

## **Regional Trade in the Political Economy of South Asia: A Case Study of Indo-Pak Trade-Off**

***Prof Dr Syed Hussain Shaheed Soherwordi, Dr Sadia Sulaiman, Dr Tabassum Javed***

### **Abstract**

*The dream of the South Asian regional integration is yet to materialize. The formation of SAARC in 1985 was meant to achieve a regional trading bloc with an application of David Ricardo's theory of 'Comparative Advantage'. As a result, the ultimate objective was free trade in the South Asian region. However, this seems unachievable at the SAARC's forum. The economic fragmentation has resulted in India's bilateral and multilateral trade agreements within and without the region. Currently, India is the only country with numerous and trading accords with almost all regional countries except Pakistan. In a way, she succeeded in isolating Pakistan economically. Will this strategy succeed or falter is the question of the questions. With the re-election of economic-minded PM Modi in power; isolating a strong and nuclear power with growing GDP country-Pakistan – his policies will prove counterproductive. Moreover, Pakistan will go for checkmate by harming India in the region with its own political maneuvering. This may prove detrimental to India's dream of becoming an economic giant. In this context, India-Pakistan's trade competition needs to be examined. India's bilateral and multilateral agreements are a success. But Pakistan's countermoves may neutralize her initiatives for an*

*economic power. A South Asia with free trade and 'comparative advantage' will be to the advantage of both the countries especially India. This will contribute to South Asian Regional Economic integration- an objective envisaged by the SAARC.*

**Key Words:** Regional Trade, India, Pakistan, Economy, And Comparative Advantage Theory

**Introduction:**

Trade holds a vital place in the economy of a state. International trade is beneficial both in economic and political sphere. When a country has trade relations with another country, it is less likely to engage in a conflict with that country as, the interests of both the states are interconnected and so any conflict results in greater damage for both the states. However, in some cases political conflicts result in a trade deadlock between states. The states avoid engaging in trade with each other because of political conflicts. This results in the deprivation of economic benefits and less development. The states pay a high price for their non-engagement in trade and other economic activities with each other specially when they are neighbors. This is the case with India and Pakistan, despite being neighboring states and having a greater opportunity of benefitting from mutual trade, they are reluctant to engage in trade and other economic activities with each other due to their political differences and disputes. This results in further aggravating the tense situation between the states. It also has negative impact on the South Asian region as, the two states are the largest in the region. Indo-Pak rivalry has resulted in missed opportunities for the economic development of the South Asian region.

### **Trade between India and Pakistan:**

Since the partition of sub-continent into two independent states i.e. India and Pakistan, the relations between two neighbors has remained tense for most of the time. Wars of 1948, 1965, 1971 and Kargil crisis of 1999, are all the proof of armed rivalry between the two states. Violations at Line of Control (LoC), allegations of spying on each other and continuous conflicts have damaged the bilateral relations. Same is the case of trade relations between both the countries. With the partition, the unified economy of sub-continent was divided. When British government devalued its currency in 1949, India followed in its footsteps but Pakistan refused to do so. As a result, India placed restrictions on trade with Pakistan. However, in the year 1951, a trade agreement was signed between the two states which revived trade activities between them.<sup>130</sup> The wars of 1965 and 1971, once again, halted the trade activities between the two countries. In 1996, when India granted most favored nation (MFN) status to Pakistan, trade between them was at \$180 million.<sup>131</sup> It was less than 1 percent of Pakistan's total world trade and was only a quarter percent of India's world trade.<sup>132</sup>

Trade is an attractive factor in lobbying for peace. As early as 1998, an Indian business delegation had explored great trade opportunities in Pakistan. A joint Indo-Pak Chamber of Commerce

---

<sup>130</sup> Nohina Saleem (Et al). " Indo-Pakistan trade relations: A critical discourse analysis of Daily Dawn", *A Research Journal of South Asian Studies* 29, no. 1 (July 2014): 309-310.

