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"A STUDY OF IMPACT OF INDIA-PAKISTAN WAR ON FOREIGN TRADE AND FDI IN THE COUNTRIES"

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ABSTRACT

Business and commerce have always played an important role in bilateral relations and have been a two -way bridge that strengthens friendly relations. Therefore, normalizing business relations with Pakistan, overall generalization of bilateral relations with neighbouring country and is an important component of India's policy of improvement. Bilateral trade existed since independence, however, significantly progressed in the late nineties. India took steps by giving MFN status to Pakistan in 1996 to further promote bilateral trade and there was a significant increase in trade volume in the early 2000s. Further changes in the direction of generalization of trade relations between India and Pakistan began in March 2012 from the positive list made by Pakistan to the negative list system. After this, trade was opened through land routes in April 2012, which opened better trade opportunities. Stressful relations between India and Pakistan have seen a long-term increase in tension on the border, which results in significant economic consequences. A fictional full -scale struggle will not only lead to heavy loss of life, but will also have massive economic destruction in both countries, which will have worldwide economic consequences. By 2025, business relations between India and Pakistan will be adversely affected due to the ongoing struggles on the border, which will have a huge economic impact on the amount and economic expansion of the two countries as well as foreign direct investment. The presented research article based on secondary data.

Key Words: *Trade, FDI, Cross border, Economical relation, Operation.*

I. INTRODUCTION

The history of India and Pakistan war is so long to be continuing may be said that from the existence of Pakistan time to time change the dimension of war and military operations the day by day the relations between Indian and Pakistan which has been effecting trade and economy of between countries but unfortunately efforts gone wastage, every time starts with new parameter of relations between both countries after some time again it converted in high tension result of that the cross border trade has affected. "The price of conflict between India and Pakistan extends far beyond the battlefield, which manifests as long -term economic instability and low use of regional capacity."

II. LITERATURE REVIEW

Dev Ram Gupta (2025): The economic cost of India-Pakistan war will be very high, uneven and long-term. Although both countries will suffer losses, but due to Pakistan's weak economic situation, it will have to suffer uneven consequences (Moody's). As Moody's and other analysts have emphasized, Pakistan cannot risk war with India, given its existing economic weaknesses and dependence on external financial aid. For India, although it is in a better position

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to face economic tremors, the war is still Its development speed and development goals (IMF) will be threatened. Deviation in military expenditure of resources from productive investments Constant development will weaken efforts to deal with challenges. Finally, economic analysis reaches a simple but impressive conclusion: neither India nor Pakistan, but especially Pakistan, can bear the economic cost of war (Moody's, 2025). The path of peaceful co-existence and sequential generalization of relationships, even if challenging, is the only rational option for both countries.

Nidhi Mittal (2025): the 2025 struggle between India and Pakistan was angry with a terrorist attack in Pahalgam. And this led to a brief military tension between the two countries. Along with the two countries, the global economy also caused many setbacks, such as an increase in defence spending, disruption of business suspension and supply chains, Economic contraction occurred. In addition, the uncertainty of investors saw instability in the financial markets, while globally, this conflict increased the trend of avoiding risk. Diplomatic efforts helped to interact on the ceasefire, but also underlined the weakness of mutual economies, as continuous struggle could have caused serious opportunity costs for economies. For India, after this there was a decisive change in the National Security Policy: Now every terrorist attack The action of war is considered, which indicates a change from soft power to rigorous power. Overall, this struggle proved to be a significant turn for the global economic system. This highlighted how the world in fact, a multi -polar market has become, where the influence of the World Trade Organization is decreasing because bilateral trade agreement International commerce is defined rapidly. Business agreement is increasing between countries. Which is a sign of change from multilateralism.

III. Objectives of the Research

The objectives of this Research are:

- To analyse the effect of War on Indo-Park trade.
- To analyse the effect of War on India's FDI.

A Recent Catalyst for Economic Disruption and Trade by War:

The recently cross border raised due to The "Operation Sindoor" military campaign launched attacks on nine locations spread over Pakistan and Pakistan -controlled Kashmir on 6 May 2025. After the death of 26 most Hindu tourists in a terrorist attack in India -administered Kashmir on 22 April, India started "Operation Sindoor" in response. In this military campaign, action was taken on the basic facilities used by the terrorists of both Jaish-e-Mohammed and Lashkar-e-Taiba.

Military actions have given rise to serious economic problems immediately. Air and surface border connectivity is closed, while both countries have cancelled the exchange programs and sent back the entire diplomatic delegations. Due to the cancellation of important Indus Water Treaty by India, Pakistan had to issue a warning that water bending would be considered a military conflict.

The border closure has disrupted air travel in the region as airlines like SpiceJet, IndiGo and Air India no longer fly for the region. Pakistani aircraft are avoiding flights via the area due to the aircraft being shut down, resulting in increasing flight duration and increasing operational expenses for international airlines, as well as additional costs for Air France and Lufthansa.

