

DOI: 10.53555/ks.v12i4.3146

The Impact Of Conflicts On Trade: A Case Study Of Pakistan And India

Dr. Nelofar Ikram¹, Akhtar Gul^{2*}

¹Assistant Professor of Political Science Department of Political Science, Women University Mardan, KP, Pakistan

Email: drnelofarikram@wumardan.edu.pk

^{2*}Scholar of M. Phil Economics Department of Economics, University of Science and Technology Bannu, KPK, Pakistan

Email: Akhtar.gul31@yahoo.com

***Corresponding author:** Akhtar Gul

*Department of Economics, University of Science and Technology Bannu, KPK, Pakistan

Email: Akhtar.gul31@yahoo.com

ABSTRACT

The study investigated the significant association between trade, conflict, macroeconomic instability, and political instability between Pakistan and India. The time series data used and the period from 1996-2020. For analysis, the econometric approach of cointegration and VECM were used. The study showed that political instability as well as macroeconomic instabilities have significantly declined bilateral trade. Similarly, the independent variable of political instability and conflict significantly affects trade openness in both period short and long run. This study suggests fostering economic integration, political stability, and harmonization is essential to enhance trade relations, reduce conflict, and promote mutual prosperity.

Keywords: Conflict, Political instability, macroeconomic instability, trade openness and Pakistan-India

INTRODUCTION

Current conflicts in Asia (Russia and Ukraine, 2022, Israel and Palestine, 2023 and many ongoing conflicts) are significantly affecting trade in the globalized world special in Asia. Despite these conflicts, Asia is facing many other severe issues such as increasing military expenditure, broader issues, proxy wars, and so on (Chen et al., 2023; Maurya et al., 2023; Nerlinger & Utz, 2022). The military expenditure has increased double and triple-fold in the first two decades and still increasing (Ajmair et al., 2023; Shoukat, 2023). Pakistan and India both are neighbors and continuously increasing military expenditure which increases the shadow of war. Pakistan and India were directly confronted on inception days (1948). Then fought wars in 1965, 1971, and 1999 and countless direct border issues (Sarker, 2023). Therefore, both states are fighting a proxy war against one another. Unfortunately, these conflicts directly and indirectly declined trade between Pakistan and India. The conflict between Pakistan and India through social, economic, political, and military cooperation. The international trade policy is a significant indicator to reduce conflict and promote peace. Peace is not only necessary for both countries but also for the whole region. The cost of an ear is also greater cost of trade. Trade declines the changes of war domestically and internationally. The trade reduces the war because the cost of war does not more countries. The fragile economic activities are settled through trade. (Javaid & Sahrai, 2020; Sridharan, 2020; Kiran 2017).

Bordering dyad countries are mostly considered to have gains over distant countries in terms of common culture, common language, common culture, and nearness. Hence, in principle bordering countries should trade more than the remote countries, as nearness releases pressure of expensive trade on account of transportation costs. Concomitantly, countries having policy harmonization and similar development levels are expected to have better trade relations, as is observed in the European Union (Lee & Pyun, 2016; Schultz, 2015; Simmons, 2003). To avoid war and promote foreign trade through peaceful ways is the fundamental feature of democracies. Mostly democracies and trading partners prevent war rather than non-democratic and not associated with trade. (Polachek 2007). Therefore, another study revealed that political relations of harmony and hostility between states significantly impact foreign trade ties and flows. (Pollins, 1989; Carter & Poast, 2020).

“Trade is a technology to transform domestic goods via exports into imported goods.” International trade creates more peace, prosperity, and growth. More prosperity refers to more government receipts and consequently less reliance on external loans. Which is further used for capital human development and social happiness. Therefore, more revenues mean more welfare which exists due to more growth and development (McDonald, 2004; Lehmann & Lehmann, 2010; Mahmood et al., 2017; Bisca et al., 2021). Bordering dyad countries are mostly considered to

have gains over distant countries in terms of common culture, common language, common culture, and nearness. Transportation costs are lower in dyad countries than in distant countries. dyads countries have expected. (Sheer, 2000; Geldi, 2012; Arikan et al., 2020). Thus, international and Domestic trade plays a key role in promoting the standard of living in a country. The disputes between the contiguous borders badly affect trade and prosperity (Kiran, 2018). Most contiguous states are interdependent to each other and independence increases the trade between neighbor countries. independent countries avoid minor conflicts and effort to solve major issues through cooperation and negotiation. World trade entirely changed post-1950 (Known as contemporary globalization) between the states. Economic integration increases harmony and reduces bilateral and mutual conflict among the countries. This can be seen from the trade among politically and economically stable major power countries such as the US, China, India, Russia, etc., which trade with each other for their interests (Kousar et al., 2023; Korwatanasakul, 2022; Kastner, 2016; Pieterse, 2012)

Trade plays a significant role in this globalization era. Because any country in the world is not sufficient. The modern states concept depends on the realist approach “Trade increases the chance of war between the states particularly in neighbor states (Culbertson, 1985). Besides, it believes that Power determines international trade (Çakmak & Ustaoglu, 2017) Therefore, according to liberalists, international trade promotes peace and prosperity of nations but the realist approach presents the argument (Barieri, 2002). A liberalist approach is necessary for the peace and promotion of trade in the context of Pakistan and India (Tian, 2023; Khan et al., 2023; Mehmood et al., 2023).

