

CPEC and Pakistan-India Economic Integration: Prospects and Challenges

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ABSTRACT

The persisting economic advancements in Asia indicate Asia's rise in the middle of this century. In this connection, China's initiative about CPEC will play pivotal role to upsurge the economies in Asia and beyond. In South Asia, India and Pakistan are traditional rivals since their inception and are reluctant in establishing trade relations. However, CPEC offers them the concurrence for economic integration to upraise their economies. The two states might be convinced to trade by addressing their concerns i.e. high tariffs, trade bans, quota restrictions, customs clearance, issuance of visas, conducive financial services, opening new entry and exit points and by providing access to their markets on reciprocal basis. By providing transit trade facility to each other, both the states will exacerbate their trade activities within and outside the region. Pak-India economic integration will lead towards win-win position and will bring prosperity that will have a spill over impact in maintaining peace between them. This paper aims to highlight contours of Pak-India economic integration from the prism of CPEC along with perceived challenges.

Key Words: CPEC, Economic Integration, Regional Integration, Pakistan-India Economic Integration,

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Introduction

The enduring China's initiative for One Belt One Road (OBOR)³⁹ triggers the likelihoods of Asia's economic rise. Ban Ki Moon (former Secretary General of the UNO) articulated about the amplification of Asia's economic advancement as, 'global future is being built in Asia and that ours is a rising region of economic potential, innovation and dynamism'.⁴⁰ According to a report of Asian Development Bank, 'economic hub will shift to Asia by 2050'.⁴¹ The OBOR comprises on the combination of multiple trade routes, i.e. China-Indochina Peninsula Economic Corridors, Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC), a new Eurasian Land Bridge, China-Central Asia-West Asia, China-Mongolia-Russia, and China-Pakistan Economic Corridor (CPEC).⁴² OBOR comprises around 60 percent of world population consisting 4.4 billion based on one third of the global wealth with the GDP of 21 trillion USD.⁴³ It connects three continents and involves more than 60 states which stretches from Pacific to Europe and is projected to create 4 trillion USD in investment within three decades that contains about 70 percent of global energy assets.⁴⁴ The OBOR encompasses two mega projects, a Maritime route in Southeast Asia and land route in Eurasia which would extend economic integration between Africa, Asia and Europe that would ultimately provoke incredible economic outputs.⁴⁵

³⁹ China's OBOR initiative is not a simple trade route but it is a comprehensive strategy as Chinese undertakes it as, 'an aspiring economic idea of the cooperation and opening up an organized project planned by the silk route spirit that pursues to establish a community of common interests, destiny and obligation'. National Development and Reform Commission 2015, downloaded from www.en.ndrc.gov.cn/newsrelease/20150330_669367.html on 11 Jan 2018. Tim Summers, 'Road to Wider Market' downloaded from www.slideshare.net/gurconnector/what-exactly-is-one-belt-one-toad-summers on 8 Jan 2018.

⁴⁰ Ban Ki Moon expressed during a speech at the fourth Conference on Interaction and CBMs in Asia (CICA) Summit in Shanghai on 20-21 May 2014 downloaded from www.cica.china.org/eng/2nghd/yndscfh/T1151142.htm on 12 January 2018.

⁴¹ 'ASIA 2050: Realizing the Asian Century', *Executive Summery*, downloaded from www.adb.org/sites/default/publication/28608/asia2050-executive-summery.pdf on 29 April 2018. Also quoted Zafar Nawaz Jaspal in a seminar 'Security Trends in the Asia Pacific Region: Prospects and Challenges for Pakistan', Organized by Department of Strategic Studies, National Defence University Islamabad on 28 April 2015.

⁴² Irina Lonela Pop, 'Strength and Challenges of China's "One Belt, One Road" Initiative', *Centre for Geopolitics and Security in Realism Studies London* (8 February 2016), p.2, downloaded from www.cgsrs.org on 14 June 2016. The OBOR seeks to bring together Central Asia, Baltic States, Russia and China; linking China with Southeast Asia, South Asia and Indian Ocean; joining China with the Persian Gulf and the Mediterranean Sea through Central and West Asia, downloaded from www.en.ndrc.gov.cn/newsrelease/20150330_669367.html on 11 Jan 2018.

⁴³ Rolland N, 'China's New Silk Road', *National Bureau of Asian Research*, 12 Feb 2015, downloaded from www.nbr.org/reserach/activity.aspx?id=531 on 25 January 2018.

⁴⁴ Luft.G, 'China's Infrastructure Play: Why Washington Should Accept the New Silk Road' *Foreign Affairs*, Vol. 95, No.5 (Sep-Oct 2016).

⁴⁵ Sajjad Ashraf, 'The China-Pakistan Economic Corridor: India's Dual Dilemma', downloaded from www.chinausfocus.com/financeeconomy-economy/the-china-pakistan-economic-corrido-India's-dual-dilemma on 17 February 2018.

In the South Asian region, CPEC has the potential to uplift economic integration not only between China and Pakistan but to exacerbate trade and investment within and outside the region. The economic and strategic significance of CPEC is ostensible for China and Pakistan but it would ultimately have enormous impact on all the remaining states of the region. Chinese President Jinping expressed in his speech to the Parliament in Pakistan, ‘the development and design of CPEC covers the other areas of Pakistan so that the benefits of its development must be within the range of all the people of Pakistan and the people residing around the region’.⁴⁶ Likewise, Mr. Nawaz Sharif (the former Prime Minister of Pakistan) presented similar views as, ‘it must be clear that CPEC is an economic initiative and has no geographical limitations and it must not be politicised’.⁴⁷

CPEC fascinated the neighbouring states as Afghanistan, Iran, Tajikistan and Turkmenistan revealed their intents for joining CPEC.⁴⁸ Incongruently, India has the apprehensions about CPEC that the impetus behind the project is to establish Sino-Pak strategic relationship against India.⁴⁹ Likewise, many Indian scholars expressed their worries as China’s CPEC initiative is an attempt for its further extension in the Indo-Pacific region for India’s encirclement in the region.⁵⁰ Despite India’s disagreements, the enduring Indo-Pak enmity is the main source of distress between them. The main proposition of this paper is to explore the main inducements due to which CPEC would become mutually advantageous for both India and Pakistan that would ultimately have a spillover impact towards trust building, enhancing regional cooperation and in determining their political disputes in future.

Theoretical Explanation

Beside establishing a physical infrastructure, the rationale behind OBOR is exceptional as Zhang Gaoli (the first China’s Vice Premier) highlighted four objectives of OBOR:⁵¹

1. Economic Integration.
2. Accumulating policy coordination within Asian Continent.
3. Liberalizing the trade.

⁴⁶ Text of President Jinping’s speech to the Parliament in Pakistan on 12 April 2015, downloaded from www.issi.org.pk/wp-content/uploads/2015/07/Pak-China-Year-of-Friendly_exchange_Doc/1/docx.pdf on 16 February 2018.

⁴⁷ Nawaz Sharif expressed during address to B&RI Summit in Beijing on 15 May 2015, downloaded from www.pmo.gov.pk/pm-speech-details.php?speech_id=87 on 20 January 2018.

⁴⁸ Akbar Ali, ‘China Pakistan Economic Corridor (CPEC): Prospects and Challenges for Regional Integration’, *International Journal of Social Sciences and Humanity Studies*, Vol.7, No.1 (2015), pp.4-7.

⁴⁹ Harsh V.Pant, ‘The China-Pakistan Axis Gathers Momentum’, *The Japan Times* (18 April 2016).

