

**India-Pakistan Trade: Opportunities and Potential Pay-offs**  
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*Wadhvani Chair in U.S. India Policy Studies*

**Featuring:**

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**Moderated by Amb. Karl F. Inderfurth**

**Comments/ questions from: Imran Sadiki, Mohsin S. Khan, Stephen Cohen, Deepa Ollapally, Dhruva Jaishankar, Salman Zaheer, and Yashwant Raj**

**Prepared by Albert Karcher and Arti Dhar, CSIS Research Interns**

**Transcript**

**Karl Inderfurth:**

May I call our meeting to order and thank all of you for being here. I'm Karl Inderfurth and I am senior advisor and the Wadhvani Chair in U.S. - India Policy Studies here at CSIS. I'm delighted to have you here. It's a special red letter day for us. There are two things happening today. First, and I trust you picked up a copy on your way in, we have our first newsletter from our newly created position here at CSIS: U.S. -India Insight. I'm sure all of you are delighted that you will be getting another monthly newspaper or newsletter, saying that somewhat facetiously. We hope that it will be interesting to you. We will try to keep it short and give you some comments on events in the U.S.-India relationship as well as some links for you to look at other subjects. Occasionally we will be sending out commentaries during the month as well. The second thing happening today is our very first event with the new CSIS Chair on the subject of India-Pakistan Trade: Opportunities and Potential Pay-offs with Dr. Sunil Khilnani and Dr. Arvind Subramanian. I want to say thank you to both of them for coming and I am going to give both of them an introduction in a moment. Now I could possibly also mention a third thing, which happened over the weekend. For the U.S.-India chair to have India win the Cricket World Cup was quite fortuitous. But I think all sides played well and it was quite something to watch and you may even see we have a brief sidebar in the newsletter about why cricket matters. I imagine most people in this audience know why cricket matter, but we thought we might underscore it for a more general audience. So with those two things mentioned, I would like to turn to the subject at hand and I would like to do this in a way that, if you will, will set up the subject of India-Pakistan trade and call attention to two recently written pieces on that subject. And if you will bear with me I would like to read

a couple of paragraphs from both of these. The first one was from the most recent issue of the Economist with the header “India and Pakistan: A willow branch”. And it said “after cricket diplomacy time to try some other ideas”. This just appeared this week, so it could not be more timely for our discussion. Here is what the Economist had to say in its editorial:

After cricket diplomacy they should try some other ideas:

“...the two sides are trying unusually hard at the moment. Their most senior home-affairs officials met this week and at last agreed to investigate the Mumbai atrocity jointly. Foreign ministers get together soon. Meanwhile Pakistan seems to be sending fewer militants into Kashmir these days. The question is, how can India and Pakistan do more than show willing?

Given the contentiousness of the big disputes, they should start with modest matters and small first steps. Cross-border trade is a good place to begin. At the moment, it hardly exists. A few smoky lorries laden with onions and rugs cross at Wagah, the main border post. Officially, bilateral trade is worth \$2 billion a year (unofficially, a few billion more)—a pitiful tally set against India’s booming business with China (\$60 billion) or even Africa (\$45 billion). This is deliberate. The two governments impose tariffs and other constraints on each other. It is also shortsighted. Consumption and trade should be encouraged in order to create an economic incentive for peace. And if that helps boost Pakistan’s beleaguered moderates, then so much the better.”

That’s from the Economist, this week.

Now if the Economist was paying attention, and I’m sure they did, exactly one month ago, at the beginning of March there was a joint piece by Sunil Khilnani and Arvind Subramanian both in *The News* in Pakistan as well as the *Times of India*. And their article started off with these two paragraphs:

“As government-to-government talks resume between India and Pakistan, it is time to consider other channels of engagement that can contribute to improving relations or at least minimizing distrust. Cricket helps, of course, and we can hope that the World Cup now underway may rekindle some of the good spirit among fans that prevailed some years ago.

But the interaction needs to be constant rather than episodic, and it needs to move beyond the symbolic and dialogic to the substantive and tangibly beneficial. The best option would be to intensify trade. It is true that when countries trade goods, they are less likely to trade blows (although there are famous and violent exceptions as with Germany and the rest of Europe prior to World War I). While there is consensus that this is a good idea, little has been done to realize it.”

I found that the fact that there was a convergence of views with our authors and the Economist and many others who have thought about this remarkable and it’s a great way to start our discussion here with the new U.S.-India chair here at CSIS. So with that as an introduction let me now introduce specifically our two speakers. Arvind Subramanian, an

Indian national, is Senior Fellow jointly at the Peterson Institute for International Economics and the Center for Global Development and has also been a research professor at John's Hopkins University. He has also served at the IMF. During his career at the fund he worked on trade, development, Africa, India, and the Middle East. He served at the GATT during the Uruguay round of trade negotiations and taught at Harvard University's Kennedy School. He is a prolific writer. I get his many offerings and they never fail to impress me with their insight and their breadth. He recently did a book review on "Why the West Rules--for Now: The Patterns of History, and What They Reveal About the Future" by Ian Morris of Stanford. He also recently wrote a piece on "Fighting imported corruption" in the *Business Standard*. He recently wrote a piece titled "What does Congress stand for?" Dr. Subramanian has also written extensively in terms of book length accounts, for example "India's Turn: Understanding the Economic Transformation". He received his undergraduate degree from St. Steven's College in Delhi, his MBA from the Indian Institute of Management at Ahmedabad, and his M. Phil and DPhil from Oxford.