South Asia's cost of trade is disproportionately high as compared to other regional trade blocks. The average cost of trade of SAFTA is 20% relative greater to the regional trade blocs i.e., ASEAN and NAFTA. The free trade agreement was forcing July 2006 but it still did not achieve the goal of free trade. (Mehmood et al., 2017) Trade is a salient tool of welfare between the states. The welfare gains those who engage in it. There are two main theories of international political economy concerning trade. The first one is liberal theory and the second one Realistic approach. The main focus is on both the welfare of the individual and the state. According to Liberalists, “Foreign trade is a vehicle to achieve state’s main goal, which is maximization of social welfare. As foreign trade plays an important part in social welfare, globalization, and peace are strongly supported to keep international trade volume on track. The trade relations prevent trade partners from entering conflicts and foster improving political relations between them” (Çakmak and Ustaoglu, 2017). India’s trade with Pakistan not to provides access to the Pakistani market but also provides access to central Asia and middle markets. Pakistan and India both are big markets for each other and the world. The potential trade capacity of trade between Pakistan and India at \$37 billion, but actual trade exists at merely \$2 billion. Similarly, South Asia most populous region of the world, and its trade capacity is 67 billion US dollars but just \$23 billion trade exists among South Asia Countries. (Anwar, 2020).

Figures 1 and 2 show the Pakistan and India trade % of GDP and Military expenditure from 1975 to 2022.

