India Pakistan Relations: Creating Stakeholders and Constituencies for Interdependence

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India and Pakistan remained an integrated economic system and single market before 1947. The undivided India had increasingly sprawling social and physical infrastructures that facilitated economic exchanges both intra-regional within South Asia and cross-regional with regions of central and west Asia and China. The partition abruptly disrupted not only the economic connections but also the very historic-geographical basis of socio-cultural linkages. Suddenly the market was segregated, economic systems dislocated and politico-social linkages cut off. The geographical space shrunk, physical contacts literally ended and psychological gaps increased. The result is abysmally low economic exchanges, sharp erosion on political confidence, huge deviation from the rational matrices and more seriously a major infliction of damage on the psychology of general mass.

The steady disintegration of this compact economic system and single market has done very serious damages to both sides of the border. The cost of non-cooperation has been irrevocably high in every aspects of human lives. India remained a major trading partner constituting over 40 and 22 percents of its total global exports and imports of Pakistan in 1951-52. Over the years India's share in Pakistan's global exports and imports has steadily gone down to touch a very insignificant figure 2 and 2.6 percent in 2005.[1] This is despite close physical proximity, cost effectiveness, product complementarities, socio-cultural bonds and availability of basic infrastructure developed during the pre-independence period. Such a low level of trading activities have in fact, defied all economic and business logic.

Though the political imbroglios including three wars and Kargil are considered to be the major factors attributed to this poor interaction, there are several other major detractions and deterrents that preclude India and Pakistan to consolidate their economic linkages.

First, there are a strong presence of both indigenous and multinational companies that drive the economic activities in Pakistan. They have their production bases both within and outside the country for which Pakistan has been a captive market. This varies from tea of which Pakistan is one of the largest importers in the world to cement, rubber, textiles, tyres, pharmaceuticals and machineries. The non-extension of most favoured nation (MFN) treatment to India which is mandatory for a member of the World Trade Organisation, the inclusions of a large number of non-tradable items in the limited freely importable lists from India and several other non-tariff barriers based on misplaced apprehensions are all indicators of pressures built on the Pakistani policy makers by these powerful non-state actors. These companies have in fact become a major deterrent to any proposal of liberalizing trade with India. Naturally for them the core competence lies in playing and thrusting Kashmir as the central issue.

Secondly, the complex sources of foreign aid to Pakistan mostly as tied aid have changed the entire directions and compositions of its foreign trade. Of the total foreign economic assistance contracted by Pakistan up to December 1980, as high as 91 percent was tied to specific projects or commodities. This naturally confined Pakistan to purchase all the aid related materials from the donor countries.

Thirdly, Pakistan shifted its trade focus increasingly to countries offering machinery on suppliers credit basis. Late Mahbub ul Haq, a well known Pakistani economist, estimated in 1960s, that the prices of commodities supplied to Pakistan under a number of tied credit agreements had exceeded the lowest quoted price in the international market by up to 170 percent. This deprived the Pakistani consumers from other competitively priced sources and made Pakistan an artificially high cost economy.

Finally, because of the very nature of political systems and regimes, the private sector remained highly patronized, supervised and regulated in Pakistan thereby crushing any independent decisions making on cross border economic interactions.

All these blocks have gradually metamorphosed into "negative" stakeholders implying that they all work mostly on the line of keeping India-Pakistan tensions and conflicts alive. Many of them continue to thrive on this unsustainable economic rationale. More seriously, there has been a parallel presence and institutionalization of another set of parasitic stakeholders created by the politico-military vested interests. This includes smuggling syndicates, arms purchase lobbies, traders through third countries like Dubai, Hong Kong and Singapore, commission agents and, of course, border officials. In other words, higher the possibility of conflict between India and Pakistan, the better and the wider are the opportunities for these parasitic-miniscule but heavily patronizing conglomerates to maximise their gains.

So far the confidence building measures (CBMs) between India and Pakistan have exceedingly depended on military and political textual agreements. These political and military CBMs either have not sustained or have remained totally emasculated and ineffective. These CBMs were addressed mostly to those who had serious stake holding in perpetuating the conflict. Many of these CBMs hit the trough without reaching the peak. The fate of many of these crucial CBMs were dependent upon and determined many a time by inept and highly unstable political regimes, pathologically insecure military generals and inward looking bureaucrats. The entire civil society was sidelined to the periphery as observers and analysts of no consequence.

The Context of New Regionalism

Last few years the very context of India-Pakistan relations has shown some significant shift. This shift has been caused by a number of factors including the end of cold war, advancement of and easier accessibility to modern communications technology, greater human mobility, heavy doses of reforms and liberalization, onslaughts of multiplicity of economic players with powerful cross border linkages, emergence of new power centers including China and India and the increasing take over of the public affairs issues by a new generation. All these have the potentiality to change the very nature of regionalism in South Asia which for decades together have been driven by orthodox variables including the national security consideration. The question is to consciously encourage increasing induction of parameters that govern new regionalism process into the otherwise volatile and vulnerable relations between India and Pakistan.

The new regionalism forms part of a global structural transformation in which non-state actors are active and manifest themselves at several levels of the global system. It could not be understood from the point of view of a single region. The new regionalism also pre-supposes the growth of a regional civil society, opting for regional solutions to some local, national and global problems. Under such circumstances not only economic, but also social and cultural networks are developing more quickly than the formal political cooperation at the regional level. The new regionalism enlarges the scope of 'old regionalism' by incorporating in it aspects which where hitherto exclusive to the 'old regionalism'. In other words, there are several drivers or actors from the State, market and civil society as the pushing forces in the new regionalism.