⁵⁰ Sibal Kanwal, ‘Silk Route to Tie India in Knots’, *Ministry of External Affairs* (Government of India), 25 February 2014, downloaded from www.mea.gov.in/articles-in-indian-media.htm.7dt/22999/silk-route-tie-india-inknots on 15 January 2018. Shahi Tharor, ‘China’s Silk Road Revival....and the Fears it Stirs Are Deeply Rooted in Country’s History’, *The Huffington Post* (14 October 2014), downloaded from www.huffingtonpost.com/shahi-tharor/chinas-silk-road-rivival-history-h-5983456-html?=&india on 12 January 2018.

⁵¹ Zhang Gaoli is quoted by Saran. S, ‘What China’s One Belt and One Road Strategy Means for India, Asia and the World’, *The Wire* (9 October 2015).

4. Enhancing people to people links, connectivity.

The main derivative behind these objectives is theory of economic integration and Balassa explains this theory as, 'it is a process that incorporates measures to eradicate discriminations i.e. qualitative limitations and limitations on factor movement between diverse national economies and states'.⁵² Economic integration proceeds towards consolidation of scattered economies into a wider free trade region.⁵³ Economic integration decreases the limitations of national borders for steady mobility and provokes the self-strained process by restraining the trade deficits as close borders worsen market size.⁵⁴ The elimination of economic limitations aggravates multiple dynamics for grasping foreign markets and intensifies import competition.⁵⁵ For amassing global economy, economic integration refers to regional connectivity through regional integration by developing communication infrastructure, interdependence, coordination and regional cooperation.⁵⁶ The impetus behind regional integration is to address political and economic issues simultaneously while political motives are placed in first priority, and if the economic gains have obtained center stage, then the political objects would be conferred subsequently.⁵⁷

In the post-Cold War scenario, economic gains are the main objective of regional integration but the process of decision making between the states refers to political elite that can be overwhelmed by manipulating the advantages of economic integration. CPEC is included in the comprehensive plan of OBOR and the contribution of CPEC in the process of economic integration between India and Pakistan is evaluated in the succeeding sections of this paper.

The regions of Central Asia, Western China and South Asia are experiencing multiple socio-politico-economic developments and security challenges i.e. under-development, corruption and terrorism. To comprehend these issues, a region-specific approach provides understanding to deal with security issues, to grasp the restraints of prosperity and identify the opportunities of economic rise for the whole region. These complications are linked with regional integration, cooperation and coordination for the promotion of regional peace and prosperity and these are the main objectives of regional economic integration.

As for liberalizing the trade is concerned, neighboring states provide cost-effective access on various tradable items as trade expenses are '*cetiris paribus*', low-cost due to short

⁵² Bela Balassa, 'The Theory of Economic Integration: An Introduction, p.174, downloaded from www.ieie.itam.mx/Alumuos2008/Theory20%of20%Economic20%Integration on 15 January 2018.

⁵³ El-Agra, *European Union-Economics and Policies* (Cambridge: Cambridge University Press, 2011), pp.75-90.

⁵⁴ Niebuhr. A and Sittler.S, 'Integration Effects in Border Region: A Survey of Economic Theory and Empirical Studies' *HWWA Discussion Paper 179*, (Hamburg: Hamburg Institute of International Economics, 2002), pp.5-12.

⁵⁵ Bruhart. M, Crozet M. and Koenig-Soubeyarn, 'Enlargement and the E.U Periphery: The Impact of Changing Market Potential', *The World Economy*, Vo.27, No.6 (2004), p.75.

⁵⁶ Shabir Ahmad Khan and Zahid Ali Khan Marwat, 'CPEC: Role in Regional Integration and Peace', *South Asian Studies*, Vol.31, No.2 (July-December 2016), p.501.

⁵⁷ Bela Balassa. P.175.

distances.⁵⁸ Additionally, in the persistence of economic disparity among the states, their trade relations become mutually beneficial as wealthy states offer wide range of products bearing superior quality and poorer states offer lesser prices and business oriented locations.⁵⁹ Nevertheless, the neighboring states enjoy numerous benefits of trade i.e. cultural similarities and low transport costs, but the trade relations of India and Pakistan are hostages of political hostilities. With the imposition of WTO regime, it is anticipated that the trade relations between both the states would intensify significantly.⁶⁰ Likewise, the optimists of both the states are confident that Indo-Pak trade relations will assist in resolving their political disputes.⁶¹

Pakistan's geographical location provides the opportunity to serve as energy corridor coupled with regional trade and transit hub. CPEC is termed as harbinger of prosperity for Pakistan and the remaining region as well. According to Peter Frankopan, 'Pakistan is becoming the central trade route between East-West and North-South because it will interconnect all transportation and trade links in Asia'.⁶² Similarly, CPEC has the potential to contribute to India's regional trade.

Despite engendering bilateral benefits, CPEC has the potential to connect the entire region that will ultimately exacerbate economic activities and promote people to people contact among the neighboring states around CPEC. According to Senator Mushahid Hussain, 'CPEC will contribute in regional connectivity for "Greater South Asia" that comprises Iran, Afghanistan, China and all the way to Myanmar'.⁶³ Likewise, Hua Chumying (spokesperson to China's Ministry of Foreign Affairs) expressed, 'CPEC will promote connectivity between South Asia and East Asia'.⁶⁴ India's participation is preeminent in joining South Asia with East Asia, nevertheless, it would be hardly feasible due to India's concurrent political posture rather reluctance towards CPEC. The succeeding sections of this research explore the temptations due to which India will be inclined to join CPEC and to become bridge between South Asia and East Asia.

⁵⁸ Leamer E., and J. Levinsohn, 'International Trade Theory: The Evidence', *NBER Working Paper 4940*, Cambridge, (November 1994), pp.44-49.

⁵⁹ Anthony J. Venables and Nuno Limao, '*Policy Research Working Paper 2256*', The World Bank, (December 1999), pp.22-23, downloaded from www.core.ac.uk/downloadable/pdf/6615587.pdf on 12 February 2018.

⁶⁰ Anjali Sahay and Jalil Roshaudel, 'The Iran-Pakistan-India Natural Gas Pipeline: Implications and Challenges for Regional Security', *Strategic Analysis*, Vol.34, No.1, (January 2010), p.86.

⁶¹ Ibid. Sobhash Narayan, 'Trade Events to Further Indo-Pak Bond,' *Asian Age* (7 July 2003). Khalid Manzoor Butt and Anum Abid Butt, 'Impact of CPEC on Regional and Extra Regional Actors', *The Journal of Political Science, G.C. University Lahore*, No.xxxiii (2015), p.42.

⁶² Peter Frankopan, 'Pakistan at Crossroads', *The Daily Dawn* (18 April 2016).

⁶³ Mushahid Hussain was quoted by Shannon Teizi, 'China and Pakistan Flesh Out New Economic Corridor', *The Diplomat* (20 February 2014), downloaded from www.thediplomate.com/2014/02/china-pakistan-flesh-out-new-economic-corridor on 15 January 2018.

⁶⁴ Ibid.

