

Balusa II

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

A Report of the Maldives\Balusa Group

by Shirin Tahir-Kheli

*Based on a conference of senior Indian, Pakistani, and U.S. participants,
held at the Paradise Island Resort, The Maldives, November 15-18, 1996*



PREFACE

The Foreign Policy Research Institute is pleased to present this report of the Conference on India and Pakistan: Opportunities in Economic Growth, Technology, and Security, held in the Maldives, November 15-18, 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. This was the second conference in a larger project on South Asia: Energy and Environment, begun at FPRI by Senior Fellow Shirin Tahir-Kheli. Unlike the previous session, which concentrated on politico-strategic issues, this one stressed the economic dimension. Its theme was well-expressed by one participant: "We want to turn a new page."

Our thanks go to the W. Alton Jones 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 ease international tension. 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

A small group of Indian, Pakistani and U.S. participants met in the Maldives under the auspices of the W. Alton Jones Foundation to examine ways in which a collaborative relationship between India and Pakistan could create a better future for the subcontinent. This, the second exercise in the series, focused on economic relations. There was consensus that improved economic ties are a necessity of the changed world environment in which the nations of South Asia will otherwise become marginalized. The list of participants and a brief biography of each follows:

Shahid Kakhan Abbasi

Former Member, National Assembly of Pakistan; Joint Secretary and Member Central Working Committee, Pakistan Muslim League; former Chairman, National Assembly Standing Committee on Defense.

Syed Babar Ali

Industrialist; Pro-Chancellor Lahore University of Management Science; Former Minister of Finance.

Vijai Kapur

Managing Director, Vijai Kapur and Associates, Member of National Council of Confederation of Indian Industry and Chairman of its National Committee on Telecommunications.

Air Chief Marshal S.K. Kaul

Retired as Chief of the Indian Air Staff on December 31, 1995; Held two operational Commands; Took part in operations in the Indo-Pakistan conflict in 1965 and 1971; served as Air Attaché in Moscow (August 1982 - January 1986).

Ejaz Ahmad Naik

Retired from the Civil Service of Pakistan after holding key positions including the last one as Secretary General, Economic Affairs. Other portfolios were those as Secretary Commerce (where he worked directly on Indo-Pak trade issues); Secretary Planning; Cabinet Secretary; Establishment Secretary.

Governor Girish Chandra Saxena

Former Member of the Indian Police Service; Served in the Indian Foreign Intelligence Service (which he headed from March 1983 - January 1986); Advisor to the Prime minister of India on National Security Matters (February 1986 - January 1988); Governor of Kashmir (May 1990 - March 1993).

Shirin Tahir- Kheli

Senior Fellow Foreign Policy Research Institute, Philadelphia; Formerly with the United States Government as United States Ambassador for Special Political Affairs to the United Nations; Director for Near East and South Asia and Director for Political - Military Affairs, National Security Council; and Member Policy Planning Staff, Department of State.

A Different Future

The tone for the meeting was set early on as in the words of one participant “people in India see the futility of past confrontation and want to turn a new page”. Throughout the discussions, the need for a different future for the subcontinent was recognized and all of the participants felt that it was possible to move forward toward that goal.

Participants felt that it was appropriate to assess political developments following changes in both countries. They noted that diffusion of political power from the Hindi belt to other areas is a healthy development for Indian democracy even though that created its own tensions. At the same time, priorities have shifted from those relating to defense to other more basic bread and butter issues. Economic liberalization is no longer a question although the manner in which it proceeds can be the subject of debate.

Pakistan was said to have faced a qualitative change in 1988 when power passed to a post-independence generation. The 1991 economic reforms increased the chances of greater progress. However, political difficulties compounded economic problems. By 1996, debt servicing overtook defense spending by 30 % and it became difficult for any government to find a way out of the debt trap. Increasingly, people with experience at the local level are entering politics. There is a strong rural-urban political divide and the battle ground is the Punjab. All checks and balances have collapsed and the imposition of Article 58 2(B) of the constitution for the fourth time demonstrates the difficulties of governance in the absence of adherence to the rule of law by the party in power.

The destinies of India and Pakistan were said to be linked together, either “as friends or as enemies, they cannot be indifferent to each other”. The lack of a dialogue between the two governments and peoples makes for distance in relations. Participants found the similarities in their views surprising but refreshing.

