

India-Pakistan Trade Tensions

What is the issue?

The India-Pakistan face-off in the recent period is having more repercussions than intended, with border economies the worst hit.

What is the recent trade unrest?

- In February 2019, in the wake of the [Pulwama attack](#), India decided to withdraw the [Most Favoured Nation](#) (MFN) status to Pakistan.
- Subsequently, it imposed 200% customs duty on all Pakistani goods coming into India.
- After the [Balakot airstrikes](#), again, India and Pakistan closed their airspace, with Pakistan keeping the ban in place for nearly 5 months.
- In April 2019, India [suspended trade](#) across the Line of Control in J&K, citing misuse of the trade route by Pakistan-based elements.
- More recently, post the Jammu and Kashmir Reorganisation Bill, Pakistan [cut off diplomatic and economic ties](#) with India.
- It expelled the Indian envoy, partially shutting airspace and suspending bilateral trade.

What was the impact?

- The impact of the escalating tensions has trickled down to trade relations between both the countries, much severe this time.
- In 2018-19, bilateral trade between India and Pakistan was valued at \$2.5 billion.
- In this period, India's exports to Pakistan accounted for \$2.06 billion and imports from Pakistan were at \$495 million.
- India's decision in regards with the withdrawal of MFN status and imposition of 200% duty has hurt Pakistan's exports to India.
- The exports fell from an average of \$45 million per month in 2018 to \$2.5 million per month in the last 4 months.
- With Pakistan deciding to completely suspend bilateral trade, cotton exports from India to Pakistan might get affected the most, eventually hurting Pakistan's textiles.
- In all, the trade tensions have led to a loss on both sides.

What is the larger implication?

- Unlike national economies, border economies owe their existence to cross-border economic opportunities.
- These economies generally experience sudden ups and downs on account of political changes, trade bans, price and exchange rate, and tax fluctuations.
- E.g. Amritsar (where major economic activity is largely dependent on border trade with Pakistan)
- Amritsar is land-locked, and is not a metropolis and traditionally has no significant industry.
- Hence, any decision on India-Pakistan trade has a direct impact on the local economy and the people of Amritsar.
- Since February 2019, estimatedly, 5,000 families have been directly affected in Amritsar because of breadwinner dependence on bilateral trade.

What lies ahead?

- In all, the overall economics of the two countries may very well manage to stay afloat despite the suspension of economic ties.
- However, it is the local economies that will suffer the most and are already perishing.
- In this connection, there has been a loss in business, rise in prices, lack of alternative sources of livelihood, and an expected increase in bank defaults.
- Alternative sources of livelihood that can be generated to keep border economies afloat should be found with high priority.

Source: The Hindu