CPEC: An Overview

The idea of CPEC was floated by Chinese Prime Minister in May 2013 during his visit to Pakistan, as he expressed, ‘CPEC will provide link with new Maritime Silk Route (MSR) and will connect the 3 billion people of Africa, Asia and Europe’.⁶⁵ Pakistan appreciated Premier Li’s proposition and signed a long-term plan on CPEC.⁶⁶ For materializing CPEC, both the states planned to constitute a cooperation committee and its first meeting was held in Islamabad on August 17, 2013.⁶⁷ During the visit of Mamnoon Hussain (then President of Pakistan) to China in February 2014, China invigorated Pakistan’s support in shaping CPEC for the mutual benefits of both the states.⁶⁸ In April 2015, Chinese President Xi Jinping visited Pakistan and both the states signed 51 agreements including 5 mega energy projects and Memorandum of Understanding (MOUs).⁶⁹ Initially, the estimated cost of the projects was US\$ 46 billion, but later the investment raised up to US\$ 62 billion.⁷⁰

CPEC is mainly a bilateral agreement between Pakistan and China and entirely based in Pakistan. Projects under CPEC are planned to be completed in three phases, first phase is assessed to be accomplished by 2017, second phase 2025 and third phase by 2030.⁷¹ CPEC encompasses four areas of investment: energy, Gwadar Port, industry and infrastructure. Pakistan has experienced a heavy power shortfall in near past. Pakistan’s power demand is 18000 Mega Watt (MW), while its power general potential is around 12000 MW and power short fall creates space for China’s investment.⁷² According to agreement, China will invest up to US\$ 37 billion on power production based on wind, coal, solar and hydropower with the capacity of 16400 MW along with the construction of transmission lines.⁷³

⁶⁵ Ayub Sumbal, ‘Chinese Premier Li’s Visit to Pakistan: Hope Meets Reality’, downloaded from www.thediplomate.com/2013/05/chinese-premier-lis-visit-to-pakistan-hope-meets-reality/ on 10 March 2018.

⁶⁶ Ministry of Foreign Affairs, People’s Republic of China, ‘New Silk Roads to Boost Regional Economic Cooperation’, *News from China*, Vol.xxvi, No.6 (6 June 2014), downloaded from www.fmprc.gov.cn/ce/cein/chn/xwfw/zgxcw/P020140715024040992156.pdf on 10 March 2018.

⁶⁷ Ministry of Planning, Development and Reform, Government of Pakistan. 2014, ‘Meeting of Cooperation Committee (Pakistan and China), downloaded from www.pc.gov.pk/?=2742 on 11 March 2018.

⁶⁸ Joint Statement between The People’s Republic of China and The Islamic Republic of Pakistan on ‘Deepening China-Pakistan Strategic and Economic Cooperation’, downloaded from www.fmprc.gov.cn/mfa_eng/wjdt-665385/2649_665393/t1130297.shtml on 11 March 2018.

⁶⁹ Khalid Manzoor Butt and Anam Abid Butt, ‘Impact of CPEC on Regional and Extra-Regional Actors’, *Journal of Political Science, GC University, Lahore*, Vol. xxxiii (2015), p.26.

⁷⁰ Ibid. Salman Sadiq, ‘CPEC Investment Pushed from \$55 b to \$62’, *Express Tribune* (12 April 2017).

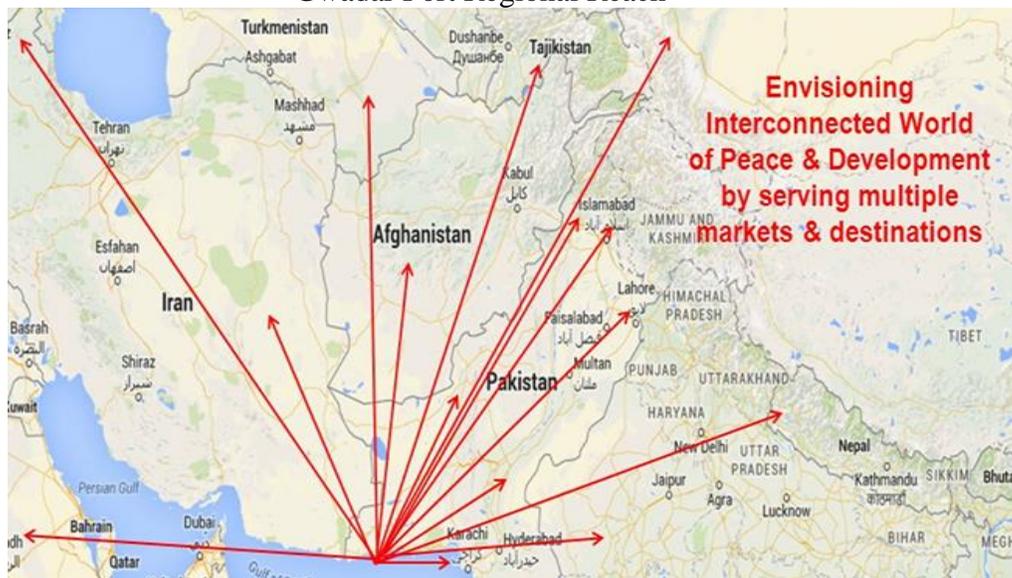
⁷¹ ‘Third Meeting of JCC on China-Pakistan Economic Corridor Held’, *The News* (28 August 2014).

⁷² Chien-Peng (C.P) Chung, ‘What are the strategic and economic implications for South Asia of China’s Maritime Silk Road initiative?’, *The Pacific Review*, (2017), p.5, downloaded from www.tandfonline.com/action/journal-information?Journal-code=rpre20 on 10 March 2018.

⁷³ Umbreen Javaid, ‘Assessing CPEC: Potential Threats and Prospects’, *Journal of the Research Society of Pakistan, Lahore*, Vol.53, No.2 (2016), p.262.

Gwadar port is a lynchpin that has numerous imperatives for the states located around this region especially for uplifting China’s enduring economic sustainability. Strategically, Gwadar port will play a pivotal role for widening China’s geopolitical influence in the region. Strategically, Gwadar Port would become the cross junction for oil trade routes and international shipping lanes and will connect Pakistan with three regions, Middle East, Central Asia and Africa.⁷⁴

Map:1
Gwadar Port Regional Reach



Source: ‘Gwadar and Its Multiple Destinations’, downloaded from www.images.serch.yahoo.com/yhs/Search?P=Gwadar%2Band%2Bmultiple%2Bdestinations%2Fimages&fr=yhs=adk-adk_sbyhp&hspart on 15 March 2018.

Gwadar Port would engender an incredible opportunity for Baluchistan which is the least developed province of Pakistan. Likewise, with the establishment of economic zone, the port will create employment opportunities and will boost economic development through foreign exchange and transit fee. Furthermore, Gwadar will provide shortest excess from Persian Gulf to China’s western province of Xingjian because the distance between Xingjian and Gwadar is just 2500 km while 4500 km from China’s east coast.⁷⁵ Presently, China’s 60 percent oil supply is from Middle East and its 80 percent transportation is done through an

⁷⁴ Uma Farwa and Arhama Siddiq, ‘CPEC: Prospects of OBOR and South-South Cooperation’, *Strategic Studies*, Vol.37, No.3 (Autumn 2017), p.87.

⁷⁵ Waheeda Rana and Hasan Mahmood, ‘Changing Dynamics of Pak-China Relations: Policy Recommendations for Pakistan’, *American International Journal of Contemporary Research*, Vol.5, No.2 (April 2015), p.99.

expensive, long, piracy-rife and Strait of Malacca.⁷⁶ Furthermore, for assuring its smooth energy supply, China might become capable to control the Straits of Hormuz through Gwadar Port.⁷⁷

China has planned to increase the holding capacity of Gwadar Port up to 100,000 dead weight tonnage (dwt) for dry cargo and 200,000 (dwt) for oil tankers.⁷⁸ For the construction of Gwadar, a master plan is projected in two phases: short term and long term. The short-term plan (2005-2020) is designed to handle around 42-65 million tons and long-term (2021-2055) is estimated to grasp around 321-345 million tones with gas, oil and dry cargo as the main commodities.⁷⁹ Construction of Gwadar Port is the symbol of mutual trust between Pakistan and China that will become the hub of logistic, tourism and trade between both the states.

