

1. Putting the Skids Under Border Trade

Context:

- ▶▶ The rising bilateral tensions between India and Pakistan might not have impacted their respective economies to a greater extent, but has perished the livelihood of people who has been dependent only on the border trade.

Introduction:

- ▶▶ 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 in February, India and Pakistan closed their airspace, with Pakistan keeping the ban in place for nearly five months.
- ▶▶ In April, India suspended trade across the Line of Control in Jammu and Kashmir citing misuse of the trade route by Pakistan-based elements.
- ▶▶ And more recently, post the Jammu and Kashmir Reorganisation Bill, Pakistan cut off diplomatic and economic ties with India expelling the Indian envoy, partially shutting airspace and suspending bilateral trade.

Plunging Trade:

- ▶▶ Escalating tensions between the two neighbours naturally led to the announcement of retaliatory unilateral decisions, one after the other.
- ▶▶ Similar to the past, the impact has trickled down to trade relations between both the countries; this time it is much more severe.
- ▶▶ In 2018-19, bilateral trade between India and Pakistan was valued at \$2.5 billion — India's exports to Pakistan accounted for \$2.06 billion and India's imports from Pakistan were at \$495 million.
- ▶▶ India's decision vis-à-vis withdrawal of MFN status and imposition of 200% duty has hurt Pakistan's exports to India, falling from an average of \$45 million per month in 2018 to \$2.5 million per month in the last four months.

Western border trade -A Normal Scenario:

- ▶▶ The quantum of loss that has been incurred by traders in both India and Pakistan has varied according to the nature of trade and the trade route.

- ▶▶ For example, through the Wagah-Attari land route, bilateral trade was heavily in favour of Pakistan; in the last two years, India's imports from Pakistan accounted for 82% of the total trade through the land route.
- ▶▶ After February, most of this business has been badly affected with only a handful of items including rock salt, continuing to be imported.
- ▶▶ Unlike national economies, border economies owe their existence to cross-border economic opportunities. These economies generally experience a sudden boom-bust cycle on account of political changes, trade bans, price and exchange rate and tax fluctuations.
- ▶▶ As seen elsewhere in South Asia such as via the inception of India-Bangladesh border haats, the costs and benefits are mutual to the border economies on both sides; much more in cases such as Amritsar where major economic activity is largely dependent on border trade with Pakistan.

Impact on Indian Trade:

- ▶▶ Amritsar is land-locked, 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, according to estimates on ground, 5,000 families have been directly affected in Amritsar because of breadwinner dependence on bilateral trade.
- ▶▶ Traders and their staff members, customs house agents (CHAs), freight forwarders, labour force, truck operators, dhaba owners, fuel stations, and other service providers are closing shop and going out of business.
- ▶▶ Of the nearly ₹25-30 crore that was being added to the local economy of Amritsar every month, the estimate now is that three-quarters has been lost in the last six months.
- ▶▶ Many a time, upsetting the trade apple cart can have more repercussions than intended. For example, gypsum, imported from Pakistan, was being used in India as well as in Nepal for the cement plants there.
- ▶▶ To avoid empty backhauling on the return journey, trucks carrying these consignments brought back specific products such as yarn from mills in Uttar Pradesh to Punjab. In the absence of gypsum trade, the freight rate of trucks from Uttar Pradesh to Punjab, as per the ground reports, has increased from ₹3 to ₹7 per kg, with a single trip absorbing the cost of the entire journey.
- ▶▶ Earlier, prices of tradeable goods which were kept under check owing to the balancing out mechanisms of international trade, are experiencing fluctuations now because of the trade disruptions.

Impact on Pakistan's Trade:

- ▶▶ With Pakistan deciding to completely suspend bilateral trade, exports of cotton from India to Pakistan are expected to be affected the most.
- ▶▶ Eventually, it hurts the Pakistan's textiles. The lawn industry which will now have to source pricier cotton from alternative markets in the United States, Australia, Egypt or Central Asia;
- ▶▶ There is a high possibility that Indian cotton, along with other products, will be routed through third countries such as the United Arab Emirates and Singapore, thereby increasing the share of indirect trade which is estimated to be more than double the direct trade between India and Pakistan.

Initiatives taken by both Governments:

1. Four-Point Proposal:

- ▶▶ Specifically, these measures seems to have originated in a four-point proposal for Kashmir that began to get regular airing from about 2005 from then military ruler General Pervez Musharraf. The four points were:
 - i. The LoC will stay but Kashmiris on both sides will be allowed to move freely back and forth
 - ii. Self-governance or autonomy to the region, but not independence
 - iii. Gradual demilitarisation on both sides
 - iv. A joint supervision mechanism with India

2. Soft Borders:

- ▶▶ In India, the then Prime Minister spoke about “soft borders” and “making borders irrelevant” in Kashmir.
- ▶▶ These proposals, now denied by both India and Pakistan, represented the closest that the two sides have got to an agreement on Kashmir, but neither side could take it further, each for its own reasons.
- ▶▶ The joint mechanism was one stumbling block in the proposals themselves. Pakistan and Kashmir represented on it.

Conclusion:

- ▶▶ Hence, while the overall economies of the two countries may very well manage to stay afloat despite the suspension of economic ties, 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, as well as an expected increase in bank defaults.

- ▶▶ In the spirit of nationalism, the trade fraternity on both sides, by and large, has stood by their respective governments. But locals in border economies on both sides have mouths to feed, which calls for a solution.
- ▶▶ So, the government should help the people to find alternative sources of livelihood that can be generated to keep border economies afloat, while there is a sword hanging over the future of other bilateral arrangements such as the transit of goods from Afghanistan through Pakistan into India.
- ▶▶ While it's about damage containment for now, one can only hope that the appetite for trade engagement still remains.

