

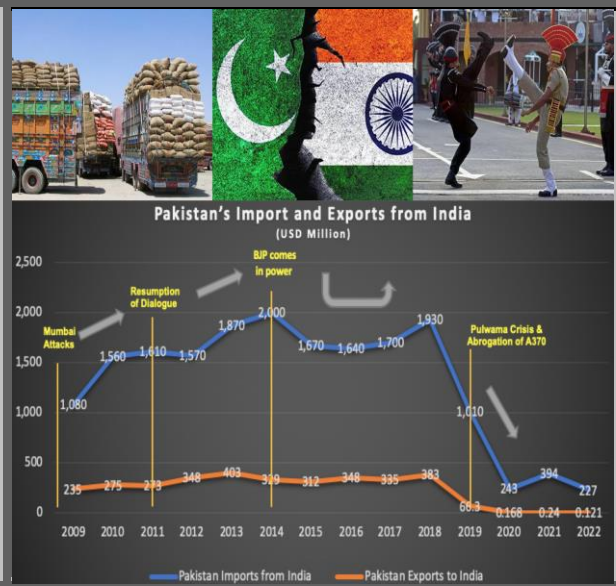
PROSPECTS AND CHALLENGES OF PAKISTAN-INDIA TRADE

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May 30, 2024

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Introduction

The heavy burden of history and persistently strained relations between Pakistan and India have been a significant source of wedge in their economic ties as well. Often, trade is seen to become a first victim of souring relations. Although significant potential for trade between the two states exists, bilateral tensions have impeded its optimal actualization. This illustrates an adverse relationship between tensions and trade between the two countries.

With the rise in geopolitical tensions across the globe, trade relations are witnessed to be caught in the crossfire. Such cases have been observed worldwide. The U.S.-China trade relations are being impacted due to their geopolitical tensions in the shape of ‘trade and tech wars’ and a similar case is discernible between India and China’s trade ties, which are increasingly marred by their border issues and growing geopolitical rivalry. While trade between neighbours undeniably rests on a convincing argument, an analysis of Pakistan-India relations reveals that trade amid tensions is less likely to sustain a persistent momentum.

Background

In the past, Pakistan and India have witnessed efforts towards expansion of trade relations following the 2003 ceasefire understanding, which led to 72 Confidence Building Measures (CBMs) including trade and travel. The Composite Dialogue of 2004-2008 was also accompanied by some significant

initiatives such as cross-LoC (Line of Control) trade while other measures included people-to-people contacts. However, the post-2008 Mumbai attack period saw a downward trajectory of bilateral trade.

Even when India and Pakistan conducted bilateral trade, the numbers were negligible as detailed in figure 1. In the past ten years, 2013-14 were high times in terms of Pakistan's trade with India. The orange line depicting Pakistan's exports to India only peaked to USD 403 million in 2013, while the following year the imports reached USD 2 billion, depicted by the blue line. This was the result of resumption of dialogue in 2011.¹ Since then, no significant increase in exports is evident as highlighted in figure 1. The graph depicts that trade between India and Pakistan continues to be overshadowed by political and strategic tensions between Islamabad and New Delhi.

