

**INDIA AND PAKISTAN:  
OPPORTUNITIES IN ECONOMIC GROWTH,  
TECHNOLOGY, AND SECURITY**

**A Report of the Bellagio\Balusa Group**

**by Shirin Tahir-Kheli**

*Based on a conference of senior Indian, Pakistani, and U.S. participants,  
held at the Rockefeller Conference Center, Villa Serbelloni, Bellagio, Italy  
June 19-23, 1996*



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## Preface

The Foreign Policy Research Institute is proud to present this report of the Conference on India and Pakistan: Opportunities In Economic Growth, Technology and Security, held at Bellagio, Italy on June 19-23, 1996. The conference brought together high-level officials and former officials from India, Pakistan, and the United States under the auspices of the W. Alton Jones Foundation and the Rockefeller Foundation. Their discussions were broad-ranging and most constructive, giving hope for the future of regional cooperation in a strife-ridden part of the world.

The proceedings at Bellagio were part of a larger project on South Asia: Energy and Environment, begun at FPRI by Senior Fellow Ambassador Shirin Tahir-Kheli. Its purpose is to encourage regional cooperation in the crucial areas of energy and the environment, both of which are increasingly important if the peoples of South Asia are to develop their enormous latent potential. Ambassador Tahir-Kheli's extensive academic and U.S. government experience has enabled her to bring together a unique series of conferences and studies on this theme.

Our thanks go to the United Nations Development Program, W. Alton Jones Foundation, and the Rockefeller Foundation for their support. We at FPRI look upon this project as an example of how a "think tank" can be a catalyst for ideas that help to resolve international problems. The post-Cold War era offers the United States and other nations the opportunity to set a course toward a peaceful and democratic future. It is our task, as a policy research institute, to illuminate the way.



Harvey Sicherman  
President

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A  
REPORT  
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BELLAGIO / BALUSA GROUP

JUNE 19-23, 1996

A small group of senior officials and former officials from India, Pakistan, and the United States and a businessman from Pakistan met at Bellagio, Italy, under the auspices of the W. Alton Jones Foundation and the Rockefeller Foundation to examine ways in which the future of the subcontinent could be substantially different than has been the history of the past fifty years with two major wars and a legacy of deep suspicion. Participating in this exercise were the following:

Dr. V.S. Arunachalm

Major General Mahmud A. Durrani

Air Chief Marshal S.K. Kaul (Retired in 1996 as Chief of the  
Indian Air force)

Lieutenant General Farrakh Khan (Retired in 1996 as Chief of  
the General Staff)

Governor G.C. Saxena

Mr. Yusuf H. Shirazi

Dr. Toufiq Siddiqi

Dr. Shirin Tahir-Kheli

The meeting was structured to examine the benefits of cooperation, examples of cooperation as displayed in a current exercise on collaboration in specific projects in the energy and environment areas.<sup>1</sup> Potential areas for economic collaboration; security aspects of economic cooperation; the role of security; and, the role of outside states both regional and non-regional into the 21st century were also part of the agenda. The discussion was based on a discussion of goals, priorities, practical steps for implementation including timing. The participants expressed their personal views, not those of their respective governments or institutions.

At the outset, the participants agreed that there was a great deal for India and Pakistan to build on if the history of hostility that has prevailed thus far is ended. It was noted that history can be changed by doing the right thing and that this may be an appropriate time and therefore it is important that decision makers, present and past, keep a dialogue going. The group felt that it was important not to remain prisoners of history, condemned to relive it. Rather, opportunities creating a new future needed to be pursued. An assessment of where India and Pakistan stood in the world today revealed that both countries were two of the poorest with a per capita GNP of approximately \$300, the world's largest number of illiterates, less than {300kw generation capacity}, only 1 telephone per 100 in the population. However, there were also some bright spots in that both countries had abolished famine and the green revolution had changed begging bowls into bread baskets. There were several important reasons, of which the age of the population is one, for providing for a better future as nearly 40% of

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<sup>1</sup> This project, Co-Chaired by Shirin Tahir-Kheli and Toufiq Siddiqi is being funded by the United Nations Development Programme and involves India, Pakistan and Nepal. The areas for collaboration are: a joint gas pipeline from the Persian Gulf or Central Asia, through Pakistan to India; Renewable Energy to include Micro-Hydro; Energy Efficiency; and, Waste Management. Preliminary feasibility studies have been done jointly and the projects are in the process of seeking funding. The country teams include three technical members and two policy makers from each country representing each of the two main political parties. The technical teams quickly replaced country teams as the collaboration has been phenomenal in this the first exercise of its kind.