<sup>131</sup> Mohsin Khan, "India-Pakistan Trade Relations: A New Beginning", New America Foundation, January 2013, [http://indiapakistantrade.org/resources/Khan\\_India-PakistanTrade\\_NAF2.pdf](http://indiapakistantrade.org/resources/Khan_India-PakistanTrade_NAF2.pdf) (accessed on April 14, 2019).

<sup>132</sup> Ibid.

was formed in 1999 but it became dormant due to tense relations between the two states.<sup>133</sup>

Indo-Pak relations are getting attention from the world at large, mainly due to their interest of engaging with each other in economic activities as; significant economic gains can serve as a major source of conflict resolution.<sup>134</sup>

At a meeting in April 2005 between Pervez Musharraf, then president of Pakistan, and then Indian prime-minister Manmohan Singh in New Delhi, several issues related to trade were discussed and many important decisions were made to move the process of trade in small but meaningful steps. However, most of the decisions taken were very slowly implemented, if at all, because of the political tensions, security issues, and domestic political opposition in both countries.<sup>135</sup>

After the Pulwama Crisis in February – March 2019, between the two neighbouring countries, India had revoked the MFN status which it had granted to Pakistan back in 1996.<sup>136</sup> Moreover, India also cancelled export orders from Pakistan and imposed a ban on certain exports to Pakistan.<sup>137</sup> Due to political

---

<sup>133</sup> P.M. Kamath, ed., *India-Pakistan Relations: Courting peace from the Corridors of War* (New Delhi: Promilla & Co., Publishers, 2005),

<sup>134</sup> Nisha Taneja and Samridhi Bimal, "India-Pakistan trade relations: Seizing Golden Opportunities," *Financial Express*, January 14, 2016, <https://www.financialexpress.com/opinion/india-pakistan-trade-relations-seizing-golden-opportunities/193562/> (accessed on May 2, 2019).

<sup>135</sup> Mohsin Khan, "India Pakistan Trade Relations".

<sup>136</sup> Jayshree Sengupta, "Economic Burdens of War on India and Pakistan", Observer Research Foundation, March 2019, <https://www.orfonline.org/expert-speak/economic-burdens-war-india-pakistan-48991/> (accessed on May 20, 2019).

<sup>137</sup> Shirin Naseer, "India-Pakistan: Trade Ties", Spearhead Research, April 2019, <https://spearheadresearch.org/?p=37393> (accessed on May 20, 2019). S

conflicts, the neighbors have remained reluctant to invest in enhancing bilateral trade relations. While many studies have suggested that enhancement of bilateral trade will result in economic benefits to both countries, many have also pointed to the benefits that would amass to the entire South Asian region.<sup>138</sup>

Most observers understand the fact that Pakistan's economic development depend to a large extent on normalization of relations with India to pave the way for South Asian regional economic integration. Trade with India, with its large and expanding market, can be a major factor in the realization of Pakistan's hope to expand its exports market and tap the potential of its industrial hubs. For India, trade with Pakistan is beneficial. Not only in the context of both the countries but also in context of the region, as, a whole. It will open the avenues of trade with Afghanistan, China, Iran, and the Central Asian countries for India. Thus, for both the states, increased trade with each other would result in a win-win situation.<sup>139</sup>

Nevertheless, current prime minister of India, Narendra Modi, is also trade friendly and wants to see the bilateral trade between India and Pakistan flourish, but his anti-Muslim actions in past have tarnished his image in Pakistan.<sup>140</sup> For many decades, limited people-to-people interactions because of barriers to communication had limited the flow of information between

---

<sup>138</sup>Afshen Naz, "Political Dominance or Economic Gains: A Case Study of India-Pakistan Trade and Perceptions of the People of Pakistan" *Peace Prints: South Asian Journal of Peacebuilding* 4, no. 2 (2012). 1-16, <https://sdpi.org/publications/files/WP-127.pdf>(accessed on April 14, 2019).