"The new regionalism also proposes the growth of a regional civil society opting for regional solutions to local and national problems. The implications of this are that not only economic, but also social and cultural networks are developing more quickly than the formal political cooperation at the regional level."[2] Unlike the top-down approach adopted by most of the regional groupings based on traditional paradigm, the new regionalism is mainly triggered from below by i) private market and business oriented forms of regionalization. Private economic forces have been reacting faster or at least more effectively than the state actors to the new situation and the more liberalized political economy. And ii) society induced ones. This is seen in growing interdependence and cooperation between a great diversity of civil society organizations and inter-personal transnational networks (e.g. diasporas, ethnic or family networks, religious ties).[3]

Besides the traditional state policy planners a far more extensive set of actors are emerging across India and Pakistan which have started questioning the State's monopoly in determining various matrices of issues of public interests. These include transnational religious organizations, environmental groups, human rights organizations, regional economic cooperatives, local communities, MNCs, diasporas and migrants/refugees.[4] These actors have entered into various forms of cooperation and collaboration. They vary from informal coalitions to global conferences and from non-governmental organizations (NGOs) and non-official national and international institutions and regional organization working in diverse areas. Many of these non-state actors advocate and advance regionalism for varied reasons. They exert a lot of pressure on official institutions at different levels.

A revealing facet of this new phenomenon is the induction of a novel bottom up forms of regionalism initiated by the civil society which are emerging partly in response to the social disruptions, inequalities and insecurities. There are already very close networking and interactions among human right activists[5], media men[6], social workers[7] and other professionals working on issues of common critical interests. All these have happened spontaneously without the governments coming into picture. Unlike in the past, the Kargil and another bout of military regime in Pakistan did not deter this process.

This is the time to ponder over the vital question of designing new CBMs. And the two very critical interventions in this regard could be easing and promoting people to people contacts and designing layers of economic exchanges and interactions. In the parlance of international relations this is both track II and III diplomacies. As there are stakeholders in keeping the conflict alive, there are stakeholders for building the peace. We have never addressed ourselves to the latter.

Creating Stakeholders and Constituencies for Interdependence

A major drawback of India's diplomacy in Pakistan has been a consistent failure to create its constituency. Unlike other neighbouring countries where there has been a strong Indian constituency based on traditional goodwill, constant and varied interactions and institutional exchanges, there is none in Pakistan where it is needed most. As a result, the orientation of entire Pakistani civil society and people at grass roots for long remained exclusively state driven. The Pakistan as a nation-state has had clear vested interest in propagating a myopic view of India. The impact has been devastating as there has been no popular domestic pressure on Pakistan to strengthen ties with India. Consequently, the people in Pakistan in general lost objective assessment of India's postures and attitudes. This is what India has to seriously address by injecting a range of programmes to sensitise, involve and engage the Pakistanis in a much more constructive and wider framework.

Across South Asia, the CBMs built by the economic stakeholders have always sustained. This is amply substantiated by India's relations with Nepal, Bhutan, Bangladesh and Sri Lanka. There have been serious political crises these countries have faced vis-à-vis India but they have been remarkably momentary and have showed urgent recovery mainly. This is on account of the large scale economic stake holding on both sides of the border. The most recent example is that of the fiercely adverse diplomatic and media exchange between India and Nepal after the hijacking of Delhi bound Indian Airlines flight from Kathmandu in December 1999. The role played by the tourism lobbies as positive stakeholders on both sides of the border did the trick. No one had expected normalcy to return so fast. These deeply entrenched stakeholders in tourism with their forward and backward linkages literally forced their respective governments to come to the negotiating table.

There will be a constant and concerted moves to thwart and abort any move towards creating positive stakeholdings as can be seen in the case of trade policies of Pakistan, recent sugar deals, proposed cross border power trade and overland gas pipelines. The globalisation process led economic reforms is likely to be the most critical factor that could inject and consolidate such positive stakeholdings in India-Pakistan relations. Even if the mindset of incrementalism persists in the improvement of relationship, the actors behind have become more diverse and dynamic in character. The instruments and channels of interactions have become more transparent because of internet and televisions.

Unlike the typical military-bureaucracy combine in Pakistan, which remained a formidable fortress for long, there are IMF-World Bank led players, there is China and more importantly varieties of trans-national corporations. For the later, the strategic intent is corporate gains. And in the attainment of these, transnational bodies are bound to put adequate pressure on the "pull factors" in the domestic circle to open up for a substantive transformation in its dealings with the neighbours. This is what these TNCs have done in many other theatres of bilateral contempt-suspicion.

More interestingly, such kind of structural changes triggered by liberalisation process and globalisation norms are more conspicuously present in India with many cross border common actors and elements. The offshoots are innumerable and varied. And they are driven by common goals of an integrated market. The Indian business and industrial federations like FICCI, CII and PHDCCI have started striking ties with their Pakistani counterparts in a much more professional manner under the aegis of SAARC Chambers of Commerce and Industry. India's infotech professionals are much in demand.

The changing nature of economic actors and their increasing support base in the civil society will rather force policy designers on both sides of the border to procreate modalities for a substantive and lasting interaction. In creating, designing, building and promoting all these economic stake holdings, India's role comes out to be of pivotal nature both as a driving force and consolidating agent. It is however, a purely relative and positive laden concept based on three elements viz., its relatively advanced level of development, experience and accumulated expertise; existing or potential capacity for sharing that knowledge and its relatively important involvement in the global economy. Therefore, instead of traditionally conceived leadership-followership model, Pakistan should be involved as an equal partner. This means India has to consciously and benevolently show a new vistas of partnership.

If we have to visualize 2020 and beyond, losing a few million rupees in extending free trade regime to Pakistan and similar other open arm concessions should no longer be a inhibiting concern. Naturally, Pakistan will have to go much beyond the most favoured nation treatment by reducing the list of negative items to an inconsequential limit, creating a comprehensive investment regime and congenial environment exclusively for the Indian investors and demolishing the archival barriers of flow of information-ideas and most importantly, exchange of people and interaction among the institutions.

