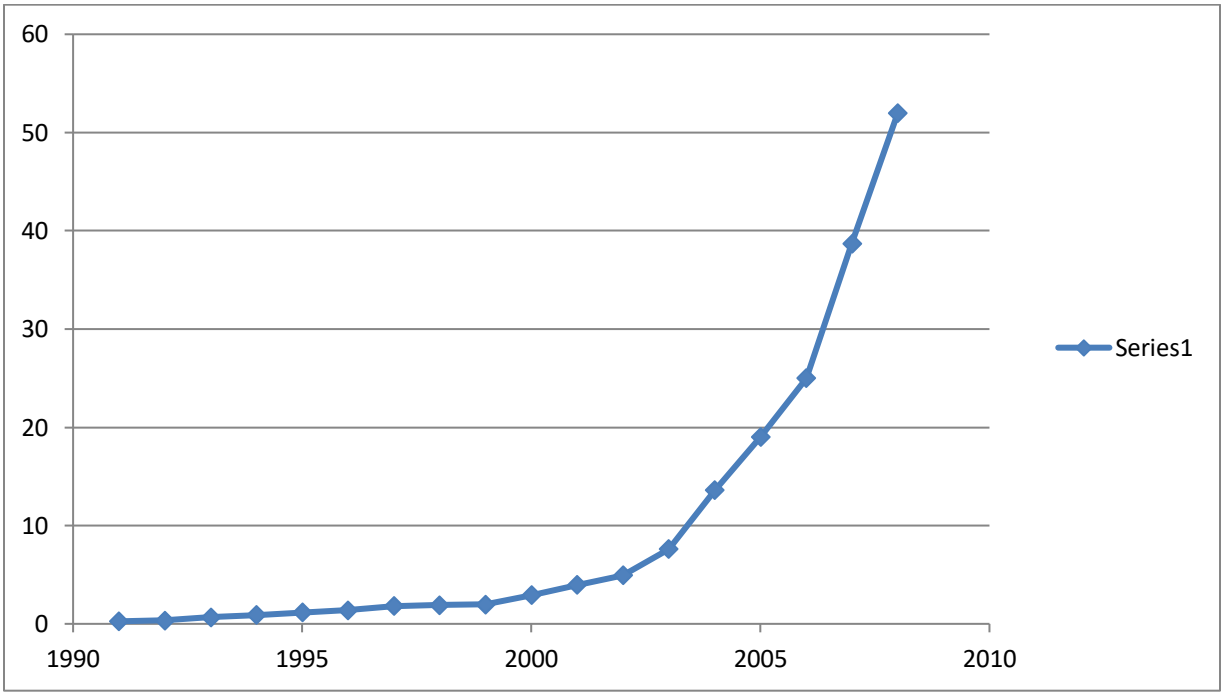
The economic-political relationship between India and China may be termed as better than the Indo-Pak relationship, but it cannot be termed as good neighbourly relationship. After the war in 1962, the two countries have been trying unsuccessfully to sort many serious issues like line of actual control, Tibet, support to Dalai Lama, demarcation of border between the countries etc. Till 1978 there has been practically no Indo-China trade. After the two countries began measures to liberalize trade, Sino-Indian trade remained low-key till around year 2000 and then picked up and now China has become the largest trading partner for India, a position occupied by USA for many years in the past.

India China Bilateral Trade in US $ billions

Year	Total Trade	Year	Total Trade	Year	Total Trade
1991	.26	1997	1.83	2003	7.60
1992	.34	1998	1.92	2004	13.60
1993	.67	1999	1.98	2005	19.00
1994	.90	2000	2.91	2006	25.00
1995	1.16	2001	3.95	2007	38.70
1996	1.40	2002	4.94	2008	52.00

Source: Complied from National Bureau of Statistics, China

Based on the above table, graph is plotted below



As the table and figure show, trade expanded at a high rate in the recent years. Visit to China by Indian Prime Minister Atal Bihari Bajpai in 2003 was an important milestone in bilateral relationship. Visit by Chinese President, immediately after the new government was installed in New Delhi points to a great future for Sino-Indian economic cooperation. It is also an interesting

fact that both these countries recorded high growth rate in recent years, though it cannot be proved that the trade between the two was the cause of high growth.

Conclusions & Suggestions

- There is little doubt that in the last decade open economies have achieved higher growth than the closed economies.
- The experience of all the countries has not been exactly the same.
- It is difficult to prove that trade is the cause of development and growth.
- Among the three countries covered in this study opening up has maximum effect in the case of China, in the case of India, effect is to a lesser extent and in Pakistan no clear indication can be seen.
- It can be concluded that country specific conditions may be very much influencing the effect of trade on growth. Presence of infrastructure (electricity, communication and transport), education and skill development, financial institutions and good governance may ensure maximum dividend from trade.

The governments of all the three countries need to overcome their internal and external handicaps and put economic interest above political interests. They need to create conditions that will provide maximum benefit from trade to achieve growth for all the neighbours.

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