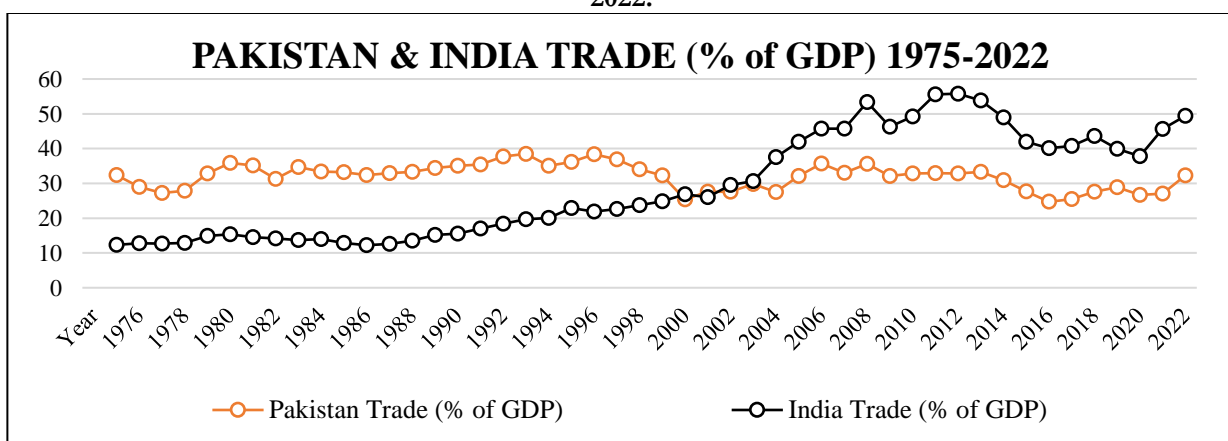


Fig. 1

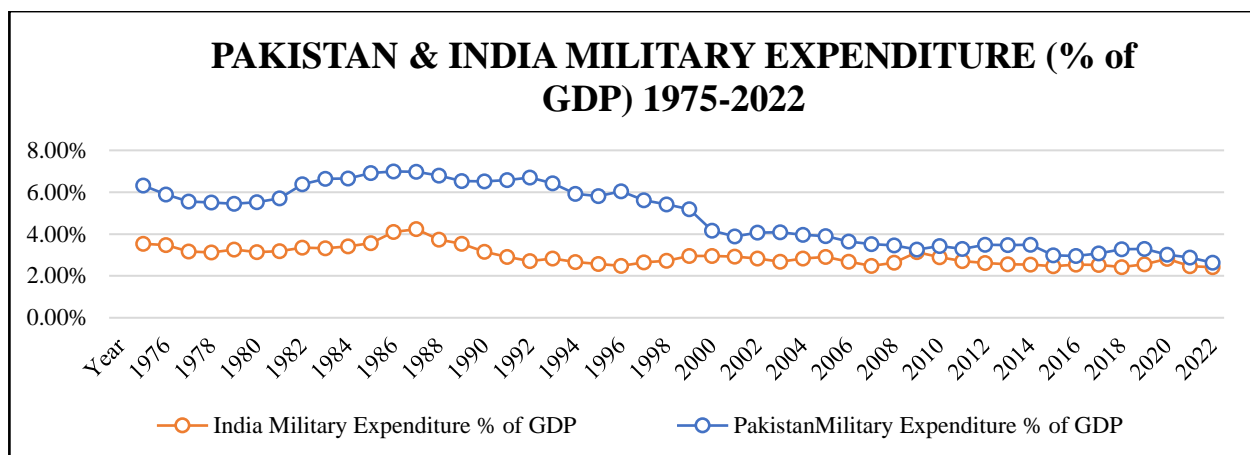


Fig 2.
Source: Macrotrends and World Development Indicator, 2023

Figure 1, and 2 explains the Pakistan and India trade and military expenditure in percentage of GDP from 1975 to 2022. Trade has increased both the economics, but India's trade is higher than Pakistan as well as military expenditure. Pakistan's economy faced many ups and downs, thus affecting trade as a percentage of GDP. Thus, Pakistan never achieved the number of 40%. Pakistan's trade percentage of GDP is severely affected by the Afghan war, US sanctions, terrorism, and internal social, economic, and political issues. In the same period, Pakistan's military expenditure percentage of GDP was higher than that of other SAARC countries. In 2001 global war trade and 2008–09, the financial crisis adversely affected trade. After 2000, Pakistan declined in military strength but remained higher than Nepal, India, Sri Lanka, and Bangladesh. Besides, India is one of the emerging economies and holds a huge market rest of the world. In the last decade of the 20th century, India first achieved 20% trade % of GDP. From 1995 to 2012, India increased its trade % of GDP by 32.86%.

Table 1 India Trade Pakistan, 2010 & 2020

Partner Name	Year	Export Share in Total Products (%)	Import Share in Total Products (%)	Export (US\$ Thousand)	Import (US\$ Thousand)	Import Partner Share (%)	Export Partner Share (%)
Pakistan	2010	26.76	13.37	2235787.73	320726.02	0.09	1.01
Pakistan	2020	8.13	0.72	282383.56	2547.09	0	0.1
Differences		-18.63	-12.65	-1953404.1	-318178.93	-0.09	-0.91
India Trade Pakistan, 2010 & 2020							
India	2010	14.57	25.12	274982.51	1559920.97	4.16	1.28
India	2020	0.57	9.17	167.79	242680.6	0.53	0
Differences		-14	-15.95	-274814.72	-1317240.37	-3.63	-1.28

Sources: Macrotrends and World Development Indicator, 2023

Table 1 shows India's trade with Pakistan from 2010 and 2020. From 2010 to 2020, India increased its export share with neighboring countries except Pakistan. The export and import share in total products (%) of India was negative compared with Pakistan in the same period. Therefore, Pakistan's exports declined over the last few decades due to political instability, intra-state conflict, and different waves of terrorist activities. In the same displays trade sharing data Pakistan with India. Pakistan's total product export share is negative in comparison to the other SAARC countries. Therefore, the import share in the total product is negative with Nepal and India. In a nutshell, South Asia is one of the most populous regions in the world. But unfortunately, the region is still facing a numerous issue, including intra-state conflict, broader and geopolitical issues, terrorism, ethnic tension, etc. That is why trade is low between the countries. The total capacity of regional trade is 69%, of which actual trade occurs at approximately 36%. Thus, the countries solve the issues and enhance trade like other regions of the world.

HYPOTHESES:

H₀: Trade between the two dyad countries reduces conflict and generates peace and prosperity.

H₀: Political instability of a state increases conflict between the contiguous states.

H₀: Macroeconomic instability affects trade between Pakistan and India and promotes conflict.

The study described the multifaceted dynamics that influence international trade, mainly emphasizing the roles of geographic proximity, policy harmonization, and political relations. There are several reasons for these dynamics

such as economic policy formulation, reduction of transportation costs, linguistic and cultural integration (These two factors promote economic integration between the states), promotion of peace and stability, and impact of political relations. The study will benefit the procedure of peace-making policy through both the state's increased standard of living. The study contributes to a significant and effective direction through state promote trade and economic cooperation.

LITERATURE REVIEW

Domestic political structures and state power might influence political relationships. Peterson and Wen (2021) explained how political associations and international trade affect conflict. The results show that trade has a more negative association with conflict when institutions produce a constituency that is more representative of the nation as a whole. They also found that trade has a less calm effect when these institutions are broken.

According to the study, the effect of conflict on bilateral trade varies across different conflict types and geographical regions. He studied the effects of five different types of conflict, including interstate and internal conflicts and various forms of violence. Kamin (2022) used international trade flow data from 1992–2011. The gravity and PPML-high-dimensional fixed are used. The study found that trade diversion and creation effects affect trade dynamics during clashes. Thus, trade affects the trading partner and sometimes entire regions. The study suggests that policymakers make the policy to chase national interest rather than individual interest.

Economic interdependence prevents the start of interstate conflict. The study investigated the relationship between economic interdependence and interstate conflict duration. The study used a period from 1918 to 2015. The war of attrition model was applied and extracted from International Crisis Behaviour (ICB), but the data covers a smaller range than the other data source, Militarized Interstate Dispute (MID), to investigate the effect of issue salience. The result shows that with low salience issues, the coercive effect dominates states, which results in a larger economic cost, while states with high salience issues are less likely to quit conflicts (Zeng, 2021).

The number and types of conflicts impact the country's trade. The effect is varied on the importer and exporter sides. A minor conflict between the armed countries has a negative but smaller effect merely on the importer side, while the exporter side gains. Therefore, aggressions against people have a negative effect just on the importer's side. Wami (2021) found that trade promotes peace among the countries. Moreover, high bilateral trade interdependence promotes greater peace and prosperity among the nations. Similarly, the study suggests that trade integration among the nations has a significant impact on conflict.