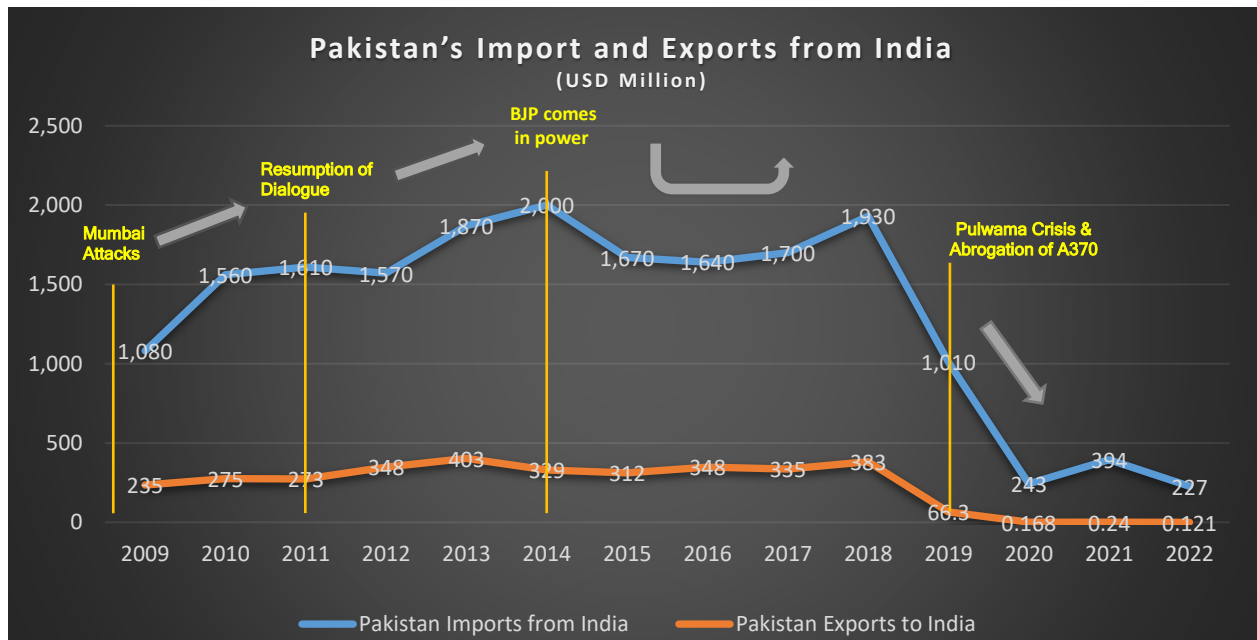


Figure 1: Pakistan's Imports and Exports from India

Source: Trading Economics, April 2024,

[Compiled by The Author](#)

India-Pakistan Trade Relations Under the BJP Government

Since the BJP government came into power this time around in 2014, Pakistan's imports from India saw a downward trajectory, moving from USD 2,000 million in 2014 to USD 1,700 million in 2017 highlighted in the above figure. It was only at the end of the BJP's first term that India's exports to

¹ "Resumption of dialogue: Islamabad, Delhi upbeat after first day," *Express Tribune*, March 29, 2011, <https://tribune.com.pk/story/138852/india-pakistan-talk-in-shadow-of-cricket-diplomacy>

Pakistan hiked to about USD 1,930 million. During the BJP's first term (2014-19), the trade ties with Pakistan took a dip, but during the BJP's second term (2019-24), trade only saw a declining graph moving from USD 1,930 million to USD 0.121 million in 2022.

The BJP government imposed stringent measures to disrupt the trade ties with Pakistan after the attack on Indian Central Reserved Police Force (CRPF) personnel in Pulwama by a local Kashmiri boy.² In February 2019, alleging that Pakistan was behind the Pulwama attack without providing any proof, India announced that it was withdrawing 'Most Favoured Nation (MFN)' status and imposed 200 per cent customs duties on all Pakistani imports. New Delhi's actions created significant obstacles for the access and viability of Pakistani products in the Indian market. In April 2019, India also unilaterally suspended the cross-LoC trade, alleging that it was being 'misused.'³ Pakistan did not retaliate to these Indian measures. It was only after New Delhi's unilateral and illegal actions of 5 August 2019 with regard to the Illegally Occupied Jammu and Kashmir (IIOJK) that Pakistan decided to suspend bilateral trade. Even then, the transit trade to and from Afghanistan was not affected. The sharp slope in figure 1 depicts how after this incident Pakistan's imports from India fell from USD 1,010 million to USD 243 million. This was not because trade was not beneficial for the people of the two states, but due to political tensions that came with the BJP's actions weaponizing trade.