Trade Sector Cooperation

The recent announcement by Pakistan to enhance the number of freely importable products from India to over 1000 items has much politico-commercial significance. The inclusion of items like dyes and chemicals, industrial machineries and raw materials indicates an increasing internal pressure on Pakistan to liberalise trade with India. These pressures are in four fronts. First, a large number of MNCs and other Chinese triggered ventures that are operating in Pakistan are eying to access the Indian market in a durable manner. Secondly, there is a bourgeoning constituency including media, consumer groups and development think tanks that favour a normal trading relations with India. Thirdly, a new generation of reforms-shabby bureaucrats is now taking over the crucial commercial desks and redefining Pakistan's external economic relations. And finally the massive price gains and diverse product choices that have accrued to India's other neighbouring free trade partners like Sri Lanka, Nepal and Bhutan have increasingly donned on the Pakistani consumers about the futility and high cost of maintaining artificial restrictions. As a result of free trade agreement, Sri Lanka's exports to India recorded a 9 fold increase from Sri Lankan Rs 4.3 billion in 2000 to SL Rs 39.62 in 2004 and the imports recorded a 3 fold increase from SL Rs 45.47 billion to 145.65 billion.[8]

There are strident efforts even by the Pakistani central bank to drive home as to how its consumers are subject to high cost imports from other countries which could otherwise be substantially eased if normal trade relations are established with India. Unlike the earlier studies commissioned by the Benazir Bhutto's government which were kept as 'confidential documents', the very recent study by State Bank of Pakistan is a public document. It has estimated that the potential of Pakistan-India trade is in the range of $1 billion to $5.2 billion per annum as against the officially reported flow of $ 500 million bilateral trade. Against the backdrop of the bilateral trade composition of 2004, it found that there are 1,181 items worth $3.9 billion common between Pakistan's exports and Indian imports. Similarly, against 2,646 common items of Pakistan's imports worth $7 billion in the year 2004, India had exports worth over $15 billion. This study found that in case of over 50 per cent of these items, the unit values for Pakistan's imports are more than the unit value of Indian exports hinting at the possibility of far cheaper cost of imports from the latter. This study further mentions that Pakistan will on an average have national saving in foreign exchange between $400 million to $900 million provided Pakistan government expands its positive list of importable items from India.[9]

Another study conducted Export Promotion Board of Pakistan compared India's imports of each item from the world, with exports of the same item by Pakistan to the world (reflecting Pakistan's capacity to export that item) and the export of the same item to India. It revealed a high potential for Pakistani exports to India in a number of items including textiles and garments sector.

There are also studies that show how Pakistan annually loses millions of dollars because of irrational policies. It alone loses almost $ 25-40 million annually by not importing tea from India. This is despite the fact that tea has since long remained on top of the 'positive list' of Pakistan vis-à-vis India.[10] Besides the creation of a parallel supra-economy, capitalization of these informal trade routes by criminals, drug traffickers and terrorists are the other dimensions. The State Bank of Pakistan report mentioned normal trade relations will "benefit consumers particularly in Pakistan, increase custom revenue and push out smugglers and trade mafias involved in what is being called circular trade through Dubai, Singapore and Afghanistan".

"Kashmir first" attitude of Pakistan has had plethora of far reaching negative consequences on Pakistan, its economy and more importantly its people. Pakistan's exclusive decision to continue bilateral trade with India through a positive list approach even after the implementation of South Asian Free Trade Area (SAFTA) in July 2006 is the most recent example of how sound economic rationale fall prey to constricted political thinking. Pakistan maintains that it "would not grant the most favoured nation (MFN) status to India until there was a tandem move in other bilateral issues, particularly Kashmir…. there were some provisions in the WTO that allowed the member countries a cushion of not granting an MFN status to any country for some peculiar reasons. When Pakistan did not give the MFN status to India under the WTO, then how it would be possible to give the same under a regional agreement?"

For three years, Pakistan participated in all the SAFTA negotiations without any reservations on its operational aspects. This unexpected Pakistan's action has undermined the already beleaguered SAARC process and has opened scope for dividing the SAARC members on purely bilateral issues. Though India has now referred the case to Council of Commerce Ministers, it could retaliate by using this same tool to exclude Pakistan from its other SAARC activities.

Pakistan should realise the fact that SAFTA brings new hopes, builds confidence and generates a chain of opportunities for the South Asian countries to look beyond the SAARC region. A free trade regime triggers and mobilises a total reorientation of the existing systems and legal regimes and attracts a massive interventions in terms of infrastructures and institutional reforms. Like in other regional blocks this could detach the economic imperatives from the narrow politics and turn the present shallow regionalism to a robust openness. A critical aspect of this new horizon is the possibility of cross border infrastructural linkages including establishing the power grids, gas pipelines, land bridge and railway line that connect to East, North, West and Central Asian countries. These are key to the success of regionalism in this sub-continent. In fact the very attraction and taste of free access to these wide varieties of regional products would widen and sustain the process of SAFTA and other regional integration techniques. The issue is to set free the market access and let the consumers gain the maximum utility. Pakistan should therefore, engage India more and more on positive areas that bring sustainability to its recently achieved and widely acclaimed growth rate of over 8 percent. If China could do so why not Pakistan?[11]

Pakistan has raised other apprehensions. Despite steady liberalizations, India continues to nurture a host of barriers that prevent the free flow of goods and other economic ties.

There is a constant fear that it is India which will gain maximum out of any trade liberalisation efforts in the region. This is substantiated by the fact that during the period 1995-2000, India alone constituted over 70 percent of the exports made within the region. This means only 30 percent of the intra-regional exports were shared by the remaining six SAARC member countries. India has for long given Pakistan the MFN status. Yet India's imports from Pakistan has been very meager. Pakistan sees it as a de facto ban on its exports.

