

A BORDER TOO CLOSE FOR BUSINESS



A Border Too Close for Business: The Case of Indo-Pak Trade

South Asia is the least economically integrated region in the world, with intra-regional trade at just 5%.¹ The revival of direct trade between Pakistan and Bangladesh after more than five decades marks a positive step in regional diplomacy. However, between India and Pakistan, trade has repeatedly been derailed by conflict, and a deep-seated trust deficit, that has kept bilateral trade at the margins of both economies. While trade potential has been estimated to be around US\$37 billion, trade normalization seems increasingly unlikely with the current state of affairs.²

Historical Context 1947-2019

During 1948-49, 56% of Pakistan's exports went to India and 32% of Pakistan's imports came from India.³ Up until 1955-56, India was Pakistan's biggest trading partner. In 1965, trade between India and Pakistan became a casualty of war when Pakistani customs officials at Wagah were taken as the first civilian prisoners of war. Trade remained suspended for 7 years, resuming after the 1972 Simla Agreement.

Since then, tensions in trade relations have been constant with fleeting moments of cooperation. In 1996, India granted Pakistan MFN status. Other key initiatives like the Lahore Declaration (1999) and the Agra Summit (2001) were quickly overshadowed by Kargil (1999) and the Indian Parliament attack (2001). Cross-LoC trade began in 2008, only to be followed by the Mumbai attacks 35 days later. Even Modi's 2015 visit to Pakistan offered a brief thaw, only for tensions to resurface after the Pathankot attack (2016), reinforcing the pattern of short-lived engagement. In February 2019, trade relations took a significant nosedive post-Pulwama attack. India withdrew MFN status from Pakistan and subsequently imposed 200% tariffs on all Pakistani goods. In August 2019, in response to India's abrogation of Article 370, Pakistan suspended all trade, effectively halting economic ties between the two nations. Now almost six years later, official trade is at an all-time stalemate, with informal exchanges continuing through third countries like Dubai and Singapore.

The Current Situation

Post the BJP government's rise to power in 2014, Pakistan's trading relationship has seen a steady decline on account of the BJP's stringent trading measures. Imports decreased from USD 2000 million in 2014 to USD 1700 million in 2017.⁴ The tightening of trade also stemmed from the political rhetoric adopted, with threats from extremist groups and social media campaigns discouraging trade with the Pakistan business community.⁵ During the last five years, Indian

¹Kathuria, S. (2018). *A glass half full: The promise of regional trade in South Asia*. South Asia Development Forum. World Bank. <http://hdl.handle.net/10986/30246>

²Kathuria, S. (2018). *A glass half full: The promise of regional trade in South Asia*. South Asia Development Forum. World Bank. <http://hdl.handle.net/10986/30246>

³ Khan, J.A. (2012). India Pakistan Trade Relation. *IOSR Journal of Business and Management*, 5, 1-10. <https://www.iosrjournals.org/iosr-jbm/papers/Vol5-issue3/A0530110.pdf>

⁴ Shafeeq, M. (2024). PROSPECTS AND CHALLENGES OF PAKISTAN-INDIA TRADE. https://issi.org.pk/wp-content/uploads/2024/05/IB_Maheen_May_30_2024.pdf

⁵ Shafeeq, M. (2024). PROSPECTS AND CHALLENGES OF PAKISTAN-INDIA TRADE. https://issi.org.pk/wp-content/uploads/2024/05/IB_Maheen_May_30_2024.pdf

exports to Pakistan have decreased at an annual rate of 25.1%.⁶ Due to the array of economic and political barriers limiting opportunities for direct trade, trade through third countries such as Dubai and Singapore remains the norm.

