

# **Economic Cooperation and Security Spill-Overs: the Case of India and Pakistan**

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India and Pakistan have had a strained security relationship ever since they emerged as sovereign nation states after independence and partition in August 1947. Little economic cooperation has taken place, except for one major and lasting treaty on the sharing of river waters, despite some progress in regional economic cooperation in South Asia in the 1990s. In fact, in mid-2000, after the 1998 nuclear tests by both countries and the 1999 border war in Kargil, the India–Pakistan security relationship is possibly worse than at any time in the past, short of the wars that actually took place. Why has there been little economic cooperation? Why has the little cooperation there not spilled over into the security relationship? Can increased economic cooperation, if feasible, lead to an improved security relationship? Or is such cooperation dependent on prior improvement in the security relationship? This paper examines and tries to answer these questions in the light of recent international relations (IR) theory.

I argue that the way forward towards eventual resolution of the India–Pakistan conflict lies in growing economic cooperation, beginning with major infrastructure projects in the energy sector such as gas pipelines and interlinking electricity grids. There are incentives for such movement toward cooperation in the post-Kargil, post-nuclear test era when viewed from the prism of cumulative relative gains. Such common projects will create stakes in continuing cooperation and can catalyze trade and investment relationships over time. I also argue that the 1998 nuclear tests and the failed attempt to change the *status quo* by force in the Kargil clash gave both countries, especially Pakistan, unprecedented assured security and ruled out the possibility of achieving territorial revisionist goals through military action. This has laid the basis for increasing economic cooperation without adverse security spill-overs, and will possibly lead to greater security cooperation in the long run. Such cooperation, especially on a gas pipeline, will narrow but not end the arena of conflict, removing some issues from the arena—as the Indus Waters Treaty removed the issue of river waters—while enlarging the areas of common interest.

In the first section, I outline the political and economic relationship between the two countries since 1947. In the second section, I outline their pattern of economic cooperation, particularly over the past decade. In the third section, I analyze the most important and long-lasting economic cooperation agreement between India and Pakistan so far, the Indus Waters Treaty of 1960. In the fourth section, I first outline a basic framework, drawn from IR theory, for analyzing the relationship between economic and security cooperation by India and Pakistan, and then apply this framework to analyze why past economic cooperation remained so limited, and why it did not spill over into security. I also consider whether the post-1998 nuclear face-off, taken in conjunction with other factors, can now lead to increased economic cooperation and perhaps security cooperation in the long run. Specifically, I examine whether certain potential infrastructure development cooperation projects of major significance, such as gas pipelines and electricity, can materialize in this changed environment, and whether such cooperation can lead to positive security spill-overs.

## **INDIA AND PAKISTAN: THEIR POLITICAL AND ECONOMIC RELATIONSHIP SINCE 1947**

India and Pakistan emerged as independent nation-states in August 1947 following the end of British rule and the partition of British India into two new states. The Muslim-majority areas of Western Punjab, Sindh, Baluchistan, the North-West Frontier Province and Eastern Bengal became Pakistan and the rest remained with India. The rulers of the officially independent princely states of India, which were in effect British protectorates, were given the choice to accede to one or the other of the two new states. In the case of one of these princely states, Jammu and Kashmir, the ruler, the Maharaja, was a Hindu who ruled over a Muslim-majority but multi-religious, multi-lingual, and multi-ethnic state with sub-state, non-Muslim majority areas in Jammu and Ladakh that bordered West Pakistan. The Maharaja delayed accession and tension mounted. In October 1947, irregular tribal forces supported by Pakistan invaded Kashmir. The Maharaja acceded to India and Indian forces intervened to push back the invaders leading to the first Indo-Pakistan war. The Instrument of Accession was itself not conditional upon a plebiscite, but the accession was accepted by Lord Mountbatten with a wish that the question of accession should be settled according to the wishes of the people once the invader had left. India took the matter to the UN Security Council and at the end of the war, the cease-fire line, later renamed the Line of Control (LoC), left one-third of the original state (including the Northern Areas) under Pakistani control.