There is no restriction on the Indian investors in Pakistan and vice versa, yet there is literally no investment in the one by the other. Investors do attribute this to adverse macro political climate. However, there are several examples where investors have made headway into politically adverse situations and helped in improving the political economy of bilateral relations. A conscious integration of trade and investment activities is the way forward. This can be done at a fairly local level initially between two Punjabs. The resumption of cargo service between Indian and Pakistani Punjab and on the Sindh- Rajasthan sector and exchanging branches of banks are efforts in the right direction.

Energy as a key Sector in Cooperation

Interdependence among nations is the best guarantee of peace and regional stability. It helps create multi-dimensional relationship and deepens a sense of empathy and understanding of other partners. However, India and Pakistan have selected distant partners and oriented themselves toward other regions and markets. The overriding issue is therefore to replace primacy of politics with primacy of economics. Perhaps, latent interdependence through starting economic transactions with politically harmless and untangled areas could be an effective instrument to do so. Electricity trade is one of them. There are initial inhibitions on this though as compared to other areas of trade it carries greater potential of stability, consistency, and of inter-dependence.[12]

Once the agreement is signed and the infrastructures are put in place and trading operation get started, the cost of withdrawing from an arrangement will be immense for both the parties. For instance a problem over the division of Indus basin's waters had been lingering since partition. It was amicably settled with the signing of Indus Waters Treaty in September 1960 with the active mediation of the World Bank. For the past forty-six years, both the countries have honored the Treaty. A permanent Indus Basin Commission comprising of one member from each country was created to resolve any issue, and if it fails the question can be referred for arbitration.[13] It is an impressive record by any standard.

The interdependence theory therefore revolves round the fact that the costs of disengagement become so high that the parties tend to isolate issue of conflict from economic cooperation, and resort to peaceful means. Once mutual vulnerabilities are well established through power trade between India and Pakistan, the logic of interdependence would prevail, bring about positive change in bilateral relations, and significantly reduce the risk of confrontation.

The other significant point in understanding the effects of electricity trade on latent interdependence is that it will create stakeholders, promote constituencies of interest in both the countries that will serve as a restraint against the historical trend toward confrontation as well as influence governments' policies toward more trade and openness.[14] At the moment the stakeholders are few and the constituencies of common interest are weak. The industrialist, the commercial class, the workers and the common consumers of electricity in India would have a natural interest in peaceful relations with Pakistan. Similarly, the state in Pakistan itself earning a big chunk of revenues from electricity trade, the IPPs and others directly and indirectly connected with this trade will have to weigh the costs and benefits of confrontation with India.

Economic rationality is one of the key assumptions in developing this analysis, and also that those who run the Indian and Pakistan states are rational players. Economic rationality dictates that withdrawal of cooperation or severing of relations, hurts interests in their totality and therefore, it becomes an obsolete option. Disputes do take place over how rewards or benefits are to be distributed as trade and commercial relations multiply, or even occur quite frequently as states change their economic policies, but they require altogether different policy tools, such as, negotiations, bargaining and establishment of institutions to help resolve issues in peaceful manner. It is rational to expect that kind of change to take place as and when India and Pakistan begin trade in electricity and it becomes a catalyst for trade in other areas increasing the density of trade and commercial ties between the two.

Both India and Pakistan have undertaken a series of reform measures to restructure their power sector to make it commercially viable and financially self-sustaining. The reform process has been initiated in a phased manner over the past decade. However, significant developments have taken place in the past few years that promise to introduce competition in the sector and improve general efficiency of the sector. Massive changes have been introduced in their policies on private sector participation in the power sector.

The vertically integrated power utilities in both the countries had a very diffused corporate structure and poor work culture. Lack of corporate governance, absence of commercial independence, inefficient cost structure, and extremely high system losses (including pilferage, theft of power and low collection efficiency and improper billing), coupled with non-remunerative tariffs characterized there subsistence. The end result was, operationally inefficient and financially sick/insolvent power utilities in both the countries. This has lead to a sharp fall in public investment in these utilities.

The investments in energy supply require large inputs of scarce physical, human and financial resources for which there are competing demands from other sectors. Both India and Pakistan are capital scarce. The restructuring of power sector has therefore been necessary. The analysis of demand-supply gap in the power sector in these two countries is very crucial in reaching at any conclusion on the possibility and potentiality of cross border power trade. Both India and Pakistan are largely energy importers and have faced a protracted power shortfall because of the excess industrial and residential demand over their power-generating capacities. Though the demand for power has recorded a much higher growth rate, supply side has recorded both smaller and erratic growth pattern. This has increasingly led to power cuts and rationing. A major chunk of demand comes from the rural areas. The overwhelming rural population in the region is gradually demanding more and more power. The seasonality factor in both generation and demand is noticeable in these two countries. In India, there exists clear seasonality in power generation. It particularly becomes clear in the hydel power generation.

The peak months for hydropower generation are August-September while the lean period is from January to June. The thermal plants generation has been mostly designed to match and balance the trough months created by the hydel plants in winter and the pre-monsoon season. This has been the case in Pakistan also.[15]

As long as the demand for electricity in India is not perfectly positively correlated with the demand pattern in Pakistan, trade will benefit both sides. It will not only create a conduit for excess electricity, it can also help in stabilizing the grid. On the other hand, in Bhutan and Nepal, the peak demand is usually during Dec/Jan. This is the period when generation from the hydropower plants is low. Though, Feb-April is the driest period, the demand in these months is relatively lower. In Nepal, power demand (MW), is maximum during the month of December (391 MW) and is minimum during the month of August (344 MW). The supply capacity in turn is maximum during the wet months and minimum during the dry months of February/March (322/324 MW). There is capacity (MW) surplus during wet months and capacity deficit during dry months (maximum during January which amounts to 57 MW). This situation in Bhutan also is somewhat similar. The surplus power from these countries as well can be traded within the region if transmission inter-connections linking their power grids are established. This could consolidate in practical sense the process of regional cooperation in South Asia.

