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Pakistan-India Detente: A Three-Step Tango

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Abstract

Pakistan-India détente is moving at a reasonable pace, with steps being taken that should bring a bit closer the long-separated economies of South Asia's two largest countries. The process started once Pakistan had accepted the Indian position that it would be more practical for Islamabad and New Delhi to focus on economic and trade issues, putting on the back-burner some of the more contentious differences such as Kashmir.

Now three additional steps have been taken in this dance by the two countries. They are moving from the slow fox trot to the brisk pace of tango. The three steps are the invitation by India to Pakistan to resume cricket matches between the two countries, starting this fall with a visit to India by the Pakistani side. A formal invitation by President Asif Ali Zardari to Prime Minister Manmohan Singh to visit Pakistan and attend the birth anniversary of Guru Nanak Dev on November 28 this year. The third decision comes from India that allows individual Pakistanis and Pakistan firms to invest in India. This paper examines what these steps may achieve for the two countries.

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Introduction

Over the last several months a number of important decisions have been taken by India and Pakistan to improve their ties. One of the more important of these was to replace the positive list with the negative list of items that can be traded between the two countries. This already has had an impact on increasing both the volume and value of trade. Earlier in the year, Pakistan opened a new gateway to India at its Wagah border which can handle a much larger flow of truck traffic than was possible with the antiquated facility that was in place.

One very positive development during the first five years of Zardari's rule was the decision to place on the back-burner a number of disputes that had kept India and Pakistan apart ever since the two countries gained independence. His government chose to focus instead on improving economic relations between Pakistan and India. After a series of meetings involving senior political leaders and bureaucrats from both sides in 2010-12, there was, in the words of Salman Bashir, the new Pakistan High Commissioner in India, a "sea change" in the way the two sides looked at one another. Bashir told an Indian TV anchor that it "was Prime Minister Manmohan Singh who said that we should invest in building trust by having frequent visits and exchanges at various levels".² These have taken place and with each high level meeting, the two countries have moved a step closer. It is likely that before the year is out, the Indian Prime Minister may visit Pakistan.

President Zardari's Invitation

A formal invitation was sent on 27 July 2012 by President Zardari to Prime Minister Manmohan Singh to visit Pakistan and participate in the observance of birth anniversary of Guru Nanak Dev (generally known in Pakistan as Baba Guru Nanak Sahib). There was an indication that such a visit might take place around 28 November 2012, the birth anniversary of the founder of the Sikh religion. "Such a visit would reinforce our mutual desire to promote inter-faith and inter-religious harmony", wrote President Zardari in his invitation letter. "It is important to sustain this process and make it more productive and result-oriented. The intensity and the range of these engagements will help promote our ties in the right direction and will also help reshape our shared dream of peaceful and prosperous South Asia".³ There is expectation in Pakistan that if no terrorist attack occurs in India that could be traced to the groups in Pakistan, this long-awaited visit by the Indian Prime Minister may indeed take place.

Considerable symbolism would be attached to the visit if the Prime Minister were to include a trip to Nankana Sahib -- the birth place of Guru Nanak Dev, a few miles north of Lahore. It had

² Dawn, "Sea change in atmosphere with India: Pak envoy", July 16, 2012, p. 3.

³ Quoted in Baqir Sajjad Syed, "Indian PM invited on Guru Nanak's anniversary", Dawn, July 28, 2012, p. 1.

been the hope of the administration of the Punjab province of Pakistan that they could encourage Sikh religious tourism by improving the facilities at the various holy sites in Pakistan. At one time there was some discussion of connecting the Wagah border-crossing at the Lahore border with India by constructing a high-speed motorway with a dedicated high-speed bus line. Some companies in Pakistan also have plans to construct reasonably priced hotels around the holy sites to accommodate religious tourists.

This is not the first time that Dr Singh has been invited to visit Pakistan, the country of his birth. In fact, President Musharraf had asked this author at one time to raise the issue of the Indian Prime Minister's visit to Pakistan when he (the author) met Dr Singh at his residence in New Delhi in December 2005. The Indian leader's response was interesting. "It is easy for President Musharraf to travel to India", he said. "He doesn't need to bring on board – not on the plane itself but as supporters of the initiative – a large number of people and have them accept the importance of making such a visit. It was essential to build such a consensus for the head of the government in a democracy such as India". There were many people with political influence who felt that at that time the moment was not just right for such a visit, he explained. The author passed the message to President Musharraf, to the latter's great disappointment.