For the development of industry under the umbrella of CPEC, Special Economic Zones (SEZs) are planned in all the provinces of Pakistan. Special tax exemptions and economic reforms will be introduced for the areas under SEZs. With the coordination of China and Pakistan, around 46 sites are identified for making SEZs and 9 sites are declared as Priority Zones.⁸⁰ For providing constitutional safeguards, SEZ Act 2012 was passed to frame the administrative structure in support of Federal and Provincial governments of Pakistan.⁸¹

CPEC infrastructure is based upon the construction of multiple roads and railway projects encompassing from Gwadar to Kashgar which run around 2500/3000 km. Mr. Ahsan Iqbal, (Former Minister for Planning and Development) elaborated three main land routes in an interview as:⁸²

- I. **Western Route:** Kashgar to Gwadar via Khunjerab, Peshawar, D. I. Khan, Zhob and Quetta.
- II. **Central Route:** Khunjerab, Peshawar, Kohat, D. I. Khan, D. G. Khan and Ratodero.
- III. **Eastern Route:** Khunjerab to Gwadar via Islamabad, Lahore, Sukkar, and Karachi.

⁷⁶ Khalid Manzoor Butt and Anam Abid Butt, p.28. Malika Joseph, 'India-China Strategic Partnership: Implications for US and Pakistan, downloaded from www.ipcs.org/article/india/india-china-strategic-partnership-implications-for-us-and-pakistan-1711.html on 6 March 2018.

⁷⁷ Dr. Subhash Kapila, 'Pakistan and China Relations, Post-September 2001: Analysis' *Paper 505*, downloaded from www.southasiananalysis.org/paper-505 on 6 March 2018.

⁷⁸ Waseem Ishaque, 'China-Pakistan Economic Corridor: Prospects, Challenges and Way Forward', *NDU Journal*, (2016), p.128.

⁷⁹ 'Gwadar Port Master Plan: Implication for Energy Sector Development', *Report Presented by Arthur D. Little Company*, (25-26 April 2006), downloaded from www.shani.med.com/destra/courses/1387397437-arthur%20d%20little%20Gwadar.pdf on 15 March 2018.

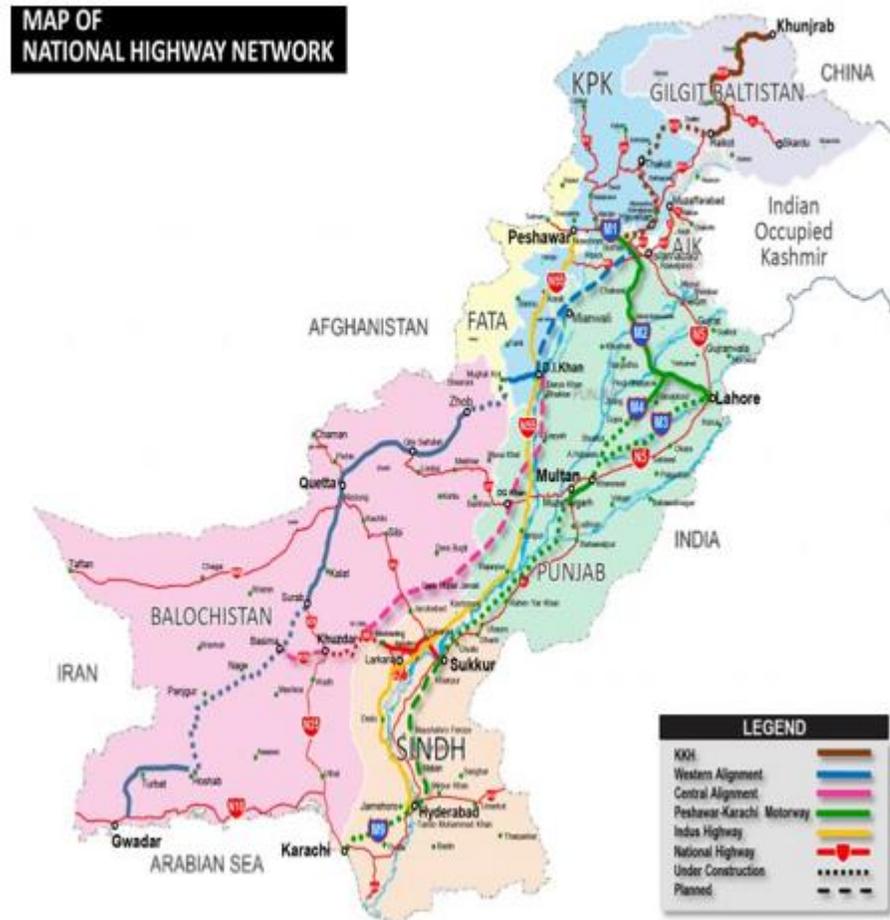
⁸⁰ '46 Special Economic Zones Being Setup in under CPEC', *The Nation*, (31 July 2017).

⁸¹ Amin Ahmad, 'SEZ Act to Boost Investment', *Dawn*, (15 July 2017).

⁸² Ahsan Iqbal, Minister of Planning and Development explained during an interview with Khurram Shahzad on 8 March 2015, downloaded from www.dawn.com/news/1168081/sound-bytes-economic-corridor-will-have-multiple-routes on 17 March 2018.

The estimated cost of aforesaid project is about \$ 5330 million⁸³ and the remaining regions of Pakistan are planned to connect with corridor through express ways and motorways subsequently.

Map:2
CPEC Road Network in Pakistan



Source: Ministry of Communication, Government of Pakistan 2018.

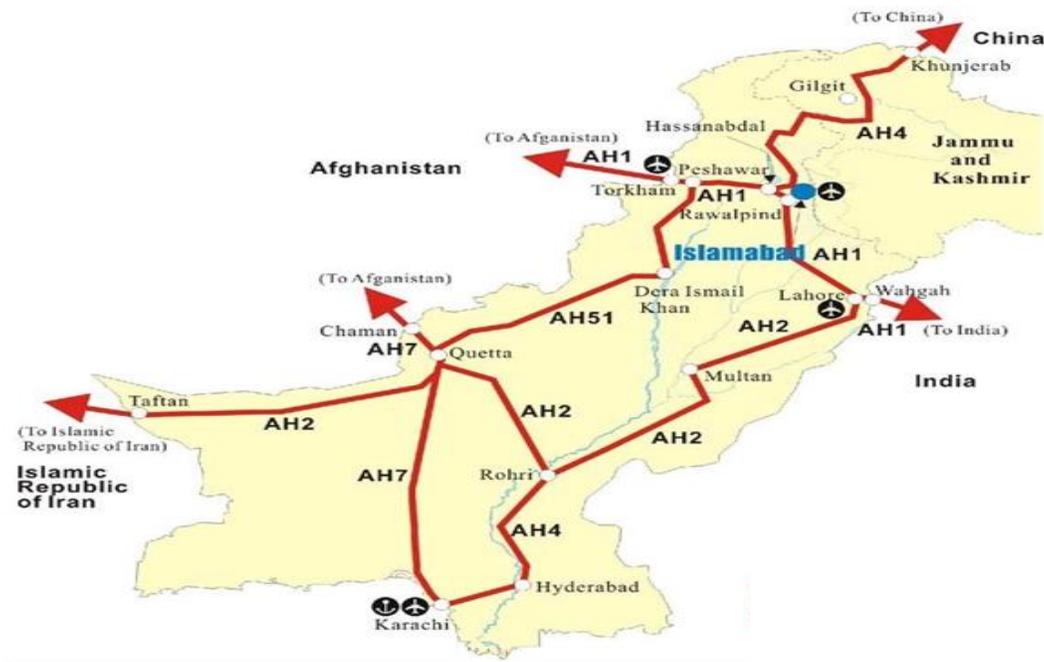
Additionally, five routes of Asian Highway are also designated through Pakistan as;

1. Asian Highway 1 (AH.1): From Wagha (India) to Torkham via Lahore, Islamabad and Peshawar (585 km). AH.1 overlaps motorway M.2 (Lahore-Islamabad) and M.1 (Islamabad-Peshawar) and these sections are operational.

⁸³ Ministry of Communication, Government of Pakistan, downloaded from www.cpec.gov.pk/infrastructure on 17 March 2018.

