**Towards South Asia Economic Union [[1]](#footnote-1)**

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The topic which I wish to discuss this afternoon is a sad commentary on the past and present relations between the two neighboring countries but is based on a promising hope for the future.

As a student of comparative Development Economics I am appalled at the low level of trade that takes place within the South Asia region. On the other hand, East Asia has developed mechanisms that have promoted economic, trade and investment ties, increased cultural exchanges and deepened non-traditional security cooperation such as disaster prevention and mitigation. The main obstacle in the way of a vibrant South Asia Economic Union , in my view, is the tensions that have persisted between India and Pakistan for a very long time. My review of the history of these relations has led me to believe that Indian Pakistan Economic relations have remained subservient to the other contentious issues that fall within the political and security domains. The natural ingredients of continuity, geography, infrastructure links, cultural similarities, linguistic overlap and common history that could have bound other neighboring countries more strongly have not been able to offset the vituperative discourse and deep rooted trust deficit between the two countries that has been allowed to flourish during the last six decades. This period has been marked by some positive break throughs at various points of time e.g. the Indus water Treaty, the Tashkent Declaration, the Simla Agreement, Lahore Declaration and the Musharraf-Manmohan Singh Formula (that was not consummated). So if there are visionary leaders in both the countries we are able to untie the knots. But the bitter memories of the Partition, the 1965 war, the 1971 breakup of the two wings of Pakistan, the 1998 Nuclear tests, the Kargil crisis, the 2002 Mobilisation of Troops the Mumbai incident have done more to sour these relations.

There are hawks and doves on both sides of the fence and it would be interesting to use their prims to see the nature of this relationship.

The hawks in Pakistan argue that until Kashmir – the core dispute between India and Pakistan is resolved amicably, the prospects for peace between India and Pakistan would continue to remain tenuous. To them, “the recent election of Mr. Modi is a clear sign of bellicosity in India when it comes to dealing with Pakistan; the hysteria of the Indian media and propaganda against Pakistan whenever there is an incident on the border or LOC; and the proclivity of Indian Army Chiefs to threaten Pakistan every now and then all suggest that India is spoiling for a fight. There are strong perceptions that India’s massive rearmament program that has gathered speed with induction of new weapon systems, in particular, new anti-missile weaponry are aimed at Pakistan”. It is alleged that India plans to weaken and bleed Pakistan by supporting anti Pakistan elements in Afghanistan and Balochistan. The India’s support to Tehrik-e-Taliban Pakistan (TTP) and cross-border raids on Pakistan by TTP elements are a major source of concern. There are serious apprehensions that in the post 2014 period the Pak-Afghan border region will be transformed into an Afghanistan-India-Pakistan battleground with India actively backing Afghanistan. They accuse RAW of “providing Funds, trainings and arms from camps in southern Afghanistan to separatist insurgents of Balochistan”. The Indian strategic objective, is therefore, weakening Pakistan militarily and isolate it diplomatically.

The doves in Pakistan, being on defensive, respond that India has ambitions of becoming a regional and economic power. The integration of India in the world economy, the growing size of its middle class and market, the favourable demographics, a larger English speaking highly talented professional class comparable to the advanced countries, long tradition of democratic governance and a paradigm shift in its foreign policy in the recent years along with a vibrant private sector make the attainment of this objective feasible. Indian policy makers would therefore want to see a peaceful, stable, secure neighbor at its borders. Diversion of resources and preoccupation with irritants would either slow down this quest by India or impair its capacity. Economic growth and development require long periods of political stability, peace and external security. The signaling effect of a bellicose and belligerent India picking up Cudgels with its neighboring country off and on is going to create uncertainty and negative vibes. Logic and reasoning therefore do not lead one to conclude that India in the 21st century will pursue the old trodden agenda that has not helped it in the past and might have hurt it. The International Community would also feel at ease if the relations between these two nuclear armed countries in the region get normalized and friendly. They are likely to heave a sigh of relief as one of the major causes of anxiety on the global security scene is eliminated. The historical legacy of hostility and adversity has given only pain to Pakistan and it is in our national interest to grant Most Favored National (MFN) status to India sooner than later and to ease the visa regime to promote people-to-people exchange.

