

Rizwan Ali\*

### Political Economy of India and Pakistan Relations

#### Abstract

*Pakistan and India were together under the British Raj for more than 100 years. After independence in 1947, Pakistan chose to be a state based on religious ideology. This decision opened doors of confrontation in South Asia. India and Pakistan eventually fought several wars, mostly over the disputed Kashmir territory. A resulting economic cost—ultimately born by the poor citizens of both the countries—was the blockage of all kinds of relations, including normal trade with each other. There is growing research on the positive relationship between peace, economic development, and trade. Similarly, there is literature on the connection of lack of trade, conflicts, and underdevelopment. The India-Pakistan case exhibits this trend. The trade volume between them has remained low throughout the past six decades. The actual trade is low, although the trade potential is around \$37 billion between them. This research is based on primary and secondary data collected for PhD research by the researcher. This research will highlight political, economic, and strategic factors that are responsible for the lack of proper trade relations. It will explain some specific conditions that can possibly enhance the trade growth between them. This research will also highlight how energy cooperation, market access, trade liberalization, and political harmony can drive greater trade expansion.*

**Key Terms:** India-Pakistan Relations, Trade Relations, International Political Economy, Economic Cooperation, International Relations.

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#### Introduction

The current relations between India and Pakistan (Indo-Pak) could be arguably termed tumultuous. They were once a part of the British India but were separated from each other. Before the independence, most of the Indian leaders were hopeful for a united India after the withdrawal of the British government. However, Muslim leaders were not in a position for unity. On August 14, 1947, Muslims successfully achieved a separate land—called Pakistan—based on religious creed. Since then, Indo-Pak relations had never been satisfactory in all aspects. Indeed, they warred few times with each other over the issues of the Kashmir and water and eventually both became nuclear powers. Thus, their mutual animosity became a constant threat to peace in South Asia. It also left regional organization South Asian Association for Regional Cooperation (SAARC) least capable economic regional bloc in the world (Abid, L. personal communication [in-person], April 14, 2018). The animosity not only is hampering the regional peace and stability, but also minimizing the prospects of economic cooperation, including energy and non-energy trade. This chapter has been primarily allocated to India and Pakistan relations with special focus on the trade relations because it is believed that their ultimate survival lies in the longer-term cooperation (Taneja, N. personal communication [video interview], October 15, 2020) and not perpetual animosity.

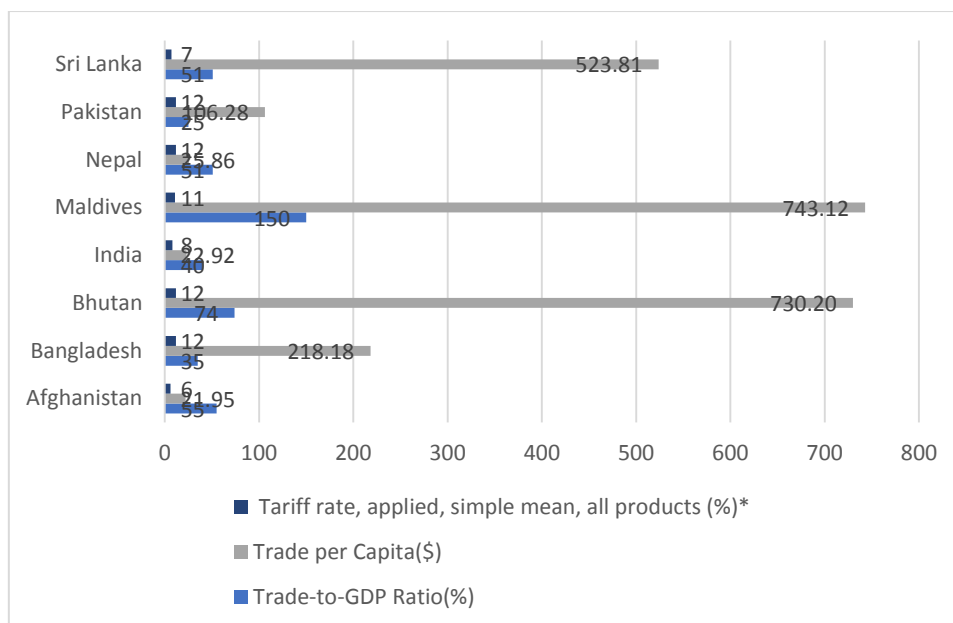
#### Restrictions to Trade

There are many indicators of measuring trade. One such indicator is the trade per capita. It can tell how much a single person on average is doing a trade of goods and services with another country. We can get this figure by dividing a country's total trade in U.S. dollars<sup>1</sup> amount by its population. Another similar indicator is the trade (in USD) to Gross Domestic Productivity (GDP) ratio. As of the World Development Indicators (WDI) data in 2018, the average entire world's trade is 71% of total world GDP (Bank, 2016).

