

The Role of Trade in Peace Promotion: Assessment of Pak-India Relationship

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Abstract

The relationship between trade and peace has been debated by policymakers, academicians and the general public, often ending in contesting conclusions defining the exact role of trade in this complex relationship. While taking the case study of Pakistan and India, this argument becomes more central to understanding whether there is a possibility for the furtherance of trade relations between Pakistan and India. It is a perception that political and military tactics have always been active in deciding the relations between Pakistan and India. Hence, it is important to explore viable options, such as trade, for bringing positive change in relations. This article emphasizes that a liberal perspective may provide a better explanation of this relationship and concludes that trade possesses the capacity to play an active role in mollifying strained relations between Pakistan and India and begin an era of peace and harmony in the region.

Key Words:

RTAs, WTO, MFN, SAFTA, NDMA

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Introduction

Trade as an activity of buying and selling goods and services has long been used by human beings as an economic tool in their mutual relationship. Over a period of time, the scope of trade encapsulating the economic and political domains has significantly altered relations between the modern states. As evident in the 21st century, trade has often been used as a political instrument to bring states together on political matters and is therefore seen as a potential instrument of peace and prosperity. At the core of this academic debate, the question, however, remains as to whether trade promotes peace particularly in the context of Pakistan and India as disagreement persists in terms of trade being seen as a productive or an unproductive activity between two traditionally rival states, i.e. Pakistan and India.

Do academic circles debate whether increased trade contacts between states reduce the chances of war as trade improves communication, reduces misunderstandings, and consequently makes the peaceful resolution of issues possible? (Hegre, 2000). Trade as a peace strategy brings greater efficiency and development that may persuade states to select trade as a tool instead of military strategy (Rosecrance, 1986). Growth in trade relations

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enjoys public support because ordinary citizens are aware of the dreadful cost of war. Therefore, trade creates shared interests between dyads (Oneal & Russett, 1997) and it acts as a deterrence to war.

The current era can best be explained through classic trade theory, which highlights the mollifying impact of trading relations between states have. Interdependence is a driver for the provision of harmony and resolution of conflicts through more peaceful methods. Economic incentives result in outstanding improvement in conflict situations both at the international and regional levels.

In the modern world, there is enough evidence that economic understanding and socio-cultural exchanges among political adversaries encourage political settlements in the long run. The two rivals of the Cold War, the USSR, and the US followed the same path of economic cooperation. Similarly, a case study of South East Asia and the West also demonstrates the same phenomenon of trade's role in pacifying conflicts. Similarly, the European Union (EU) was formed to set aside the harsh memories of World War II and unite Europe for future generations. There persisted significant differences in policies and economic interests of member states, but a crucial decision of 'cooperation' was taken at that time (Young, 2002). The EU worked well to reduce enmity not only between the two rival states of the region i.e. France and Germany but from one corner to the other corner of Europe. Being a generator of peace, the EU impressively has overcome the historic hatred and hostilities and is an effective instrument to unite the divided and devastated Europe. The formation of the EU experience itself demonstrates an example of historical reconciliation developed out of the political will for collaboration and, finally, integration (Cameron, 2010).

The history of relations among Southeast Asian states remained, however, more complex and filled with a trust deficit. Nevertheless, geography, as well as political and security atmosphere of the 1960s to 1980s compelled the states to cooperate for peace and security (Chai, 2013). It was the Association of Southeast Asian Nations (ASEAN) that played an important part in changing the antagonistic relationship into a collaborative one. The economic interdependence started an era of amazing development and prosperity in this region.

The industrialized world is making regional blocs for trade. In Asia, China and India have made concerted efforts to cooperate so to protect themselves from a negative impact of these blocs. Both states have initiated collective military cooperation keeping aside their real regional debates which have contributed to overall harmony and regional peace. If there is peace within the region, South Asia will be in a better position to negotiate with other regional blocs like ASEAN, EU, NAFTA, etc. regarding trade matters further making SAARC a forum to protect economies of the region and bring improvement in the specialization of different industries of South Asia.

The above examples reveal that contentions can be controlled by trade arrangements. It gives inspiration to the South Asian Free Trade Agreement (SAFTA) to work for the improvement of the relationship between Pakistan and India. Dorussen and Ward (2010) argue that Pakistan and India's attitude towards world trade are encouraging. There is a general trend of openness to world trade, giving hope for conflict resolution through economic factors at the regional and bilateral levels.