Dr. Sunil Khilnani is the Starr Foundation professor and director of the South Asia studies program at SAIS. He has been professor of politics at the University of London, visiting professor in Tokyo and was elected a fellow of Christ College at the University of Cambridge. He is a fellow at the Woodrow Wilson International Center here. He is also a prolific writer. I actually brought a copy of perhaps his most famous book: *The Idea of India*. I asked him to inscribe it. Not to name drop, but the person who recommended this book to me was President Bill Clinton. When in March of 2000 President Clinton was about to embark on his trip to India he took a stroll to a book store and picked up this book. It has got very good reviews. Sunil will also soon be taking up a new position at the Indian Institute at King's College in London. I'm delighted that you both could be here. I'd like to now turn to your presentations. Both of our speakers will speak for about 10 minutes. They will talk about the general issue as well as the specific proposals made in their piece, and then we will open up to a discussion.

**Arvind Subramanian:**

Rick, thanks very much for the kind introduction and thanks for having us over. Let me begin by saying that it is very nice to see this idea we have put out there, and we are hoping that you will all react to it and give us suggestions for how this might be taken forward. This is very much in the spirit of a conversation about some ideas to push the India-Pakistan relationship forward. As a cricket lover, I sometimes wish there could have been a kind of cricket metaphor for the Emmanuel Kant, Tom Friedman expression you know, no two democracies ever go to war with each other, no two countries that produce McDonald's go to war with each other and I wish, no two countries that play cricket ever go to war with each other. Alas that is not the case. The idea of the piece began with the sense that the politics seem to be going nowhere, and in fact in some way things are looking even more bleak from the government-to-government perspective. So we were thinking, are there no just non-politics, non-government ways of doing this? Even when we move to economics, is there a way of moving beyond government? Even within the realm of economics, maybe we could think of something that the two countries could do. When one thinks of economics and trade as a way of boosting cooperation, you

think of the original European model, the Franco-German reconciliation that started the European payments union, the European steel community and the EU. And you know it has been a success. One shouldn't have grandiose visions about where the India-Pakistan relationship might go in the future, but you have to start somewhere, and intensifying trade cooperation is a place to start, a modest beginning. But then you run into the following problem, which is that when you think about intensifying trade, you think about intensifying trade in goods. My colleague Mohsin here has a very good policy brief, which lays out the key facts. Specifically when you think about intensifying India Pakistan trade, there is currently 2 billion in trade (2-3 billion in trade via Dubai) the problem of course is that according to some calculations the scope for trade is somewhere between 5-10 times its current level. That shows you what the unrealized opportunities are. The problem is that once you talk about intensifying trade, you discuss trade barriers, and once again governments are involved. And when the commerce ministries of both sides get involved, it has not been a pleasant experience, whether in the process of SAFTA, or India-Pakistan, India-Sri Lanka trade, India-Bangladesh trade, its been a very messy, tortuous process. India has an FTA with Sri Lanka, but it is a "Swiss cheese" agreement. There are lots of holes in it on both sides, onerous rules of origin. It is similar to what developing countries always claim industrial countries do to their exports, imposing onerous rules of origin. India has been a perpetrator in this regard vis-à-vis Sri Lanka. So it's a very complicated, messy business. SAFTA has gone nowhere because the big India-Pakistan link has been missing. So when we thought about this we said trade is the obvious place, but then you have the same problem that affects the broader security and political dialogue. So why not think beyond that? So the specific proposal we had in mind relies on the two private sectors taking the lead in this dialogue, and also the Indian private sector in some ways taking a lead on this. Broadly the idea is the following: If you look at the Indian development experience, one of the lessons we have learned is that the IT sector, apart from whatever direct contribution its made to the economy, has had a huge indirect, but no less important contribution, which is that it has changed the dynamic of the demand for education in India. IT has done well so demand for English has increased.

The public sector has been dysfunctional so the private sector has stepped in to play its role. That helps English language education, which is important, so we thought that might be true for Pakistan as well. The IT sector could have a similar role to play in Pakistan. I don't know too much about how the IT sector is set up in Pakistan, but obviously it is not set up at the cutting edge as the Indian IT sector in today. So the idea we had was that the Indian IT sector, the top 5 or so, or the industry, NASCOM, would collaborate with the Pakistani IT sector, either the firms or their industry association. The idea would be that on the one hand the Pakistani IT sector would replicate what has been done in India in terms of English language education, technical training. But the big idea we had here was that the Indian IT sector would say, look we have a say in creating a brand Pakistan. This means that for any international contract that we get "x" percent of that contract will be sourced in Pakistan. The idea is that the Indian IT sector would take on the reputational risks associated with a fledgling IT sector in Pakistan. But it would do so with the broader idea that India has a stake in a stable and prosperous Pakistan. So that's where the lead would come from. Hopefully after this happened for about 5 years, the Pakistan