#### Figure 1: Trade Dependence of India and Pakistan in the Regional Context (2017)

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<sup>1</sup> USD-PKR Exchange rate March 14, 2019; U.S Dollar (USD) to Pakistan Rupees (PKR), 1USD=139 PKR  
USD-INR Exchange rate March 14, 2019; U.S Dollars (USD) to Indian Rupees (INR), 1USD=70 INR



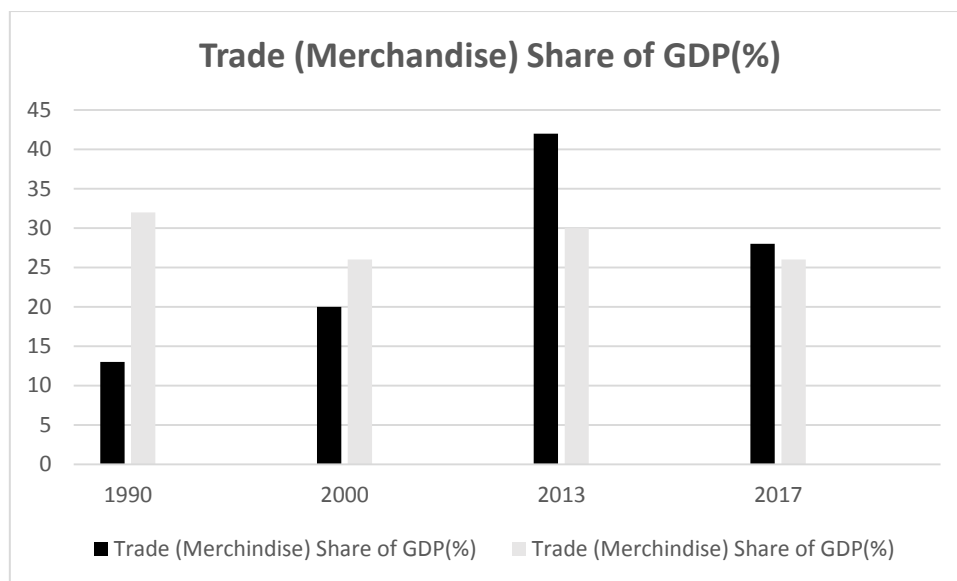
Source: Data from the World Bank database

While analyzing *Figure 1*, most of the countries in South Asia are progressing well in terms of trade per capita and trade to GDP ratio. On the other hand, India and Pakistan do not have a significant level of trade. *Figure 1* shows three variables including tax-to-GDP ratio, trade per capita, and an average applied tariff<sup>2</sup> for South Asian countries, including Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Pakistan has 25% trade-to-GDP ratio while India has around 40%, with the Maldives being highest at 150%. In the list of trade per capita, again the Maldives is top among South Asia counties. Pakistan has \$106.28 U.S. per capita income, and India has \$22.92. In terms of average applied tariffs<sup>3</sup>, Pakistan applied 12% while India applied 8% on the average. While doing trade dependences analysis of India and Pakistan from 1990 to 2017 the record shows (*Figure 2*) that India had 13% of trade shared to GDP in 1990 while Pakistan had 32% in the same period. In 2000, India increased its shares to 20% while Pakistan decreased to 26%. In 2013, the data showed a drastic change. India’s share of GDP hits 42% while Pakistan’s sits at 30%.

Figure 2: Trade Dependence of India and Pakistan in historical context (1990-2017)

<sup>2</sup> Tariffs are also known as a custom or duty on foreign goods and services. Countries mostly impose it to protect their own industries and to gain some revenue from international trade. But it has deep implications for the country and for its trading partners. If one country imposes it, the other partner also retaliates in some way, and hence leads to a *Trade War*. A popular current example is U.S. President Donald Trump’s decision to impose tariffs on Chinese and Canadian imports.

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### Restriction to Trade by Government

For many reasons, the government can put restrictions on certain traded goods coming from other nations due to which prices of traded goods are typically increased. A trade war is caused when two or more nations practice it in retaliation to each other. This trend is currently seen between U.S.-Canada and U.S.-China. The “ammunition” of a trade war can be in the form of tariffs and non-tariffs. Under the economic theory of comparative advantage<sup>4</sup>, trade barriers usually decrease over time because of economic efficiency. Due to the emergence of the World Trade Organization (WTO), tariff trade barriers have been decreased, but nations increased the non-tariff trade barriers over the last twenty years (Organization, 2019a). Nontariff barriers include embargoes, quotas, and sanctions. Smaller states—in terms of area and population—tend to have a lower trade barrier than larger states. Trade barriers are higher in less developed countries, while it is lower in developed countries. (Bown & Crowley, 2016).

It is highly relevant to highlight the analysis of both tariffs and non-tariff trade barriers in the case of India and Pakistan. In *Figure 1*, the tariff rates applied to all products for both countries are under 15%. This figure usually is revenue tariff which causes the least amount of negative impacts on trade flows. Insofar, India gained many benefits in the form of trade liberalization<sup>5</sup> during most of the 1990s.

Among these barriers, positive and negative lists also play a role in trade. There are positive and negative lists between India and Pakistan that control or limit the trade with each other. During the peak of political tensions, positive list<sup>6</sup>—in most circumstances—has been converted to a negative list<sup>7</sup>, which further restricted trade and allowed the private sector to explore the opportunity of bringing up a new product. To decrease tensions, reviewing the positive and the negative list would be the first agenda if India and Pakistan want to restore trade relations.

**Table 1: India and Pakistan major trading partners 2015-16 (as % of share in total world exports)**

<sup>4</sup> the ability of an individual or group to carry out an economic activity (such as making a specific product) more efficiently than another activity.

<sup>5</sup> Trade liberalization is the removal or reduction of restrictions or barriers on the free exchange of goods between nations.