2. Asian Highway 2 (AH.2): From Wagha (India) to Taftan (Iran) via Lahore, Multan, Sukkur and Quetta (1823 km). This route overlaps with N.5 of Lahore-Karachi section from Lahore to Sukkur. This route is operational for the mobility of heavy vehicles.
3. Asian Highway 4 (AH.4): From Khunjerab to Karachi via Abbottabad, Rawalpindi, Lahore, Multan and Sukkar (2185 km). It connects Karachi port with China through N.5 (Karachi-Torkham Highway) and N.35 (Karakorum Highway) and both N.5 and N.35 are part of CPEC. The road condition of N.5 is good while the remaining sections need repair and upgradation.
4. Asian Highway (AH.51): It connects AH.1 and AH.7 from Peshawar to Quetta via Dera Ismail Khan and Zhob (870 km) and is the Western part of CPEC. Presently, it's Dera Ismail Khan-Zhob section is under construction.
5. Asian Highway (AH.7): From Karachi to Spinboldak (Afghanistan) via Quetta (852 km) and overlaps Western part of CPEC from Sorab to Quetta. The road condition is good for transportation.

Map:3
Asian Highway Routes in Pakistan



Source: Asian Highway Database, December 30, 2015 downloaded from www.unscap.org/sites/default/files/pakistan%20AH%20map.pdf on 18 March 2018.

Likewise, Pakistan Railways has planned to establish Gwadar-Khunjerab rail link along-with various alignments with the collaboration of Chinese Consortium at an estimated cost of \$ 2.3 billion.⁸⁴ Furthermore, China is planning to construct a 3,300-kilometer-long oil pipeline

⁸⁴ Riffat Hussain, *Sino-Pakistan Ties: Trust, Cooperation, and Consolidation* (Islamabad: NUST Global Think Tank Network, 2014), p.21.

with 30-inch diameter from Gwadar to Khunjab with the capacity to handle 12 million tons of oil per year and the estimated cost of pipeline is about \$ 4.5 billion.⁸⁵

The above-mentioned developments under CPEC are inter-reliant with each other as the adequate energy supply is prerequisite for the establishment of industry. Similarly, the development in infrastructure and Gwadar port will provide as easy and speedy access for the products at both regional and global level. Both China and Pakistan are enjoying 'all weather friendship' since 1962 and the enduring developments will further augment economic integration between them. These projects will exacerbate trade and transit links to the neighbouring states of CPEC which will ultimately provoke economic integration within and outside the region.

India's Concerns and Options about CPEC

India has reservations about CPEC project as it passes through Azad Jammu and Kashmir that might generate 'geopolitical concern' between India and Pakistan.⁸⁶ Through CPEC, China will get open access to Indian Ocean that will undermine India's hegemonic presence in the Indian Ocean.⁸⁷ In Arabian Sea, India is sponsoring Chahbahar Port with the collaboration of Iran for attaining trade access Afghanistan and Central Asian Republics (CARs) via Iran. Similarly, India's main oil supply route is Arabian Sea through Strait of Hormuz and China's presence in Gwadar may pose challenges to India's trade and oil supply route.⁸⁸

In response, China negated Indian concerns and explicated that CPEC, through Pakistan administered Kashmir, is not planned to take Pakistan's side on the Kashmir issue or to target India.⁸⁹ China anticipated the Kashmir dispute as a 'historical problem' between India and Pakistan and suggested that both the states should settle the issue through dialogues.⁹⁰ About India's anxiety relating to China's presence in Gwadar, China contends that its various ports projects including Gwadar in Indian Ocean are explicitly commercial in nature.⁹¹ Besides,

⁸⁵ Fazal-ur-Rehman, 'Traditional and emerging areas of strategic cooperation between Pakistan and China', *Strategic Studies*, Vol.xxix, No.2&3 (Summer and Autumn 2009), pp.60-61.

⁸⁶ Showkat Ahmad and Arif Hussain Malik, 'China-Pakistan Economic Corridor: Impact on Regional Stability of South Asia', *International Journal of Political Science and Development*, Vol.5, No.6 (October 2017), p.195.

⁸⁷ Khalid Manzoor Butt and Anam Abid Butt, p.36.

⁸⁸ David Brewster, 'Beyond the String of Pearls: is there really Sino-Indian Security Dilemma in the Indian Ocean?', *Journal of Indian Ocean Region*, Vol.10, No.2, (2014), p.140. 'Is China-Pakistan Economic Corridor really a game changer?', *Pakistan Today* (15 November 2015), downloaded from www.pakistantoday.com.pk/2015/06/13/comment/is-china-pakistan-economic-corridor-really-a-game-changer/ on 19 March 2018.

⁸⁹ 'Beijing says China-Pakistan Economic Corridor not against India', *Hindustan Times* (26 September 2016), downloaded from www.hindustantimes.com/world-news/beijing-says-china-pak-economic-corridor-not-against-india/story-a9zouDC4NJFeYBQPAnzjrds.htm on 20 March 2018.

⁹⁰ Ibid.

⁹¹ David Brewster, 'An Indian Ocean dilemma: Sino-Indian rivalry and China's strategic vulnerability in Indian Ocean', *Journal of Indian Ocean Region*, Vol.11, No.1 (2015), p.52.

China argues that its naval presence in the Indian Ocean is to contain piracy in Arabian Sea and is vigilant about any overt naval presence in the region and flatly rejected its aspiration to establish Naval bases in the Indian Ocean.⁹²

Despite China's assertions, India's suspicions still exist and ongoing developments about CPEC have formed two options for India as whether to launch protest against CPEC or to adopt constructive approach by joining the corridor. India's obstruction may interrupt the construction of CPEC but could not stop it.⁹³ On the contrary, it would be more realistic approach for India to join CPEC with the collaboration of China and Pakistan for boosting its trade. Moreover, both Pakistan and China also want India to join the CPEC project sooner or later.⁹⁴ The areas due to which economic integration through CPEC between India and Pakistan might be endorsed are evaluated in succeeding subsections.

Restoration of Old Road-Rail Links and their Implications

For provoking Pak-India economic integration, road and rail links between both the states are prerequisites especially for India's admittance in CPEC. Both the states share a long border around 3000 km including the Line of Control (LoC) in Jammu and Kashmir without the presence of physical features that separate their border. Before partition, the existence of several road and rail links provided trade friendly environment for the adjoining areas which were divided between India and Pakistan. At the time of partition, the two states had strong trade relations as Pakistan's 75% trade was with India and India's 63% exports were to Pakistan.⁹⁵ Since partition in 1947, the two states are the victims of their political and territorial rivalries and these had adversarial impact on their trade relations. The existing India's trade share with Pakistan is less than 3% and Pakistan's trade share to India is below 2%.⁹⁶ Despite Pak-India hostilities, the main proponent for the reduction of trade deficit was the blockade of most of the enduring road and rail links between both the states. The revival of these links will not only intensify bilateral trade but to expand economic integration within and outside the region.

⁹² 'China has no plan for Indian Ocean military bases', *The Hindu* (4 September 2012), downloaded from www.thehindu.com/openion/interview/china-has-no-plan-for-indian-ocean-military-bases/article385 on 27 March 2018.

⁹³ C. Raja Mohan, 'The Great Game Folio', *The Indian Express* (10 July 2013), downloaded from www.carnegieendowment.org/2013/07/10/greae-game-folio/ge5v on 29 March 2018.