IT sector would start to become internationally competitive like the Indian IT sector. There is no reason why the conditions that have made the IT sector successful in India, should not be replicated in Pakistan. As economic activity goes manufacturing and infrastructure are very transactions intensive. This is difficult in India but certainly also in Pakistan. The IT sector is less demanding of government and less demanding of infrastructure. In principle you just need to have some English language skills and be connected to the world. That seems to be the way it works everywhere. We end by saying, hopefully the Indian IT sector and private sector will dare to tread where governments have not tread in the past. So the next question is, what are the next steps, how do we take this forward?

**Sunil Khilnani:**

Thank you Rick for your invitation to be involved in this discussion, and thank you for your very kind introduction. There's not much I think I need to add to the specific idea. It's a short piece that we wrote. It was really more a kind of message in a bottle to the world, to readers in Pakistan and India. In a sense an invitation to open up a discussion about what we can do to move the relationship forward. We don't have a larger paper or argument to support it. We just have an idea, so in that sense it is very much open for discussion.

We've been talking about cricket diplomacy and what can be done on that front. Last week during the semi-final between Pakistan and India I was actually in London at a meeting between journalists from the two countries. It was a closed meeting where these two communities of journalists were invited to see what role they could play in improving relations. I was very struck. There was great camaraderie. Of course amongst the journalists it was a meeting punctuated by notes about the latest score. But at the same time it was a meeting at, which there was a lot of gloom in the sense that journalists from both sides, familiar with each others countries (they had often been in both), also had this sense that it was very hard to see how things would move forward in a positive direction, even with the fact that the two Prime Ministers were sitting together at that very moment, didn't really presage a great improvement. Of course one of the things that you could see as looming over the relationship was Mumbai 2008 and the aftermath of that. You could see the trust deficit had become entrenched and in fact expanded in many ways. And there was a sense that government discussion had taken on a kind of ritualistic air. Also the many varieties of track two discussions and contacts had also taken on a sort of formalistic as opposed to delivering aspect to them. That in a sense reiterates the point that Arvind just made that our sense in that we need to move outside the existing channels. There has been a lot of expectation and hope placed on existing channels, so when the U.S. has been involved it's really been about getting governments to talk to one another, or the main institutions of the two societies. Perhaps it is time to step outside that framework. Our sense was that we really need to widen the repertoire of policy options that are available. There are obvious incentives to developing the trade relationship. All of you are familiar with them. From an Indian perspective there is a need for Pakistan to move in a positive direction from where it is today. The question of Pakistan looms over all the citizens of South Asia. In that sense India's own growth prospects, which it feels so confident about, really are constrained and stand to be derailed by what happens in

Pakistan. So there is a very direct interest in trying to create the conditions for growth to happen in Pakistan. We were just talking about the future of the two countries. Even if we took away all of the difficulties that Pakistan faces at the moment, if you just look at the sort of demographic trends and the economic growth trends, which are not working together in a positive way at the moment, just those aspects themselves are enough to see the potential for difficulties ahead. Add in the fact that it is also largely a young population in Pakistan. So in thinking about what kind of economic linkage could emerge, I think we were also trying to think about an economic linkage, which would have some direct social aspect. A kind of social benefit if you like. And in that sense again the thought was that the IT sector could have that aspect. Precisely for the reason that Arvind just outlined, which is that it is linked to the development of education. It has in the Indian experience been a locomotive for pulling people into the pursuit of education. And it has been something that has in a sense forced the creation within India of an educational system that is dysfunctional. It has actually forced the development of private sector educational expansion and education entrepreneurship, which has been a great benefit in expanding education in India. So the thought was that if one can to some extent replicate this kind of process in Pakistan, for whom education is also a huge challenge, this may be something that not just creates an economic stake for both sides, but also has some direct social advantages as well.

Going back to government, there are things that could be done at the government level when it comes to trade. What has been discussed is that the Indian government could make a unilateral move whereby it opened Indian markets to Pakistani goods. I think that is something that could be done, but is not likely to happen in the near future. Our thought was that we can appeal to some of the leading figures in the IT industry in India, and get them to see what's in it for them. In the first instance in economic terms there wouldn't be necessarily a great deal in it for them, they might have to absorb some of the costs. But some at the top of the corporate pyramid in India do have a larger vision and are able to see beyond just the numbers in reports. And I think/hope they are looking for more ambitious moves to integrate the currently weakly integrated economy of the subcontinent. The question is: who might the interlocutors be on the Pakistani side? Or would it be the chambers of the relevant industry? If two of the greatest sons of industrial Mumbai, Ratan Tata and Anand Mahindra, could use this opportunity to make a gesture or do something that has real tangible benefits from engaging with Pakistan, it could be a striking and potentially transformative move. That was the background behind the article. It is speculative. It is an invitation to think about possibilities. It's certainly not a conclusive, tested argument. We put this out with the strong sense that we need to broaden the policy repertoire that is currently available to all of the protagonists in this relationship. Thank you.