I would like to inform this august gathering that all the major political parties fought the 2013 elections in Pakistan on explicit manifesto of normalizing trade with India and improving relations in general. This consensus did not exist even in 2008. The media blows much less heat than what it used to do in the past. The realization has dawned upon them because of continued economic stagnation for last six years, while other countries in the region are moving ahead and overtaking Pakistan in the global markets. This consensus is built upon the premise that Pakistan can benefit by accessing a much larger Indian market of 300 to 400 million middle class consumers with growing appetite for goods and services. At the same time the Pakistani producers will gain by sourcing their raw materials, inputs and components from India. The diversion of informal trade taking place through Dubai and Singapore if channeled directly can effect reduction in costs to the end-users.

The hawks in India have become much more assertive since the unfortunate Mumbai incident. They believe that Pakistan has become the epicenter of terrorism and its non-state actors – mainly the jihadists trained nurtured and aided by Pakistan’s Inter-Services Intelligence (ISI) - have been consistently attempting to destabilize and hurt India by their acts of terrorism. ISI is accused of “sponsoring Taliban attacks on India’s Embassy in Kabul and on Indian doctors and contractors working in the capital and elsewhere”. The Pakistani elected governments are perceived to be so weak that despite their best intentions and efforts they are unable to exert any control on the ISI and Pakistan Army. Many Indians believe that whenever a civilian government make serious overtures to improve relations with India some unforeseen incident takes place that sets back the process. The Pakistan Army is using proxies to execute its strategy of keeping India under constant threat.

The doves in India articulate cogently that it is in India’s larger national interests to end the era of past hostilities. India of 2014 is very much different that India of 1990 – in terms of self-confidence, economic and military strength and its standing in the world community. It does not behove a larger country that accounts for 80 percent of South Asia Regional GDP to shirk playing its leadership role in the region. That can happen only if the relations with Pakistan can be set on the right footing in an “uninterrupted and uninterruptible” manner. The rest will automatically follow. Other countries in the region which are smaller in economic size will also gain by the removal of this big obstacle from the way.

The above perceptions are not going to evaporate in their air soon. The political differences between the two countries are not going to disappear overnight. The past and present policies and practices have not eased the tensions between the two countries. Looking towards the future, my plea is that there is a need for paradigm shift from the domination of political issues towards economic issues in forging the relations between the two countries. For the past sixty seven years there has been very little progress in the resolution of political disputes that has vitiated the atmosphere for peace and reconciliation. Why not change the sequence and attempt to work diligently on strong regional economic cooperation, promote people to people exchange, build the constituencies for India in Pakistan and for Pakistan in India and hope that it will eventually lead to strengthening the prospects for peace. There are those in both the countries who hold firm belief that unless political disputes are resolved first, sustained economic relations are not possible. My answer to them is that we have been treading that road for quite a while without reaching our destination. Why not try an alternative route? After all China and Taiwan have become large trading partners without giving up their respective positions on the political disputes between them. China and India are now trading goods with $65 billion annually . Have they resolved their political disputes ? Are they not holding on to their respective stands on these disputes. Why not follow these examples in case of India and Pakistan?

In order to pursue this path leading ultimately to a South Asia Economic Union there are at least three building blocks which deserve serious attention.

First, India and Pakistan should move the last mile on the journey towards the normalization of trade. By replacing the positive list by the negative list in 2012 Pakistan has already allowed 85% of tariff lines to be open for trading between the two countries. Why not phase out the remaining 15% and thus automatically conferring the MFN status on India? At the same time India should not insist that its NTBs are not aimed at Pakistan and take some confidence building measures to remove the barriers that are not permitting Pakistani exporters to sell their goods in Indian market. Businessmen in India are reported to have been approached by the Intelligence agencies as to why they are distributing Pakistani goods. Opacity, Bureaucratic hassles and suspicions have to give way to more open and transparent way of dealing with Trade on both sides. The stop-go policies do not inspire confidence among the businessmen as they require predictable and consistent environment for their investment.