<sup>139</sup> Mohsin Khan, "India Pakistan Trade Relations"

<sup>140</sup>M. Umar Farooq Baloch, " Prospects for Sustained Economic Cooperation between India and Pakistan," *ISSRA papers*, (2015), [https://ndu.edu.pk/issra/issra\\_publications/articles/issra-paper/Issra-papers-1st-Half-15/04-Prospects-for-Sustained-Economic.pdf](https://ndu.edu.pk/issra/issra_publications/articles/issra-paper/Issra-papers-1st-Half-15/04-Prospects-for-Sustained-Economic.pdf)(accessed on April 24, 2019).

both the neighbors which reduced the growth of bilateral trade.<sup>141</sup> Both countries seem determined to move ahead and make things happen at least about issues relating business and trade.<sup>142</sup>

**Benefits of Mutual Trade to India and Pakistan:**

Trade between India and Pakistan is beneficial for both the states as, they are neighboring countries and having land proximity favors both the nations to trade with each other. Using land routes for carrying out trade will add to the benefits as, it costs less as compared to the sea routes. Moreover, land routes ensure speedy and smooth trade of perishable goods from both sides of the border. Pakistan permitted imports of onions, garlic, potatoes, tomatoes, meat and livestock through Wagha border in July 2005.<sup>143</sup>

Mutual trade can bridge the gaps between India and Pakistan and can be a source of improving bilateral relations but, unfortunately for both the states, they are not utilizing their trade potential for improving and enhancing bilateral relations rather they are keeping trade potential a hostage to political conflicts between them which is irrational behavior on the part of both the neighboring countries.

Opening, up trade with India shall open new avenues for regional integration. It will strengthen the economy of both the countries as well have a positive impact on the entire South Asian region.<sup>144</sup> It will benefit the consumers in both the countries as it shall allow the consumers of both the states to enjoy a wide variety

---

<sup>141</sup>Nesha Taneja and Samridhi Bimal, "India-Pakistan Trade Relations"

<sup>142</sup>M. Umar Farooq Baloch, " Prospects for Sustained Economic Cooperation"

<sup>143</sup>Ranjit Singh Ghuman & Davinder Kumar Madaan, Indo-Pakistan Trade Cooperation and SAARC," *Peace and Democracy in South Asia*, 2 no.s 1& 2 (2006).71-87.

<sup>144</sup> Mohsin Khan, "India Pakistan Trade Relations"

of goods and services of better quality at cheaper rates. Trade between states result in competitiveness which leads to improvement of the quality of the products.

**Applying Comparative Advantage Theory to Indo-Pak Trade:**

Comparative advantage theory suggests that a country benefits from specializing in the production of such goods and services which it can produce efficiently and at lower costs as compared to other countries. It means the country has got comparative advantage in producing those goods and services. It can then export the commodities in which it has got comparative advantage over other states and can import the commodities in which it has comparative disadvantage. In the case of India and Pakistan there are certain commodities in which one has got comparative advantage over the other. So, trade between India and Pakistan will be beneficial if the two countries engage in bilateral trade.

India has a comparative advantage over Pakistan in production of engineering goods, bicycles, agriculture products, textile machinery, plastic, transport equipment, tea, leather goods, etc. Pakistan can benefit from the import of agricultural produce like wheat, spices, tea and other edibles from India to meet the production shortfalls. During 2004, Pakistan was the fifth largest tea importer in the world and India was the fourth largest tea exporter in the world. Pakistan has never imported more than 4.5 percent of its total tea requirements from India. It imports tea from Kenya and Rwanda at high cost. Pakistan can benefit by importing tea from India at lower costs than paying a high price to Kenya and Rwanda for tea. Pakistan has a comparative advantage over India in production of refined sugar, Rock salt, surgical instruments etc. Pakistan can benefit by exporting these commodities to India.<sup>145</sup>