**Karl Inderfurth:**

Sunil, excellent. Arvind, excellent. I could not think of a better subject to start our lecture series. John Hamre, our president here at CSIS, has said that to be effective, a think-tank must go beyond idea formulation and idea promotion to idea implementation. I think that Arvind and Sunil have done the idea formulation. In this setting and in other settings we can do the idea promotion. But idea implementation will require something much

broader, beyond what we can do here, but something which we can all work on together. It may be the idea we have discussed here, which is an excellent one to pursue, to get us out of the already plowed tracks that governments have gone through many times and not successfully. We need to break out of the government thinking to get to the private sector and the rest. It may be one way to jump start this whole process. As Sunil said we need to widen the repertoire of policy options. We hope that, that will come out of the discussion we will have for the next 30 minutes. With that as a beginning I will now ask for your comments and questions and we will start going around the room.

**Imran Sadiki (Voice of America broadcasting in Pakistan):**

I understand the IT aspect, but I want to try taking this a different direction. We have seen in the past that entertainment has played a huge role. We can talk about cricket diplomacy and there is also entertainment diplomacy. We have seen that Pakistani artists have been going to India to do productions. A couple of years back Sonu Nigam went to Pakistan for a concert and more than 100,000 people showed up. Do you think that players like these from the entertainment industry could play a pivotal role? We see in the US and Canada, production executives in the U.S. go to Canada to film on locations in Canada because of lower production costs. Do you think something like that could play a role in South Asia?

Dr. Sunil, do you think that Pakistan and India are waiting for a Gorbachev-Reagan moment? When I think about commodities, I think of rice and wheat, simple things that India and Pakistan can trade. But they always take a longer route to get to that. Do you think that policies can be developed so they can do direct trade in such areas? Would that benefit the people? Thank you.

**Arvind Subramanian:**

My response to this is simple. In some ways the entertainment industry does offer some scope for mutual deepening, but it matches cricket more than the IT analogy. It's more episodic, feel-good and happens once in a while. Everyone comes away happy, but it doesn't result in something concrete. It does not create a sustained dynamic, that keep up the engagement, that shows the benefits of the mutual cooperation on an ongoing basis and that doesn't generate the kind of social benefit we were talking about, in terms of what the IT sector can do. The bottom line is, anything that helps is good, and entertainment is a creative idea. But whether it can strike deep roots with the kinds of externalities that are possible with IT, through education and so on I just don't know.

**Sunil Khilnani:**

Going along with Arvind's comments I think it would be a nice thing. One thing we could do is create a much more liberal visa regime for people involved in the entertainment industry, such as writers, journalists, people who are clearly not security threats in that sense. And there should be a much more open exchange on both sides. I think that would be a nice thing. But whether or not it would be transformative thing I am more skeptical about. On your question are we looking or should we hope for a sort of Reagan-Gorbachev moment, I think that has been a bit of a red-herring in the past. You know the idea that: if only we had the two right leaders on either side that could push it

through. Yes there have been advances made when leaders have chosen to do so, and have had a sort of domestic authority in constituencies. But at the end of the day we have to find other kinds of more structural supports, for what the leaders can do. I don't think that one can rely on a solution emerging between two individuals. The politics of both countries in that sense are changeable, we don't know the kinds of leaders that either country might have in a few years time, or how long those sorts of agreements would last. On the other hand if we had a more solid base on which the relationship could rest, I think we would be more likely to see progress. I think that is going to be a slow process of building trust and connections. It is going to take time and we need to find the initial entry points that can allow that to happen. My sense would be to think of this as a long slow process, because the ultimate horizon would be a greater economic integration of the South Asian subcontinent. That's not something that's going to happen in a hurry. There is great incentive for it to happen; we just need to channel that toward the immediate actions.

**Karl Inderfurth:**

Can I ask you both in terms of a quick question, we all have heard about the IT sector in India, but could either of you give a sense of the IT sector in Pakistan today? Where are they? I have a paper here by Mohsin, which I was going to call attention to at the end of the session, its entitled: "India-Pakistan trade: A Roadmap for Enhancing Economic Relations" by published in July 2009 by the Peterson Institute, and I highly recommend that as well in terms of this overall discussion.

