

# India and Pakistan: Practical Steps, Transformational Benefits

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While Washington's focus on South Asia has recently been consumed by the impending U.S. withdrawal from Afghanistan and the deteriorating situation in Pakistan, something else has been taking place—quietly—between India and Pakistan over the last year that may culminate in an unexpected welcome surprise for the incoming U.S. administration in 2013. If events continue on their present course, India and Pakistan could establish a trade relationship that could usher in a new era of cooperation between the long-time, nuclear-armed rivals.

Since last March, the Indian and Pakistani foreign policy establishments have met numerous times to discuss issues ranging from counterterrorism to counternarcotics and border disputes. However, the issue that holds the most promise for transforming the dynamic between these two countries is trade.

Trade represents an area that can be separated from contentious bilateral political issues. It has the potential to engage and energize the public and private sectors of both countries. Unfortunately, bilateral trade between India and Pakistan has historically been anemic, totaling only \$2.7 billion during 2010–2011—a paltry sum for two countries that could comprise one of the world's largest trading blocs.

Over the past year, however, some glimmers of hope have emerged. The Commerce Ministries from both sides have engaged in an intensified dialogue that culminated in Pakistan's announcement in November that it was ready to grant India most-favored nation (MFN) trading status. India granted Pakistan MFN status in 1996.

This landmark decision was followed by a historic visit this February by Indian commerce minister Anand Sharma, who led a delegation of over 100 Indian business

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leaders to Pakistan to discuss ways to deepen trade relations, the first such visit by an Indian official in this capacity since the partition of India and Pakistan in 1947.

The results of that visit marked another important step in normalizing trade relations between the two countries. Three

agreements were signed, including on customs cooperation and setting up a mechanism to address grievances. These agreements were followed by Pakistan's announcement that it will switch to a so-called negative list-based approach, which prohibits trade on a small number of items while allowing all other commodities to be traded. Islamabad added that it would phase out this negative list by December, which would finalize Pakistan's MFN decision.

In the meantime, the two sides are working on measures to ease visa rules for business travel, open an additional customs post at the Wagah border, and allow bank branches to operate in each other's countries. All told, Sharma and his Pakistani counterpart, Makhdoom Amin Fahim, say they want to double bilateral trade to \$6 billion by 2014. One outside study estimates that, with tariff and nontariff obstacles removed, the volume of trade could reach \$10 billion by 2015.

If these present trends continue, what could this mean for India and Pakistan and the South Asia region? The short answer: they could be transformational.

First, these positive developments need to be viewed in the wider context of South Asia's current political situation. As the United States continues to withdraw its troops from Afghanistan in 2013, the Indo-Pak rivalry there has the potential to intensify and undermine any



fragile stability that might exist. Trade could be a mechanism for mitigating tensions between New Delhi and Islamabad.

There is already a transit trade agreement between Afghanistan and Pakistan. Afghanistan and India also have a strategic partnership in which both capitals have called for regional economic cooperation where Afghanistan emerges as a trade hub between Central and South Asia. The missing piece of this vision is trade between India and Pakistan. If these two countries were to open their borders, it could unleash a new "silk road" across South Asia into Central Asia, as Secretary of State Hillary Clinton called for in her speech last July in Chennai, India.

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Second, these dynamics, combined with New Delhi's improving ties with Bangladesh and existing ties with Sri Lanka, could have a profound impact on South Asia's prospects for intraregional trade, which has been abysmal for decades. In 2008, South Asia had the lowest percentage of intraregional trade compared with any other region in the world, a paltry 4.8 percent. By comparison, the percentage for India's neighbors to the east, the Association of Southeast Asian Nations (ASEAN), was 26 percent. If India and Pakistan opened their trade relationship, it could also improve the economies within South Asia, as Pakistan could export and import more easily to Bangladesh, Bhutan, and Sri Lanka via India.

Expanded trade across South Asia could also lead to possible cooperation in other key areas such as power generation. In February, Minister Sharma proposed a \$300 billion power grid in South Asia that would enable the region to share in electricity. Currently, South Asia is the least integrated region in the world when it comes to power generation. A transnational power grid across South Asia would not only promote energy security in the region, but also result in substantial cost savings.

To date, news coverage in both India and Pakistan has been positive with respect to these initial steps toward trade and energy cooperation between the two countries. Editorial comment in leading newspapers has called attention not only to the positive value of these steps, but where they might lead. Pakistan's *Dawn* and the *Times of India* have both argued for normalizing trade as a way to move closer toward political accommodation. The *Times* put it this way in a February 15 editorial: "Delinking trade and business from politics is crucial to keeping the lines of dialogue open and the hope of peace burning. It would also pave the way for tackling all outstanding issues, including Kashmir."

Finally, though, a cautionary note. These ongoing efforts are still in their incipient stages. While trade can be separated from politics, they are never completely divorced. Another major political or security crisis between India and Pakistan could bring these efforts to a halt, as they have before. The key challenge for both sides will be to find a way, and the political will, to insulate their progress on economic issues from the political and security challenges they will almost certainly face in the future. If they are able to do so, the practical steps now underway could lead to transformational benefits for both countries and the entire South Asia region. That is a development the next U.S. administration should find not only a welcome surprise, but one that it can encourage and support in promoting a more stable and prosperous region. ■

*(These views are the authors' own and do not reflect an official U.S. government position.)*