<sup>6</sup> The voluntary inclusion of a designated number of sectors in a national schedule indicating what type of access and what type of treatment for each sector and for each mode of supply a country is prepared to contractually offer service suppliers from other countries. (explain it above rather here. Ref [http://www.sice.oas.org/dictionary/sv\\_e.asp](http://www.sice.oas.org/dictionary/sv_e.asp) )

<sup>7</sup> The comprehensive inclusion of all service sectors, unless otherwise specified in the list of reservations, under the specific disciplines of the services chapter and the general disciplines of the trade agreement. A negative list approach requires that discriminatory measures affecting all included sectors be liberalized unless specific measures are set out in the list of reservations. (explain it above rather here. Ref [http://www.sice.oas.org/dictionary/sv\\_e.asp](http://www.sice.oas.org/dictionary/sv_e.asp) )

India and Pakistan's major trading partners in 2015-16 (as % of share in their total world trade)			
India		Pakistan	
Partners	Exports	Partners	Exports
USA	16.13	USA	16.07
UAE	11.54	China	7.75
Hong Kong	5.07	UK	7.59
China	3.42	Afghanistan	6.67
UK	3.29	Germany	5.78
<b>Total (in b\$)</b>	<b>439</b>	<b>Total (in b\$)</b>	<b>25</b>
Partners	Imports	Partners	Imports
China	16.96	China	29.11
USA	5.72	UAE	13.2
UAE	5.39	Indonesia	4.44
Saudi Arabia	5.18	USA	4.27
Switzerland	4.16	Japan	4.17
<b>Total (in b\$)</b>	<b>478</b>	<b>Total (in b\$)</b>	<b>45</b>

Source: World Integrated Trade Statistics and World Database World Bank.

Trade between Pakistan and India has also been greatly affected due to multiple problems in transportation systems. Transport infrastructure has been fragile and contained by strict policy measures. Prescreening in superhighways, like that of the U.S.-Canada model, can be set up. These measures can improve cross-border trade, quality of infrastructure, and can adequately streamline customs procedures. To ease the trade even further, they can set a mechanism to allow trucks for the cross-border trade. It could be made more efficient to include Afghanistan as well whose trucks are not allowed to go inside India for the India-Afghanistan trade. Afghan trucks will have to be unloaded at the Pak-India border, and they mostly return empty. Opening new crossing points could increase people to people contact, but it could also play a role in enhancing trade through similar multiple crossing points. The new steps were taken by both governments to open the Khartharpur<sup>8</sup> border possibly initiated a new era.

Moreover, Trade via direct air flights plays a significant role in enhancing trade and minimizing transportation costs (Yilmazkuday & Yilmazkuday, 2017). For Indo-Pak trade, there does not exist effective direct flight mechanisms between them for some essential tradable goods as has been the case in other countries. Railcar transportation is facing similar issues as air transport. In the case of India and Pakistan, railcars regularly make their return trip empty after carrying out materials to another country. There should be rail service like *Samjhota Express*<sup>9</sup>—a cross-border passenger service between India and Pakistan—for trade across the border.

Since it is challenging to comprehend trade statistics between India and Pakistan, and often a question is raised of whether there would be little Pakistan has that India wants and vice versa? An analysis of pre-1965<sup>10</sup> trade data until the present shows bilateral trade had considerably decreased since then—except the period between 1965 and 1974 when there was a complete pause in trade between them. The trade complementarity index<sup>11</sup> shows that India's exports match Pakistan's imports (Dash & McCleery, 2014). These data confirm the claim that India and Pakistan can satisfy each other's trade needs.

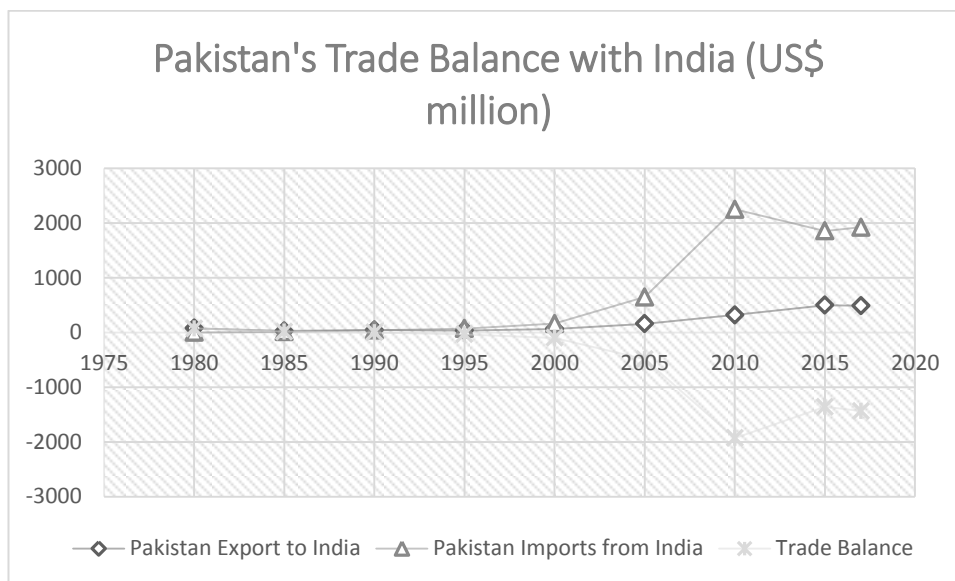
**Figure 3: Pakistan's Trade Balance with India (U.S.\$ million)**

<sup>8</sup> Kartharpur is located in tehsil Shakargarh, Narowal District, Punjab, Pakistan, on the right bank of the Ravi River. It is said to have been founded by the first guru of Sikhism, Guru Nanak, where he established the first Sikh commune. Kartharpur is close to the India-Pakistan border and saw fighting in the area during 1965 and 1971 wars.