⁹⁴ Ibid. 'China offered India to join CPEC on various occasions', expressed Ananth Krishna, 'China wants India to play key role in silk road plan', *The Hindu* (10 August 2014) downloaded from www.thehindu.com/news/international/world/china-wants-india-to-play-key-role-in-silk-road-plan/article301227.ece on 29 March 2018. Likewise, Nawaz Sharif (former Prime Minister of Pakistan) also stated that the CPEC would be beneficial not only for Pakistan but for the entire region including India, cited Mingxin. Bi, 'Transcript: Pakistani Prime Minister gives exclusive interview to Xinhua' *Xinhua* (6 July 2013), downloaded from www.news.xinhuanet.com/english/chuna/2013-07-06/c_132516529.htm on 29 March 2018.

⁹⁵ Vivek Kumar Srivastava and Bhavtosh Kumar, 'Changing Trade Relations of India and Pakistan: An Evolution', *Journal of Commerce and Trade*, Vol.vi, No.2 (October 2011), p.7.

⁹⁶ Muhammad Ali, Noreen Mujtaba and Aziz ur Rehman, 'Pakistan-India Relations: Peace Through Bilateral Trade', *European Scientific Journal*, Vol.11, No.4 (February 2015), p.363.

Presently, Wagha/Attari border is functional providing road and rail links between India and Pakistan. Besides, some other links may be restored on both sides are:

- **Route I:** Ferozpur-Kasur via Hussainiwala-Ganda Singh border. This trade route was functional till 1970 and was known for the supply of fruits and edible products from Pakistan and Afghanistan to India. This trade route disappeared due to demolition of a bridge on Sutlej River during Pak-India war 1971 and was shifted to Wagha. The bridge was reconstructed and reopened in 2013.⁹⁷ Likewise, this trade route has the potential for the trade of leather goods and petroleum products because Kasur is the hub of leather industry in Pakistan, while, Bhatinda oil refinery in India is located just 100 km from Hussainiwala.
- **Route II:** Fazilka-Ambruka-Bahawalpur via Sulaimanki border. This trade route was popular with the name of ‘Golden Trade Route’, because it was the shortest route between Ludhiana and Karachi before 1947.⁹⁸ A 1000 km rail link was also setup along this route for the transportation of Indian raw material to the Middle East and Europe through Karachi port.⁹⁹ Presently, the trade from Ludhiana is conducted through Mumbai which is 2600 km away as compared to Karachi port which is just 1000 km from Ludhiana. This trade route may be practicable for the export of wool from India and cotton from Pakistan.¹⁰⁰
- **Route III:** Munabao-Khokrapar route that connects Rajasthan and Sindh and the rail link of this route is already functional.¹⁰¹ This route might be extended up to Gujrat (India) which was economically and culturally very much integrated with Sindh before partition. A famous trade route existed before 1947 between Ahmadabad (Gujrat) to Hyderabad (Sindh) via Mirpurkhas-Khokhrapar-Munabao-Marwar and Palanpur.¹⁰² This route passes through the least backward areas of both states and with the revival of

⁹⁷ Dinesh K. Sharma, ‘40 Years of War, Bridge Opens near Hussainiwala Border’, *The Times of India*, (5 December 2013), downloaded from www.timesofindia.indiatimes.com/india/40-years-after-war-bridge-opens-near-hussainiwala-border/articleshow/26872284-cms on 5 April 2018.

⁹⁸ Both Ludhiana and Karachi were industrial cities even before partition. Shanon Teizi, ‘China and Pakistan Flesh out New Economic Corridor’, *The Diplomat*, (20 February 2014), downloaded from www.thediplomate.com/2014/02/china-pakistan-flesh-out-new-economic-corridor/ on April 6, 2018. Dinesh K. Sharma, ‘Trade Brings Hope for Golden Track’, *The Times of India*, (14 April 2012), downloaded from www.timesofindia.indiatimes.com/india-talk-brings-hope-for-Golden-Track/articleshow/12656854.cms on 6 April 2018.

⁹⁹ Dinesh K. Sharma, ‘Trade Brings Hope for Golden Track’.

¹⁰⁰ Ibid.

¹⁰¹ ‘Joint Statement: India-Pakistan Talks on Munabao-Khokhrapar Train Service’, *Ministry of External Affairs, Government of India*, (6 January 2006), downloaded from www.mea.gov.in/bilateral-documents.htm?dt/5957/joint+statement+IndiaPakistan+talks+on+Munabao++Khokhrapar+train+service on 6 April 2018.

¹⁰² Kenneth Hugh Staynor, ‘Railway Travel in the Raj’, downloaded from www.indiaofthepast.org/contribute-memories/read-contributions/life-back-then/341-railway-trave-in-the-raj on 7 April 2018.

this route, enormous economic implications will generate employment opportunities for the residents of the adjacent areas.

- **Route IV:** Along LoC, two trade routes take place between India and Pakistan, Poonch-Rawlakot and Muzaffarabad-Uri, but many of the crossing points along LoC might be reopened for trade. These are Leh-Turtuk-Khaplu-Skardu, Kargil-Skardu, Poonch-Hazirpir-Bagh-Uri, Mendhar-Tatapani-Kotli, Nowshera-Jhggar-Mirpur, Palanwala-Chamb-Bhimber, Gurez-Astore-Gilgit, Titwal-Chila.¹⁰³

These routes have significance for the uninterrupted supply of consumer items in Kashmir and for the export of fruits outside the valley.¹⁰⁴ Trade with Pakistan would be more beneficial for Kashmiris as compared to India because from Srinagar to Delhi it takes around 36 hours while for Islamabad, it takes hardly 6 to 8 hours.¹⁰⁵ Jammu and Kashmir is the most troubled region between India and Pakistan and the launching of new trade links along LoC will have spillover impact on Kashmir issue that will ultimately engross peace and stability in the region. The stated trade links will endorse Pak-India economic integration, and will be advantageous for both the states especially providing connectivity to India to the CPEC for attaining access to Afghanistan, Iran, Central Asian Republics (CARs) and for reaching to region's ample natural resources. The forthcoming sections evaluate the likelihoods of Pak-India economic integration with the India's appearance in CPEC.

India's Initiatives for the Regional Connectivity vis-a-vis CPEC

India aspires to get transit route to Afghanistan and CARs via Pakistan but could not materialize it due to enduring Pak-India rivalries. Thus, India planned to establish Chabahar Port with the collaboration of Iran for the transit access to Afghanistan and CARs and is investing around \$ 500 million in the development of Port along with the construction of road and rail links to Afghanistan.¹⁰⁶ Besides establishing trade route, India aspires to compete Gwadar port by developing Chabahar port which is just 72 km away from Gwadar. But Chabahar would not disturb Gwadar's importance because it is located close to the Strait of Hormuz that has constrains due to shallow water.¹⁰⁷

The worsening Iran-US ties due to Iran's launching of nuclear capable missile exacerbate uncertainties about the imposition of UN sanctions against Iran that would have negative

¹⁰³ Sandeep Singh, 'Bridging Divisions- The Role of New Cross Line of Control', *Discussion Papers*, (December 2010), pp.44-46, downloaded from www.c-r.org/downloads/jammuandkashmir_discussionpapers_201012-ENG.pdf on 7 April 2018.

¹⁰⁴ Shaheen Akhtar, 'Expanding Cross-LoC Interactions: Perspectives from Pakistan', *IPCS Issue Brief 130*, p.2, downloaded from www.ipcs.org/pdf-file/issue/IB130-ploughshares-shaheen.pdf on 7 April 2018.

¹⁰⁵ Ibid.

¹⁰⁶ Akbar Ali, p.5. 'India to Invest Iran in Rupees', *Financial Tribune*, (17 February 2018), downloaded from www.financialtribune.com/articles/domestic-economy/81997/india-to-invest-in-rupees on 7 April 2018.