There are quite revealing variations in the installed capacities of power utilities in India and Pakistan. These variations also reflect the potentialities as based on their natural endowments. Thermal power has gradually dominated the installed capacities in India (72 % mainly steam based) and Pakistan (71 %) Share of hydro sources has gone down very steadily in both India and Pakistan.[16] (Tables 1)

As per WAPDA estimates, Pakistan has a total hydropower potential of about 41,721 MW. Of which only 9,137 MW has been tapped thus far. This leaves Pakistan with an untapped potential of about 32,584 MW (Table 2). Large hydro projects take a long time to build and can have significant environmental impacts as well. But interestingly Pakistan has a significant potential for hydel generation through small projects as well, which could be tapped by the private sector too. The larger projects, like the Kalabagh Dam and Bhasha Dam are also on the cards currently, and the government has announced that one of these dams could be started by next year.

Pakistan's informal offer to India in 1998 of selling surplus power that was available from the IPP units was primarily based on two very compulsive domestic realities. Firstly, Pakistan was under obligation to buy power being produced by the IPPs, which it could not sell in its own market, as the projected industrialization and economic growth did not materialize to absorb the installed capacity. This amounted to making the already sick WAPDA more insolvent. And secondly, the international financial institutions who had either extended loans or the guarantees to the power sector investors in Pakistan wanted to have an uninterrupted repayment of debts which was possible only through power sale to a stable market like that of India.[17]

In India, the northern and the western regions are the potential markets. These regions are the largest electricity consuming industrial areas. At the same time Punjab province in Pakistan, which is mostly adjacent to the Punjab state of India has been the highest power consumer in the country constituting over 60 percent of the total electricity consumption in Pakistan. Besides being a major source of agricultural production many of the commercial and industrial units are located in this province. This province has recorded a growth rate of almost 4 percent as against that of Sindh and NWFP. This indicates that this province could be a major destination of any power supplied from India and other South Asian countries.

The possibility of power purchase has opened new vistas of cooperation. Cross border power trade will lead to: (i) effective utilization of natural resources; (ii) increase in reliability of power supply; (iii) economy in operation and mutual support during contingencies; (iv) bring about large scale transformation in the sectors contributing to economic growth; and (v) will act as the single most effective confidence building measure through the participation of stakeholders.

However, the key issues to be settled before the cross border flow is concretized are the cost of transmission line and its sharing mechanism; the determination of power tariff; the payment mechanism and most importantly the power supply sustainability and its geo-political immunization. It is very crucial to maintain a fair balance in the energy security equation in order to avert the risk of 'trade and fade'. There are discussions going on between the organizations like Power Grid Corporation of India Limited (PGCIL) and various independent power producers (IPPs) in Pakistan for import of electricity for the states of Rajasthan, Punjab and Gujarat. Tariff came up as a major stumbling block in the entire negotiation process that was conducted during the second half of 1998 and first half of 1999. The WAPDA offered a price of US 7.2 cents/KWH while the Indian side offered a price of 2.25 cents.[18] It is mainly on this ground the negotiations broke off.

As a reaction to his power purchase proposal, the then Water and Power Minister Raja Nadir Pervaiz said, "GOP is considering a proposal to allow the IPP to export 200 MW of surplus power to India. Pakistan has got a study conducted and found it viable that surplus power could be exported to India through multi-nationals. MNCs would be asked to lay transmission lines and export electricity to India." The IPPs including Japan Power, Fauji Kabairwala Power and Liberty Power have completed their plants. They could be in a position to sell power to India through MNCs.

WAPDA and KESC have a substantial grid station and transmission line networks across the country. With 45,157 km of lines across Pakistan and 657 grid stations, most of the country is covered. The only exception, are border areas in Balochistan, where supply is provided by the grid stations in Iran. Going by the grid map of Pakistan, one can clearly identify the grid stations where one could interconnect the Pakistani and Indian grids at minimal cost. The two places could be the Grid stations in Lahore and/or the grid station in Jamshoro. There is another grid planned for Thar. This could bring the Pakistani grid to even closer to the Indian grid. Thar coal is a large project that is under implementation, with technical help from the Chinese, and could be a significant source of power export to India. Pakistan has 500 KV primary transmission system extending from Jamshoro in the south to Tarbela and Peshawar in the north.[19] All these lines run very much near to the adjoining borders of India and may not require complex transmission extensions to the Indian borders. “There is a complete network on our side and of course on the Indian side as well. What is needed, are the connections, which would take only a couple of weeks”.[20]

It is stated that each country will construct and maintain a double circuit twin-bundled 220 KV transmission system from the designated substations viz., Dinanath in Pakistan and Patti in India. Power Grid Corporation of India can play an active role in concretizing the Indian side of the transmission of the power purchased from Pakistan. There is a complete network of transmission lines and grids on the Pakistani side along the northwestern border of Indian Punjab.[21]

Will energy trade help improve relations between India and Pakistan? The answer is unequivocally yes. Trading creates constituencies among business communities, industrial sectors, and service providing groups that support peaceful and stable relations otherwise their interests would get hurt. Trade in one area of economic activity spills over into other areas expanding the volume and categories of goods that can be traded, as gains accumulate and their value for national economy becomes well established.