<sup>9</sup> The **Samjhota Express** commonly called the **Friendship Express**, is a bi-weekly train—Wednesday and Sunday—that runs between Delhi and Attari in India and Lahore in Pakistan. The word *Samjhota* means "agreement", "accord" and "compromise" in both Hindi and Urdu.

<sup>10</sup> It is considered a major historic indicator between India and Pakistan because they fought a first war of a high magnitude.

<sup>11</sup> The complementarity index is a type of overlap index. It measures the degree to which the export pattern of one country matches the import pattern of another. A high degree of complementarity is assumed to indicate more favorable prospects for a successful trade arrangement.



India was Pakistan’s largest trade partner for the period between 1947 and 1965. In 1948-49, Pakistan sent 56% of its total exports to India. Moreover, they entered into 14 bilateral trade agreements during the same period. Nine branches of six Indian banks were operating in Pakistan until 1965. Since 1965, the cross-border rivalry has increased, and subsequently, trade has decreased due to several cross-border wars (Kugelman, 2013). Since then, trade cooperation has been viewed as an act of dominance by both—just like military dominance is viewed.

India and Pakistan are doing trade by three means including road and rail through Wagah-Attari border; sea through Mumbai-Karachi route; then and air. The trade share on sea route is 65%, rail 8%, road 23%, and air 4%. The rail was the most effective way of trade between them from 1947 to 1965. There was a pause in trade between 1965 and 1974. After 1974, roads used to be the most effective, less-expensive route for cross-border trade. 80 to 90% of the traders like this route (Gill & Madaan, 2015).

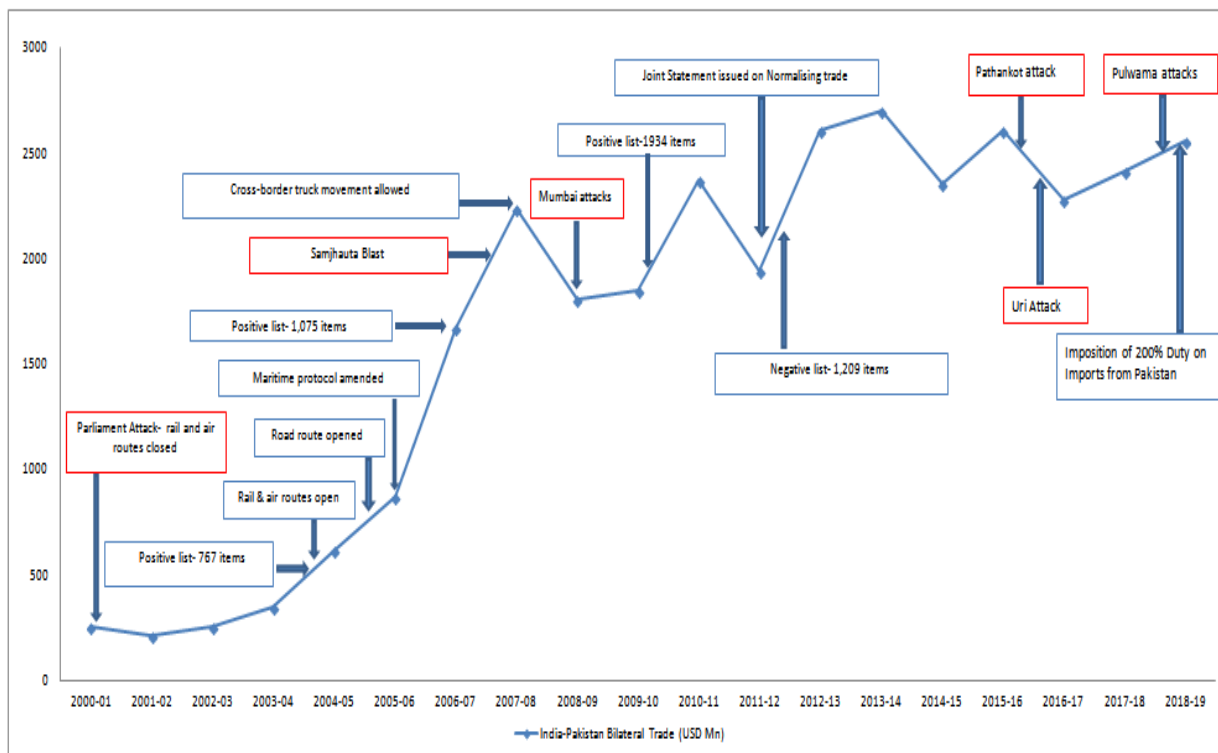
Studies found that trade between India and Pakistan can be enhanced by improving the road infrastructure (Taneja et al., 2015). Pakistan has permitted only 137 items to be traded on the road and the rest on sea or rail. It has been said that this restrictive regime has been imposed by the Pakistan government to protect its producers. Due to non-trade barriers (NTBs), only 80% of the 137 items have been imported from India, and the rest did not. In this process, Pakistan is getting more share in the overall losses (S Akbar Zaidi, 2017, p. 7).