---

<sup>145</sup>Ranjit Singh Ghuman & Davinder Kumar Madaan, Indo-Pakistan Trade Cooperation and SAARC”

Steel and chemicals are produced in India far more competitively than the countries from which Pakistan currently buys. Pakistan can benefit from importing these items from India rather than purchasing them on higher prices from other countries.<sup>146</sup>

Many studies that have conducted Revealed Comparative Advantage (RCA) analysis show that Pakistan is competitive in citrus fruit, mangoes, apricots, peaches, fish and fish products. These products have great demand in Indian markets so, Pakistan can benefit by exporting them to India.<sup>147</sup> Pakistan can also specialize in production and export of cotton, wool, and animal hair in which it has got comparative advantage over other countries. India has comparative advantage in production of silk, jute, and synthetic regenerated fibre, so, it can specialize in the production and export of these commodities.<sup>148</sup>

Both countries have comparative advantage in the export of some commodities to each other and can benefit in trading those commodities with each other. India can export tomato, cane sugar, onion, fresh vegetables, cotton (carded and combed), ground nut, coarse cereals as feed and dairy products. Similarly, Pakistan can export dates, leather, hides and skins and woven fabrics to India.<sup>149</sup>

### **Impediments to Indo-Pak Trade:**

There are several factors which reduce trade between India and Pakistan. One of the main factors behind the low trade between

---

<sup>146</sup> Mohsin Khan, "India Pakistan Trade Relations"

<sup>147</sup> Mr Sailan Das, "Indo-Pak trade Relations under WTO Regime-A Study of Agriculture Sector," *International Journal of Political Science* 2, no. 4 (2016). 42-49.

<sup>148</sup> Sharma, M. (2006). *Textile industry of India and Pakistan*. New Delhi: A.P.H. Publishing Corporation.

<sup>149</sup> Mr Sailan Das, "Indo-Pak trade Relations under WTO Regime"

India and Pakistan is the less diversified export base of Pakistan. It mainly relies upon two kinds of products as its exports namely, agricultural and textile items. Moreover, these similar items are also major exports of India too. It means both the states are competitors in these items against each other.<sup>150</sup>

Political conflicts between India and Pakistan have hindered the growth of bilateral trade between them. Due to political differences between the two neighbors, trade relations have not been strengthened and both hesitate to improve trade ties.<sup>151</sup>

Other impediments include non-tariff barriers like sanitary and phytosanitary measures, complex nature of obtaining import licenses and permits, antidumping and countervailing measures etc. These non-tariff barriers to trade are practiced by India while, Pakistan rely on procedures like clearance of items such as pharmaceuticals, agricultural products and engineering goods from relevant ministries/industries.<sup>152</sup>

The transport protocols between the two states need to be amended to allow smooth transportation of commodities to each other's territory. The financial mechanisms required to enhance trade are not developed yet between India and Pakistan. Without banking services of India and Pakistan in each other's territory, the transactions of funds required for carrying out trade will be difficult for the firms in both the states. There is a need to develop the infrastructure and other mechanisms required for trade between these two neighboring countries.<sup>153</sup>

The shadow economy called smuggling between India and Pakistan has been rampant. According to an estimate, around \$ 2.5

---

<sup>150</sup>M. Umar Farooq Baloch, "Prospects for Sustained Economic Cooperation"

<sup>151</sup>Afshen Naz, "Political Dominance or Economic Gains"

<sup>152</sup>M. Umar Farooq Baloch, "Prospects for Sustained Economic Cooperation"

<sup>153</sup>Nesha Taneja and Samridhi Bimal, "India-Pakistan Trade Relations"

billion of smuggling has been taking place between the two countries. This further hampers trade and encourages animosity. In fact, when a country is already having all the products from the other country even through smuggling, why should it bother to go for legal trade, which has its own impediments? Thus, smuggling does not encourage trade between India and Pakistan.