During times of war, trade disruptions had a significant effect on international trade patterns and economic development. Wars are mostly caused by the destruction of infrastructure, disruption of supply chains, and increased trade barriers such as tariffs and embargoes. Krpec & Hodulak (2019) found that trade conflicts are connected with other economic patterns of international flows, and these conflicts have the power to change the pattern of economic relations. It was also found that if one region is affected by trade conflict, it affects other trade regions of the countries that do not belong to these disruption flows of trade. Being independent of these flows, they faced long-lasting changes in economic patterns.

Major economies' trade and real conflict directly and indirectly affected emerging economies. A trade war between the European Union and Japan, based on the auto sector, damaged emerging economies in Asia. Multiregional Input-Output Table (MRIOI) data was used to check the direct influence of all tariff-imposed commodities. According to Abiad et al. (2018), greater growth of bilateral trade wars between the US and China would drop one percent of China's GDP and 0.2% of the US GDP. The remaining emerging economies in Asia could get minor increases through trade redirection. Also found, the conflict negatively influenced China and US employment.

International trade reduced conflicts between Pakistan and India and created peace in the whole region as well, Kiran (2018). Bilateral trade supports peace and security and improves the living standards of the people of the two countries. Study results showed that trade was a positive and soft approach everywhere to reducing conflict. Bilateral trade plays a significant role in global integration. The study concluded that, through free trade, both countries increase the total welfare of the state.

Arab and African countries hold countless resources and have faced several conflicts. The study examined the relationship between trade, harmony, and conflict in Arab Maghreb states. Terms of trade are taken from UNCTAD, while conflict data is taken from the Dyadic MID Dataset for the period 1990–2014. El-Asmi (2018) proposed that eliminating disputes between and among states would make the Arab Maghreb Union more viable. The outcomes demonstrated that economies interested in forming regional blocs frequently concentrated on trade liberalization and paid greater attention to interstate disparities. The study suggested that The Arab Maghreb Union (AMU) reduce trade barriers and focus on multilateral trading plans. A regional security system that combined diplomatic, administrative, and military resources with economic circumstances was formed.

Many theoretical and qualitative studies conducted by scholars across the world. The majority of studies found a direct association between political instability and conflict and while negative association with bilateral trade.

Besides, no proper and comprehensive empirical study has been conducted for Pakistan and India. This study aims to fill and address this existing gap in the literature and contribute to the literature.

METHODOLOGY

3.1. Model Specification

In this study, we investigate does international trade reduces conflict: a case of Pakistan and India has used four specific variables conflict, macroeconomic instability political instability, and trade openness. The time series used and the period from 1996 to 2020. Therefore, the data collected from different sources such as PBS*, FTSP*, DTS***, WDI****, UCDP*****. Trade openness is our dependent variable while conflict, macroeconomic stability, and political instability are independent variables.

Econometric model

Conflict= f (Trade Openness, Macroeconomic instability, Political instability) ... (1a)

$$TO_t = \alpha_t + \beta_1 CON_t + \beta_2 MINTS_t + \beta_3 PINST_t + \varepsilon_t \dots (1b)$$

Where; TO_t is referring trade openness while CON_t , MS_t , and $PINST$ indicate Conflict, Macroeconomic instability, and political instability.

Conflict is measured by several scholars in different ways. In this study, conflict used the conflict index. According to UCDP, the conflicts are four types 1, 2, 3, and 4 indicate extra-systemic, interstate, intrastate, and Internationalized intrastate respectively.

One = Extra-systemic means the conflict between a state and a non-state group external its land, somewhere the state side is fighting to hold control regulator of a land external the government system.

Two = Interstate conflict exists directly between two states.

Three = intrastate situation refers to when one side is a state authority and side b is always one or over one rebel group. There is no involvement of the external state with armed. There is side-A is always a government; side-B is always one or more rebel groups.

Four = internationalized intrastate conflicts refer to when foreign states are involved with troops. Side A is always a state; while side B is rebelling groups that consist of one or more.

Similarly, numerous researchers used different proxies for macroeconomic instability. In this study fiscal deficit is divided by 100 and multiplied by the GDP used for macroeconomic instability. For Political instability, the WDI index and trade openness also measure total imports of Pakistan to India in US\$ in million/total export of Pakistan from India US\$ in million and divided by 100. Therefore, α_0 refers to intercept while β_1 , β_2 , and β_3 are the coefficients of conflict, macroeconomic stability, and political instability and trade respectively.