**Political and Economic Dimensions**

Liberal peace literature shows that trade flows among rival countries tend to be lower. The rivalry is often based on war and military confrontation (Anderton & Carter, 2001). The literature also shows that countries do not always experience low trade during the period of rivalry, but rather have a pause in trade during the intense conflict. In the case of Pakistan and India, trade literature of the last several decades shows that there was a significant reduction in a trade right after minor and major conflicts between them. *Figure 4* shows data of the last two decades.

It is essential to note the causes of trade disruption between both India and Pakistan right after their independence, particularly after the 1965 war. That included Pakistan’s motive to match itself with India in terms of military power; cross-border ethnic identities; and the Kashmir dispute. This security dilemma also defines the overall regional peace and stability issue in South Asia, the outcome of which can be seen in the form of minor and major arm races, stand-offs, and the lack of proper trade relations.

*Figure 4: Impacts of Political Tension on Trade*



Source: Taneja et al., (2019). Recent Trends in India-Pakistan Trade

The dispute over Kashmir has deep links with the trade relations between India and Pakistan. Pakistan always sought the help of the international community to resolve this issue. But it was not acceptable for India to have any third-party involvement during any such dialogues. India thought that Pakistan did not favor agreements on Kashmir, like the UN’s resolutions, the Shimla agreement of 1972, and a few others. This behavior of Pakistan made Indian leaders nervous regarding any peace negotiation due to the continual trust deficit. As a result, negotiations on economic cooperation became a prime casualty.

Furthermore, India continues to be cautious about its Muslim population, thinking they might have sincere sympathies with Pakistan which could be dangerous during an impasse in the future. There have always been accusations from the Indian side that Pakistan is sending and spreading separatists both in Indian-held Kashmir and other parts of India for malign activities. There have been many incidents in the last several years which made India blame Pakistan at international forums including United Nations General Assembly meetings (Sanminatelli, 2018) and meetings at the Financial Action Task Force (FATF) platforms. An incident occurred in February 2019 in which an Indian Army convoy was targeted and killed more than 40 soldiers. It was worst in the Indian history. India blamed Pakistan and targeted areas inside Pakistan with airstrikes. Pakistan retaliated and shot down its aircraft and captured its pilot. The pilot was released after two days (Ramzy, 2019).

### Domestic Politics and the Trade Policy

Bilateral trade agreements between nations depend on many factors. One of them is the influence and role of political leaders, especially in domestic constituencies. Before negotiating trade agreements, it is highly crucial for the governments to have the support of the political leaders because they can politicize issues, making these agreements more difficult. It is easier for political leaders to approve or disapprove these negotiations for their political interests. The power of these leaders varies, depending on the strength of the government. It is relatively more comfortable for stable governments to initiate such steps to bypass the influence of domestic political leaders and parties and go ahead for trade negotiation with other nations.

Conversely, it is difficult for weak governments to work independently with another nation while keeping aside the role of domestic political parties. Indian trade data under the leadership of the Congress party showed a substantial level of autonomy in designing foreign and economic policies (Table 2). However, during the 1990s, they lost this autonomy through the formation of a coalition government with other political parties. The coalition—a necessity to run the government—stripped the Congress Party’s ability to make independent

policies which ultimately affected its policy toward trade relations with Pakistan. According to Bhattani, S. (personal communication, February 02, 2018):

Because it is the hallmark of BJP, Congress would not get votes on anti-Pakistan sentiment, rather, Congress is in a defensive position, because we deeply feel that Congress is not dealing with Pakistan the way which we are dealing with. And now this is connected as well, you cannot restrict it to election. When you have, when you have promised, and when you won election over this sentiment, when you are creating this paranoia and hatred amongst masses too, then you have to take some measures, to prove that yes! you are actually progressing toward our own mandate and what we promised in the election times we are doing that. That's why you would have seen that Modi government has been really tough with Pakistan, they have been saying that we have conducted surgical strikes, which are debatable whether there were strikes or not, whether they were a surgical strike or not. But they have I mean, really pushed Pakistani military, as far as the LOC crossfire for border fighting is concerned, they've been targeting civilians in that as well.

*Table 2: Bilateral Trade and the Influence of Domestic Policies*

<b>Bilateral Trade and the Influence of Domestic Policies</b>					
<b>Country</b>	<b>Timeline</b>	<b>Political Regime</b>	<b>Legislative Independence</b>	<b>Strategies Toward Neighbors</b>	<b>Bilateral Trade Policy</b>
Pakistan	1950-1970	Military regime	Yes	Military confrontation, scapegoating, Externalization of bilateral issues	Inconsistent
	1970-1990	Military regimes followed by brief periods of quasi-democracy	Yes, for military regimes and No for quasi-democracy	Military confrontation, Scapegoating, Externalization of the bilateral issue	Tentative
	1990-2010	Quasi-democracy from 1990-98; military regime from 1999-2008	No for quasi-democracy; yes, for the military regime	Military confrontation, Scapegoating, Externalization of bilateral issues	Stop-and-go
India	1950-1970	Parliamentary Democracy with Congress Party's domination	Yes	Regional domination, Opportunistic scapegoating	Tentative
	1970-1990	Parliamentary Democracy with a decline in Congress Party's domination	Yes	Regional domination, Opportunistic scapegoating	Tentative
	1990-2010	Parliamentary Democracy with coalition governments at the center	No	Scapegoating, Combative regional postures, Nationalist policies	Stop-and-go

Source: Taken from Dash and McCleery (2014)

However, the case of Pakistan is slightly different. Policies have been, to a more considerable extent, designed, influenced, and implemented by the military establishment—under the Pakistan army—for more than half of the previous seven decades. It is not in the interest of these established segments of society to open this up because it will take away some of their preeminence (Hussain, B. personal communication, March 27, 2018). Those policies also include the ones related to trade with India. This trend is evident from the fact that all of Pakistan's major wars with India have either been initiated or influenced by the army. Along with trade hindrance, it created humanitarian issues as well. For security reasons, border crossings were sealed for human and trade after each military and non-military clashes.