Extremism in India and Pakistan has been another very important and grave reason for discouraging trade. India's politics is always thronged by pressure groups who are much less in number but very strong in street power. Shiv Sena has always been instrumental in giving anti Pakistan and anti Pakistani trade statements. They even dislike Pakistani TV channels, which highlight social and economic as well as issues of family life. Shiv Sena never drops a single chance of condemning Pakistani products. In a recent wave of hatred, Pakistani actors, singers and actresses working in Bollywood film industry were threatened to enter in India by the party workers of BJP and Shiv Sena. As a result, all Pakistani actress, actors, singers and even cricket players were not allowed to travel to India for security reasons. On the other hand, Pakistan has also seen some of the fanatics expressing hatred against India and Indian products. The cable operators do not encourage even the cartoons dubbed and translated with Hindi language. This shows how far the two countries are despite being in the neighborhood of each other.

The rise of the BJP under Narinder Modi was a very encouraging sign in the beginning of his take over of power as PM. In Pakistan liberal and progressive elements kept Modi's financial juggler's aspect in which he made Gujrat as an economic giant of Indian Union. It was thought that the rise of BJP this time was not in the name of Hindu nationalism and conservatism but it was more of a conservative party led by a successful economist making India a wonderful regional economic power. This regional economic

power status was thought to be acquired by more and more regional economic trade. However, it just proved otherwise. PM Modi tried his best, via Indian economic and foreign policies to isolate Pakistan in the region. He tried to make blocks in the region by aligning India more with Iran and Afghanistan to isolate Pakistan. Moreover, the SAARC conference that was supposed to take place in Pakistan during 2016 stood cancelled due to refusal of PM Modi to attend. This further fuelled to the fire. Thus the rise of PM Modi to power contributed to discouragement of trade between India and Pakistan.

Politics always influences economics. Pakistan's political relations with India have been historically marred. In the recent past, India's spy KulbhusanYadev's anti-Pakistan activities in Iran and Indian political and financial support to some of the political parties of Pakistan further contributed to the deterioration of economic relations. Moreover, with witnesses, Pakistan proved that the insurgents in Baluchistan are fully supported by India. This has even been accepted by the security and intelligence agencies of India as well as their heads.

### **Prospects of Indo-Pak Trade:**

The potential of formal trade between India and Pakistan is far greater than the current formal trade between them. It is suggested that the formal trade potential is roughly 20 times greater than the recorded trade.<sup>154</sup> However, for this potential to be realized, there is a need to prepare for facilitation and expansion of bilateral trade.<sup>155</sup>

---

<sup>154</sup>Lyman, J. (2011). Prospects for improved Indo-Pak relations. *International Policy Digest*. Retrieved October 10, 2017, from <https://intpolicydigest.org/2011/05/05/prospects-for-improved-indo-pak-relations>

<sup>155</sup>Nesha Taneja and Samridhi Bimal, "India-Pakistan Trade Relations"

It is obvious that the two countries will benefit by strengthening trade ties with each other. If both the states agree to grant transit rights to each other, India will get access to Afghanistan and further to Central Asian countries, while, Pakistan will be able to access India's eastern neighbors.<sup>156</sup>

It is expected that once protections are removed and free trade is given a chance, it will lead to the creation of more cost-effective backward linkages which will allow firms to reduce their costs, making them more competitive in international markets.<sup>157</sup>

Besides direct economic advantages, both the states will gain from the bilateral trade as, increased trade between India and Pakistan would lower tensions and avoid future conflicts between them.<sup>158</sup> Till now, the trade either is taking place via third party i.e Dubai or by smuggling. The third party is taking full advantage of the animosity between the two countries. Things like Indian films are imported by Pakistan via Dubai. The seller price is less in India. The buyer price is very high. However, the third party, Dubai, which neither contributes to India's economy nor to Pakistan's, earns a substantial profit. Thus the need of the time is to realize the importance of direct bilateral trade.