3.2 Estimation Technique

3.2.1 Unit Root Test: ADF and PP test

Stationarity and order of cointegrated variables are determined by our econometric model. Before running a model first necessary we whether our variable is stationary or not. If means, variance, and covariances of time series data do not change with time the data is called stationary. Non-constant means and variance are known as non-stationary and non-stationary generate spurious regression. (Dimitrova, 2005). Most time series data is non-stationary which gives spurious results. The spurious results produce invalid results which produce invalid future predication. For accurate results necessary the non-stationary variables convert first into stationary. For this purpose, in study used ADF and PP unit root tests to estimate the stationary of a variable. Herein, the two-unit root test used determines whether the assumed variables are stationary or not. So, used two-unit root tests for stationary; Augment Dickey-Fuller (ADF) unit root by Said and Dickey (1984) and the second one by Phillips-Perron unit root test by Phillips and Perron (1988). If the t-statistics absolute value exceeds MacKinnon's (1996) absolute critical value, the value certain variable is stationary. Correspondingly, the p-value is higher than the significant level [5%], so it means rejecting null and accepting the alternative hypothesis and our alternative hypothesis "Variable is stationary (Gul et al., 2023; Rehman et al., 2023; Gul & Khan, 2021).

3.2.3 Co-integration test

When all variables are stationary at level or first difference [and if the series is same order cointegrated] then apply the Johansen co-integration approach (Johansen, 1988; Johansen and Juselius, 1990). Johansen's approach is employed to determine whether the cointegrating vector exists or not among the variables. The number of cointegration vectors is determined in two ways: trace and Maximum Eigenvalue test. The H_0 [null hypothesis] for the Trace test is an 'R' cointegrating association in contrast to the H_1 [alternative hypothesis] of n cointegrating relations where $R=0,1,2, \dots, n-1$ and R indicates the sum of variables in the system. The trace test statistics are calculated by the following expression.

$$LRtrace \left(\frac{R}{n} \right) - T * \sum_{i=r+1}^n \log(1 - \rho) \dots (2)$$

T and ρ indicate the sample size and ρ is the Maximum Eigenvalue respectively. The Maximum Eigenvalue test statistics H₀ [null hypothesis] of R cointegrating association against the H₁ [alternative hypothesis] of R+1 cointegrating association, where R=1, 2, 3, ..., n-1 and n shows the number of variables in the system. The Maximum Eigenvalue test statistics are computed as:

$$LRmax \left(\frac{R}{n + 1} \right) - T * \log(1/\rho) \dots (3)$$

T and ρ indicate the sample size and ρ is the Maximum Eigenvalue respectively.

3.2.4. Vector Error Correction Model (VECM)

To estimate the long-run association between variables then used VECM. The Vector Error Correction Model determines the short-run association of cointegrated variables. Instead, if cointegration does not exist among variables, then the VECM declines to the VAR model and The Granger Causality tests shall be applied to determine the causal relationship between particular variables (Asari et al., 2011). The empirical equations system for VECM is as follows:

$$\begin{aligned} \Delta TO_t = & \beta_{10} + \sum_{i=1}^q \beta_{11} \Delta TO_{t-i} + \sum_{i=1}^r \beta_{12} \Delta CON_{t-i} \\ & + \sum_{i=1}^s \beta_{13} \Delta MINST_{t-i} + \sum_{i=1}^t \beta_{14} \Delta PINST_{t-i} + \theta_1 ECT_{t-1} + \varepsilon_{1t} \dots (4) \end{aligned}$$

$$\begin{aligned} \Delta CON_t = & \beta_{20} + \sum_{i=1}^q \beta_{21} \Delta CON_{t-i} + \sum_{i=1}^r \beta_{22} \Delta MINST_{t-i} \\ & + \sum_{i=1}^s \beta_{23} \Delta PINST_{t-i} + \sum_{i=1}^t \beta_{24} \Delta TO_{t-i} + \theta_2 ECT_{t-1} + \varepsilon_{2t} \dots (5) \end{aligned}$$

$$\begin{aligned} \Delta PINST_t = & \beta_{30} \\ & + \sum_{i=1}^q \beta_{31} \Delta PINST_{t-i} + \sum_{i=1}^r \beta_{32} CON_{t-i} \\ & + \sum_{i=1}^s \beta_{33} \Delta MINST_{t-i} + \sum_{i=1}^t \beta_{34} \Delta TO_{t-i} + \theta_3 ECT_{t-1} + \varepsilon_{3t} \dots (6) \end{aligned}$$

$$\begin{aligned} \Delta MINST_t = & \beta_{40} \\ & + \sum_{i=1}^q \beta_{41} \Delta MINST_{t-i} + \sum_{i=1}^r \beta_{42} \Delta PINST_{t-i} \\ & + \sum_{i=1}^s \beta_{43} \Delta CON_{t-i} + \sum_{i=1}^t \beta_{44} \Delta TO_{t-i} + \theta_4 ECT_{t-1} + \varepsilon_{4t} \dots (7) \end{aligned}$$

In the above equations, ε_t indicates error terms and 1, 2, 3, and 4 respectively. ECT_{t-1} shows the cointegrated vectors. The θ is the coefficient of adjustment and it refers to how much disequilibrium is adjusted. It also demonstrates the “speed of adjustment of certain variables towards long-run equilibrium after short-run fluctuations of the variables”