Pakistan's trade nexus with India is shown in *Table 2*. For most of its history, Pakistan has experienced either martial law or quasi-democracies under which political leadership was dependent on the military to dictate domestic and foreign policy issues. The current Pakistan *Tehreek-I-Insaaf* (PTI) government issued a statement about they are on the same page with the military, especially as far as interaction with India is concerned (Maini, 2019). For the first time, it is feeling like the military is working hard to establish peace in the region, especially with India and Afghanistan, by promoting cooperation with them. Opening the Kartharpur border and releasing the Indian pilot<sup>12</sup> are two unusual steps taken jointly by Pakistan's new government with support from the military to deescalate the probability of war and step up towards regional peace. These steps were highly praised by the international community (Helen Regan, 2019). The politicians and military leadership in Pakistan realized that the real cost of war is high and would push the region backward in terms of development. Pakistan Prime Minister Imran Khan in his statement mentioned, "To move forward Pakistan and India must dialogue and resolve their conflicts including Kashmir: The best way to alleviate poverty and uplift the people of the subcontinent is to resolve our differences through dialogue and start trading". He also appreciated peace efforts by an Indian minister, Sidhu, and said,

I want to thank Sidhu for coming to Pakistan for my oath taking. He was an ambassador of peace & was given amazing love & affection by people of Pakistan. Those in India who targeted him are doing a great disservice to peace in the subcontinent - without peace, our people cannot progress (I. Khan, 2018).

There are inconsistencies in policy-making process, and one of the factors is the influence of the fundamentalist religious groups. Regarding the influence of the religious organization, MNA Jadoon, A. (personal communication, February 16, 2018) viewed that we are so much embedded in the internal extremism that we cannot prepare right foreign policies for the right situation. We are making one foreign policy, and these extremists would sabotage, all that. The extremism, which has been initiated in the Gen Zia era, due to which there was a rise of religious extremism in our country. And this rising tide of extremism is hindering peace and prosperity inside the country. On the other hand, according to Cheema, P. (personal communication, March 21, 2018), Pakistan, though, have religious parties, but still Pakistan is more secular than India in this sense.

These religious groups are the central thrust to the ideology of Islamic nationalism. They also want the presence and influence of this ideology for many purposes—to prove that a powerful military is a just defense against India and to justify the presence of military force to silence any possible opposition against it inside the country (Abbas, 2015). This ideology is a source of mistrust between India and Pakistan and has been proven to be counterproductive for negotiations about issues like Kashmir and economic cooperation. In this two-way process—hurdles from pressure groups from both sides—uncertainty still dominates the future of trade negotiations.

The past trend shows there is no progress from Indian sides because of the nationalist government (*Table 2*) there were hopes that the win of a conservative party in India in the general election 2019 would bring some positive change, but that did not happen. The Indian government is also facing pressure from nationalists, religious and political extremists which are stopping India to come closer to Pakistan. It has been revealed that the ruling government is highly influenced by them (Jaffrelot, 2013). Similarly, on the growing influence of the right-wing party in India, according to one social activist from India, Annon, D.<sup>13</sup> (personal communication, December 12, 2020):

If on one hand, there is a lot of things that the right says about the left, that they (left) were silent on certain issues, the fact that they (left) just dismiss religion, is also somehow not going to work in India, because we don't have that culture. It's an extremely

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<sup>12</sup> In the month of February 2019, two most unusual events occurred in last seven decade in the Occupied areas of Kashmir, due to which India and Pakistan were almost on the brink of war. A suicide attack killed more than 40 Indian armed forces in Pulwama, Kashmir. India claimed the terrorist were trained in Pakistan. Few days after the incident, Indian Airforce jets crossed the Line of Control (LOC) into Pakistan controlled Kashmir to destroy the training camp. One jet was shot down by Pakistan Airforce jets in its territory and its pilot was captured alive. As a good gesture, and to minimize the intensity of war, the pilot was released two days.

<sup>13</sup> The person preferred to stay anonymous. Annon = anonymous, D = initial of the first name.



religious part of our country. And if you're just going to dismiss religion, people may not really (like it). Less has to change, it's tactics in India becomes soften Hindutva. Somehow it has to connect more with people. That's something that it is insightful left everywhere. That they just lose touch with the masses. So, That sort of the case in India as well, though, it's far more complex.

There had been a rift between the left and the right-wing parties in India and the growing influence is leaving behind the question for how long the right-wing parties will be in rule. According to the views of Iqbal, K. (personal communication, March 22, 2018), the power of these ultra-right nationalist groups is ever increasing. But in India, what we see is that these ultra-right groups are ruling India now in the form of Narendra Modi. So, with the passage of time, the power of these pressures groups in India will increase. It had ultimately affected its relations with Pakistan in many ways, including the low trade. The last four years of trade data (*Figure 4*) shows no significant increase in trade compared to the previous government.