**Mohsin S. Khan (Peterson Institute for International Economics):**

I just wanted to make 4 points. I was going to come back to Dr. Sunil's comment about the interlocutors on the other side (Pakistan) and covering your question about IT. First of all I do think this is a fascinating idea, and it does go beyond what I have written on trade and how trade in goods can take place between the two countries and the constraints and restraints that are right now just simply bureaucratic regulations, others are tariffs and subsidies etc... So I'll abstract from that. I would make one general point to start with. I think that the distinction between, let's move away from government to government relations to private sector to private sector relations is not really possible in the Pakistan context, and I'll tell you why. Foreign direct investment in Pakistan has no restriction whatsoever. You do not need permission to set up a 100% foreign owned firm in Pakistan. How many firms have been set up in Pakistan? Very few. This is for various reasons, but one of the reasons is simply, that you need licenses for other things. There is no problem setting up a foreign firm, but you can't buy land. You need land titling. You need infrastructure help. The bureaucracy is pervasive. What you need, and I will take the other gentleman's point, you need both the Gorbachev-Reagan moment and the private sector here. You need the government leaders to say: this is no longer going to happen. We are going to have trade. And then get the private sector involved in the process. My point is that you really can't make a distinction between government and private sector. I'm only talking about Pakistan in this context. I think that the problem has been on the trade side and at least from the Pakistan side the problem has always been the Pakistan politicians desire to go for a comprehensive solution. In other words, if you want to handle the issue of multiple entry visas, by either side, for businessmen let's say, you



have to discuss that in the context of a discussion about Kashmir, about the Indus water treaty, about a whole host of issues, about terrorism, militants, so on and so forth, you have to discuss them all, you can't handle them piecemeal. But I think you can, and I'm a bit more optimistic of this than the two of you are, because I think that in 2005 there was a breakthrough, from the meeting of President Musharraf and Prime Minister Manmohan Singh. There was a breakthrough. Of course shocks like Mumbai derailed that. But nevertheless there were very significant moves in that case. To give you an example, trade between Pakistan and India, prior to 2005, was about 3-4 hundred million. That was it. Post 2005 it shot up to the 2 billion figure that we have been talking about. So significant changes were made. From the outside you may think they were small, but they were significant changes. I keep pushing the argument the Pakistani's now realize that the big player in the region is India. It's taken them a long time to admit that that's the case, and maybe in some public fora they still won't admit it, but it's true and they recognize that. From the Indian side it is in India's interest to make sure it doesn't have a dysfunctional state with 200 million people on its border. You mentioned that is it not good for growth or development. Yes, it is a dangerous thing to have on its border. I think it is in India's interest to make grand gestures and India can afford to make grand gestures. Arvind, you feel that India is not going to eliminate its high tariffs on Pakistani goods. I think that that is the kind of gesture that is needed by India. To say, what does Pakistan want to export to us? Well it's much more efficient than India in producing agriculture. It's much more efficient in producing surgical equipment and so on and so forth. These are not big deals overall for India. They are a big deal politically. But from an economic standpoint they are not a big deal. I might say, and this might be heretical for an economist who has spent a career at the IMF and now at Peterson, a gesture very well might be, eliminate the tariffs on agricultural products from Pakistan, and if your farmers are suffering in India, subsidize them, in order to take the hit. That's what the worry has been. One last point on interlocutors on the other side, there is a fledgling IT industry in Pakistan. But I think that the people who go to, they are some very new young entrepreneurs in Pakistan who are looking for major opportunities, both in the IT sector and in related sectors. I'll give you one example that has come up now, that is very interesting, to show you the roundabout way that trade takes place. Expatriate Indians and Pakistanis here in the United States have been farming out business to Pakistan and Pakistan has what they now call a growing IT cottage industry, which is people working in small firms doing the software development in Pakistan and then shipping it back here (to the US). So there are two channels that I would push. Entrepreneurs in Pakistan, are the interlocutors who you could name, but there are several here in the United States. It might even sell better if you have a joint venture set up by Indian and Pakistan IT in the US and then go back to Pakistan to set up shop there. Thank you.

**Arvind Subramanian:**

You know this is just the kind of reaction that we were hoping our piece would provoke. I think Mohsin has made some excellent suggestions. Mohsin you spoke about the grand gestures. Again this is something I would like to open up to people who understand the politics better than I do. I think that grand gestures may be possible only under some political circumstances. For example now it seems like the Indian government in the aftermath of Mumbai is less able to make these grand gestures than it would be when

general atmospheric are slightly better, in the sense India feels that the guys [responsible] haven't yet been bought to book, they haven't yet paid the price, etc. Therefore, to me in today's context, it's still easier for private sector to take the lead. In India, the divide between private and government is not as stark as we are making it out, and you're quite right to point that out. But I think it will still be easier for Mahindra and Tata to take the lead than for the government of India to now say that tariffs are cut on exports, textiles and surgical equipment. In this context it is just that much more difficult. Hence, I still feel that that initial entry in this context should come from the private sector. That's my sense. I don't know if you agree or not.