If rationalized trade policy is initiated by Pakistan and India, and trade hurdles vanished, all other issues between them will eventually get resolved through an enduring

and collaborating effort. Pakistan and India can learn from such evidence where belligerent regional states started efforts for peace and collaboration to curtail hatred, competition, and warfare. However, both countries are coming closer at a very low pace. Even a snail speed will one day lead to ultimate peace.

The chronological review of trade relations between Pakistan and India shows that because of geographic similarities and identical history, both states remained dependent on each other (Choudhury, 1968). However, during the process of division of Indian Sub-Continent, economic factors and integrated systems of trade relations were completely ignored. The consequence was that it badly dissected trade relations between the two states of the region and the unified economic system of the region got divided. Trade relations, although, retained since independence suffered badly due to occasional disruptions.

Mutual conflicts such as the “battle of currency” in the 1940s, and Most Favored Nations (MFN) status and wars of 1948, 1965, 1971, 1999, the nuclear arms race and occasional skirmishes on Line of Control (LOC), etc. always disturbed trade contacts between Pakistan and India. But parallel efforts such as cricket diplomacy, and Non-Discriminatory Market Access (NDMA) also persisted to improve trade relations. In 2015, according to the former Federal Commerce Minister Ghulam Dastgir, there were introduced hopes for the grant of NDMA by Pakistan to India (Ahmad, M, 2016). Again, tension on the LOC in September 2016 created uncertainty. India refused to participate in the SAARC summit that was decided to be held in Pakistan. It has caused anxiety in the business community. According to M. Sabir Shaikh, if the situation of conflict continued it would harm the Indian economy more than Pakistan’s economy because of its huge and diverse trading and industrial set up (Khan, A. S, 2016).

The business community encourages trade between Pakistan and India as they foresee greater economic prosperity through this forum, however, there are reasons for the low level of trade owing to inward-looking strategies (a concept usually concerned with substitution in trade exchanges.), and the unstable political situation and border disputes. Lack of full-scale formal trade resulted in giving a boost to informal trade activities. The informal trade is following trade routes such as Dubai, Afghanistan, and Iran (Naqvi, 2009). Moreover, besides transit trade, there are possibilities of trade cooperation in services, health fields, IT expert’s exchanges, tourism, and entertainment fields (The Hindu, 2012).

Literature Review

A good number of studies have reflected on the issue of trade between Pakistan and India. A cursory view of this literature endorses the argument presented in this article that trade between Pakistan and India has been complex due to intricate political issues and oblivious behavior of political leadership in both states. Cohen (2013) has discussed the relationship between Pakistan and India as complex and distant. He states, “the relation between them is often summarized as “up” or “down”, “better” or “worse” or invoking a climatic metaphor, “cooler” or “warmer” (p.17). Cohen argues this region is least connected economically and lagging behind the world. Only integration can improve relations. Similarly, Alam (2006) elaborates that the South Asian region is facing inadequate trade facilitation mechanism contributing to an unrealized potential of intra-regional trade in certain areas. The reasons include weak communication, political conflicts, and restrictive trade policies.

There are opposite views presented by the scholars who present a lack of optimism over the improvement of Pakistan - India bilateral trade. According to Dixit (2002), there are psychological issues on part of Pakistan that create hurdles in bilateral relations. For him, Pakistan's ultimate aim is to become a regional power and destabilize India. Jenkins (2003) argued that India is an important player in the region. India's aim is to become an economic power. To this end, it has to balance the interaction between the imported ideas of the liberal market system and the traditional political concepts. Jenkins examines the Indian market as facing economic nationalism, domestically. Such tendencies must be dealt with to become a successful partner at global as well as regional level. Similarly, Ganguly (2002) presents the same view that both Pakistan and India have contradictory nationalist views, i.e. Indian nationalist (secular) and Pakistan nationalist (Islamic), that utilizing their conflict on Kashmir for their respective interests. He is not optimistic about future dealings of both states, especially after the acquisition of nuclear capabilities, and history of ideological, religious and political clashes.

Sardar (2011) has shed a light on the theme of Pakistan and India relations. He discusses that their relations are transformed since 1998 "nuclear tests" because their way of traditional reaction has changed. He further stresses for transformation in non-security areas. Actors of both states, rules and regulations and structures need transformation. Ghuman (1986) also opined that mutual cooperation is very important for the building up of the relationship between Pakistan and India. To ease the crisis, Pakistan and India could play their role by increasing interdependence in economic spheres. Siddiqui (2007) also discusses the real transformation which can result from SAFTA. Economic arrangements like SAFTA would make this resourceful region (of around 1.3 billion population) a nucleus of economic uplift and development. The transformation would lead to constructive engagements and peaceful resolution of conflicts.