However, India did commit itself to a UN-supervised plebiscite as per the UN Security Council Resolution of 13 August 1948 and the UN Commission on India and Pakistan (UNCIP) Resolution of 5 January 1949. The main condition for the plebiscite—the withdrawal of Pakistani troops from all of Jammu and Kashmir—was never fulfilled. Pakistan on the other hand has always rejected totally the accession as illegitimate and fraudulent. Rival territorial claims over Jammu and Kashmir have remained unresolved since then and have been the main issue between India and Pakistan.<sup>1</sup>

While Pakistan became an American ally, receiving US military aid from 1954, joining SEATO and CENTO shortly afterwards, India was one of the co-founders of the non-aligned movement. After 1956, India began to draw closer to the Soviet Union, which emerged as a supplier of economic assistance. India argued from 1954 onward that changed circumstances made the plebiscite no longer relevant or applicable and that Pakistan never fulfilled the preconditions for a plebiscite. India also claimed that the elections held in Kashmir under Indian auspices, and elections held after 1962 as part of the Indian general elections, were equivalent to a plebiscite in which the Kashmiris opted for India. Pakistan maintained that Kashmir, as a Muslim-majority state contiguous with Pakistan, should have gone to Pakistan, and regards it as the unfinished business of the partition of India.

In 1962, India lost a border war with China and about one fifth of the original state of Jammu and Kashmir came was ceded to China by Pakistan, leaving India with slightly under half the original territory of Jammu and Kashmir. China tested a nuclear device in 1964. This was soon followed by the landmark war of 1965 between India and Pakistan, which began with a Pakistan-supported infiltration of Kashmir intended to spark a general uprising against India there. The war was inconclusive and failed to spark the intended Kashmiri uprising. The net result of all of these developments was that India faced a perceived two front threat from China and Pakistan, whose diplomatic closeness and strategic cooperation *vis-à-vis* India has grown steadily since the 1960s, gaining momentum in the 1980s and 1990s.

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<sup>1</sup> There is voluminous literature on the Kashmir issue. For some leading examples, and recent debates, see Raju G. C. Thomas, *Perspectives on Kashmir: the Roots of Conflict in South Asia* (Boulder, CO: Westview Press, 1992); Alistair Lamb, *Kashmir: A Disputed Legacy, 1846–1990* (Hertfordshire, 1991); Prem Shankar Jha, *Kashmir 1947: Rival Versions of History* (Delhi: Oxford University Press, 1996); and the roundtable on Jha's book in *Commonwealth and Comparative Politics* Vol. 36, No. 1 (March 1998).

In 1971, India supported a secessionist mass movement in what was then East Pakistan. This support led to a war in which India defeated the Pakistan army in the eastern part of the country and facilitated the independence of Bangladesh. This improved India's strategic position which would be further strengthened in 1974 by India's first nuclear tests. India restored diplomatic relations with China in 1976, after fourteen years of rupture.

India drew progressively closer to the Soviet Union in the 1960s, culminating in the Indo-Soviet Treaty of 1971 which, while not a formal military alliance, marked a distinct tilt reflected in India's foreign policy during the 1970s and 1980s. The Soviet Union emerged as a key supplier of military equipment to India, and Russia remains so to this day. Relations with the United States reached a low in 1971, when the US aligned with Pakistan in the Bangladesh war. The Indo-US relationship remained cordial but cool over the next two decades primarily because South Asia was an area of marginal significance to US foreign policy.

The 1971 war left India as the dominant country on the subcontinent. In 1972, India and Pakistan signed the Simla Agreement to mark a settlement of hostilities. India returned over 90,000 Pakistani prisoners of war but did not press for Pakistan to drop its claims to Kashmir. Both countries decided that they would, without prejudice to their respective positions on Kashmir, conduct negotiations without resorting to force, either bilaterally or in any other mutually agreed way, and would respect the LoC. In effect, this enabled India to characterize Kashmir as a bilateral issue, thereby preventing third party intervention and maintaining the *status quo*.

However, developments in the 1980s worsened India's strategic position despite a major arms buildup, the launching of a missile program, and the gradual maturing of its nuclear program during that decade. The Soviet invasion of Afghanistan in 1979 provoked new closeness between the United States and Pakistan with support for the Afghan resistance. China, which was at loggerheads with the Soviet Union, also provided support for the resistance. This led to massive military and economic aid to Pakistan from the United States, which turned a blind eye to the Pakistani nuclear program, and Sino-Pakistani cooperation on nuclear and missile technology transfers. By 1987, Pakistan had a minimal nuclear weapon capability in place.