**Stephen Cohen:**

I want to make three points. First of all there happens to be literature on the whole question of reconciliation between hostile states. And the literature is very mixed. It's two parts. The bottom-up type. Trade and then normalization will come. And the top-down type. And the latter is typified by Charles Kupchan's new book which argues for a strategic reconciliation first. The "kumbaya" moment comes after that. He argues against trade as a motivating factor. It has to be a strategic decision. When I was in the State Department working for George Shultz we made a strategic decision to normalize with the Soviets and talk to Gorbachev. So it was a bureaucratic and strategic decision. It wasn't personality driven at all. And Margaret Thatcher was part of that. And the Soviets side also had a strategic decision to talk to us about a whole range of issues. So you can argue bottom-up or top-down. In this specific case, I have talked to Indian firms about going to Pakistan and brief them. And I have talked to Pakistani IT people about dealing with India and they pointed out to me, back in 2003 that they are doing joint work overseas with the India. But the Indian initiative, at least one that I know of, came to nothing. And I can imagine why it came to nothing. The Pakistanis simply didn't trust the Indians. And they can get software from the Chinese among others. Also there was some suspicion of the integrity of the Indian operation itself. Indian software firms are good but there are others that are better. I think there were some Pakistani concerns about getting involved with the Pakistani IT in infotech sector. And probably the military may have intervened on that issue also. So I think that this required more research. Talking to some of the Indian IT firms...and there was more than one firm that went to Pakistan, as far as I know nothing came of it. And the Pakistani side was eager to do it but I think there were political considerations by the military among others.

**Karl Inderfurth:**

This was in 2003, which in the world of IT is light years away. So hopefully some of those deficiencies –

**Stephen Cohen:**

Yes, I have to say that I don't necessarily agree with the top-down view but it's been pushed by Steve Coll among others who argue that it has to be an American initiative on Kashmir. Everything else will flow from that. I don't necessarily agree with that but that's the top-down view. David Ignatius has made this point also – America should get involved with this. Not simply encourage IT but in the strategic decision. In both countries make it worth their while to allow the IT people...And I have argued for years

now that water and environment are common strategic threats to both countries. They should be working together on these issues. But nothing is moving and I think it's going to be 100 years before we see any movement. And as Sunil pointed out, Pakistan is declining. And a declining Pakistan has nuclear weapons. That's what Indians are concerned about.

**Karl Inderfurth:**

When I spoke to Sunil and Arvind about their op-ed, and I had seen it in the *Times of India* and it had also appeared in Pakistan's *The News*, I asked them if they had also placed it in a US publication and they said no. We were aiming this at them. And I think this where that kind of an initiative is going to have to start.

**Deepa Ollapally (GWU):**

I just wanted to say that we can look at India-China relations for just one minute. If we just go back about 15 years ago, clearly there was huge trust deficit and there continues to be a trust deficit. In that case the relationship in the economic sector came really from the private sector. They took the initiative to do that. And it went against a lot of the apprehensions of the government. And I know top people like Infosys and other key sectors in the IT were the ones who took the lead on that. I would just like to say that now that we look back, we don't see the lack of economic activity. Yet, even today India-China relations are marred by a lot of animosity. We just saw in 2010. It was a high point... everything from the visa issue to the question of Himalayan roadwork that is being done, etc. But yet the economic relations have taken root and it has taken off. I just wanted to say that to make these categorical imperatives about the future...I think we really cannot. It may have not transformed India-China relations but this has become a very important part of what that they have to factor into in their political relations.

**Stephen Cohen:**

The one area where India-Chinese relations are worse is IT. Indians are ahead of the Americans in criticizing Chinese meddling in the IT sector.

**Arvind Subramanian:**

Steve the thing is that I have just been in India with the National Security team talking and thinking about India-China economic relations just early last month. It's true what you are saying. Some of the documents produced for the meeting by the Indian industry could be written by the hawkest of hawks on the Hill. But on the other hand the way you expect trade to work in terms of changing private sector incentives and therefore government policy is absolutely coming into play between India and China. A good example is, notwithstanding all the conflict and friction, the Chinese to build a power plant want to bring in Chinese labor. And the Indians at some point said no more visas. And then you should, have seen the scene...it could have been worthy of lobbying on Capitol Hill...a very influential India private sector man who was in this lobbied the India government to actually change visa policy. So that mutuality of interest via the private sector influencing government action has come into play very significantly in the India-China relationship. Notwithstanding what you said.

**Dhruva Jaishankar (German Marshall Fund):**

Two quick questions. One is, is there a precedent that you know of trade and services having the pacifying effects you spoke of. You touched upon it a little bit on the India-China dynamic but assuming that trade and goods don't take off between India and Pakistan. Secondly and in addition to the private sector contacts between India and Pakistan, for example like a CEO forum, I'm interested in what both of you have to say about the role of say universities as hot beds of entrepreneurship. They may be able to do this in a manner that is less controversial without the risks associated that might scare off private sector. So hypothetically one might have an IIT or IIM on the Indian side with LUMS on the Pakistani side and have collaboration on that realm.

**Sunil Khilnani:**

Just on the last point, that is an excellent suggestion to add in the mix. I think on both sides there will be strong interest in the IITs or LUMs to engage with one another. One can't really draw the very sharp lines of distinction between government and private sector because you do need the government to institute a more liberal visa regime for researchers and scholars to be able to move back and forth. But I think if there is pressure from academic and research communities for that, in conjunction with the private sector trying to develop projects, which becomes something governments have to have some response to. So yes, that's exactly how one would want to see these ideas expand and the options that are available.