Looking at the dismal volume and highly limited trading basket between India and Pakistan, energy could be a major tradable item, which would increase inter-dependence and correspondingly reduce vulnerabilities. And the positive gains to these economies will make policymakers both in India and Pakistan be sensitive to the needs of each other, help improve political situation and work towards protecting the interests of each other. Energy trade will build confidence and break the old mindset that India and Pakistan are born to be enemies.

In comparison to the social sectors of economy, the defense spending of India and Pakistan is quite large. India spends approximately 2.7% of its Gross Domestic Product on defense. In monetary terms it translates into $16.2 billion annually. Pakistan’s defense burden is around 3.9 % of the GDP, which is roughly 60% more than that of India.[22] In comparison, the defense burden of the NATO and non-NATO countries of Europe is 2.6% and 1.6% respectively. The positive aspects of military spending including modernization and supply of technological innovations to civilian industries are far offset by the debilitating impact on general human welfare. The energy trading between the two countries will create the necessary trust for rethinking on defense spending.

Peace Dividends[23]

There are several studies that have estimated peace dividends emanating from better relations between India and Pakistan. If adequate confidence is built between these two countries mainly triggered by a deeper and wider economic exchange, people to people contacts and other institutional linkages, there is an increasing possibility that the defense spending in real terms may finally see a downward trend. “Human Development in South Asia

1997" provides three different scenarios of either freezing or cutting down in defense spending by these two countries. The cumulative peace dividends of these three scenarios viz., a freeze in real terms, a 2 percent annual cut and a 5 percent annual cut would provide a hopping amount of $ 80 billion, $ 100 billion and $ 125 billion respectively over the period 1997-2010. These funds so released as peace dividends could finance a range on social and development projects in both these countries.

There are two scenarios wherein Pakistan can sale power to India and can make handsome differences to the health and education programme at the domestic level. Under Scenario I, roughly estimating that by selling 3,000 MW of power to India, Pakistan will not only earn a net profit of $ 160 million per annum after deducting fixed and running costs but would also gain through the subsequent decrease in defense expenditure (reduction of 10 percent) to the extent of $ 300 million. In this case, Pakistan's power could be sold to power intensive industries across the border which require qualitative power and is willing to pay a high tariff of 10.97 cents per kwh (Rs 4.82 paise) as the landed cost price in India. This captive power purchase includes 5.7 cents kwh (Rs 2.48) as cost of production in Pakistan and 5.27 cents (Rs 2.32) as other costs including wheeling and profit margin on the Indian side.

Even if Pakistan spends 50 per cent of this total generated revenues of $ 460 million (through both power sale and defense expenditure reduction) on education, it will have radical impact on the current situation in the country. By assuming that an additional amount of $ 230 million will be spent on primary education we estimate that 27, 600 new schools will be built, each school costing around $ 8,330. At the rate of 200 students in each school, 5.52 million more children can be enrolled. In the above calculations, it has been assumed that it would cost $ 6,000 as running cost for each school. With more educational institutions employ-ment opportunities will also increase significantly. Assigning 5 teachers to each school, 138,000 new teachers can be employed.

Under Scenario II, this power can be bought on the Indian side on a long term contract basis with the payment of evening peak (1700-2300 hrs) of 7.33 cents (Rs 3.20) per kwh at the busbar. Given the cost of production of 5.7 cents kwh (Rs 2.48) in Pakistan, the sale of 3000 mw would fetch Pakistan a margin of 1.63 cents (Re.0.72) per kwh i.e. a total revenue of $ 48.49 million. This along with the gains to the extent of $ 300 million arising out of the subsequent decrease in defense expenditure (reduction of 10 percent) could make a major difference to the education and health programmes. For instance, even if a little over 50 per cent of $ 348.49 million on education, it will have radical impact on the current situation in the country. By assuming that an additional amount of $ 175 million will be spent on primary education, we estimate that 21,008 new schools will be built, each school costing around $ 8,330. At the rate of 200 students in each school, 4.20 million more children can be enrolled. In the above calculations it has been assumed that it would cost $ 6,000 as running cost for each school. With more educational institutions employment opportunities will also increase significantly. Assigning 5 teachers to each school, 105040 new teachers can be employed.

These are very conservative estimates by the current costs in Pakistan. Construction of new buildings will employ thousands of skilled and unskilled workers from economically depressed rural communities. Investment in education, a sector that has long been neglected due to paucity of funds will have positive impact in number of areas including, general literacy, birth control, skills of workers for new stage of industrialization, absorption of new technologies in agriculture and social mobility.

In the financial year 2003-04, the Higher Education Commission, formerly the University Grants Commission was allocated $ 220 million to finance 47 public sector universities and 8 degree awarding institutes. This amount included scholarships for students, salaries of teachers and other employees, maintenance and addition of new buildings. This amount excluded universities and institutes' own income, donations and students fees. If half of the additional amount of $ 230 million generated above is allocated to higher education, Pakistan could double the current spending on higher education. That will give it flexibility to expand higher education activity in some fields, attract more qualified teachers by offering better working conditions, provide better learning facilities, and improve the quality and standard of education.

The confidence built by exchange of electricity even through relatively smaller volume and limited arrangement could be gradually extended to larger ventures like gas pipelines for which both countries have been discussing and deliberating on. Besides electricity, the four areas which can be identified for cooperation in the oil and gas sector in South Asia region are: i) trans-boundary natural gas trade, ii) trade in refined petroleum products and iii) cooperation in oil and gas exploration.