Events in the 1980s enabled Pakistan to clandestinely support first the Sikh separatist movement in Punjab in the 1980s and later the Kashmir separatist insurgency

in late 1989 without having to fear a conventional military response from India. The post-Cold War period of the 1990s has been a period of heightened and continuous tension between India and Pakistan due to the ongoing Pakistan-supported insurgency in Kashmir. The tension has persisted despite the gradual growth of economic and other ties as part of the anemic, but nevertheless real, progress of the regional cooperation process under the aegis of the South Asian Association for Regional Cooperation (SAARC), the advent of economic liberalization in both India and Pakistan in the 1990s, and democracy in Pakistan from the late 1980s to 1999.

Relations plummeted following the nuclear tests by both countries in May 1998 and the Kargil war of May–July 1999. Pakistani forces, officially purporting to be Kashmiri freedom fighters, trekked several kilometers across the Line of Control in the heights of the Kargil sector of Ladakh in Jammu and Kashmir. The Pakistani soldiers lost seventy to eighty percent of the ground they had seized before an agreement to evacuate them was reached between Prime Minister Nawaz Sharif and President Clinton on 4 July 1999. This intervention was requested by Pakistan and brokered by the United States with India being kept informed. Since Kargil, there have been no high-level talks between India and Pakistan and insurgency in the Kashmir valley has been stepped up. India has failed to make significant headway in either quelling the insurgency or winning the hearts and minds of the Kashmiri people. The situation is now worse than it was in 1996 when, after six years of insurgency, the Indian state reasserted itself both militarily and politically to restore the electoral process and enable the return of an elected state government, the National Conference, led by Chief Minister Farooq Abdullah.

Pakistani policy on India under all governments since, at least, 1994 has remained conditional on the resolution of the Kashmir issue. The Pakistani position is that there can be no improvement of relations unless there is movement on this “core” issue. In this sense, and in its clandestine military support of the separatist insurgency, Pakistan remains an actively revisionist power. India, while formally claiming Pakistan’s portion of Kashmir, has never actively sought to press its claim and is *de facto* in favor of the *status quo*.

## **ECONOMIC COOPERATION BETWEEN INDIA AND PAKISTAN**

Economic relations between India and Pakistan over the past fifty years have been marginal to both countries' economies, even in the 1990s.<sup>2</sup> India adopted an import-substitution industrialization strategy led by the public sector, with a highly protectionist trade policy, five-year plans, and comprehensive government controls on economic activity, particularly from the Second Industrial Policy Resolution of 1956. However, the large-scale private manufacturing industry continued to grow. This model further strengthened in the late 1960s with the nationalization of banks in 1969, the Monopolies and Restrictive Trade Practices Act of 1969, the Foreign Exchange Regulation Act of 1973, and the tightening of controls on foreign firms in India. An intensified round of import-substitution was launched in the early 1970s at a time when several developing countries, including the East Asian export success stories, were turning to export-led growth to exploit the growth in world trade in manufactures which was racing ahead of Gross Domestic Product (GDP) growth. Serious liberalization of the economy and the gradual dismantling of controls began only from 1991. As late as 1991, the peak import tariff was 300 percent, the average tariff about 100 percent and there were import quotas on a vast range of products. This has now come down to a peak tariff of 38.5 percent, an average tariff under 30 percent, and a commitment to phase out all quantitative restrictions by 2003.

This model of development helped create a broader basic and heavy industrial base, including a diversified scientific and technological base, than most developing countries. It also promoted nuclear, space, missile, and defense production programs, and food self-sufficiency since the early 1970s due to an increase in food production in some parts of the country. However, it led only to a modest Gross Domestic Product growth rate of about 3 to 3.5 percent from 1950 to 1980, increasing to 5.8 percent in the 1980s and over 6 percent in the 1990s. The economic policy left masses in absolute poverty, about a third of the population, despite two decades of 5 percent plus growth rates. It also marginalized India in the world economy. India failed to match the growth rates of East and Southeast Asian countries, not to mention many other developing countries. India's share of world trade contracted as India failed to compete in a range of industries, and failed to attract significant foreign investment.

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<sup>2</sup> I thank Mahendra P. Lama, V. R. Panchamukhi and Nagesh Kumar for help with material, and Mahendra Lama and Vineet Virmani for conversations on India-Pakistan trade.