Trade between India and Brazil is cheaper than between India and Pakistan.⁷ Indirect trade routes that go from Mumbai to Dubai to Karachi increase the shipment cost by 130.44% (\$772 per container to \$1,779 per container). This is evident in the case of Pakistani dry dates, 98% of which used to go to India through the Wagah-Attari route.⁸ Post 2019, India started importing dates from the UAE, using the indirect route as Pakistan started exporting dates to UAE. The value of India's dry-date imports from the UAE increased from USD 20,000 in April 2019 to USD 3.04 million in December 2019 as a result of this costlier rerouting. Similarly, Pakistan was one of the top importers of India's chickpeas.⁹ When direct trade was suspended, trade was rerouted to Dubai which led to more than 30% increase in the price of the product, from USD 660 per Metric Tons to USD 875 per Metric Tons when it reached the importer in Pakistan.¹⁰

Most of the goods imported consist of electronics and products from the IT Sector, with some limited trade through Afghanistan although security challenges remain. The rerouting of trade through intermediaries significantly escalates the costs, integrating additional shipping and custom fees. Beyond the constrictions around engaging in direct trade, tedious documentation procedures and compliance metrics often dissuade smaller traders, further limiting potential exchanges.¹¹ Although direct trade avenues remain significantly limited, Pakistan has now allowed the trade of certain lifesaving drugs with India such as biologicals (\$18.2M) and drug intermediates (\$4.73M).¹²

India's Reluctance to Reengage

India's reluctance to engage in direct trade with Pakistan stems from political and security concerns. India has long maintained the rhetoric that 'terror and talks cannot go together,' with little to no attempt to engage with Pakistan. Recently, India's Minister of External Affairs, Jaishankar stated: "We never stopped trade...Our concern from the beginning was that they (Pakistan) never granted us MFN (Most Favoured Nation) status, even though we granted it to

⁶ India (IND) and Pakistan (PAK) Trade | OEC. (n.d.). OEC - the Observatory of Economic Complexity. <https://oec.world/en/profile/bilateral-country/ind/partner/pak>

⁷ Kathuria, S. (2018). *A glass half full: The promise of regional trade in South Asia*. South Asia Development Forum. World Bank. <http://hdl.handle.net/10986/30246>

⁸ Singla, N., & Arora, P. (2020). The Dubai Angled Triangle: Changing trends of trade between India and Pakistan via the UAE. Bureau of Research on Industry and Economic Fundamentals (BRIEF). <https://www.briefindia.com/wp-content/uploads/2020/10/The-Dubai-Angled-Triangle-2020.pdf>

⁹ Singla, N., & Arora, P. (2020). The Dubai Angled Triangle: Changing trends of trade between India and Pakistan via the UAE. Bureau of Research on Industry and Economic Fundamentals (BRIEF). <https://www.briefindia.com/wp-content/uploads/2020/10/The-Dubai-Angled-Triangle-2020.pdf>

¹⁰ Singla, N., & Arora, P. (2020). The Dubai Angled Triangle: Changing trends of trade between India and Pakistan via the UAE. Bureau of Research on Industry and Economic Fundamentals (BRIEF). <https://www.briefindia.com/wp-content/uploads/2020/10/The-Dubai-Angled-Triangle-2020.pdf>

¹¹ Kumar, R. (2025, February 16). India Pakistan Indirect Trade Through Third Parties PRISA. PRISA. <https://prisa.org.uk/economy/india-pakistan-indirect-trade-through-third-parties/>

¹² India (IND) and Pakistan (PAK) Trade | OEC. (n.d.). OEC - the Observatory of Economic Complexity. <https://oec.world/en/profile/bilateral-country/ind/partner/pak>

them.”¹³ However, this conveniently overlooks non-tariff barriers that India has employed that skewed trade in India’s favor.