Free trade between India and Pakistan is also needed when it comes to purchase of cheaper products available in both countries. The welfare state phenomenon will not fit here if looking at each other with enemy eye will continue. Free trade means welfare of the people.

Both countries have been in a competition of numerous products in international market. If both follow David Ricardo's

---

<sup>156</sup> Ibid.

<sup>157</sup> Mohsin Khan, "India Pakistan Trade Relations"

<sup>158</sup> Lyman J 2011

theory of Comparative advantage theory, they will coordinate with each other's products and will get higher profits.

Exchange of most favored nation (MFN) status is another issue between India and Pakistan. MFN is a trade status given by a state to another. It means that the recipient state must receive equal trade benefits by the granting country. In other words, the recipient state must not be treated less than any other state with MFN status by the granting country. All members of the WTO are MFN status holders of each other. Pakistan and India are the founding members of the GATT. Both continued to treat each other as MFN till the 1965 war. Hence, as such there is no need to have special MFN status between the two countries as GATT and WTO automatically have such status for all member countries. India has never complained about exchange of the status with Pakistan and the reason is that it realizes that it is following restricted trade with regional partners. Moreover, as her trade with Pakistan is in surplus, it does not need any legal action against Pakistan. Thus trade is suffering in South Asia.

Pakistan is the second largest country of South Asian region after India, hence, both the countries hold important place in the growth trends of the region. Hostile relations between both the states have hampered the growth and development of the entire South Asian region. It has prevented technical efficiencies, better resource allocation, and specialization in production.<sup>159</sup>

The logic of trade liberalization and the benefits of free trade continue to attract support from economists, business leaders, and policy makers.<sup>160</sup> Trade not only benefits the consumers as, they get wide variety of products at cheaper rates,

---

<sup>159</sup>Afshen Naz, "Political Dominance or Economic Gains"

<sup>160</sup>Porter, R. B. (2015). The world trade organization at twenty. *The Brown Journal of World Affairs*, Vol. XXI, No. II, 103-115.

but also is beneficial for producers as they gain from specialization. The governments also benefit from trade as, it increases the revenue resources for them. Trade among states result in increased interdependence among them, which in turn, results in political stability and economic development. If the states belong to the same region, it results in the economic prosperity of the whole region.<sup>161</sup>

**Indo-Pak Trade in the regional context:**

The total trade of South Asia has increased at a faster rate as compared to the growth in world trade after 2005, however, trade within South Asian region has increased at a lower rate than trade with the rest of the world. Studies suggest that deeper economic relations between India and Pakistan would be advantageous for both the countries as well, for the entire South Asian region resulting in greater economic growth and trade competitiveness of the region.<sup>162</sup>

South Asia Free Trade Area (SAFTA) started functioning in January 2006 and despite being the members of SAFTA, India and Pakistan has low trade between them. The opportunity for benefitting from increased trade is correspondingly large.<sup>163</sup> SAFTA, provided an opportunity to the South Asian neighbors to reestablish their economic relations. However, for various reasons, both Islamabad and New Delhi were hesitant to improve trade relations and did not pay attention to the potential of SAFTA. India was paying more attention on the regional trading arrangements developed in Southeast Asia. It believed that economic opportunities available in that area were more beneficial than

---

<sup>161</sup> Afshen Naz, "Political Dominance or Economic Gains"

<sup>162</sup> Taneja, N., & Dayal, I. (2016). *India-Pakistan trade normalization: The unfinished economic agenda*. Singapore: Springer.

<sup>163</sup> Mohsin Khan, "India Pakistan Trade Relations"

those offered in South Asia.<sup>164</sup> However, the member states have the option to not avail the transit facility. At the moment, Pakistan doesn't allow India for its access to Afghanistan due to geopolitical realities. But this may not continue for the rest of time. A day would come when, most probably, the neighboring countries of Pakistan would use the CPEC so that Pakistan may earn its revenues. Thus India-Afghanistan trade via Pakistan is possible. But India needs to restore confidence and trust with Pakistan. More trade and economic links in the regions means a prosperous and vibrant society.