Pakistan's economy remained relatively more open and less import-substituting in character than India's but failed to create a diversified, modern, and competitive industrial sector. Leading industries and exports were still cotton textiles and apparel.<sup>3</sup> In 1948–49, 56 percent of Pakistan's exports went to India while the percentage of Indian imports was 80 percent for East Pakistan and 50 percent for West Pakistan. By 1958, only 4 percent of Pakistan's exports went to India, as both countries actively disengaged and embarked on import-substitution strategies.<sup>4</sup> Pakistan's economy grew at 6.8 percent in the 1960s, 4.8 percent in the 1970s, 6.5 percent in the 1980s. It slowed to 4.7 percent over 1988–97, a period coinciding with the return of democracy and the beginning of an extended period of stabilization and structural adjustment policies. A key element relevant to India–Pakistan relations in this process has been the lowering of tariff barriers from a maximum of 225 percent to 45 percent over this period, and the reduction of quota restrictions. The trade deficit has been contained due to the increase in non-traditional exports despite rising imports, and a significant inflow of foreign direct and portfolio investment.

These patterns of development over half a century, combined with the political antagonism between India and Pakistan, have resulted in extremely weak economic ties despite the gradual growth of preferential trade among the countries of South Asia since the mid-1990s under the auspices of SAARC. The South Asian Preferential Trade Area (SAPTA), initiated in 1995, has generated to date, three rounds of negotiations towards intra-regional trade liberalization based on a commodity approach. A fourth round is scheduled soon.

SAPTA -I saw trade concessions offered on 226 commodities by all countries. In SAPTA-II, another 1868 products were added. In SAPTA-III, 3456 commodities were added, almost double the number from SAPTA-II. The SAPTA process was bilateral up to, and including, SAPTA-II in that the products opened for preferential trade were not automatically open to all the member countries. The product classification was based on the Harmonized System from SAPTA-II onwards with products being opened up at

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<sup>3</sup> S. Akbar Zaidi, *Issues in Pakistan's Economy*, Second Edition (Karachi: Oxford University Press, 2000).

<sup>4</sup> *Ibid.*, 159, 165–66.

varying levels of aggregation (digits).<sup>5</sup> However, from SAPTA-III, the opening up has become multilateral. In mid-2000, India also removed quota restrictions on about two thousand products as part of the SAPTA process. The fourth round will add commodities to the list for preferential trade in the region and will include further cuts in tariff and non-tariff barriers as well as some broadening of definitions. This process is expected to lead to a South Asian Free Trade Area (SAFTA) by 2001. The drivers have been awareness of regional trade groupings around the world, none of which include South Asia, and the need for larger markets for their emerging industries to grow and diversify before facing the competition with lower trade barriers under their WTO obligations in 2005.

However, India–Pakistan bilateral trade has remained at a very low level (Tables 1, 2 and 3 on pages 91–93 of this text). There is no Indo–Pakistan trade agreement. Pakistan allowed only 573 products to be imported from India until the list was expanded to 615 at the end of SAPTA-III.<sup>6</sup> It accounts for only a miniscule fraction of each country’s imports and exports, with neither country figuring in the other’s top ten sources of imports or destination of exports.<sup>7</sup> In 1998, trade with Pakistan was 0.44 percent of India’s total trade, and trade with India was two percent of Pakistan’s total trade. If the estimated trade through third countries (primarily the Gulf states and estimated to be three times the official trade as explained in the next paragraph) is included, the figures increase to two percent for India and eight percent for Pakistan.

In fact, India does not import any of Pakistan’s major exports. Nor does Pakistan import any of India’s major exports. This holds true even for products involved in their bilateral trade, except perhaps for products like tire imports by Pakistan. This will probably remain true even if unrecorded cross-border trade and trade through third countries like Dubai and Singapore is factored in. The difficulties of trading directly due to tariff and quota problems, border controls, transport and visa problems, and other non-

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<sup>5</sup> For details, see *SAARC Means Business*, (SAARC Chamber of Commerce and Industry, 2000), 26–28; *SAARC Survey of Development and Cooperation 1998-99* (New Delhi: Research and Information System for the Non-aligned and Other Developing Countries, 2000), 45, 135–136. The Harmonized System is a six-digit international commodity classification developed under the auspices of the Customs Cooperation Council. It is increasingly replacing various national product classification systems for trade agreements.