Trade and Economic Cooperation

Trade and economic cooperation was recognized as the cement that could hold the two countries together. Trade benefited the people of both countries. Business leaders are the ones who could make the practical difference to the relationship by taking the initiative. The example of ASEAN was given reflecting the firm belief that similar policies between India and Pakistan toward collaboration on the economic front could help deal with the difficult issues by creating a stake for cooperation. It was noted that practically all of Asia beyond the subcontinent had moved ahead and had begun to integrate into the world economy. 33% of the worldwide trade involved developing countries. Of that, India and Pakistan together accounted for only 1%. A more intensive and creative effort is thus needed to provide for balanced

trade, collaboration in the building up of the infrastructure and an end to all efforts aimed at blocking each other.

Trade was said to be extremely important and the "continuation of politics by other means". The quantum of overall trade with no list of items to be traded is the ideal approach for future Indo-Pak trade. In this connection, a point was made by a Pakistani participant that to mitigate apprehensions of flooding the markets with goods of the other country, a quantum limit could be stipulated on a year-to-year basis on two-way volume of trade at least for the first few years (with a suggested limit of \$ 1 billion each way for the first year and the ultimate goal of \$ 2-3 billion in each way trade). Both sides recognized the importance of public education regarding trade issues, the advantages accruing to both from invigorated economic relations and noted that Indian business must recognize that they will not only sell to Pakistan but also buy from it.

The term "Most Favored Nation" (MFN) creates complications for relations between India and Pakistan by implying a lot more than what it actually represents, i.e. the commitment to trade on a non-discriminatory basis. Membership in the World Trade Organization requires both India and Pakistan to subscribe to the above principle. The Pakistani import door is partially open while that of India is already open. However, it was said that while the Indian import regime is restricted, the Pakistani one is liberal. Given the narrow base of potential Pakistani exports to India, the balancing of Indo-Pak trade was a difficult task. It was noted that a large number of businessmen in Pakistan are unaware of the fact that India has granted MFN status to Pakistan. The general lack of knowledge about each other remains a problem and hence there is a need for trade and industrial exhibitions as one way of informing interested parties.

The participants felt that one of the more promising developments is the momentum for the development of the South Asia Preferential Trade Arrangement (SAPTA) and the South Asia Free Trade Area (SAFTA). These offer a way out of the trade balance impasse by offering a mechanism through which a list of items for concessional trading can be initiated. The ultimate goal is for free trading within the subcontinent which contains 1/5 of the human race. The target for the implementation of SAFTA is 2005 while India has offered to move it forward to the year 2000. SAARC was seen as an important vehicle for intra-regional trade. Under the aegis of SAARC, arrangements can be made for a variety of issues such as those related to investment promotion, protection of investments, repatriation of profits, avoidance of double taxation, arrangements for the settlement of trade disputes, streamlining and harmonizing of customs procedures, etc. The upcoming SAARC meeting of Ministers of Commerce and the holding of a trade fair in Pakistan for member states in the latter half of 1997 was noted as an encouraging sign.

The role of multinational corporations and institutions was discussed as the participants spoke of joint development in both states by the multinationals. The provision of economies of scale was also recognized as an incentive for greater investment in the two countries although the need to provide for the security of investment had to be met. The importance of improved political relations between

India and Pakistan was noted as being necessary for attracting foreign companies to undertake joint ventures. Under such an arrangement, some items could be manufactured in Pakistan and others in India with the markets open to both and even beyond to other countries. The examples of Nestle', Lever Brothers, and the automotive industry were cited. A common fund for the marketing of Indian and Pakistani goods overseas could be established. One participant pointed out that joint ventures between India and Pakistan may be the best defense against future wars.

An effort to increase dialogue through the exchange of ideas was deemed necessary. The role of the media, scholars, knowledgeable retired bureaucrats economic leaders and others in the above is critical. A public debate on television and in the print media along with regional seminars is badly needed for the discussion of economic issues. The exchange of academics and scholars along with the groups listed above is essential to air the fears and to deal with them. All of this requires a more liberal visa policy designed to encourage travel rather than to exclude it.

The Pakistani side noted that one lingering issue that cannot be forgotten is Kashmir and that it cannot be wished away. In the discussion on Kashmir, Indian and Pakistani participants noted that there must be the start of a dialogue to look for a genuine meeting of minds. To start a meaningful dialogue on Kashmir, the Indian participants stressed the need for reduction in propaganda against each other, especially in the electronic media and suggested that measures be taken by either side to cool the temperature along the line of control and to reduce the level of violence. Economic cooperation and trade involving all Kashmiris and India and Pakistan was discussed as one way of creating a genuine sense of participation and the opening of borders along the current line of control. Trade and tourism would strengthen ties between all three parties. The key in Kashmir was to find a "reasonable" solution with which neither India nor Pakistan would be entirely happy but could live with.