**Energy Cooperation**

Energy cooperation can be a pulling factor that can bring India and Pakistan on the table for trade negotiation. Pakistan is essential for India. It can provide India with a route to Central Asia for exporting its goods; and access to Iran for importing its energy resources. They signed a \$6 billion project: Turkmenistan-Afghanistan-Pakistan-India (TAPI) in 2012. This project is backed and financed by the Asian Development Bank (ADB) and the United States. Since energy supply is an oxygen line for any economy, all nations will see a new era of prosperity with the materialization of TAPI. International trade protocols will be followed for energy transportation, overall trade will be improved, which will ultimately enhance their economies and would lead to regional integration.

TAPI will serve as an alternative to the highly politicized, aborted Iran-Pakistan (IP) pipeline. The U.S. supports TAPI to keep India and Pakistan away from the Iran gas pipeline projects. U.S motive is to cripple Iran's economy and stop it from having strong economic relations with South Asian countries. The U.S is doing it as a part of the sanctions on Iran for the latter's meddling in the Middle East. Their tussle severely disturbed the economic landscape in the region. On the other hand, Pakistan's stance toward Iran-Pakistan pipeline (IP) is still dubious in the eyes of the U.S. because of the suspicion that Pakistan can initiate work on IP anytime in the future. Compounding the issue for the U.S., this IP project had been a subject of the regional strategic tensions between Russia and the United States. Russia wants to materialize the IP project to help Iran establish and diversify his economy. Iran used to be a stronger ally of Russia; against the U.S bloc in the region, especially in the Middle East. On the other hand, U.S. succeeded in convincing India to withdraw from the IP project by offering the latter a civilian nuclear technology in 2005 (S. K. Verma, 2007). There have been talks between the Pakistan government and the Russian energy giant, GAZPROM, for the provision of technical and financial support in transporting Iranian gas to Pakistan and India (Jorgic, 2019). More discussion about this in the next chapter.

*Table 3: TAPI, IPI Gas Pipelines Comparisons*

Indicators	IPI (IP)	TAPI
Countries	Iran, India, Pakistan	Turkmenistan, Afghanistan, Pakistan, India
Total Length	2735 KM	1814 KM
Signed	1999	2006 and then 2010, and 2018
Completion	---	2020
Operational	---	2024
Challenges	Indo-Pak rivalry, Baluchistan Insurgency.	Taliban, Indo-Pak rivalry, Af-Pak distrust,
Starting point	South Pars, Iran	Galkynysh gas fields, Turkmenistan
Duration	---	20 years
Pipeline diameter	---	56 inches
Brokered/Backed	Russia	USA, Saudi Arabia, International Monetary Funds,
Annual gas supply	5.4 BCF	3.2 BCF
Total Investment	\$7.4 billion	\$25 billion
Total gas reserves	Iran = 33TCM(17% of world total)	Turkmenistan = 18TCM (9.3% of the world total)

Data from different sources and <https://www.ogj.com/articles/print/volume-113/issue-12/transportation/turkmenistan-positions-itself-as-eurasian-natural-gas-power.html>

The TAPI project is a 1,680-kilometer-long project originating from Turkmenistan gas fields, going through Kandahar and Herat in Afghanistan, then through Multan in Pakistan, and will end up in Fazilka district of

India. This project will serve energy needs for India and Pakistan by supplying them 33 billion cubic meters (BCM) per year for 30 years. This project will play an essential role in the economy of Pakistan by earning foreign exchange from the transit fees for the pipeline coming through its land. Turkmenistan will require a Pakistan guarantee that the supply will not be blocked to India in times of any tense political situations. India seems not so optimistic about this project due to the political hostility with Pakistan, which is one of the reasons India is looking at Washington to get surety from Pakistan about the non-stop supply in peak political tensions. Additionally, there are unofficial reports that Bangladesh showed interest in this project. With its inclusion, it will create a five-country consortium and will ensure Pakistan's commitment to the success of this project. This could ultimately subside tensions and disruption in the future. The inclusion of Bangladesh will also help the United States achieve a new Silk Road strategy in the region which was announced by Hillary Clinton in 2011. This Silk Road strategy is a collection of building and construction of corridors, transit routes, and a network of trade aimed at creating stability and economic opportunities in the region (Dash & McCleery, 2014).

TAPI energy deal will help Pakistan satisfy its overall energy shortfall. Pakistan will still pursue energy trade with Iran, and it will put it at odds with the U.S. or other key allies. It is pursuing electricity imports from Iran for the city of Gwadar, and from Tajikistan to its northern areas in Pakistan. India and Pakistan both are facing energy shortage problem, but it is much more severe in Pakistan. A draft to import 500MV electricity from India was once surfaced among policymakers in Pakistan in 2014 but was skipped due to the tense security reasons. It could mark a new era of friendship and prosperity which is only possible through stable economic cooperation (Economic Times, 2014).

### **Regional Stability**

According to Montesquieu, peace is the natural consequence of trade (Kamel, 2016). Trade can minimize on-going political tensions and can bring peace. In the case of India and Pakistan, it can work as a confidence-building measure, promote mutual interdependence, and decrease issues of mutual concerns. It sends signals to the contracting states when the trade between them increases. Examples include Russia-China, Russia-U.S.A., U.S.A.-China, China-India, and China-Taiwan. These countries changed their policies from protectionism to trade openness with their neighbors, and even with their perceived enemies.