RESULTS AND DISCUSSION

Table 2

ADF Unit-Root-Test								
	Level			1 st difference			Decision	
	T-stat.	C.V	P-value	T-stat.	C.V	P-value	I (0)	I (1)
TO _t	-1.95	-3.00	0.301	-5.09	-3.01	0.000	I (1)	
CON _t	-2.11	-3.76	0.239	-6.62	-3.01	0.000	1 (1)	
MINST _t	-1.04	-3.00	0.718	-4.28	-3.01	0.003	I (1)	
PINST _t	-2.35	-3.02	0.165	-2.00	-1.96	0.046	I (1)	
PP- Unit-Root-Test								
	Level			1 st difference			Decision	
	T-stat.	C.V	P-value	T-stat.	C.V	P-value	I (0)	I (1)
TO _t	-1.84	-3.00	0.349	-5.75	-3.01	0.000	I (1)	
CON _t	-2.11	-3.00	0.242	-6.35	-3.01	0.000	1 (1)	
MINST _t	-1.06	-3.00	0.708	-4.26	-3.01	0.003	I (1)	
PINST _t	-2.75	-3.00	0.081	-4.30	-3.64	0.014	I (1)	

I (0) and I (1) indicate stationary at the level and 1st difference respectively.

Table 2, shows the results of the ADF and PP unit root tests for the series TO_t, CON_t, MINST_t, and PINST_t. Both tests indicate that all series are non-stationary at their level. Now, after converting into the 1st difference, all variables are stationary. In this study all variables are stationary and as well as existing cointegration exists.

Table 3 AR Lag Order Selection Criteria

VAR Lag Order Selection Criteria						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-141.8007	NA	12.61090	13.88578	14.08474	13.92896
1	-102.0920	60.50853*	1.368300*	11.62781*	12.62259*	11.84370*
2	-89.58535	14.29330	2.329357	11.96051	13.75112	12.34912

* Indicates lag order selected by the criterion.

Vector autoregressive (VAR) models are broadly employed in the prediction, forecasting, and study of the effect of structural shocks. A critical factor in the condition of vector autoregressive models is the determination of the lag length of the VAR. (Hecq, 1996). Table 3, indicates the results of the six lag-order selection criteria. Most studies used AIC and SC criteria than others. This study used AIC criteria because our observation is less than 60. So, under AIC criteria lag one is suitable for the model.

Table 4 Unrestricted Cointegration Rank Test (Trace) & (Maximum Eigenvalue)

[a] Unrestricted Cointegration Rank Test (Trace)*				
H ₀ :	H ₁ :	Trace statistics	Trade test [0.95]	Prob.****
R=0	R=1	77.39185	63.87610	0.0024
R≤1	R=2	40.55407	42.91525	0.0845
R≤2	R=3	13.94314	25.87211	0.6623
R≤3	R=4	5.014396	12.51798	0.5943
[b] Unrestricted Cointegration Rank Test (Maximum Eigenvalue)**				
H ₀ :	H ₁ :	λ _{max} test	λ _{max} test [0.95]	Prob.**
R=0	R=1	36.83779	32.11832	0.0123
R≤1	R=2	26.61093	25.82321	0.0393
R≤2	R=3	8.928740	19.38704	0.7318
R≤3	R=4	5.014396	12.51798	0.5943

*Trace test indicates 1 cointegrating eqn(s) at the 0.05 level

**Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level

* Denotes rejection of the hypothesis at the 0.05 level

** MacKinnon-Haug-Michelis (1999) p-values

Table 4, shows the results of the cointegration tests. The Johansen cointegration test of trade openness, conflict, macroeconomic, and political instability consists of two parts [a] and [b] Trace and Maximum Eigenvalue. Part [a] shows trace statistics with only one long-run cointegration between conflict and its determinants at a 5% significant level. while part [b] indicates that the Maximum Eigenvalue has two long-run cointegration between conflict and its determinants at a 5% significant level. The one and two cointegrated or long-run associations that projected variables Trade openness, macroeconomic and political instability. Thus, in the same table, display conflict, political instability, and macroeconomic instability are significant causes of trade openness There are many studies showed that, trade and conflict a negatively associated with each other (Tamas & Miron, 2021; Peterson and Wen, 2021;

Whitten et al., 2020). Besides, political instability also negative impact on the trade openness of a country as many studies found a negative association while positive associated with political stability (Tamas & Miron, 2021; Whitten et al., 2020).

Table 5 VECM estimation results:

Variable	Coefficient	Std. Error	t-statistics
D (CON _{t-1})	0.022375	0.00762	-2.93795
D (MINST _{t-1})	-0.037174	0.00325	-11.4381
D (PINST _{t-1})	-0.017861	0.00839	2.12773
ECI _{t-1}	-0.187622	0.03650	-5.13920
R ₂	0.785434		
Adj.R2	0.676987		
Sum sq. resides	2341.432		
S.E. equation	17.43223		
F-statistic	6.453811		
Akaike AIC	7.435587		
Schwarz SC	8.4533336		

The cointegrating coefficients should be interpreted with reverse signs.

Table 5 shows the results of the short-run of VECM. The conflict, macroeconomic instability, and political instability are establishing a significant short-run association with trade openness. The value of ECT is negative and significant short-run converging to long-run. The coefficient of ECT is -0.187622 [t-statistics-5.13920] which refers to the low speed of adjustment toward equilibrium in the long run.