Indians are below the age of 20 years as is 43% of Pakistan's population. Nearly 10 million jobs need to be created each year to provide for the growth in population. With proper policies and planning in the field of agriculture alone, 3 million new jobs could be created each year by a shift in policies such as the creation of factories that process agricultural products being located at the source rather than in urban areas where there is overcrowding and a host of other problems including political instability.

In the area of infrastructure, it was pointed out that the mileage of all Indian roads is equal to that of New York state in the United States. There was an enormous potential for employment as investment in roads in India is estimated at \$65 billion.

Telecommunications offer another important area for growth and collaboration. \$60 billion in agreements have been signed between India and various international companies in the since 1994. 10 million new lines have been laid with an anticipated need of 40 million more. In comparison, China has signed for 100 million lines. Telecommunications was said to offer a good area for joint collaboration between India and Pakistan and a Joint Sector Company was mentioned as a way of establishing two private companies with the potential sale of shares and products internationally.

Energy needs of India and Pakistan are expected to double every 10-15 years for the next fifty years. Thus it was said that there is scope for considerable cooperation in the area of energy. All participants expressed strong support for the project promoting the building of a joint gas pipeline from the Persian Gulf or Central Asia, through Pakistan to western India. While this pipeline would only meet a portion of the Indian demand for energy and account for roughly 7-9% of the power capacity of India, it was seen as a sensible project that would offer the benefit of building confidence between the two countries. Fears of shut off of gas supplies to India meant emphasis on security of supplies. Such security was seen as achievable through the involvement of

third parties, the offer of guarantees and the checks and balances that the supplier nation would require. Other measures to increase the security of supply were: provision of penalty clauses under international law; payment by Pakistan for revenue losses to the supplier country in case of a shut-down in case of conflict. The participants felt that the handling of the pipeline construction and operation as a joint venture by India and Pakistan through the creation of a joint operating company would itself help with the financing and creation of confidence in the smooth flow of gas to both countries.

Trade was another area of discussion. The creation of the South Asia Free Trade Area (SAFTA) offered opportunities. There is some sentiment in both countries that trade between the two countries needed to be managed carefully in order to preserve its compatibility and prevent severe competitiveness from overwhelming relations. However, trade even within the list of 570 items currently allowed was seen as a beneficial opening for greater interaction at a later stage. The group discussed the WTO requirement for the granting of "Most Favored Nation" status, which India already has granted and Pakistan is in the throes of its decision. Some felt that certain sectors of the industry would need further protection but the larger sentiment was for the reciprocal granting of MFN status. It was noted that the very wording i.e. most favored gave the wrong impression as it denoted a status above all others and that in the Indo-Pakistan context, perhaps "marginally favored was a more appropriate description of MFN!

Economic interdependence was recognized as a creator of a better relationship as it will counter traditional security concerns. Starting some economic linkages were thought to help create complementarity and the example of the American economic opening to China was noted. The risk of failure was recognized but, it was said by one participant "Let us not go down in history as never even having tried."

Security issues were discussed in considerable detail along with an analysis of ways in which these issues helped

or hindered cooperation. Given that security concerns tend to over-ride economic sense, the participants felt that confidence building measures in the security arena were a must.

The group felt it would be artificial to shy away from a discussion of the Kashmir issue which the Pakistani participants noted was the "core" issue between India and Pakistan and one where only a solution based on "justice" would prove to be a long lasting one. It was recognized that both countries have drawn hard lines but a fresh look may be needed. One participant said that unless both sides take practical measures to cool the temperature and tensions, neither side will be in a position to show any flexibility to the detriment of the long term interests of each country. There was sentiment that if the Arabs and the Israelis had found some common ground, so could India and Pakistan. While the issue could be a "time-bomb" that needed defusing, the Indian participants felt that the price of current policies in Kashmir in military and economic terms were bearable for India. However, India was under international scrutiny and the political and human costs were high and therefore the Indian government should seek accommodation with the people of the state. For the Pakistani participants, Kashmir had to be on the agenda of future normalization between India and Pakistan. Compared to the normalization between states of Europe, South Asia was different in that, unlike Europe, it is not a grouping of near-equal states. It was noted that both governments are in a tough position on Kashmir which limited their freedom of movement.