Dr. Meera Patel, senior analyst at the South Asian Economic Forum, said, "The economic results of Operation Sindoor are multidimensional, which are affecting trade routes, aviation and diplomatic relations, causing the already delicate economic condition to worse."

Economic Comparison Between India and Pakistan:

India and Pakistan are completely different from each other in terms of economic size and capacity. Economists

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estimate that by 2025 the Indian economy will reach $ 3.7 trillion, while Pakistan's GDP will remain at $ 376 billion. This economic difference is grown from various levels of national participation in global markets along with unique industrial development and environment for investment. The World Bank reported that in 2024 India attracted a $ 60 billion foreign direct investment (FDI), while Pakistan received only $ 1.5 billion, which reflects the weak confidence of investors in Pakistan's economic scenario. For example, Reliance Industries managed to raise billions of dollars from foreign direct investment (FDI) for Indian green energy initiatives, while political upheavals in Pakistan remained unused.

Defence and Military Budgets:

Decisions of military financing of India and Pakistan reflect their national economic objectives. Defence analysts estimate that India will spend $ 80 billion on defence for modernization of its military powers by 2025. Pakistan's defence expenditure is expected to reach $ 11 billion, which will increase financial pressure on its endangered economy. Shazia Malik, a defence analyst of global security solutions, said, "Heavy investments in defence often remove resources from important areas such as health and education, causing long -term economic challenges."

India-Pakistan Trade Relations 2025:

Business relations between India and Pakistan have always been unstable. After the 2019 Pulwama accident, the two countries have increased trade restrictions, which affect the industries dependent on bilateral trade. This ban has increased the prices of essential Indian goods including dried fruits, as Pakistan was earlier their import source. A report by Moody's Ratings highlights that India's diverse trade portfolio minimizes its dependence on Pakistan, but Pakistan's economy is affected by limited access to its largest neighbouring market.

The Economic Outcome of a Trade Ban:

Due to trade restrictions between Pakistan and India, traders have to send their goods through other countries including Dubai, while prices are increasing continuously. The federation of Indian export organizations (FIEO) has found that the change in trade caused a total of $ 500 million per annum due to the change in trade. After adopting the route to change the route due to trade ban, the cost of Pakistani almond imports used by Almond House and other companies has now increased by 20%.

Impact on GDP Growth and Regional Stability:

The rivalry between India and Pakistan affects the GDP growth of both countries. Long -running stress prevents foreign investment, as investors consider the sector to be high risk. According to IMF reports, Pakistan's potential GDP growth is estimated by 2% annually. In contrast, India, although better safe, still face less foreign direct investment (FDI) during acute conflict.

Export-Import Mobility:

According to the 2025 export-utterance reports between India and Pakistan, the markets of a huge decline in the market are coming out due to the current tensions. Since 2018, the exchange value of exports to India to Pakistan has fallen into negligible quantity. Pakistan has lost its earlier major textile exports to India, which used to receive revenue, which is no longer present. The upheaval in the market has forced businesses to find new distribution channels at all levels.

Border Stress affecting the Economies:

Border stress enhances economic uncertainty as they have a constant external impact on the entire business areas and social beliefs. The price of the Bombay Stock Exchange (BSE) declined by 3% during the Poonch sector clash in 2024, indicating fear of investors. The market value of the Karachi Stock Exchange operated in Pakistan declined by 5%

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during this period, indicating that small economies remain sensitive to global geopolitical risks.

Extensive Impact on Regional Trade:

Regional trade exchange rates have declined due to the historical tension of India-Pakistan and economic insecurity has also arisen at both national levels. The standardized relations between India and Pakistan have had a negative impact on trade throughout South Asia. The South Asian Regional Cooperation Association (SAARC) exists as an economic cooperation structure, but it is rarely adopted due to the ongoing diplomatic tension between member countries. According to the Asian Development Bank, trade within the SAARC region is only 5% of the total trade, while ASEAN members are able to do 25% bilateral trade, which shows that a large part of the capacity is lost.

IV. Research Methodology

The presented research article based on secondary data which has been collected from national and international journals and various government reports from likes import- export houses and RBI trade practices between FY 2020 to 2025.

V. Data Analysis

The main items exported from India to Pakistan are: Cotton, organic chemicals, animal feed including food products, food vegetables, plastic items, man -made fibre, coffee, tea, spices, colour, oil seeds, dairy products, pharmaceuticals etc. The main items imported by India from Pakistan are: copper and copper items, food fruits and nuts, cotton, salt, sugar, sulphur and soil and stone, biological chemicals, mineral fuels, plastic products, wool, glass substances, raw skins and leather etc.