Pakistan's trade deficit with India has not been the only major source of problem; it is the unfair and unequal tariffs as well. Pakistani exporters faced several hurdles including para-tariffs and non-tariff barriers (NTBs). Since the BJP came into power, anti-Pakistan rhetoric also grew in trade dynamics, due to which Indian importers increasingly preferred local alternatives.⁴ The Sangh Parivar's vigilantes threatened local importers to stop trading with the Pakistani business community. Apart from social media campaigns to stop trade with Pakistan, in some instances, Hindu extremist groups resorted to threats and intimidation tactics against businesses selling Pakistani products. The BJP government's actions in the political domain directly impacted the trade relations between the two countries as it has adopted an inflexible and hardening stance towards Pakistan.

² "India raises customs duty on all imports from Pakistan to 200% after withdrawing MFN status over Pulwama attack," *Hindustan Times*, February 16, 2019, <https://www.hindustantimes.com/india-news/india-imposes-200-customs-duty-on-all-imports-from-pakistan-after-withdrawing-mfn-status-over-pulwama-attack/story-wo3AlelWWAYcpluwrEwnYP.html>

³ Tariq Naqash, "India suspends cross-LoC trade citing 'misuse of trade routes'," *Dawn*, April 19, 2019, <https://www.dawn.com/news/1476957>

⁴ Fatima S Attarwala, "Patriotism vs commercial interests," *Dawn*, August 19, 2019, <https://www.dawn.com/news/1500257>

Future of Pakistan-India Trade Relations

Pakistan's Foreign Minister, Ishaq Dar, recently indicated a willingness to examine trade ties with India. Many analysts have suggested that India and Pakistan should consider resumption of trade and restoring upgradation of diplomatic ties. Some have recommended establishing trade ties with India for the sake of realizing the potential of Pakistan's missing market.⁵ Majority considered trade to be a vital step on the re-engagement plan.⁶ Others have stressed the benefits for the trading and business communities on both sides.⁷ The Lok Sabha candidates from Amritsar are demanding to re-open trade and even facilitating tourism with Pakistan through the Attari-Wagha land route, indicating some pressure on the next Indian government to reconsider India-Pakistan trade policy.⁸ However, observers in New Delhi interpret the discourse on Pakistan-India trade in Pakistan with suspicion on the one hand, and as a sign of Pakistan's 'weakness' on the other.

While some in India suggest that New Delhi should be cautious in pursuing trade with Pakistan,⁹ others – after examining the trade potential – contend that trade benefits for India are not commensurate.¹⁰ Both sides have also put forth specific terms and conditions with some peculiar guarantees and conditions. Overall, the view in India on trade with Pakistan remains marked by suspicion owing to prejudice towards Pakistan in Modi's India. Further, India considers itself in a much-strengthened position as compared to Pakistan due to its economic size and evidently wishes to dictate its terms of engagement on trade matters.

Pakistan, on the other hand, is believed to be in an advantageous position as it could be a gateway for transit trade from India to Afghanistan, Iran and Central Asia, areas that are rich in energy. For its part, India feigns a belief that it can feasibly access Iran and Afghanistan via the sea route through Chabahar port, while it considers trade with Central Asian states as not very profitable. India further believes it has crafted a regional connectivity network with all states in South Asia bypassing Pakistan. Furthermore, India has been more focused on its 'Act East' policy and expanding trade relations with the Association of South East Asian Nations (ASEAN), which it deems to be

⁵ Sanjay Kathuria, "Pakistan's Missing Market," *Foreign Policy*, October 5, 2023, <https://foreignpolicy.com/2023/10/05/india-pakistan-imf-trade-border-kashmir-debt/>

⁶ Afaq Hussain, "Beyond Borders: Cultivating Optimism in India-Pakistan Ties through Trade," *South Asian Voices*, September 18, 2023 <https://southasianvoices.org/india-pakistan-ties-through-trade/>