<sup>6</sup> “Trade and Economic Cooperation between India and Pakistan,” Federation of Indian Chambers of Commerce and Industry, 1999, 1.

<sup>7</sup> *Direction of Trade Statistics Yearbook 1992–98* (Washington, D.C.: International Monetary Fund, 1999).

tariff barriers, have induced a diversion of trade through third countries which was estimated to be about \$1.5 billion in 1999–2000,<sup>8</sup> three times the official trade.

While India–Pakistan trade has not grown significantly as a share of their overall commerce despite the SAPTA process, the same holds true in general for intra-regional trade in SAARC, except for Bangladesh.<sup>9</sup> Intra-regional trade as a percentage of the global trade of SAARC countries was less than 5 percent in 1980. It increased from only 2.65 percent in 1990 to 3.80 percent in 1996, largely due to increased Indian exports to other countries, especially Bangladesh, which was the only country for whom trade with the region was a significant part (12.5 percent) of its total trade.

The growth of intra-SAARC trade is due more to the growth of the trade volumes of the SAARC countries in general, in turn due to their trade liberalization policies, than to the SAPTA process designed to promote intra-regional trade. The SAPTA process has been hampered by the rules of origin system based on import content norms (presently, sixty percent local content is required), since the present stage of development of many members does not allow them to undertake higher value added activities.<sup>10</sup> Furthermore, the Indian and Pakistani economies are competitive rather than complementary with many of the exports of both being in the same product categories, including textiles and apparel, leather goods and footwear, marine products, and other labor-intensive manufactures.

Lastly, direct investment and joint ventures are non-existent. However, between 1947 and the outbreak of the 1965 war when each country confiscated “enemy property,” half a dozen Indian business houses owned controlling shares of public limited companies in Pakistan, a legacy of the pre-partition days. These included the Birlas

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<sup>8</sup> Vineet Virmani, a businessman long involved in India–Pakistan trade, currently a member of the executive committee of the India–Pakistan Chamber of Commerce and Industry, and former president of the Punjab, Haryana, Delhi Chamber of Commerce and Industry, August 3, 2000, interview with author.

<sup>9</sup> For SAARC intra-regional trade see *SAARC Survey of Development and Cooperation 1998–99*, (New Delhi: Research and Information System for the Non-aligned and Other Developing Countries, 1999) and Debapriya Bhattacharya, “Economic Confidence-building Measures in South Asia”, in Dipankar Banerjee, ed., *CBMs in South Asia: Potential and Possibilities* (Colombo: Regional Centre for Strategic Studies, 2000), 112–117.

<sup>10</sup> The rules of origin system requires a minimum local content percentage in goods opened up for intra-regional preferential imports, currently 60 percent. This hampers the less industrialized countries in the region, which need to import most of their industrial inputs and do not have the industro-technological capability to add value to imported inputs.

(cotton mills in Okara), Shri Rams (textile mills in Lyallpur), Dalmias (sugar mills) and Virmanis (flour mills). They employed Pakistani managers and held board meetings in Pakistan until the 1965 war. Likewise, a Pakistani business house owned tanneries in Kanpur. In recent years, the Indian pharmaceutical firm, Dabur, specializing in traditional Indian herbal medicines, showed interest in direct investment in Pakistan if agreements on security of investments could be worked out.<sup>11</sup>

The SAARC Chamber of Commerce and Industry, formed in 1994, has had limited success in promoting regional trade or investment or in influencing the SAPTA negotiations. The India–Pakistan Chamber of Commerce and Industry was formed in March 1999 after Prime Minister Vajpayee’s Lahore visit. It has a high-profile Pakistani businessman-politician, Senator Ilyas Ahmed Bilour, as its first president, but has yet to take off. Its agenda has remained frozen since Kargil.