Movement of Natural Persons

For both India and Pakistan remittances from abroad are very crucial in its balance of payment and foreign exchange management. More than this, the real integration with the world economy of this region will only be possible if there are free flow of goods, services, capital and the people to other countries. It is estimated that there are 4-5 million overseas Indian workers who send remittances to the extent of $ 12-15 billion annually.[24] More latest estimate shows that India received total remittances also known as private transfers to the extent of $ 21.7 billion in 2004 which constituted 10 % of the total global remittances.[25] This made India the highest remittance receiving country in the world followed by China (US$ 21.3 billion),Mexico (US$18.1 billion), France (US$ 12.7 billion) and Philippines(US$ 11.6 billion).[26]

The International Monetary Fund (IMF) published a list of 20 developing countries with the volume of remittances and its percentage share of GDP. (Table 3) A majority of the South Asian countries figured in this wherein India with US $ 11 billion ranked as number one in terms of the volume of remittances. This was almost 2.6 % of its GDP.[27] It is assessed that a major proportion of this is contributed by the increasing number of unskilled and semi-skilled Indian workers employed in the Gulf countries, Malaysia and Singapore. The United Arab Emirates, Saudi Arabia and Kuwait are the top destination countries and Kerala, Tamil Nadu and Andhra Pradesh are the top sourcing States.[28] Today the overseas Indians are estimated at over 25 million spread across 110 countries.[29] There are 1.68 million Indians in US alone which is the single largest destination of Indian migrants.[30]

For all South Asian countries, the US is a vital source. In Pakistan's US $ 4.16 billion workers' remittances, over 31 percent comes from the US and 17 percent from the United Arab Emirates. Over 1.47 Pakistanis proceeded abroad during 1995-2001.[31]

Therefore, the demand by the developing countries regarding Temporary Movement of Natural Persons (TMNP-Mode 4) is vital in the ongoing trade negotiation process.[32] As of today, the TMNP accounts for less that 2 percent of global services trade. A study done by Walmsley and Alan Winters in 2002 indicate that through increasing developed countries' quotas on inward labour movements by 3 % of their labour , world welfare would rise by $ 156 billion[33].

In the past responses of most of developed countries including the US to this demand of the developing countries have been marred by a large number of questions and resistance[34]. This includes :

i) extreme political sensitivity to the very question of TMNP as reflected in various laws and other legal regimes including the immigration provisions.

ii) consciously equating the temporary mobility with larger issue of migration both legal and illegal and forced and voluntary

iii) advocacy by some sections about the cost of social commitment, economic burden and displacement of indigenous workers and

iv) linking even the limited movement of natural persons under TMNP (mode 4) with the extension of provisions like that of national treatment of the foreign investors in the developing countries

v) consistently ignoring the movement of natural persons as barrier to exports and therefore, essentially a trade matter rather than a migration issues and

vi) failing to recognize advantages of liberalisation

This is in sharp contrast to the market demand situation since the developed countries where demand for skilled work forces have increased as against the backdrop of fast ageing population. The existing skilled workers in the developed countries cater mostly to the upper echelons of job market thereby leaving a major supply gap in the lower echelons of job market. The developed countries would like to have restricted or regional arrangements for recruiting specific service providers. They fear that labour mobility under the General Agreement on Trade in Services (GATS) could serve as a tool to establish permanent residence and thus conflict with immigration policies is increasingly used by the developed countries to restrict access to even the skilled and qualified people from the developing countries.

The other side of the story is that despite no commitments under the GATS, the health workers from India and Pakistan have been going to the developed countries. But Mode 4 of the GATS makes an argument that such commitments would benefit the sending countries by providing a more predictable and transparent framework that is based on non-discrimination. This will encourage the flow. Secondly, this makes the inflow more secure and employers will have both continuity and certainty and could provide better adjustment in the direction towards comparative advantage. The mode 4 could also be used as tool to overcome the bias in favour of highly qualified labour.

Both India and Pakistan are facing more or less similar the problems vis-à-vis accessing the global labour marketing But, there has not emerged any meaningful dialogue and effective cross border cooperation between these two countries to highlight these issues related to migrants. To a certain extent this move has so far been thwarted by the competitive nature of labour migration. However, frequent consultation may help in ultimately generating a conscious check on restricting the movement of labour migrants and also creating a consortium of migrants based on an analysis of skills and supply capabilities.

There are serious problems of irregular-illegal migrants also. By their very nature the migrants from South Asia tend to flock together across the world for purposes convenient passages and transits, cultural and social similarities, food habits, community services and modes of sending the money. In terms of any difficulties also they tend to be guided by the South Asian diaspora, each other's embassies and other agencies. For instance, in the recent evacuation of South Asians from Lebanon during the Israeli bombings, it was the Indian Embassy which evacuated maximum South Asians to their respective home countries. What is needed is an overarching regional convention on migration and its operationalisation by various gover-nmental and non-governmental sources spread globally. This will ensure protection of migrants from India and Pakistan under single umbrella and generate tremendous amount of goodwill back home on a cross-border basis.

End Notes

1. Pakistan's total global exports and imports in 2005 were respectively US$ 14391.1 million and US$ 20598 million respectively. State Bank of Pakistan, Annual Report 2204-2005, Reviews of the Economy, Vol – I, Karachi, pp 108-109

2. Hettne, Bjorn, "The New Regionalism : Implications for Development of Peace" in Bjorn Hettne and Andras Inotai (ed), Comparing Regionalism : Implications for Global Development and International Security, A UNU/WIDER Study, Helsinki, 1994.

3. Michael Schultz et al in Bjorn Hettne and Andras Inotai (ed), Comparing Regionalism : Implications for Global Development and International Security, A UNU/WIDER Study, Helsinki, 1994. pp 254-255.

4. Latham, R, " Thinking about Security after the Cold War", International Studies Notes, vol 20, no 3 1995, p 13.

5. Asma Jahangir and IA Rehman of Pakistan are the two icons that have brought together the South Asian community to a common platform to discuss human rights violation issues.