The role of democracy in both states was noted as was the shift in regional and socio-economic lines of the new government in power in Delhi. There was discussion of the changed priorities of the government which could lead to changes in the direction of India's relations with Pakistan. Already, there had been talk of re-starting the Foreign Secretaries talks to consider a large agenda. Political level talks were said to be beneficial and thus should be held annually without a break. These talks could take annual

stock of the state of the relationship and discuss a range of pending issues and problems.

While India-Pakistan issues were best settled in a bilateral fashion according to the perception of the Indian participants, they noted that on matters involving nuclear capability and the Comprehensive Test Ban Treaty, China was very much a factor in Indian calculations. Even though India did not see Pakistan as such a serious threat to India's territorial integrity, China's support of Pakistan was perceived as contributing to Pakistan having become a "persistent high profile adversary" against India. Participants felt that U.S. policy was discriminatory.

Participants believed that it was important not to expect overnight answers. Parallel approaches for greater cooperation were necessary. They noted that an overall political dialogue, to include nuclear issues was necessary to help move relations toward a more positive future. They felt there was greater recognition of this factor now in both countries as there was greater awareness that the subcontinent was a loser because of the prevailing hostilities and a non-collaborative record.

While a large menu of items for building greater confidence between India and Pakistan was discussed, the group focused on the following specific areas and ideas for early consideration and implementation. These are noted by category:

#### ECONOMIC

--Expand trade taking into account the sensitivity of both sides

\*Experts of both sides to meet in order to work out details

\*Governments to identify items beyond the current list in consultation with the experts



- Encourage Joint Ventures by both governments, in the fields of petroleum products and agro-industry
- Build Mutual Dependence through joint Production of a Short List of Items
- Pursue the Joint Gas Pipeline Project as it is in the Mutual Benefit of Each country
- Encourage Joint Participation in Building up Infrastructure in both countries to include Highways, Power Plants and Telecommunication facilities
- Joint Collaboration and Development of Information Technology
- Curtail Smuggling (valued currently at \$1 billion) and the regularizing of trade to prevent revenue losses to the governments in uncollected tariffs
- Exchange Visits of Chambers of Commerce to discuss joint projects, trade laws etc.
- Joint Development of a SAARC Communications Satellite for Launching in the Year 2002

#### POLITICAL

- Keep Political Dialogue Uninterrupted
- Annual Meetings between the Two Prime Ministers to cover a comprehensive agenda, including nuclear issues and ways of strengthening the non-attack on nuclear facilities agreement
- Establish and Utilize Hot Lines between the Prime Ministers (currently existing between the DGMOs in the military and the sometimes functioning one between the two Foreign Secretaries)
- Revive the Indo-Pakistan Joint Commission

- Liberalize Visas and Simplify Arrangements and Ease Travel Between India and Pakistan. Thin out "prior notification" categories in both countries
- Cooperate in the Elimination of Narcotics and Terrorism
- Reduce Standard Propaganda
- Restrain Subversive Elements
- Conscious Decision to Avoid Border Violations
- More Newspaper and Electronic Media Correspondents on Both Sides with Access to Political Leaders

#### MILITARY/SECURITY

- Initiate Military Leadership Interaction which is Absent, starting with visits of National Defense College Teams on Study Tours
- Hot Lines at the Military Levels beyond current level to work better, more regular and routine usage
- Periodic Review of Existing Agreements
- Pre-Notification of Large Scale Military Exercises
- Consultation in Holding Military Exercises
- Strike Forces to be Kept Away at Reasonable Distances and Timely Notice of Movement
- Exchange Observers to Each Others Military Exercises
- Visit to Each Other's Military Bases
- Reach Agreement on Siachin and Dis-Engage Military Troops. An early settlement of this issue would be a public

signal of changed policies reflecting a thaw between the two countries.

- Renew Discussions on a "No War" Pact
- Restraint on Deployment of Missile Delivery Systems (Tacit Understanding on a Quid Pro Quo)
- Non Use of Weapons Based on Nuclear Technology

\*\*The following two items were discussed along with others but not agreed to although some of the participants felt that the issue was simply "left for further examination and deliberation":

--[No threat of use of nuclear weapons to go beyond the "no first use" formula]

--[Build on the Non-Attack on Nuclear Facilities Agreement to incorporate other elements in nuclear technology]