⁷ Aizaz Ahmad Chaudhry, "Trade Dynamics," *Dawn*, April 7, 2024, <https://www.dawn.com/news/amp/1826228>

⁸ K P Nayar, "Elections in Amritsar will have an impact on India's policy towards Pakistan," *Deccan Herald*, May 24, 2024, <https://www.deccanherald.com/opinion/elections-in-amritsar-will-have-an-impact-on-indias-policy-towards-pakistan-3037003>

⁹ C. Raja Mohan, "An expert explains: What will it take to resume India-Pakistan trade?," *Indian Express*, March 29, 2024, <https://indianexpress.com/article/explained/india-pakistan-trade-explained-9237172/>

¹⁰ Sushant Sareen, "If talks and terror can't go together, neither can trade and terror," *ORF*, March 29, 2024, <https://www.orfonline.org/research/if-talks-and-terror-cant-go-together-neither-can-trade-and-terror>

comparatively much more profitable. New Delhi's current policy lends further credence to the noting that India is less inclined to engage economically with Pakistan.

Although trade between neighbours has its intrinsic benefits, Islamabad recognizes the challenges that the issue of trade with India faces on account of political and diplomatic factors as well as unfair trade practices. Meanwhile, the unaddressed issues of August 2019 and India's provocative rhetoric and actions against Pakistan have continued to undermine bilateral relations. The recent Indian government's involvement in at least 20 extrajudicial killings in Pakistan as well as a strongly anti-Pakistan pitch in the Lok Sabha election campaign have served to further vitiate the environment. After the *Guardian* reported on the role of the Indian government agents in the extrajudicial, extra-territorial assassinations in Pakistan,¹¹ the Indian Defence Minister issued a provocative statement reiterating intentions of violating Pakistan's sovereignty and continuation of killings inside Pakistan, confirming the *Guardian's* claims and further denting the prospects of improvement in bilateral relations.¹²

The current status of ties between India and Pakistan continues to hold a grim picture insofar as bilateral trade relations are concerned. For its part, Pakistan maintains friendly ties with the rest of the South Asian states. Pakistan can leverage the potential of China Pakistan Economic Corridor (CPEC) and welcome other regional states to partake in this initiative. Pakistan and China have already agreed to work towards extending CPEC to Afghanistan. In this manner, Pakistan can also forge stronger trade connections with seaport nations such as Sri Lanka, Maldives and Bangladesh and land-locked states such as Nepal.

Conclusion

As geopolitical tensions around the world experience an upswing, major countries are contemplating methods to 'de-couple' and 'de-risk' their economies from those they perceive as adversaries. This shows that economic ties are bound to increasingly come under stress due to mounting geopolitical competition and rivalry. This strategy has been opted for by many as one of the 'tools' of diplomacy, while seeking to avoid a direct armed conflict. Due to this, economic ties have been the shock bearers of geopolitical tensions.

¹¹ Hannah Ellis-Petersen, Aakash Hassan and Shah Meer Baloch, "Indian government ordered killings in Pakistan, intelligence officials claim," *The Guardian*, April 4, 2024, <https://www.theguardian.com/world/2024/apr/04/indian-government-assassination-allegations-pakistan-intelligence-officials>

¹² Cherylann Mollan, "India and Pakistan trade barbs over targeted killings," *BBC News*, April 8, 2024, <https://www.bbc.co.uk/news/world-asia-india-68758637.amp>

A similar situation may be visible between India and Pakistan. Their longstanding troubled relationship has adversely impacted bilateral economic and trade relations in the past. The impact of Indian illegal and unilateral actions of August 2019 still looms large and continues to constrict the scope of political, diplomatic and economic engagement between the two countries. On the other hand, India's unilateral steps taken in February and April 2019 to constrain bilateral trade with imposition of heavy duties and suspension of cross-LoC trade still remain in place and discourage any reconsideration of the issue on Pakistan's part. A fundamental rethink on the part of India of its overall approach towards Pakistan appears to be in order.