The production pattern has significantly changed in the last decade or so. Production of manufactured goods is organized through regional and global chains with goods processed in multiple countries that are part of the chain. We are in an era of Vertical Specialization where a large share of the price of the finished or assembled export reflects the value of the product’s imported inputs, parts and components. It is estimated that for the world as a whole the import content of exports is about 30 percent. An UNCTAD study has concluded that 80 percent of the $20 trillion trade takes place though Global Value Chains. China’s market share in global trade of over 10 percent compared to India’s share of 1.8 percent can be partly attributed to the former’s active participation in Global Value Chains: 90 percent of tariff on products traded between China ASEAN have been eliminated. South Asia is an exception to this pattern of production except Bangladesh where garments have significant value addition on raw materials and intermediate good procured from India and Pakistan. Higher tariffs are in fact a tax on downstream processing parts of the value chain. South Asian countries therefore have to keep tariffs low on imported goods. This raises the political economy issue of protecting domestic import substitutes that will suffer if the tariffs are lowered or made zero. Thus SAFTA with 5 percent tariff rate should be made effective immediately so that South Asia is able to increase its intra-industry trade and develop Regional Value Chains. It may be pertinent to mention here that exports from South to South now exceed 50 percent of the South’s total exports. The share of Emerging and Developing economies in World trade has doubled from 16 percent in 1991 to 32 percent in 2011 and is projected to grow faster in coming decade. South Asia has not been able to derive any benefits from this trend in any substantial way.

Increasing Trade of Goods and Services leads to the next logical step i.e. direct investment flows. If the intra-regional trade results in specialization in certain locations the investors – both regional as well as extra-regional-would find it attractive to invest in those industries in the specific locations catering to growing demands of regional supply chains. Cross-border facilitation of trade has to be followed by ease in cross-border flows of finance. Bank branches, cross listing of shares, joint institutional investors and Private Equity funds etc. Long drawn out processes of approvals, clearances and permits have to be done away with. In 2012, Chinese had invested $12.6 billion in Europe and $7.5 billion in North America to merit as it draws upon the supplies from these locations.

The second area of cooperation is in the context of global climate change agenda, India, Pakistan and Bangladesh draw their sustenance from the vast river network that originates in the Himalayan ranges. The forecasts about melting ice caps and glaciers, rising sea levels, stressed water supplies, heavy rains, flooding and droughts and heat waves create the incentive for the South Asian countries to work together and take part in adaptation and mitigation exercise in a coordinated manner. As water supplies for agriculture crops become inadequate and the yields of all the major grains are likely to be reduced because of the accumulation of ozone, high temperature and faster photosynthesis helping growth of more weeds , the chances for incrimination, blame game and creating adversaries would become much high. An Evidence-based cooperative solution that minimizes the losses and distributes the pain equitably should be explored and a beginning must be made now rather than waiting for over.

The third area of economic cooperation is Tourism. Pakistan has many holy shrines of Sikhs, Hindus and Buddhists. Heritage tourism can attract many Indians from India and the overseas to visit Pakistan. Similarly, India has many places of historical religions and cultural interest to Pakistan – the Mughal monuments, Ajmer Sharif, Nizamuddin Aulia etc. Pakistani singers and film actors have become popular in India and while Bollywood actors are adored for long. Exchange of artists, musicians, singers, actors would together be a natural consequence. India-Pakistan cricket matches draw largest crowds in the world. Premier league tournaments involving Indian and Pakistani players can be a big source of entertainment for millions of fans. All this requires ease in visa issuance and removal of restrictions such as entry and exit from the same place, reporting to the Police, limited duration, and single entry visits only. The students and faculty members should also be given special unrestricted privileges to enter each other’s country. These people to people exchanges will remove many of the misperceptions and misunderstanding and promote better awareness of each other’s perspective and point of view.

1. Distingushed Lecture delivered at Jamia Millia Islami, New Delhi on September 11, 2014 [↑](#footnote-ref-1)