Pakistan can embrace the India-China model of economic cooperation. India and China are having many security, diplomatic and political issues but still having trade relations. India has reservations on the Chinese-constructed China-Pakistan Economic Corridor (CPEC) that goes through a disputed land, Gilgit-Baltistan, of Kashmir. China is also blocking Indian entry into the Nuclear Supplier Group—a multilateral export control regime to stop the proliferation of nuclear materials. India is also making unsuccessful attempts to convince China to support its cause in the United Nations against Pakistan-backed militant Masoud Azhar, who had been accused by India of creating restlessness in the Indian-controlled Kashmir. The most critical and ongoing issue is the China-Indian military stand-off in the disputed land between China, India, and Bhutan, called Doklam. Despite the fact that all these odds, India and China's mutual trade has reached a historic high of \$92.5 Billion (Embassy of India, 2021).

The newly established democratic government in Pakistan took the initiative in opening a new crossing border at Kartharpur, Pakistan. It is the holy place for around ten million India Sikh community. During the last few years, Pakistan shifted its policy preference from *Kashmir-first, trade-later* to *trade-first, Kashmir-later* and marched toward establishing cooperation based on economic incentives. This shift could hopefully yield two objectives: a resolution of the Kashmir issue and enhancing regional cooperation (Wyeth, 2018).

Pakistan has been considered a failed state due to its worsening political and economic situation. It has relied on international aid that further exacerbated these problems. Emphasizing trade especially with neighbors could pull Pakistan up from this situation and would rely less on aid. Trade will ultimately play a role in strengthening its economy and fighting the de-stabilizing political and economic elements of extremism and corruption. Trade options are viable vis-à-vis India, and if not achieved, it could make Indian leaders stop their negotiation with Pakistan on disputed issues over territories and rivers. A reduction in trade would ultimately cause a reduction in progress on regional development and stability.

In trade, there are economic advantages for Pakistan and strategic advantages for India. For India, the option of having good trade relations with Pakistan is essential to counter Chinese economic and strategic influence in its neighborhood. The growing Chinese influence is a result of lack of India's past attention to its surroundings. With the current development of Chinese investment in Pakistan, the curiosity of Indian leaders has been increased. Moreover, India can improve trade ties with Pakistan and create an integrated neighborhood to fight several trans-national issues like population growth, unemployment, corruption, and increasing inequality. So,

normalization of trade would enhance regional stability, minimize the outbreak of war, and initiate a new era of development.

### **Conclusion**

India and Pakistan are parties to the World Trade Organization (WTO). As a condition to minimize discrimination, trading members should give *most favored nation* status to each other. India granted Pakistan MFN status in 1996, but Pakistan has been hesitant to reciprocate. Due to political and economic concerns, no satisfactory progress has been made in their relations in the last few decades.

Establishing trade and non-trade relations possesses common benefits for both India and Pakistan. Billions of dollars that are currently pushed into purchasing defense weapons can otherwise be spent on uplifting the living standards of their poor. They can allocate those resources in making butter, rather than guns. They can change their policies on dialogues from *Kashmir-First, Trade-Later* to *Trade-First, Kashmir-Later*. They can seek the assistance of the international community to resolve this issue and obey whatever decision is made in this regard.

They need to create a friendly environment to initiate a negotiation, then to start a trade. Furthermore, outdated infrastructure and lack of proper transport networks are few of the major problems that are hindrance in the execution of the trade. They should reevaluate trade policies and ignore the short-term losses, for the sake of long-term gains.

Both nations are developing countries based on their social, political, and economic indicators. They are facing transnational issues like poverty, illiteracy, health-related issues, separatist movements, controlling population growth, unemployment, corruption, and increasing inequality, and terrorism. All these issues can only be defeated if they fight them together. It will take some time, but they must devise such a mechanism to fight such non-conventional, mutual issues.

Certain educational institutions and media outlets are causing political extremism and intolerance among people, which is ultimately hampering negotiation and cooperation between them. Governments should re-evaluate educational materials that are creating intolerance among the next generations and issue a new textbooks policy. On the part of India, the media is creating hypes and helping further escalate India-Pakistan confrontation. It needs to be controlled through strict measures. Their licenses could be made conditional on their performance.

With the impetus of new investment, Pakistan should focus on products that can find markets in India. It includes cement, light engineering goods, sports goods, leather, and garment products. In response, Pakistan can take benefits from the emerging Indian IT industry that is gaining global popularity. The Pakistan government should invite Indian IT tech firms for investment because there is a less need for the construction of hard infrastructure. It can also give motivation to the knowledge economy in Pakistan.

India and Pakistan need to focus on establishing the hard infrastructure necessary for trade. They should set up a mechanism for direct flights. They should obey WTO's protocols of granting a non-discriminatory MFN status and should practice it with true spirit. They should open new crossing points for people-to-people exchange and trade. There is a limited service of cross-border buses. They should set up a similar mechanism for cross-border trucks for trade purposes. They should also modernize the railcar service for trade purposes.

India and Pakistan were living side by side for centuries, and most of the time, they were a part of one governance system. The seven decades of animosity, since partition, has cost thousands of lives and billions of dollars. It is a good time to change this trend. In this global village, one nation cannot survive independently of its neighbor. People from both sides need to realize the fact that war and warmongering are no longer reaping any benefits. There are visionary leaders present on both sides, and they should be encouraged and allowed to come forward and speak for the peace and reconciliation between them. If these issues are resolved, this region could be the next hub of economic progress in the world.

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