The world is shifting from conflict to cooperation as Bhatia (1990) argues; economic relations unite nations while politics divides. Even in an era of interdependence, both states tried to be independent of one another in economic matters. According to Bhatia, the world system is changing from confrontationist strategies in favor of development policies. The same concept has been forwarded by Taneja and Pohit (2015) that Pakistan and India must encourage the multi-level dialogue between Pakistan and India. The authors stressed that South Asian states have proved unsuccessful in the regional integration process because of political issues that are tagged with economic matters, as a result, create disturbance in bilateral trade. According to this study, there are huge levels of opportunities for trade between them.

Travis (1997) encourages both countries for cooperation in security as well as economic sectors in a unipolar world as developing states such as Pakistan and India must cooperate in changing the international system for their respective gains. Durrani (2001) also persuades both states for peace measures and negotiations to avoid any military power race and involvement. He stresses track II diplomacy and the effective role of SAARC. Kux (2006) has also discussed the role of negotiations between Pakistan and India for peace. He argues that negotiations have continued since independence, but for peaceful relations, trade collaboration, cultural cooperation, both are required to pursue tough and difficult negotiations.

Slow trade has remained a crucial issue between Pakistan and India since inception. Occasionally, thorny relations interrupted trade contacts which further widened the gap.

This myopic policy has affected their respective economies and prohibited trade to function as a peace thus, the political aspect of trade served as a barrier towards better economic relations. There is a lack of academic work to examine the role of trade in peace between Pakistan and India, a systematic study analyzing the role of trade in promoting peace in South Asia is specifically unavailable. This article locates its argument in the broader theoretical debate about the relationship between trade and peace, therefore, seeks to contribute to the broader literature on trade and peace.

In light of the introduction, this paper particularly examines Pakistan and India's trade relations, and its impact in terms of peace generally in the region, and, particularly Pakistan and India. The research, therefore, raises the following questions:

1. What was the nature of trade relations between Pakistan and India?
2. Is there any potential for enhanced trade between Pakistan and India?
3. Is there any relationship between trade and peace in the context of Pakistan India relations?

Interpretative Analysis

Trade's Positive Relation with Peace: Liberal Perspectives

It is believed that trade has a gigantic power to control the negative emotions in international relations. According to Pasha (interview, 2015) Pakistan and India being neighbors, share a common historical past and socioeconomic similarities. They are natural partners. Development of trade between them is natural and vital to maintain the historical legacy, stability as well as cultivation of progress and growth in South Asia.

The liberal school of thought believes that the opening out of inter-state connection in particular sections (trade and commerce) stimulates collaboration generally, in other sectors also (Barbieri, 1996). Acknowledging conflict as an element of international structure, Liberals admit that conflict is present in the world and plays an important part in international relations. They likewise endorse the notion of tranquility through economic interdependence and integration in the world. According to Travis (1997), liberal theory explains two significant notions of the world system, i.e. complex interdependence and integration. He defined complex interdependence as "the intertwining of interests and needs among two or more actors in a particular dimension, so that these actors become mutually sensitive, reactive and vulnerable, and need to cooperate to fulfill their goal" (p.23). He described integration as "the building by two or more actors of an international regime or a supranational institution to regulate behavior in a given dimension, and the development of attitudinal responsiveness, characterized by mutual trust, predictability and indulgence" (p.23). Complex Interdependence and Integration have brought states very close to each other and made dependent equally. It regulates the attitudes of states towards prosperity and peace by building trust among them. Liberals propose that trade sustains harmony irrespective of the nature of the relationship between states and always operates as a deterrent to conflict (Barbieri, 1996).

Trade may not completely boost economies of Pakistan and India, but there are various positive externalities that can grow from the opening of trade. "Liberals recognize that gains from trade and the potential costs accompanying interdependence are not always equal; they argue that ties imply net positive benefits for both states" (Barbieri, 2005, p.27). Thus, illustrating the phenomenon of not only economic uplift, rather a wide-ranging effect on individuals', society, and as a whole on the interactions between states.

Trade among neighbors has more chances for complementariness to emerge because of the low costs of transportation as well as cultural adaptability and the same taste for trading goods. In the case of Pakistan and India, there is an abundance of products that can be exchanged for benefits to both economies of the region (Jain, 1999; Malhotra, 2009).

