[**Trade obstacles**](https://www.dawn.com/news/1604827/trade-obstacles)

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A JAN 24, 1978, story from an Indian publication talks about a proposal, conveyed to Pakistan by India’s then external affairs minister Atal Behari Vajpayee, to “extend Pakistan transit facilities to establish direct trade with Bangladesh and Nepal”. Forty-two years later, the prospects of a trade corridor connecting Kabul to Dhaka and Kathmandu via Peshawar, Lahore and Delhi remains a pipe dream.

The biggest hurdle is the India-Pakistan relationship. Recent events have escalated bilateral tensions, leading the Imran Khan and Narendra Modi governments to harden their stance. Both leaders are now boxed in a corner where even small steps signalling potential normalisation of ties would lead to domestic challenges.

There is, however, another issue holding back increased trade ties between India and Pakistan: improved trade connectivity in the region will hurt regional economic beneficiaries of the status quo.

In India, politically influential traders are resisting the growth of e-commerce, leading to policy volatility for international investors that have brought billions in FDI to the country. India for years negotiated with Asian economies on the Regional Comprehensive Economic Partnership, only to walk away from it because of the agreement’s potential downside impact on status quo beneficiaries. The country has also raised tariff and non-tariff barriers in the last few years.

The leaders of both India and Pakistan are boxed in a corner.

In Pakistan, the government has started to rationalise import duties, but a lot more progress needs to be made to eliminate tariff and non-tariff barriers. Powerful trading lobbies have resisted successive governments who have tried and failed to document their sales, which causes billions of dollars in lost revenues. As highlighted in the recent wheat and oil inquiry reports, smuggling to and from Iran and Afghanistan is a profitable enterprise. A weak central government that relies on powerful elite lobbies to maintain its grip on power does not have the political space to pursue reforms that increase trade flows.

Those advocating for close trade ties have struggled to articulate how increased trade and investment flows benefit consumers. Consumption is a major driver of GDP growth in both countries, but consumer welfare is missing from the conversation. When the Modi government moved ahead with its disastrous demonetisation policy, tomato prices crashed in Indian Punjab; across the border in Pakistan, tomato prices were sky-high at that time.

Pakistan’s textile industry is now growing sharply, but cotton production is down. Instead of importing cotton from across the border, cotton is routed into Pakistan from other countries to Karachi, and then transported to Punjab. Importing this cotton from India would be a cheaper alternative, improving competitiveness of Pakistani textile exports and helping accelerate export-led growth.

On the Afghanistan front, wheat is regularly smuggled out of Pakistan to meet demand in Kabul; there is a glut in India which could be exported across the Durand Line. While Pakistani farmers and consumers lose out, smugglers and hoarders benefit, leading to billions of dollars in losses — Pakistan’s food imports have increased by 75 per cent in the last two years due to lower output and increased smuggling.

While trade barriers restrict formal trade that benefits the region, informal trade through smuggling is thriving. Consumers, producers and the state lose out.

There are three reasons to promote regional trade in South Asia: strategic, demographic and consumer benefit.

On the strategic front, climate change and water security pose an existential threat to the breadbasket in India and Pakistan. Increased trade ties in the agricultural and energy sector can build linkages that can allow long-term research and innovation that benefits both countries.

The northern subcontinent’s demographic dividend is turning into a ticking time bomb. Increased trade flows can foster economic development on an east-west axis that has historically been the driver of income and wealth generation in the region for millennia.

Improved trade ties will also bring more innovative and better-quality goods and services to population centres at lower prices, creating savings for consumers economically hard hit by the pandemic.

The Kartarpur Corridor is the natural place for fostering greater trade flow. It is important that increased people-to-people ties in Punjab be amplified through localised trade flows. This approach can also ensure that progress is made below the radar, reducing the likelihood of the gains being swept away during another round of tension.

If China and Taiwan can have trade ties, there is no reason for India and Pakistan to not trade. But the question is: do leaders on both sides have the courage to make decisions that benefit their populations, perhaps at a short-term cost to their own political popularity?

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