What would a Singh visit do that could not be achieved by ministerial and senior official visits? A number of these have taken place and they have produced results. Perhaps the most significant achievement of a prime ministerial visit will be to give a strong signal to the people in India that there is considerable high-level support in Pakistan for the easing of the tensions between the two countries. There is no doubt that the sentiment in Pakistan has gone through a significant change in the last couple of years. It is now recognised by most segments of the Pakistani society that a high economic and social cost has been paid by the country by keeping the Kashmir issue alive. In a study for which this author was commissioned by the United States Institute of Peace, he used a simple economic model to suggest that the rate of GDP growth in Pakistan would have been considerably higher, had such a large price not been paid for persisting with the Kashmir dispute.⁴ However, there is still some scepticism in India that there is a change of heart on the part of a significant number of Pakistani people that could have an impact on the making of public policy. A warm reception that Dr Singh will undoubtedly receive in Pakistan should help in changing the Indian perceptions as well.

Permission to Pakistan to Invest in India

On 1 August 2012, the Department of Industrial Policy and Promotion of the Ministry of Commerce and Industry in India issued a notification "to permit a citizen of Pakistan or an entity

⁴ Shahid Javed Burki, *Kashmir: A Problem in Search of a Solution*, Washington DC, United States Institute of Peace, 2007.

incorporated in Pakistan to make investments in India, under the Government route, in sectors other than defence, space and atomic energy.”⁵ This waiver brought India at par with Pakistan which has by far the most liberal investment regime in all of South Asia. Islamabad allows foreign investors to own 100 per cent of the entities in which they have invested and repatriate 100 per cent of the profits made on the investment. There is no obligation to enter into joint venture agreements with the Pakistani companies. Indian investments were also allowed but none was made.⁶ The investment regime in India was considerably more restricted.

However, even with such an open investment regime in place in Pakistan, non-economic considerations sometimes prevailed. There were once plans made by a large private sector oil company in India to use the depleted salt miles in Khewra, about 60 miles south of Islamabad, for storing crude oil. The oil would have been brought in from the ports of Karachi or Gwadar, taken by a pipeline to Khewra, and when the need arose, pumped on to a large refinery in a western Indian state. The cost of transport and storage would have been considerably less than the cost of the alternatives available in India. However, the project was vetoed by the security establishment in Pakistan. If the author’s many conversations in the last several months with Pakistan’s senior serving and retired military officers serve as indications, there has been a mind-set change in the military. It no longer considers India to be the enemy. Its focus now is on the forces of extremism.

Likely Impact

Pakistan is not a capital-surplus country and not much foreign capital has come in. According to the State Bank of Pakistan, foreign direct investment (FDI) in the country fell by 65.6 per cent to US\$ 680.4 million in the year ending 30 June 2012. The amount of FDI in 2010-11 was US\$ 1.98 billion.⁷ On other hand, with virtually no capital controls in place, a considerable amount of capital flight was taking place. Dubai, Malaysia and Singapore were the favoured destinations. The Indian move is not likely to result in a large outflow of money from Pakistan, however. Some of the press commentary in Pakistan, by suggesting that this will facilitate capital flight to India, misses the real point. The main initial impact of this will be beneficial to the Pakistani textile exporters who have discovered that some of their products are popular in India. They will be able to establish warehouses, display centres and retail stores in India. Investments needed for this purpose under the previously restricted investment regime were not possible. As one analyst wrote, “the amounts of capital moving from Pakistan to India will probably not be very big, at

⁵ Government of India, Ministry of Commerce & Industry, Department of Industrial Policy & Promotion (FC-I Section) Press Note No. 3 (2012 Series), 1st August, 2012.

⁶ Farooq Tirmizi, “Trade diplomacy: Why this should matter to Pakistan”, The Express-Tribune, 2 August 2012.

⁷ Dilawar Hussain, “India allows investment from Pakistan” The Express-Tribune, 2 August 2012, p. 1.

least not in the initial phase. But being able to ‘invest’ in India is really a license to freely do business in India, or at least as freely as any other foreign country.”⁸

More to Come

More moves will be made by the two sides in the next few weeks and months. These will include a relaxation in the visa regime for business people. The highly restricted visa procedures operated by the two countries have inhibited the movement of people across the border. The grant of the “most favoured nation” status to India by Pakistan by the end of 2012 “will mean that India can export 7,500 tariff lines to Pakistan, up from around 2,000 at present”.⁹ This is expected to increase bilateral trade from US\$ 2.7 billion to an estimated US\$ 10 billion over a period of two to three years.

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⁸ Aditi Phadnis, “Trade diplomacy: India opens doors to Pakistan investment”, Express-Tribune, August 2, 2012, p.1.

⁹ *ibid*