Other areas for cooperation were those such as the Chambers of Commerce and the governors of the reserve Bank of India and the State Bank of Pakistan respectively. It was noted that the Chambers of Commerce were already in contact and that the visits of each side to the other (such as that of the Confederation of Indian Industries – CII -- to Lahore in May 1996 and the anticipated reciprocal visit from Pakistan to Delhi in early 1997) are good beginnings which help create the climate for further collaboration.

International institutions with a base in each of the two countries, such as Citibank, are useful in encouraging a meeting of minds in a low key fashion. A variety of interactions in a number of ways are the best way of creating the necessary political will to shape a different and more productive future for India and Pakistan. All participants agreed that there is a need for better relations, greater economic cooperation and the fact that other states can assist through joint ventures and technology.

The discussion of general trends was followed with an agreed list of confidence building measures which followed on to that agreed to by a meeting of senior Indian and Pakistani leaders at Bellagio¹ in June, 1996. The following was distilled from a lengthy discussion of the merits and the problems associated with each. Similar to the discussion of the Balusa I group, those participating in Balusa II agreed to make the recommendations on the record. These are noted below by category. (Items emphasized for early implementation are underlined).

ECONOMIC

- ◆ A Joint Meeting of the Foreign and Finance Ministers of India and Pakistan in early 1997
- ◆ Expand Trade taking into account the sensitivity of both sides (special emphasis placed on this item)
- ◆ Private Sector organizations of both sides to meet to work out details
- ◆ Governments to proceed with SAARC mechanisms for expanding the lists of items and removing trade barriers while recognizing that the bilateral India-Pakistan agenda must move forward
- ◆ Encourage Joint Ventures and set up a joint mechanism for clearance on a fast track in the fields of petroleum products, agro-industry, tourism, telecommunications, infrastructure, etc.
- ◆ Pursue the Joint Gas Pipeline Project as it is in the Mutual Benefit of Both Countries
- ◆ Encourage R&D Collaboration, Educational and Student Exchanges, joint work in Environmental Protection
- ◆ Prevent Smuggling (\$ 1 billion annual value) and prevent loss of revenue for governments through the regularization of trade
- ◆ Private Sector Exchange Visits including those between Chambers of Commerce to discuss joint projects, trade laws, etc.
- ◆ Joint Development of a SAARC Communications Satellite by the Year 2002
- ◆ Encourage Tourism Between India and Pakistan

¹ Shirin Tahir-Kheli, India And Pakistan: Opportunities in Economic Growth, Technology and Security, A Report of the Bellagio\ Balusa Group, June 1996, Philadelphia, Foreign Policy Research Institute.

POLITICAL

- ◆ **Restart the Political dialogue**
- ◆ **Make Prime Ministers Meetings an Annual Event and the First Priority after the Pakistan election in February 1997 to cover a comprehensive agenda to include nuclear issues and ways of strengthening the Non-Attack on Nuclear Facilities Agreement**
- ◆ **Establish and Utilize Hot Lines Between the prime Ministers and the Foreign Ministers**
- ◆ **Revive the Indo-Pakistan Joint Commission**
- ◆ **Liberalize Visas and Simplify Arrangements and Ease Travel Between India and Pakistan. Thin out the "Prior Notification" categories in both countries**
- ◆ **Cooperate in the elimination of Narcotics and Terrorism**
- ◆ **Reduction of Propaganda Against Each Other**
- ◆ **Restrain Subversive Elements Against Each Other**
- ◆ **Conscious Decision to Avoid Border Violations**
- ◆ **Emphasize Greater Exchange of Newspaper and electronic Media correspondents on Both Sides with Access to Political Leaders**

MILITARY/SECURITY

- ◆ **Initiate Military Leadership Interaction which is Absent, starting with the visits of National Defense College Teams on Study tours**
- ◆ **Hot Lines at the Military Levels to work better, more regular and routine usage**
- ◆ **Periodic review of Existing Agreements and Public acknowledgment of the same**
- ◆ **Pre-Notification of Large Scale 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 Disengage Military Troops at the Earliest (which would convey an early signal of improved relations)**
- ◆ **Renew discussions on a "No War" Pact**
- ◆ **Restraint in Deployment of Missile Delivery Systems (Tacit Understanding on a Quid Pro Quo Basis)**
- ◆ **Non use of Weapons Based on Nuclear Technology**