

Repercussion of trade wars

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Revoking MFN and imposing punitive duties on Pakistan would hit the Kashmiri traders hard

Following terrorist attack on [CRPF](#) convoy in Kashmir, Indian government has taken several steps to isolate Pakistan in international forum. Hitting Pakistan economically is of course a reasonable approach. On this front, India has taken two steps: (a) abolish MFN status to Pakistan (b) impose 200 percent duty on Pakistani goods. Since India has notified World Trade Organisation (WTO) that it is revoking MFN status to Pakistan, technically it is in a position to raise tariffs without being dragged to WTO on this punitive measure.

The real question is whether it hurts Pakistan and its traders only or do our traders suffer equally?

First, official trade between India and Pakistan is on a low level, amounting only to about US \$ 2 billion in 2017-18, with imports from Pakistan to the tune of only US \$ 0.5 billion. Since India is not an important trading partner of Pakistan, these interventions will have limited impact.

Second, let us be realistic. Poor connectivity of Kashmir Valley implies that trading with Pakistan along the borders makes economic sense for Kashmiri traders, especially producers of primary goods. Since India has revoked MFN status to Pakistan, the latter can retaliate by imposing punitive high tariffs on Indian goods. Effectively the trading opportunities of Kashmiri traders would be further curtailed leading to economic hardships for them.

The successive years of terrorist activities in Kashmir Valley has reduced the economy of the area to shambles. These actions will cause further economic hardship for those Kashmiris who are engaged in trading with Pakistan. The traders from the rest of the country, who have multiple connectivity options, would not face as much hardship as they can search for other markets. Frankly, these steps would only affect the vulnerable Kashmiri traders depriving them of economic opportunities. May be, the Government of Jammu & Kashmir or Government of India should take steps that would ensure that they do not suffer unduly by this knee-jerk action. This in turn would have the effect of driving a further wedge in the already precarious relationship between the Valley and the Indian Government.

The third and the most important result is that it would lead to spike in informal trade between the two countries. A study of India-Pakistan trade by Taneja and Pohit indicates that while its true potential is to the tune of US \$ 15-20 billion, the numerous tariff and non-tariff barriers constraining the cross border exchange of goods between the two countries have restricted the current level to about US \$ 2 billion. Much of this takes the form of informal trade. This has further ramification in terms of informal money market or hawala, a mode of finance largely preferred and/or controlled by anti-social elements. Surely, the very purpose of the step taken by the present regime by streamlining electronic payment in all sectors of the economy would be defeated if this trade is allowed to flourish

Over the years, the deadlock in India-Pakistan diplomacy has led to the establishment of an efficient system for cross border trade. By and large, Middle-East is the preferred route through which it takes place. Many a times, the official papers indicate that the destination is some hypothetical country, but the merchandise, instead, is delivered to a port in Pakistan. The traders also use Afghan transit trade channel route or trade via China to deliver merchandise to the partner country. While the traders located in Mumbai or other Indian ports may continue to thrive even after India's tough action in respect of trade with Pakistan, the cost would solely be borne by Kashmiri traders who use the land borders for trading with the neighbouring country.

Of course, all traders using land borders would be hit hard as they would have to look for alternative markets for their products. However, the ones located in the rest of Northern India are better connected than those in the

Kashmir region and would be able manage better in the changed scenario. It is thus the Kashmiri traders who will bear the brunt of this action.

In such a scenario, the question that needs to be asked is whether it is worth it since access to economic opportunities is probably the best remedy for reducing terrorism activities in the Valley?

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