India also views trade with Pakistan of limited economic value. In 2018-19, the last period of relatively stable trade, India’s exports to Pakistan accounted only for 0.6% of total exports.¹⁴ In 2018, Pakistan exported \$582 million worth of goods to India, a figure that plummeted to just \$594,000 by 2023.¹⁵ India imports a limited range of goods from Pakistan, with trade volumes having sharply declined over the past five years. What remains of this once broader trade relationship is limited to niche goods—other edible preparations (\$455K), magnesium carbonate (\$87.6K), and saturated acyclic monocarboxylic acids (\$35.5K).¹⁶

Pakistan’s Reservations on Trade Normalization

While India is clear in its concerns around reopening trade with Pakistan, Pakistan too has its fair share of political and economic concerns in reviving bilateral trade. India’s abrogation of Article 370 in 2019 and the revocation of Jammu and Kashmir’s special status remains the most outstanding political concern preventing the normalisation of trade between Pakistan and India.¹⁷ A unanimous decision to bring an end to all forms of bilateral trade was made following the foregoing of the constitutional provision.¹⁸ Diplomacy amongst the two saw a conscious decline as the Pakistani government maintains that it is impossible to continue such a relationship until the Kashmiris “right to self-determination” is fully achieved and such human rights violations brought to an end.¹⁹

There is no national consensus on trade normalization amongst Pakistani traders and industrialists. While traders share a more positive outlook on direct trade, manufacturers tend to showcase greater opposition towards lax trade barriers as they fear that Indian manufactured goods would flood the market. Lower-cost Pakistani exports would not have a sizable effect within India as dealers prefer locally manufactured products and are in agreements with several

¹³ Guramani, N. (2025, January 22). Indian FM Jaishankar says ‘no talks’ held on trade with Pakistan. Dawn. <https://www.dawn.com/news/1887018>

¹⁴ Sareen, S. (2024, March 29). *If talks and terror can't go together, neither can trade and terror*. Observer Research Foundation. <https://www.orfonline.org/expert-speak/if-talks-and-terror-cant-go-together-neither-can-trade-and-terror>

¹⁵ Observatory of Economic Complexity (OEC). (2024). India (IND) and Pakistan (PAK) trade. Retrieved from <https://oec.world/en/profile/bilateral-country/ind/partner/pak>

¹⁶ Observatory of Economic Complexity (OEC). (2024). India (IND) and Pakistan (PAK) trade. Retrieved from <https://oec.world/en/profile/bilateral-country/ind/partner/pak>

¹⁷ Center for Preventive Action. (2024, April 9). Conflict Between India and Pakistan. Global Conflict Tracker; Council on Foreign Relations. <https://www.cfr.org/global-conflict-tracker/conflict/conflict-between-india-and-pakistan>

¹⁸ Pakistan to downgrade ties with India over Kashmir move. (n.d.). Al Jazeera. <https://www.aljazeera.com/news/2019/8/7/pakistan-to-downgrade-ties-with-india-over-kashmir-move>

¹⁹ Pakistan fully committed to support Kashmiris’ right to self-determination as Youm-e-Istehsal is observed. (n.d.). Mofa.gov.pk. <https://mofa.gov.pk/pakistan-fully-committed-to-support-kashmiris-right-to-self-determination-as-youm-e-istehsal-is-observed>

local firms.²⁰ Similar concerns are expressed within the agricultural sector as well. Indian farmers on average receive 4 percent more subsidies compared to Pakistani farmers, making it difficult for the Pakistani farmers to compete on a level playing field.²¹

Trade Stalemate

Despite decades of setbacks, the economic logic of trade between both countries remains compelling. Geographical proximity offers potential for lower costs, shorter supply chains, and access to vast consumer markets—benefits that remain unrealized in the absence of political will. Resuming trade could also open opportunities for stability in other areas of contention. Otherwise, things could maintain the current impasse which neither country benefits from.

²⁰ Kugelman, M., & Hathaway, R. (2013). Pakistan-India Trade: What Needs To Be Done? What Does It Matter? <https://ishrathusain.iba.edu.pk/books/managing-india-pakistan-trade-relations.pdf>

²¹ Chand, R. (2014). Chand, Ramesh; Saxena, Raka. <https://www.econstor.eu/bitstream/10419/176305/1/icrier-wp-287.pdf>