The purpose for the creation of SAFTA was to gradually reduce and ultimately remove tariff and non-tariff barriers and custom duties on goods and services. It had the objective of creating a free trade zone in the region. Under this agreement, the reduction and abolition of tariffs was to be carried out in two phases. In the first phase, India, Pakistan, and Sri Lanka were bound to reduce their trade duties and lower them to 20 percent. The first phase was to be completed by 2008. In the second phase, these duties were to be cut to zero by 2016. However, the least developed countries of the region including Bangladesh, Nepal, Bhutan, and Maldives were given the relaxation of three years i.e. to cut their duty rates to zero till 2019.<sup>165</sup>

SAFTA, suffered greatly because of tense relations between India and Pakistan. Indian trade diplomacy was focused on isolating Pakistan. It strengthened its position in the region by joining various regional organizations and was also successful to some extent in keeping Pakistan from joining such organizations.<sup>166</sup>

---

<sup>164</sup>Burki, S. J. (2007). *Changing perceptions, altered reality: Pakistan's economy under Musharraf, 1999-2006*. Karachi: Aameena Saiyid, Oxford University Press.

<sup>165</sup>Afshen Naz, "Political Dominance or Economic Gains"

<sup>166</sup> Burki 2007

Unfortunately, SAFTA almost failed to reduce the regional economic distances. Rather than using SAFTA platform to enhance trade relations among each other, the states in the region turned to bilateral trade agreements that proved quite successful. These include the India-Sri Lanka bilateral trade agreement and the Pakistan-Sri Lanka bilateral trade agreement.<sup>167</sup>

South Asia as a region has lagged behind in economic prosperity and development mainly because of tense relationship between two prominent states of the region i.e. India and Pakistan. There is a strong need to enhance economic relations between these two states as, it shall be beneficial in improving over-all relations between them.

### **Post-Pulwama Outlook for the India-Pakistan Regional Trade**

With the soaring tensions between the two neighboring countries in post-Pulwama crisis scenario, the prospects for economic engagement got reduced. As mentioned earlier, India withdrew its MFN status from Pakistan which was granted back in 1996. Within political tensions, India is trying hard to isolate Pakistan economically through its aggressive policies. Trade has become a hostage to the political and security crisis between India and Pakistan this time again as it has remained forever. India not only withdrew its MFN status from Pakistan but it has increased the tariff on Pakistani items, which will reduce the scope and place of Pakistani exports in Indian market. Similarly Pakistan may increase the number of Indian export items in the negative list in reaction to Indian harsh stance.

In past few decades efforts were made to improve trade ties. Such as the initiation of Trade Dialogue Round of talks on Economic and Commercial Cooperation, this was held between

---

<sup>167</sup> Afshen Naz, "Political Dominance or Economic Gains"

2004-2012.<sup>168</sup> During that dialogue Pakistan allowed some 5600 items to be freely traded which were previously banned. Another important event was the creation of Customs Liaison Border Committee (CLBC) in 2011 which main purpose was to activate an institutional mechanism at Wagha-Attari border to reduced non-tariff barriers between India and Pakistan.<sup>169</sup> Under that framework several meetings took place to address key issues of concern between the two countries such as exchanging trade data and information, visa facilitation, controlling contraband goods and easing of business procedures. But When PM Modi came into power the process of meetings under CLBC was stopped.<sup>170</sup>

There is dire need to continue with such processes that address the intricacies involved in trade ties between the two countries. Indian unilateral withdrawal from the trade agreements and other related institutional mechanism should be discouraged as such behavior will harm both the countries. In post-Pulwama crisis scenario, Pakistan has renewed its offer of talks and dialogue with India after the re-election of PM Modi. India should accept this offer and both the countries should make an intentional effort to improve trade ties.