¹⁰⁷ Shabir Ahmad Khan, 'Geo-Economic Importance of Gwadar Sea Port and Kashgar Economic Zone for Pakistan and China', *IPRI Journal*, Vol.xiii, No.2 (Summer 2013), p.94.

impact on Iran-India deal on Chabahar. While, Pakistan and China are time tested allies and their relations are free from any uncertainty and dispute which will have positive impact on Gwadar port. Likewise, Gwadar port has the potential to become an alternate of Dubai port due to its closeness to the Strait of Hormuz (chock point) and has the potential to handle ‘S’ class larger cargo ships and tankers¹⁰⁸ whereas Chabahar port is incapable to deal with such heavy shipments due to shallow water.¹⁰⁹ In the near future, Gwadar port will offer passage to the marketplaces around East to West, North to South and would become a hub of international trade for China and regional trade for Pakistan. So, Chabahar port is not considered as competitor for Gwadar port. That is why Iran has admitted the worth of Gwadar port and has offered Pakistan the road and rail access of Gwadar Port.¹¹⁰

Moreover, India’s proposed route to Afghanistan and Central Asia through Chahbahar port is expensive and time consuming due to adopting both sea and land routes.

Map:4
India’s Proposed Route to Afghanistan



Source: ‘India’s projected trade link from Mumbai to Kabul’, downloaded from www.iasabhiyan.com/gwadar-port-chabahar-port on 8 April 2018.

The estimated distance from Mumbai to Kabul via Chabahar is around 3300 km including the sea route from Mumbai to Chahahr.¹¹¹ Whereas, India may get a shortest access (810 km) from Wagah to Kabul within 10 to 11 hours via Asian Highway AH1 and the eastern route

¹⁰⁸ ‘S’ class cargo ships are considered latest Freighters and known bulk carriers due to having largest capacity for holding cargo as compared to the remaining cargo ships, downloaded from www.nomanssky.gamepedia.com/Startship_Catalogue_Freighter on 28 October 2018.

¹⁰⁹ Hassan Yasir Malik, ‘Strategic Importance of Gwadar Port’, *Political Studies*, Vol. 19, No.2 (2012), p.61.

¹¹⁰ Akbrer Ali, p.5

¹¹¹ Researcher’s calculations.

of CPEC.¹¹² Moreover, this route might be extended to Ashgabat (Turkmenistan) with the additional travelling of 1500 km from Kabul.¹¹³

Another short trade route exists from Wagha to Spinboldak (Afghanistan) via Rohri-Quetta-Chaman with a distance of 1330 km consisting of Asian Highways AH 2 and AH 7.¹¹⁴ This route might be adapted from Wagha to Karachi Port (1268 km) through Asian Highways AH2 and AH4.¹¹⁵ Likewise, for India's access to Iran through CPEC, Asian Highway AH 2 provides a short route from Wagha to Taftan (1823 km) via Lahore-Multan-Sukkur-Quetta.¹¹⁶ Also, another land route from Fazilka to Chahbahar port (1750 km) might be followed via Fazilka-Bahawalpur-Karachi-Gwadar.¹¹⁷

CPEC vis-a-vis BCIMEC: Benefits for Pakistan

In response, Pakistan may also get access to Indian markets and beyond on reciprocal bases. Pakistan may be linked with Amritsar-Kolkata industrial corridor (1924 km) that comprises seven Indian states (Punjab, Haryana, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand and West Bengal) including the main cities of Delhi, Lucknow and Jharkhand.¹¹⁸ This corridor also provides connectivity with Delhi-Mumbai industrial corridor (1418 km) that passes through six states (Uttar Pradesh, National Capital Region of Delhi, Haryana, Rajasthan, Gujrat and Maharashtra).¹¹⁹ Moreover, Amritsar-Kolkata corridor is the part of SAARC Highway Corridor 1 that connects Pakistan, India and Bangladesh (2375 km) which includes Lahore, New Delhi, Kolkata, Dhaka and Agartala.¹²⁰ So, Pakistan may avail the opportunity of road access to Bangladesh through SAARC Highway Corridor 1.

Another prospect of Amritsar-Kolkata corridor has its connection with BCIMEC that is the China's initiative under OBOR. BCIMEC connects India, Bangladesh, Myanmar and China (2800 km), and starts from Kunming (China) to Kolkata.

Map:5 Bangladesh-China-India-Myanmar Economic Corridor

¹¹² Ibid. Asian Highways network in Pakistan is already be discussed which overlaps with the routes of CPEC at various places.

¹¹³ Ibid. According to India's planned route to Central Asia, the estimated distance from Mumbai to Ashgabat via Chahbahar is 3300 km, while from Wagha to Ashgabat via Kabul is 2200 km.

¹¹⁴ Researcher's calculations.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Ibid.

¹¹⁸ 'Press Information Bureau, Government of India 2013', downloaded from www.pib.nic.in/newsite/erelease.asp?relid=96473 on 9 April 2018.

¹¹⁹ 'The Delhi Mumbai Industrial Corridor', downloaded from www.dmicdc.com on 9 April 2018.

¹²⁰ Muhammad Moinuddin, 'Strengthening Transport Connectivity Through Road Corridors in Bangladesh', downloaded from www.unescap.org/sites/default/files/Moinuddin-Bangladesh-RPDSTCSA-19nov2014.pdf on 9 April 2018.



Source: BCIM Economic Corridor downloaded from www.google.com/search=Maps52FBCIM+Economic+Corridor on 10 April 2018.

India's Amritsar-Kolkata corridor has the potential to connect both CPEC and BCIMEC that would be the source of Pak-India economic integration. According to Geng Shuang, spokesman for Ministry of Foreign Affairs China, 'the joint projects of CPEC and BCIMEC under OBOR have the potential to bring welfare and benefits to the local people'.¹²¹ Likewise, by connecting Chabahar port and Gwadar port (discussed earlier) with CPEC and BCIMEC via Amritsar-Kolkata corridor, there would be a new beginning to foster trade route from East Asia to West, and from South to Central Asia.

Challenges and Implications

Pak-India trade relations may have far-reaching impact for obtaining the desired outcomes from CPEC and uplifting economic integration not only within two states but for the South Asian region and beyond. The trade share of India and Pakistan after partition was comparatively higher in the succeeding history of their trade relations. In 1948-49, India's global export and import share with Pakistan was 23.6 and 50.6 per cent separately which gradually decayed around 0.04 per cent in 2012-2013.¹²² Likewise, in 1951-52, Pakistan's global export and import share with India was 2.2 per cent and 1.1 per cent separately, that remained 0.006 per cent to 0.0006 per cent in 2012-2013.¹²³

Several studies have analyzed the multiple factors that have direct impacts on the bilateral ties, future plans for enhancing economic relations and emerging trends of trade relations

¹²¹ Geng Shuang was quoted in 'Linking CPEC with Bangladesh-China-India-Myanmar Corridor Will Benefit People: China', *FIRSTPOST* (27 June 2017), downloaded from www.firstpost.com/business/linking-cpec-with-bangladesh-china-india-myanmar-corridor-will-benefit-people-china-3749181.html on 10 April 2018.

¹²² Sandeep Kumar, 'Bilateral Trade Relations Between India and Pakistan: Recent Experience and Future Prospects', *Journal of Indian Research* (ISSN: 2321-4155), Vol.3, No.3 (July-September 2015), p.2.

¹²³ Ibid.

between India and Pakistan.¹²⁴ Most of the studies itemized that lack of trust between political elite of both the states is the main impediment for uplifting their trade relations.¹²⁵ Due to such state of affairs, their existing trade share is inadequate. Currently, Pakistan-India trade takes place by two ways: formal trade and informal trade. Formal trade persists through official means while, informal trade occurs through porous India-Pakistan borders, smuggling and via third countries i.e. Dubai and Singapore.