**Arvind Subramanian:**

On the question about precedence on trade and services without trade and goods. None come to my mind. But I would add that in India-US context of deepening engagement, Jagdeesh and other have said let's do a free trade agreement in services and just completely bypass goods because that is much more problematic. So that at least is a conceptual precedence. Here Sunil and I were being very opportunistic... there is no grand distinction between services and goods. But in this context what is worked and what can be replicated and that turns out to be IT which is a service sector.

**Sunil Khilnani:**

To add to that, the other point about focusing on IT in the context of India and Pakistan was that it does present slightly less levels of risk in terms of security aspects and so forth. Whereas the whole pipeline discussion has stymied time and again. So this was a way for this particular context rather than a general rule that services can somehow do the job that goods might not do.

**Arvind Subramanian:**

Also want to make a more economic point. When people are eloquent about the rise of the service sector in India I think two points need to be kept in minds. One is that it was an accident of history in some sense because of colonialism and the English language legacy. And secondly, many people have made the argument that services took off in India because manufacturing was so regulated. So in that sense to support what Sunil is saying, everything is demanding of the government. There is no economic activity that's

not. But as these things go, IT is less demanding than if you were to set up a pipeline or manufacturing plant.

**Sunil Khilnani:**

And to add just one more point. The other point about IT that Mohsin is also making is that it is a very globalized sector and so the connections can be made at many different points internationally which can help bypass some of the otherwise things that end at the border. So in that sense it is also a potentially very productive in this context.

**Karl Inderfuth:**

I can feel the spirit of Thomas Friedman in this room. Mr. Khan you had some comments.

**Mohsin Khan (Peterson Institute):**

I basically view this, something I also wrote about too, as creating vested interests or lobbying interests on both sides of the border that would push and support the government if they wanted to have closer economic relations. I agree with you on the IT sector so I'm not questioning that. One thing that you have to keep in mind is there is one difference between pressure groups in the two countries. The Indian industrial sector and IT sector have lot more clout in influencing the government in India than their counterparts do in Pakistan. The strongest lobbying group in Pakistan is agriculture. If you want to create a group that is interested in closer relations or better ties with India, you do something on the agriculture side. This is a side issue. But I wanted to make this point that there are Pakistani manufacturers and IT people who have influence but their influence is nowhere near what the feudal landlords influence in Pakistan.

**Salman Zaheer (World Bank):**

Another analogy, India has made first mover moves to both Nepal and Bangladesh on power supply. India is short of power, but the amount they have offered, 500 megawatts to Bangladesh and 150 megawatts to Nepal, would be transformational in either of those two countries relative to the size of their respective power markets. It won't really be missed in India. In the case of Nepal, if it builds the confidence needed not only to build the transmission line, but also to build public goodwill; it unleashes the whole Nepal hydropower capability. Nepal has 80,000 megawatts of hydropower, which really does require trust in order to unleash. Trust between Nepal and India, India being the big market. The terms of trade would shift, quite dramatically, as is the case with Bhutan and similarly with Bangladesh as part of a broader comprehensive agreement. So I do see distinct steps on the India side of actually making moves, which can be transformational to relationships. Now moving to the Pakistan side, if you are riding on industrial capability, which is what IT would be doing, I think there may be other pockets as well, on which to build it. For example just at the artisan level, dealing with women and gender, the SEWA group out of India is quite active in Pakistan trying to organize networks at the village level, for women trying to get products and their capability built, which could benefit from a broader trade, but at the artisan level. Now as you keep going up you might find different groups that might be active. I think there are two parts to it. One is that I think there is more happening than I know, and one can graduate depending

on where it is. What I like about the IT thing is that it is pitching it at a level, which might have a critical mass as well as visibility. Ultimately there may be a lot of things happening, but if they are not visible, then they don't seem to matter. The other thing is that you could pitch too high on energy or other things, which is the point you made, which may be a non-starter or take too long. IT does seem to be a well pitched endeavor where the private sector has done well, certainly on the India side and there could be analogies on the Pakistan side. My overall message was saying that I think there are positive trends on the India side, in its neighborhood, which might be, I mean the politics I'm sure you have a better sense of, but I think the capability is there to extend these overtures into many sectors, if and when the will really is shaped.

**Yashwant Raj (Hindustan Times):**

It's been a month since you wrote the article that appeared in the *Times of India* and in *The News* in Pakistan. Have you heard from anywhere, and what have you heard?

**Arvind Subramanian:**

Actually, we did hear from both our colleagues in Pakistan and in India. It was not unanimously positive, but it was always the question of how do you take this forward – what are the next steps? And in fact one of our common, close friends said, “What are you doing to take this thing forward as well?” And so I think it's fair to say that the idea has gained resonance but we're still kind of floundering in terms of what might be done and who might be the best interlocutors to take this forward.