Trade may Increase Conflict between Pakistan and India: Marxist and Realist Perspectives

Marxist-Leninists have given a different approach; trade may increase conflict rather than peace among states (Barbieri, 2005). The reason for conflict sprouts from this fact that weak states have always been subjugated by powerful states. It can explain the same issue in the context of Pakistan and India as it may try to exploit Pakistan to maximize the benefits of trade for her interests. The pessimistic point of view of opponents of trade and peace theorists, see interdependence as a tool for a strong state such as India to control the inadequate resources of relatively weaker state like Pakistan and its markets for goods. Because of resemblance in products, they can very easily spoil each other's industries and markets of goods and services. Pieces of evidence exist that the Pakistan and India trade relationship remained uneven with an added advantage to India in comparison to Pakistan (Khan, 2008). "Pakistan had a huge trade deficit with India equaling the US \$ 1025.54 million in 2006 -07, which in fact increased further to the US \$ 1657.18 million in 2007-08" (Sustainable Development Policy Institute, 2010, p. 222). The statistic shows that trade balance is still very lopsided in India's favor (Sustainable Development Policy Institute, 2010, p.222).

There is a sense of fear in Pakistan about India, that's why it has not reciprocated India's initiative to be granted the MFN status. According to Ahmad, S (interview, 2014) Pakistan has suffered considerable losses during the independence struggle and after. Those who argue in the economic language of benefits and losses are ignorant of the importance of such losses. Moreover, Pakistan justifies that from the Indian side there are discriminatory tariff barriers and disturbing sufficient inflow of Pakistan goods into India markets (Kayani & Shah, 2014). The dumping tactic by a strong state i.e. India creates reservations in the weak state- Pakistan that strong market would adversely affect its economy as a whole leading to an extreme situation of unemployment (Kayani & Shah, 2014). If economic and employment state of affairs worsen further, Pakistan fears that the repercussions would be drastically deteriorating.

Trade is Irrelevant to Peace Making: Realist Perspective

The role of trade in the promotion of peace is examined with more severity in academic circles. It is argued that trade is irrelevant to the promotion of peace (Barbieri, 2005). This school of thought believes that trade is not strong a tool that can change the dynamics of the relationship between Pakistan and India. Some of the critics of liberal school would argue that the history of the relationship between India and Pakistan reflects peace and trade are an absolutely distant phenomenon. Trade has nothing to do with Pakistan and India's peace (Ghosh, interview, 2014). History is clear about the role of military option more successful and impressive in deciding issues between Pakistan and India rather an effective tool to maintain peace between two arch-rivals. Trade can merely be a transitory arrangement between Pakistan and India to work out short term national interests. It did result in smoothening of relations occasionally, but whenever conflict has blown up and a

security situation is required, trade associations were straightforwardly ended or halted. Thus, trade cannot be considered as the main variable for bringing in peace among two rivals. Lack of trust and past history would never allow trade to be an effective technique of peace permanently between Pakistan and India.

Conclusion

This research method while relating theories and finding out the relevant theory for Pakistan India trade, systematically reached the result that trade can become a source of peace between the two states of South Asia. Viewed in the light of primary and secondary data, the final analysis is made through an argument that Pakistan's imports and exports are important for the Indian market and Indian exports and imports are important for Pakistan's market thus trade has an enormous potential to promote peace.

Analyses of aforementioned perceptions concerning peace promotion through trade between two belligerents -Pakistan and India concludes that trade is not an insignificant tool. It has changed relationships between fighting nations and is an important foreign policy instrument. The narrow standpoint given by some schools of thought fails to understand the reality of trade in deciding the nature of dealings in the present scenario. This study is attempted to justify trade as an effective means to bring two states closer and avoid expensive instruments the affecting way of life of people in the region. It is a liberal school of thought that guides the theoretical framework of this study. It fits well in the context of Pakistan - India trade linkages

Although the conceptual framework of this research study is based on the liberal school of thought, the study takes valuable insights from the dissenting theoretical positions such as Marxists and Realists. A significant point raised by Mansfield (1994) is that international trade and power bear a great influence on the occurrence of war. Moreover, power and war also impact trade. The study calls for the integration of international economics with international politics and international political economy and international studies of war. In addition, Mansfield and Pollins (2003) also argued that the role of trade is dependent on existing internal and external situation, and accordingly leads to peace and conflict. Likewise, Kant's concept that war is too costly a job for the interdependent and trading partners has been highlighted with the example of Nixon's and Kissinger's policies during the cold war era. Trade was used as a tool for the relaxation of tension. Thus, it is an optimistic phenomenon that believes in economic development for two (Pakistan and India) besides attaining peace and saving this region from nuclear threats.

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