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India and Pakistan: Trading for peace[∇]

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Abstract:

Are shared democratic values the most important factors in promoting peace between countries, or common economic interests? New econometric research shows that, in the case of India and Pakistan, trade with other countries increases the chance of peace.

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Key Words: Inter-state conflict and trade, democracy and conflict, conflict and economic development.

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1. Introduction:

What factors are most important in promoting peaceful relations between countries – the values they share, or their common economic interests? One way to define the sharing of norms and values is when countries have common political systems, as is the case with democracies. As long ago as 1795, the philosopher Immanuel Kant argued that nation states based on ‘republican’ constitutions will not go to war with each other, but will instead be in a state of ‘perpetual peace’.¹ Put another way, democracies will not fight each other because they share cultural norms that preclude the use of force as a means of dispute resolution, or because the checks and balances that characterize political processes in advanced democracies restrain violence. This idea is described as *democratic peace*.

An alternative hypothesis is *liberal peace*, which suggests that democratic states cooperate not because of their similar political systems, but because of their mutual economic interests. International trade is central to this idea. For more than two centuries scholars have stressed the fact that when nations are engaged in commerce they will also be at peace.²

In our research, we have examined these two ideas in the case of India and Pakistan, two nations that are well known for their mutual hostility despite their shared historical heritage.

2. Armed peace

Outright war is just one manifestation of the rivalry between nations, but armed peace is equally consistent with aggressiveness. India and Pakistan have fought at least four wars (in 1948, 1965, 1971 and 1999), but have otherwise spent a great deal of time engaged in uncompromising posturing *vis-à-vis* each other. India, for example, has frequently accused Pakistan of sponsoring terrorism on her territory. But occasionally the two nations make goodwill gestures, such as agreeing to resume the bus service between the cities of Delhi and Lahore, and organizing cricket tours.³ Less frequently, they appear willing to make concessions; in 2003, for example, President Pervez Musharraf announced that he was ready to put aside Pakistan’s long-standing demand, supported by United Nations resolutions, for a plebiscite to settle the future of Kashmir.⁴

Our research has demonstrated that in both countries military expenditures are considerable⁵ – in India about 3% of its gross domestic product (GDP) and in Pakistan about 5% of GDP. One can assume that such large military expenditures have a negative impact on efforts to promote development and reduce poverty in the two countries.⁶

Do the tense relations between the two states result from a lack of common democratic values, or from a lack of economic ties? On the first point, we first consulted the analyses of the Centre for International Development and Conflict Management,⁷ which score countries in terms of their level of democracy or authority. India has long had one of the highest democracy scores in the developing world (7–9 out of a maximum of 10).

Pakistan's experience with democracy has been volatile, with both high authority scores (-7) associated with the military coups in 1958, 1969, 1977 and 1999, and high democracy scores of 8. Although the current regime in Pakistan has a military orientation, and is therefore less democratic, it has nevertheless made major concessions to India in the long-standing dispute over Kashmir. Could that softer stance be related to Pakistan's economic growth record in recent years?

Caption: *Border guards at Wagah, on the India–Pakistan border :*



Indeed, Pakistan's economic growth rates have been impressive, although somewhat slower than India's. When countries move to higher levels of economic development the opportunity costs of conflict could increase as they have more to lose, and have more resources with which to negotiate peaceful settlements.

Official trade between India and Pakistan (as a proportion of Pakistan's total international trade) declined steadily from nearly 20% in the years following partition in 1947, plummeting to almost zero after the war in 1965. Although there were some signs of recovery in the 1990s, trade is still below the levels of the 1950s. This is despite the fact that both India and Pakistan now have fairly open economies.

3. Chain of causation

Our research has found that military expenditures tend to move inversely with development spending (particularly on education), providing *prima facie* evidence that high military expenditures can crowd out spending in the social sectors.

Our work was based on a time series econometric model, and an evolutionary analysis of the India–Pakistan conflict from 1950 to 2005. Using data on economic growth, economic integration with rest of the world, bilateral trade, military expenditures and democracy, we examined how these variables may have contributed to the increase or decrease in hostilities between the two nations. We also used various tests to investigate the chain of causation between each of these variables and conflict – in other words, do these variables promote conflict, or, conversely, does conflict also contribute to their evolution (reverse causality)?

Our most significant result is that multilateral trade, or increased international trade with the rest of the world (in contrast to bilateral trade between India and Pakistan), is the most significant factor in reducing conflict. Our analysis also showed that while hostilities in the Kashmir dispute have hampered bilateral trade between the two nations, the converse is also true. Increased trade between India and Pakistan decreases conflict, and any measures to improve the bilateral trade are likely to have considerable benefits in terms of confidence building.

In the short term, improving Indian access to Pakistani markets will help decrease hostilities between the two countries; whereas in the long run, as peace is achieved, both countries could export more to each other. A regional trade agreement along the lines of the South Asian Free Trade Agreement (SAFTA) could also help to improve relations between India and Pakistan in the long term. Their degree of openness to world trade is, however, the dominant economic factor in conflict resolution. Thus, as both countries become more closely integrated into the global economy, the hostilities between them are more likely to diminish.

We also find that Pakistan's military expenditures are more sensitive to hostilities with its neighbour, whereas India's military activities are not entirely focused on Pakistan. India, the regional hegemon, has other domestic and international concerns to which its defence spending is targeted, beyond its dispute with Pakistan. Overall, India may have shown more belligerence towards its neighbours because of its greater military power. For example, India unilaterally massed troops on Pakistan's borders in 1951 and 2002. Indeed, there is some reverse causality between military capability and conflict, meaning that they both cause each other. This suggests that Pakistan's military build-ups may have been more in response to India's actions.

Overall, in both countries, high military expenditures are diverting scarce resources away from social development, such as education, and poverty reduction. Education spending was found to be good for both peace and economic progress in our study.

Caption: *Friends ?*



4. A liberal peace

In an ideal world, democracy between pairs of nations should reduce inter-state hostility, according to the *democratic* peace hypothesis. In the case of India and Pakistan this relationship is present but weak. Peace initiatives, it should be remembered, are not the sole prerogative of democracies; they can also be made by countries that are less than perfectly democratic out of economic self-interest. Pakistan, for example, has offered unilateral concessions on many disputed issues with India.

The findings of our analysis, however, lean towards the alternative *liberal* peace hypothesis. Economic progress, combined with greater openness to international trade in general are more significant drivers of peace between nations like India and Pakistan, than are the *independent* contributions of a common democratic polity. So economic interdependence rather than politics is more likely to contribute to peaceful relations between India and Pakistan in the future.

In many ways, our findings echo those of Solomon Polachek, who argued that democracies cooperate not because they have common political systems, but because

their economies are intricately interdependent.⁸ As pointed by Håvard Hegre,⁹ it is at these higher stages of economic development that common democratic values can make significant contributions to peace. Meaningful democracy can not truly function in countries where poverty is acute and endemic, even in ostensible democracies such as India.

In the final analysis, as suggested nearly half a century ago by Seymour Lipset, it may be that democracy itself is a by-product of increased general prosperity.¹⁰ Then, and only then, will nations be able to fully appreciate the futility of inter-state conflict.¹¹

Footnotes

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