**Sunil Khilnani:**

That's right. Personally, I was just in Delhi last week also and in a number of conversations this came up. I think there is a lot of private interest and support for it, but how that gets translated into actual action remains the big question, and how the people who can actually initiate it can be motivated remains a big question. I just wanted to just quickly speak to some of the points that were raised. I agree with Steve Cohen in that both of these aspects, top-down and bottom-up, are going to be important. We've been emphasizing the bottom-up but of course the top-down approach is going to be important. One way that one can strengthen the hand of the leadership and the strategic approaches is to provide some other ballast to it, which comes from lower down the ecology, if you like. And that's one of the things we also have in mind. Why the IT thing seemed particularly promising, some additional reasons: one, on the Indian side, there has been the most risk-taking, the most dynamism, the most entrepreneurship, and this would require policy entrepreneurship, and policy risk-taking. And there are some people who are leaders in that industry who have that kind of vision, and that's why we also thought it was the kind of argument that could appeal to them. So again, we were thinking about audience. The other thing is—and this goes to one of the benefits for Pakistan—is that you have a situation now where some of the best young people in Pakistan are actually leaving the country, they don't see themselves as having a future there. So by trying to develop this sector, it would be a way of actually giving them a stake, as we've seen in the case of India, where now you have people going back from Silicon Valley to Bangalore, who are at the very peak of their field. If one could create something like this,

it would be an important way of giving a stake to some of the best minds in Pakistan, so that they can be involved in their future.

**Stephen Cohen:**

I have a suggestion, drawing from Mohsin and also drawing from some of Woolf Gross's experience of selling airplanes to India. The Indians have pushed the notion of offsets. Instead of looking for a symmetrical IT agreement, look for the political support. In India, it's IT that is politically influential, but in Pakistan it's agriculture. So why not trade IT for agriculture? When we sell our aircraft to India, we're going to have to provide offsets up to a certain value. So you could construct this yourself Arvind: what would be the value of Pakistani agriculture to India, which would match or balance the value of Indian IT investment in Pakistan?

**Arvind Subramanian:**

The only problem with that is that in crude mercantilist terms, India is incurring the cost for both of them. What's the give and take there?

**Stephen Cohen:**

Well, it benefits in terms of IT sharing and profits.

**Arvind Subramanian:**

As Sunil and I said in his article, initially it would be a cost for the Indian IT industry to do this, because they'd have to overcome whatever security fears they have, they have to invest there, and if they actually follow up in sourcing value out to Pakistan, that's a net loss to India, a sort of sucking-sound argument. So that's why I don't understand what the quid-pro-quo is, in mercantilist terms anyway.

**Stephen Cohen:**

I thought the Indians would make money by doing IT business with Pakistan. You're saying they won't?

**Arvind Subramanian:**

The IT sector has no big interest in Pakistan as a commercial proposition. It's not a big market. They want to get into the Chinese market, and to the European and Japanese and Australian markets. But they're not particularly interested in the Pakistani market.

**Stephen Cohen:**

It may make political sense but if it doesn't make financial sense, why raise the idea? I briefed one Indian company about this and they thought they could make some money, but maybe they can't.

**Sunil Khilnani:**

Our thought was precisely not that they would be making money, at least not in the initial ten years perhaps, but that for these other reasons, political, strategic, etcetera, this might seem advantageous.

**Karl Inderfurth:**

Let me conclude with a few final comments. First of all, outside this room, in addition to the Op-Ed by Arvind and Sunil, there is also an excellent piece that was recently in the Washington Post about a shortage of trade on the India-Pakistan border, an excellent journalistic account of where that trade relationship exists today (“India and Pakistan are united by language and history, divided by commerce,” Karen Brulliard, 19 Feb 2011). There have also been a number of longer reports written on this subject, and if you want to take a look at some of those to get further background I urge you to do so. One of these was done by our partner institute ICRIER (Indian Council for Research on International Economic Relations) in New Delhi. In 2006 ICRIER did a study entitled ‘India-Pakistan Trade’ and included policy suggestions to enhance Indo-Pak trade, including trade on MNF basis, information exchange, transport routes, transport bottlenecks, banking, non-tariff barriers, visas, communication, and investment. There have been a lot of traditional studies, important ones. If we’re going to pursue this innovative approach, one needs to know what other approaches have been offered. But I think what is particularly interesting here is to try to harness some new ideas, innovative ideas, the IT world. And also what I find very important about this proposal is that the authors are looking to India to take a first step. India has an advantage here. And the advantage initially for India, I believe, will turn into a long-term investment, for a more stable and prosperous Pakistan in the long term. I think that’s terribly important. So I do hope that this ‘message in a bottle’ that Sunil mentioned is one that we will all take with us. We’re going to continue doing some work here on this subject, working with the two authors to see if we can get this out. The slogan or mantra for our new CSIS Wadhvani chair is to ‘unlock the full potential of the U.S. -India relationship’, but I think where this takes us today is the importance of trying to unlock the latent potential of the India-Pakistan relationship. If that could be unlocked, and quite frankly I think innovative rather than very traditional ideas that have not been productive in the past will be necessary, then I think that this would make a contribution. I appreciate you all coming, I greatly appreciate your being here, you’ll get other invitations and I hope you will return. If you have ideas about what we’ve been talking about here, I would like you to email us, including with names of people that we should perhaps pursue to help push this idea forward. We’d like to make this, as they say, interactive. So thank you all very much. A round of applause for our speakers.