Conclusion and Recommendations

The study investigates the significant association between trade, conflict, macroeconomic instability, and political instability between Pakistan and India. Trade plays a significant role in this globalization era. Because any country in the world is not sufficient. There are two theories related to international trade liberalist and realist. The liberalist approach is necessary for both states and liberalists who believe, international trade promotes peace and prosperity of nation. Despite, the potential for substantial economic benefits, evidenced by the massive available trade capacity. The ongoing conflicts and macroeconomic and political instability have led to a marked decline in trade percentages of GDP and negative trade shares over the past decades. This study shows that military expenditure and political tension as well as macroeconomic instability have significantly declined bilateral trade. The independent variable conflict, macroeconomic, and political stability significantly affect trade openness in both period short and long run. The study suggests fostering economic integration, political stability, and harmonization is essential to enhance trade relations, reduce conflict, and promote mutual prosperity. Thus, the importance of international trade as a tool for peace and development in South Asia special for Pakistan and India. The study also suggests that future research could extend this investigation by examining the significant role of democracy, political stability, distance, culture, and language in other South Asia economies.

REFERENCE:

1. Abiad, A., Baris, K., Bernabe, J. A., Bertulfo, D. J., Camingue, S., Feliciano, P. N., ... & Mercer-Blackman, V. (2018). The impact of trade conflict on developing Asia. Asian Development Bank Economics Working Paper Series, (566).
2. Ajmair, M., Tariq, S., & Hussain, K. (2023). The Determinants of Military Expenditures in Pakistan. *Journal of Economic Cooperation & Development*, 44(3).
3. Anwar, Z. (2020). Development of infrastructural linkages between Pakistan and Central Asia. *South Asian Studies*, 26(1).
4. Arikan, I., Arikan, A. M., & Shenkar, O. (2020). Nation-dyadic history and cross-border corporate deals: Role of conflict, trade, generational distance, and professional education. *Strategic Management Journal*, 41(3), 422-466.
5. Asari, F. F. A. H., Baharuddin, N. S., Jusoh, N., Mohamad, Z., Shamsudin, N., & Jusoff, K. (2011). A vector error correction model (VECM) approach in explaining the relationship between interest rate and inflation towards exchange rate volatility in Malaysia. *World applied sciences journal*, 12(3), 49-56.
6. Barbieri, K. (2002). *The liberal illusion: Does trade promote peace?*. University of Michigan Press.
7. Bisca, P. M., Brown, E. K., Calandro, E., Cilliers, J., GEBREMICHAEL, M., ISACSSON, J., ... & WOOLFREY, S. (2021). Free trade, peace and prosperity. European Union Institute for Security Studies (EUISS).

8. Çakmak, C., & Ustaoglu, M. (2017). Politics vs. trade: a Realist view on Turkish–Israeli economic relations. *Israel Affairs*, 23(2), 303-323.
9. Çakmak, C., & Ustaoglu, M. (2017). Politics vs. trade: a Realist view on Turkish–Israeli economic relations. *Israel Affairs*, 23(2), 303-323.
10. Carter, D. B., & Poast, P. (2020). Barriers to trade: how border walls affect trade relations. *International Organization*, 74(1), 165-185.
11. Chen, Y., Jiang, J., Wang, L., & Wang, R. (2023). Impact assessment of energy sanctions in geo-conflict: Russian–Ukrainian war. *Energy Reports*, 9, 3082-3095.
12. Culbertson, J. M. (1985). A realist view of international trade and national trade policy. *NYUJ Int'l L. & Pol.*, 18, 1119.
13. Dimitrova, D. (2005). The Relationship between Exchange Rates and Stock Prices: Studied in a multivariate model. *Issues in Political Economy*, Vol (14).
14. El Asmi, R. C. (2018). Trade and Conflict: The Case of the Arab Maghreb Union. *Topics in Middle Eastern and African Economies*, 90-103.
15. Geldi, H. K. (2012). Trade effects of regional integration: A panel cointegration analysis. *Economic Modelling*, 29(5), 1566-1570.
16. Gul, A., & Khan, A. W. (2021). The Effect of Small-Scale Industries on Employment Level in Pakistan. *Journal of Research and Reviews in Social Sciences Pakistan*, 4(2), 1393-1404.
17. Gul, A., Sadiq, S., & Khan, S. U. (2023). Conflicts and The Structure of Economy: A Case of Trade in Pakistan. *Journal of Development and Social Sciences*, 4(4), 23-42.
18. Hecq, A. (1996). IGARCH effect on autoregressive lag length selection and causality tests. *Applied Economics Letters*, 3(5), 317-323.
19. Javaid, P. D. U., & Sahrai, N. (2020). Conflict management between Pakistan and India: Challenges and failures. *South Asian Studies*, 31(1).
20. Johansen, S. (1988). Statistical analysis of cointegration vectors. *Journal of Economics Dynamic and Control*, 12, 231-254.
21. Johansen, S., Juselius, K. (1990). Maximum likelihood estimation and inference on cointegration with applications to the demand for money. *Oxford Bulletin of Economics and Statistics*, 52, 169-210.
22. Kamin, K. (2022). Bilateral trade and conflict heterogeneity: The impact of conflict on trade revisited (No. 2222). Kiel Working Paper.
23. Kastner, S. L. (2006). Does economic integration across the Taiwan Strait make military conflict less likely?. *Journal of East Asian Studies*, 6(3), 319-346.
24. Khan, A., Rani, F., & Khan, P. (2023). India and Pakistan Trade: A Vision for Peace. *Global Political Review*, VIII, 8, 29-38.
25. Khan, H. I., & Mahmood, Z. (2017). Trade creation vs. trade diversion and general equilibrium effects in regional and bilateral free trade agreements of Pakistan. *Perspectives on Pakistan's Trade and Development*, 39.
26. Kiran, A. (2018). Is International Trade Reduces the External Conflicts? Case Study of Pakistan and India. *International Journal of Economics & Management Sciences*, 7(1), 504.
27. Korwatanasakul, U. (2022). Revisiting Asian economic integration: challenges and prospects. *Journal of the Asia Pacific Economy*, 27(2), 199-222.
28. Kousar, R., Ahmed, S., & Bhadra, S. (2023). Geopolitical Dynamics and Their Impact on Trade between India and Pakistan: A Comprehensive Analysis. *Peace Review*, 35(4), 574-587.
29. Krpec, O., & Hodulak, V. (2019). War and international trade: Impact of trade disruption on international trade patterns and economic development. *Brazilian Journal of Political Economy*, 39, 152-172.
30. Lee, J. W., & Pyun, J. H. (2016). Does trade integration contribute to peace?. *Review of Development Economics*, 20(1), 327-344.
31. Lehmann, J. P., & Lehmann, F. (Eds.). (2010). *Peace and Prosperity Through World Trade: Achieving the 2019 Vision*. Cambridge University Press.
32. Maurya, P. K., Bansal, R., & Mishra, A. K. (2023). Russia–Ukraine conflict and its impact on global inflation: an event study-based approach. *Journal of Economic Studies*, 50(8), 1824-1846.
33. McDonald, P. J. (2004). Peace through trade or free trade?. *Journal of conflict resolution*, 48(4), 547-572.
34. Mehmood, N. (2023). *Political Conflict and Arms Control: Pakistan-India Policy Analysis 1988–2008*. Rowman & Littlefield.
35. Nerlinger, M., & Utz, S. (2022). The impact of the Russia-Ukraine conflict on energy firms: A capital market perspective. *Finance Research Letters*, 50, 103243.
36. Peterson, T. M., & Wen, S. (2021). International trade, cooperation, and conflict: The role of institutions and capabilities. *Foreign Policy Analysis*, 17(4), orab027.