6. The South Asian Free Media Association brings together the most eminent and influential media people in one forum.

7. The Neemrana Initiative started in 1991 that brings together former diplomats, military personnel and academics of India and Pakistan and Pakistan-India People's Forum for Peace and Democracy initiated in 1994 consisting of activists, trade unionist, artists and intellectuals have been playing major role in pressuring both these governments to take steps towards improving mutual relations.

8. Lama, Mahendra P, "Markets can bolster Indo-Pak Ties", Indian Express, New Delhi, 1 December 2006.

9. Rashid, Tariq, et al., Implications of Liberalizing Trade & Investment With India, State Bank of Pakistan, Karachi, 2006, (Draft For Comments).

10. Lama, Mahendra, P, "Integrating the Tea Sector in South Asia : New Opportunities in the Global Market". South Asian Survey, Delhi, January-June 2001.

11. Lama, Mahendra, P, SAFTA - Benefits to Business Community, Keynote Paper presented at the SAARC Business Leaders Conference organized by FICCI, New Delhi, 13 March 2006.

12. See a regional study done by Mahendra P Lama (Jawaharlal Nehru University, New Delhi), Rasul Baksh Rais (Quais-e- Azam University, Islamabad)) and Faisal Bari (Lahore University of Management Sciences) on "India Pakistan Power Exchange :Assessment of Economic and Social Benefits", NEXANT /USAID / SARIE, New Delhi, May 2004.

13. We have taken information on this section from S. M. Burke and Lawrence Ziring, Pakistan's Foreign Policy: An Historical Analysis 2nd edition (Karachi: Oxford University Press, 1990). pp.10-11, 230-234.

14. Lama, Mahendra P and Rasul Bakhsh Rais, Pipelines and Powergrids for Peace (Kings College, London and International Centre for Peace Initiatives, Mumbai: 2001, p. 12.

15. Lama, Mahendra P & AR Kemal, Cross Border Power Trade between India and Pakistan, Jawaharlal Nehru University (JNU), New Delhi and Pakistan Institute of Development Economics (PIDE), Islamabad, sponsored by World Bank under South Asia Network for Economic Research Institutes (SANEI), 2002-2003.

16. For example in India, hydro sources constituted as high as 43 percent of the total installed capacity in 1970-71 which steadily went down to present level of 25 percent. This is despite the fact that the installed capacity of hydel power recorded a 44 fold increase from a mere 575 MW in 1951 to almost 25407 MW today. In Pakistan also the share of hydel power in the total installed capacity has gone down from 44 percent in 1980-81 to 30 percent in 1999. In Pakistan, the earlier installed capacity of 15996 in 1997 was shared by WAPDA (72 % including Kot Addu), private producers (17 %), KESC (9.5 %) and Karachi Nuclear Power Plant (0.85 %). Government of Pakistan, Economic Survey 1997-98, p 113 and Statistical Abstract India, 1997, Central Statistical Organisation, Department of Statistics, Ministry of Planning and Programme Implementation, New Delhi, p 176.

17. Lama, Mahendra, P, Mohan Man Sainju & QK Ahmad, "Reforms and Power Sector in South Asia : Scope and Challenges for Cross Border Trade" in Mohsin S Khan (ed) Economic Development In South Asia , Tata McGRaw – Hill, New Delhi, 2005.

18.Masood, Malik, "A Note on Pakistan Power Sector/WAPDA Restructuring and Privatisation and other Issues of Interest for South Asian Energy Forum", South Asia Regional Energy Forum Proceedings, USAID, Kathmandu, 1999

19. The 500-KV transmission lines currently under construction in the public sector in Pakistan are estimated to be 1726 km long. An additional 1727 km of 500-KV transmissions lines are planned to be constructed by the private sector.

20. Statement by the Power Minister of Pakistan Gohar Ayub Khan, Hindustan Times, January 16, 1999. Also see Lama, Mahendra P, "Economic Reforms and Cross Border Power Trade in South Asia", South Asian Survey, New Delhi, September – December 2000.

21. On the south-western border, there are relatively few lines on the Pakistani side of Punjab. The only weak possibility of transmission appears to be in the areas of Fort Abbas and Faqir Wali grids (with relatively low KV) in Pakistani Punjab to the Indian lines near Anupgarh.

22. The Military Balance Vol. 103, Issue, 2002-2004. The figure for Indian defense expenditure is for year 2003, and for Pakistan 2002.

23. See a regional study done by Mahendra P Lama (Jawaharlal Nehru University, New Delhi), Rasul Baksh Rais (Quais-e- Azam University, Islamabad)) and Faisal Bari (Lahore University of Management Sciences) on "India Pakistan Power Exchange :Assessment of Economic and Social Benefits", NEXANT /USAID / SARIE, New Delhi, May 2004.

24. Ministry of Overseas Indian Affairs, Annual Report 2005-06, Government of India, 2006, p 17

25. World Bank, Global Economic Prospects 2006, as quoted Economic Survey 2005-2006, Ministry of Finance, Government of India, New Delhi, p 105,

26. Ibid. p 105.

27. International Monetary Fund, Balance of Payment Statistics, Washington, 2000.

28. Ministry of Overseas Indian Affairs, Annual Report 2005-06, Government of India, 2006, p 17.

29. Ibid. p 4.

30. Ministry of External Affairs 2001, as quoted by ESCAP, Dynamics of International Migration from India : Its Economic and Social Implications", August 2003.

31. SAARC Regional Poverty Profile 2005, SAARC Secretariat, Kathmandu, 2006, p 134.

32. The General Agreement on Trade in Services (GATS) covers four different modes of supply :

Mode 1 : cross border supply of services (mode1)
Mode 2 : consumption abroad
Mode 3 : establishment of a commercial presence
Mode 4 : movement of persons providing the service.

33. Presentation by Manab Majumdar, WTO Division, FICCI, New Delhi , 2003.

34. UNDP, Making Global Trade Work for People, New York, 2003