India-Pakistan trade has been greatly affected by political stress and diplomatic relations, causing fluctuations and disruption of trade volume between 2020 and 2025. Although official trade figures show a decline in recent years due to various factors, including import restrictions and security concerns, informal trade continues through third party countries.

The business relations between India and Pakistan have been full of turmoil, which have been greatly affected by political tensions and policy decisions. In the financial year 2019-20, bilateral trade reached a peak of about $ 2.56 billion, with India exported goods worth $ 2.06 billion to Pakistan and imported $ 494.8 million in turn.

However, after the Pulwama terrorist attack in February 2019, India cancelled Pakistan's most preferred nation (MFN) status and imposed 200% import duty on Pakistani goods. Pakistan retaliated by postponing bilateral trade. As a result, business declined drastically.

- 2019-20: India's exports to Pakistan decreased to $ 81.6 million, and imports decreased to $ 1.39 million.
- 2020-21: Exports reduced to $ 32.9 million, while imports were $ 0.4 million.
- 2022-23: India exported goods worth $ 62.71 million, while imports stood at $ 2.01 million.
- 2023-24: Exports increased to $ 1.18 billion, but imports remained at $ 2.88 million.
- April-January 2024-25: India's exports to Pakistan stood at $ 447.65 million, while imports only 0.42

Major export Goods

- The exports done by India to Pakistan are mainly involved:
- Biological Chemistry: $ 129.55 million
- Business Products: $ 110.06 million
- Chinese and Chinese Confectionery: 85.16 million dollars
- Auto component: $ 28.57 million

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- Petroleum Products: $ 11.63 million
- Fertilizer: 6 million dollars
- Plastic: $ 4.16 million
- Rubber: $ 1.88 million
- Vegetables: $ 3.77 million
- Coffee, Tea and Spices: $ 1.66 million
- Cereals: $ 1.39 million

Despite the official trade restrictions, the movement of goods has continued through indirect routes, especially Dubai, Singapore and Sri Lanka. The cost of goods from this indirect trade is estimated to increase by 15-25%. Analysts say that despite the low official trade figures, these informal means may have a higher quantity of real trade.

Following the Pahalgam attacks by terrorists on Indian soil, India has abolished all types of business, diplomatic, business and political relations with Pakistan. No import-export with any third country is allowed. The boundaries are sealed; the Indus Water Treaty is postponed. India has controlled the Indus River and its tributaries that flow through the Indian land in Pakistan. Pakistan's Chenab River has been blocked by India from its dam and has disrupted the flow of water in Pakistan's land.

Border Trade Shock:

The attic border was an important land port trade route, which caused goods worth Rs 3,886.53 crore in 2023-24. Exports such as soybean, poultry and agricultural equipment - which were sometimes a major source of revenue for border cities like Amritsar - have now come to a standstill. A look at the historical trade between India and Pakistan through the attic land port:

S. No.	Year	Total Trade in Crore	Total Cargo Movement in (NoS)
1	2017–18	4,148.15	48,193
2	2018–19	4,370.78	49,102
3	2019–20	2,772.04	6,655
4	2020–21	2,639.95	5,250
5	021–22	3,002.38	4,812
6	2022–23	2,257.55	3,827
7	2023–24	3,886.53	6,871
8	2024-25	2,636.33	2756

Source: https://www.wrightresearch.in/blog/impact-on-markets-from-india-and-pakistan-conflicts-

In 2018-19, the trade reached the peak of Rs. 4,370.78 crores with 49,102 batch, which was the highest level of bilateral exchange during the recorded period. However, after this it declined heavy and suddenly:

By 2019-20, trade decreased to Rs. 2,772.04 crores (down by about 37%).
The movement of goods also reduced to only 6,655 batch, which is 86% less than the previous year.

This rapid decline corresponds to the situation after the Pulwama terrorist attack in February 2019, which caused serious tension in diplomatic relations. In response, India cancelled Pakistan's MFN (most preferred nation) status and imposed 200% customs - which effectively blocked bilateral trade. Between 2020–21 and 2022-23, trade remained relatively slow. In 2023-24, we will see a significant bounce in business. Due to the current ban, Punjab's local economy, especially logistics, warehousing and cross -border goods, will have a profound impact.

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VI. Conclusion

The India-Pakistan war causes permanent economic damage, which is more than the basic military budget cost. Due to business disruption and low confidence of investors, huge economic costs come up which hinders regional development. Preference to diplomatic initiatives compared to military conflict will benefit both countries and the entire region. Priya Deshmukh, Senior Policy Advisor to the United Nations Economic Commission for Asia, stressed, "Peace is not only the absence of war, but the foundation of economic prosperity." The postponement of the Indus Water Treaty by India in 2025 is a significant turn in South Asian Geology. Although this is not a formal return, the move has strategic, human and diplomatic consequences. If it is not resolved, it can lead to long -term environmental and safety challenges at both regional and global levels.

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