37. Phillips, P.C.B., Perron, P. (1988), Testing for unit roots in time series regression. *Biometrika*, 75, 335-346.
38. Pieterse, J. N. (2012). Periodizing globalization: Histories of globalization. *New Global Studies*, 6(2).
39. Polachek, S. W. (2007). How trade affects international interactions. *The Economics of Peace and Security Journal*, 2(2)
40. Rehman, R., Sadiq, S., Khan, S. U., & Gul, A. (2023). Long Term Trends in Rainfall and Temperature Effects on Food Security in Pakistan: An Analysis of 75 Years (1947-2021):- . *Qlantic Journal of Social Sciences*, 4(3), 55-68.
41. Said, S.E., Dickey, D. (1984), Testing for unit roots in autoregressive moving-average models with unknown order. *Biometrika*, 71, 599-607.
42. Sarker, M. (2023). *US Pivot Toward India After 9/11: From a Dubious Relationship to a Strategic Partnership*. Rowman & Littlefield.
43. Schultz, K. A. (2015). Borders, conflict, and trade. *Annual Review of Political Science*, 18, 125-145.
44. Sheer, V. C. (2000). Conflict processes in China's international export trading: Impact of the Chinese culture and the trading culture. *Intercultural Communication Studies*, 9(2), 47.
45. Shoukat, H. (2023). *Essays on economic growth, military expenditure, armed conflict, and corruption* (Doctoral dissertation, University of Reading).
46. Simmons, B. A. (2003). Trade and territorial conflict: International borders as institutions. Paper contributed to the project on Globalization, Territoriality, and Conflict.
47. Sridharan, E. (2020). International Relations Theory and the India—Pakistan Conflict. In *The India-Pakistan Nuclear Relationship* (pp. 26-50). Routledge India.
48. Tamaş, A., & Miron, D. (2021). The governance impact on the Romanian trade flows. An augmented gravity model. *Amfiteatru Economic*, 23(56), 276-289.
49. Tian, J. (2023). Liberalism to Realism: Economic Interdependence on Political Relationship in Sino-Japanese Case.
50. Wami, N. (2021). The Trade-Conflict Nexus in SAARC Region: A Gravity Model Approach. *Kardan Journal of Economics and Management Sciences*, 4(2), 56-74
51. Whitten, G., Dai, X., Fan, S. and Pang, Y., 2020. Do political relations affect international trade? Evidence from China's twelve trading partners. *Journal of Shipping and Trade*, 5, pp.1-24.
52. Zeng, Y. (2021). Biding time versus timely retreat: Asymmetric dependence, issue salience, and conflict duration. *Journal of Peace Research*, 58(4), 719-733.