### **Conclusions:**

The over-all scenario of Indo-Pak trade shows a grim picture of the bilateral relations between the two neighboring countries. The political differences and conflicts between the two has taken hostage the bilateral trade relations between them. Rational behavior in terms of economics would suggest greater trade ties and large volumes of trade between these two neighboring countries, but unfortunately, for both the states politics have undermined the economic development of both the countries. Not

---

<sup>168</sup> Beelam Ramza, "Pulwama and Trade War", *The News*, March 4, 2019.

<sup>169</sup> *Ibid.*

<sup>170</sup> *Ibid.*

only, the two states themselves are being affected negatively, the entire South Asian region has, to bear the consequences. It is time for the policy makers, the civil society, the media and all other relevant actors to work for the betterment of economic ties between the two nations, as it will reduce the hostility among them and will result in the progress of the whole region.

People of South Asia deserve better living standards and prosperity. For this dream to come true, there is a need to strengthen regional organizations like South Asian Association for Regional Cooperation (SAARC) and SAFTA. The better the region will be integrated, the more it will benefit, as, regional integration will lead to interdependence among states which will ultimately result in reduced conflicts. This will bring in political stability to the region which will result in economic development of the region.

Pakistan is a market of more than 2200 million people whereas India is a population of more than a billion. Hence, import and export of the two countries is to the advantage of all the business and manufacturing community of the both. Any outsider will not knock out business. Rather, it will produce a positive competition, which will be to the advantage of the people of the land. It will contribute to the welfare state phenomenon. More business means end of unemployment, more industrialization, stronger middle class, and prosper country.

The poor economy forces countries to trade with even the enemy. China trades with India and Taiwan. The US has strong trade ties with China. This means economy is beyond political differences. The business community solves an issue that can't be resolved by the statesman. If trade happens, it will be the business community of the two countries to urge upon their respective governments to solve political issues so that they investment in the other country may be saved. This was the model that the EU

countries followed and this must be imitated in South Asia by India and Pakistan. If EU, while following such a model, may become an economic giant, why not SAARC? Indeed Business and economics must be given a chance for the resolution of the issues.

Pakistan needs economic development to meet its needs of growing population. It is essential for Pakistan to utilize the opportunities of better trade ties with all its neighbors including India. While India aspires to be a dominant power in the region as well in the world, it needs to realize that political conflicts and wars weaken the economy and weak economy results in diminished power and influence of a state. The strategy of isolating Pakistan will backfire and will prove counterproductive for India. There is a need for both the states to learn from the lessons of the past and not to repeat the mistakes. They need to cooperate instead of confronting each other. Bilateral trade between the two states can open up avenues of cooperation between them. Greater people-to-people contacts will help reduce the trust deficit between the two neighbors and will improve the environment for better trade relations. This will have a positive effect on the bilateral relations between both the states.

Both the states cannot afford to miss the opportunities anymore, keeping in view the poverty and economic backwardness of the population of these states. Better economic ties will lead to better economic development. Moreover, the theory of comparative advantage suggests that two countries can benefit from trading with each other if they specialize in the commodities which they can efficiently produce. This applies to Indo-Pak trade also, as there are certain commodities in which one has comparative advantage over the other. They can benefit in trading with each other in those commodities. Consumers, producers, and the governments of both the countries will benefit out of it. In short, trade between India and Pakistan is advantageous for both of them

and for the region as well. When president Richard Nixon reached Peking (Beijing) on his very first visit to China in 1971, he was received by Chu-en-Lie. Nixon, in his memoirs says, WHEN OUR HANDS MET, AN ERA ENDED AND AN ERA STARTED. The world later on witnessed how the two countries came closer to each other. Today, they cant even think of living without each other due to stronger and deeper trade ties. So will be the case of India and Pakistan. Both countries need to get close to each other for the welfare of the entire region. Political relations are left to develop with other countries. Countries have only and only economic links with neighbors.