The formal trade is quite meager bearing around \$ 2.7 billion while the informal trade is estimated around \$ 8-10 billion.¹²⁶ The volume of informal trade indicates incredible trade potential between both the states and they may earn substantial revenue by promoting formal trade. There are certain barriers for intensifying formal trade i.e. high tariff, non-tariff barriers, trade bans, quota restrictions and political opposition. Presently, both the states are focusing on geographically distant markets despite trading with each other.¹²⁷ According to International Monetary Fund (IMF) assessment, 'Pakistan may save up to \$ 400-900 million by increasing imports from India besides importing from other markets'.¹²⁸ According to Nisha Tenija, 'India's untapped export potential to Pakistan is around \$ 9.5 billion and Pakistan to India is approximately \$ 2.2 billion'.¹²⁹ Moreover, around 55% export potential of Pakistan to India lies in textile sector and 90% India's export potential to Pakistan includes non-textile items.¹³⁰

By intensifying formal trade, the business community of both the states will access to wider markets and grasp cheaper raw material due to lower transport charges. The transport charges from Mumbai to Karachi via Dubai are 1.4 to 1.7 times more as compared to direct Mumbai-

¹²⁴ Amita Batra, 'India's Global Trade Potential: Gravity Model Approach', *Working Paper Report N.51*, Indian Council for Research on Economic Relation (ICRIER), New Delhi, (November 2005), p.17. Srinivasan. T.N, 'Preferential Trade Agreements with Special Reference to Asia', (1995), downloaded from www.econ.yale.edu/~srivasan/prefeTradeAgreement.pdf on 6 May 2018. Qamar Abid, 'Trade Between India and Pakistan: Potential Items and MFN Status', *Research Bulletin, State Bank of Pakistan*, Vol.1, No.1 (2005), p.47. M. Iqbal Tahir and Mujeeb Ahmad Khan, 'Indo-Pakistan Economic Cooperation: Harnessing India -Pakistan Trade Potential', SAARC Chamber of Commerce and Industry. P.13 downloaded from www.saarcstat.org/sites/default/files/publications/tfreports/India-Pakistan-Economic-Cooperation.pdf on 6 May 2018. Mohsin Khan, 'India-Pakistan Trade Relations: A New Beginning,' *New America Foundation*, (January 2013), downloaded from www.indiapakistantrade.org/resources/Khan-Inda-PakistanTrade-NAF2.pdf on 6 May 2018.

¹²⁵ Ibid.

¹²⁶ Muhammad Ali, Noreen Mujahid Khalid and Aziz ur Rehman, 'Pakistan-India Relations: Peace Through Bilateral Trade', *European Scientific Journal*, Vol. 11, No. 4 (February 2015), p. 368.

¹²⁷ Qamar Abid, pp.45-47.

¹²⁸ IMF as quoted by Qamar Abid, p.56.

¹²⁹ Nisha Tanija, 'India Pakistan Trade: Possibilities and Non-Tariff Barriers,' *Working Paper No.200*, Indian Council for Research on International Economic Relations, (October 2007), p. ii, downloaded from www.icrier.org/pdf/working%20paper%20200.pdf on 7 May 2018.

¹³⁰ Ibid, p.4.

Karachi route.¹³¹ The main barrier to Pak-India economic integration is Pakistan's denial to grant India the status of Most Favored Nation (MFN).¹³² One main argument for Pakistan's reluctance for granting MFN status to India is the risk of Pakistani business community being overawed by Indian imports.¹³³ Furthermore, India has upheld comparatively high tariffs which exceed at both regional and global standards and have deleterious impact on trade. According to a study of Pakistan-India business forums in 2005, Pakistani business community identified numerous restrictions and Pakistan-specific barriers imposed by India to discourage the exports from Pakistan.¹³⁴ The US National Trade also pointed out India's non-tariff barriers i.e. customs valuation procedures, certification requirements and overly restrictive standards including non-automatic import licensing that violate WTO rules.¹³⁵ Despite disapproving MFN status, Pakistan seeks to enhance trade and declared 6800 banned areas to open up trade for India.¹³⁶ For intensifying trust deficit, both the states must adopt flexible response and establish trade relations taking cue from other nations with unstable relations. For instance, China and Japan stabilized their unstable political relations by developing strong economic relations.¹³⁷ Likewise some remaining states also initiated trade relations by shelving their enduring political conflicts i.e. China-Taiwan, India-China, US-Russia, US-China, and determine that economic integration is an operative tool in refining their bilateral relations.

For elevating Pak-India trade relations, the Planning Commission of Pakistan pointed out the lacks of strategic focus and recommended to project comprehensive reforms.¹³⁸ For engrossing the productive outcomes of regional economic integration, Pakistan must develop a strategy for promoting transit trade corridors, and besides upgrading road/railway infrastructure, the incentives for trade facilitation (warehousing, customs clearance and conducive financial services) must be taken on entry/exit points. Likewise, for grasping the benefits of trade, an inclusive plan for elevating trade must be initiated between Iran, Central Asia, China and Iran. For establishing the mechanism relating to Pak-India trade, a regional trade forum encompassing on various sectors including private, media and academics, must be developed. The forum will point out the main snags on the way to Pak-India economic

¹³¹ Ibid, p.9.

¹³² Both India and Pakistan are the members of World Trade Organization (WTO) and are signatories to the General Agreement on Tariffs and Trade (GATT). The two states could not fulfill GATT obligations due to their political rivalries and border disputes. India granted MFN status to Pakistan in 1996, but Pakistan refused to reciprocate due to territorial conflict on Kashmir. Imam A.H, 'What the MFN Mean', *DAWN*, (7 November 2011). Nisha Tanija, pp.11-2. Muhammad Ali, Noreen Mujahid Khalid and Aziz ur Rehman, p.370.

¹³³ 'Pakistan-India Trade to Benefit Consumer', *The New York Times* (3 November 2011).

¹³⁴ Zareen Fatima Naqvi and Philip Schuler (eds), *The World Bank* (June 2007), p. 173.

¹³⁵ 'Survey Report: Challenges of Doing Business in India', *The Economist* (1 June 2006).

¹³⁶ Muhammad Ali, Noreen Mujahid Khalid and Aziz ur Rehman, p.370.

¹³⁷ Mohanty B and Hazary S.C, *Political Economy of India: Retrospects and Prospects* (New Delhi: A.P.H. Publishing Corporation, 1997), p.37.

¹³⁸ Garry Pursell, Ashraf Khan and Saad Gulzar, 'Pakistan's Trade Policies: Future Directions', *International Growth Centre*, report prepared for Planning Commission of Pakistan, downloaded from www.theigc.org/Wp-content/uploads/2014/9/Pursell-Et-Al-2011-Policy-Brief.pdf on 18 September 2018.

integration, suggest the ways to compensate and will formulate the strategy for the promotion of regional trade.

Moreover, Pakistan's success in war against terror and improvement in law and order situation are not appreciated by India which are prerequisites for the promotion of Pak-India politico-economic relations and these will have domino effect in resolving their core issues especially Kashmir.

Conclusion

Both India and Pakistan are hostage to their fateful past since their inception that generated mistrusts between them. Moreover, the two states are bearing a massive number of chronically poor populations as more than one third of it is surviving under acute poverty conditions.¹³⁹ Currently, their economies are unable to overcome poverty and China's initiative about OBOR has the potential in boosting their economies that will eliminate poverty and bring prosperity. Both India and Pakistan have ambiguities on the issues about trade relations but CPEC will provide the environment for building confidence towards economic integration that will lead towards win-win situation for both the states. Additionally, the persisting political and territorial disputes are the main hurdles to Pak-India economic integration but through CPEC the two states will boost their economies that may generate conducive environment in resolving their disputes and will ultimately bring prosperity and peace in the region.

¹³⁹ 'Understanding Chronic Poverty in South Asia', downloaded from www.chronicpoverty.org/uploads/publication_files/CPRI_chap7.pdf on 02 October 2018.