Reinforcing the above trends is the general tendency for poor countries to trade with developed ones rather than with their neighbors until a certain level of industrial development has been achieved. The growth of a relatively small volume of official trade, and a larger volume of unofficial trade in the 1990s, both (unrecorded) cross-border and through third countries, is a reflection of the diversification of both economies and product differentiation within them, particularly India’s, leading to growing, if still limited, complementarities. These complementarities are in areas such as agricultural and mineral products, including tea, cotton, sugar, edible oils, spices, rock salt, and phosphates, and some manufactures such as fertilizer, cement, tires, auto components, textile and tannery chemicals, pharmaceuticals, and plastic raw materials.<sup>12</sup> Complementarities will surely grow as both economies, particularly the much larger Indian economy, lower tariffs and phase out quantitative restrictions under their WTO obligations. This trend will be reinforced as SAPTA progresses to SAFTA, and as both India and Pakistan (particularly India) attract foreign direct investment, which will increasingly be interested in expanding from single-country to regional markets. One can also expect these trends to be reinforced by the spread of telecommunications connectivity, particularly Internet access, new media, and e-commerce. It will be some time, however, before trade diverted through third countries will be redirected to the

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<sup>11</sup> Vineet Virmani, (fn. 5) and Shabnam Pareek, Punjab, Haryana, Delhi Chamber of Commerce and Industry (PHDCCI).

<sup>12</sup> For details see, “Trade and Economic Cooperation between India and Pakistan” (Federation of Indian Chambers of Commerce and Industry, 1999), and “Minutes of the First Meeting of the Executive Committee of India-Pakistan Chamber of Commerce and Industry” (Federation of Indian Chambers of Commerce and Industry, 1999).

direct cross-border (Lahore–Amritsar) or Mumbai–Karachi routes. This will follow only when confidence is built in the politics-proof reliability of trans-border trade procedures.

There has been much talk in recent years of economic cooperation in the laying of gas pipelines from Iran, the Persian Gulf, and Central Asia through Pakistani land or maritime (continental shelf) territory to India, and of export of electricity from Pakistan to India. It would appear that this sort of economic cooperation in energy, a key component of infrastructure in both countries, holds more potential in the short term than trade, although it will certainly catalyze trade in the longer run. However, with the energy sector being public sector-dominated in both countries and having a major impact on economic security, any such decision remains a political decision outside the scope of private initiative.

Several proposals have been offered in lieu of strategic considerations. Possible gas pipelines from Turkmenistan, Iran, Qatar, or Oman through Iran and Pakistan over land, or undersea within Pakistan's maritime territory, have several advantages.<sup>13</sup> Natural gas, which is abundant in these countries and far less so in India and Pakistan, is an economical and environmentally less polluting fuel for thermal power plants. Both countries depend largely on thermal power now and will continue to depend on it in the foreseeable future. It would make both economic and environmental sense for India and Pakistan to phase in greater use of gas as opposed to coal or fuel oil for thermal power. Pipeline technology is mature and would be more economical than the import of liquefied natural gas (LNG) for both countries. A joint pipeline would make possible greater economies of scale and lower unit costs than a separate pipeline for Pakistan alone. It would cost as much as 25 to 30 percent less than importing LNG for Pakistan and northern India.

By the late nineties, against the backdrop of rising energy demands - particularly in electricity, anticipated shortfalls in energy supply in both countries, and liberalization of the petroleum and power generation sectors by the entry of foreign direct investment, the stage had been set for the consideration of such gas pipelines. The need for such consideration has been made even stronger with the entry of international Independent

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<sup>13</sup> Rahul Tongia and V. S. Arunachalam, "Natural Gas Imports by South Asia: Pipelines or Pipedreams", *Economic and Political Weekly* Vol. 34, No. 18 (May 1–7, 1999); Toufiq Siddiqi, "India–Pakistan Cooperation in Energy and Environment", in Dipankar Banerjee, ed., *CBMs in South Asia: Potential and Possibilities* (Colombo: Regional Centre for Strategic Studies, 2000); Mahendra P. Lama, *Energy Cooperation in South Asia: Issues, Challenges and Potential* (New Delhi: South–South Solidarity, 1999).

Power Producers (IPPs) on a significant scale in Pakistan and unavoidable pressures to reform chronically loss-making and inefficient distribution systems in both countries.

A joint pipeline, as a shared project between India and Pakistan and the country of origin, would also make it much easier to attract the necessary foreign direct investment by multinational energy producers, and, in turn, better financing terms from international capital markets, than a Pakistan-only project. Pakistan would also gain an estimated \$600 million in transit fees. There are no real techno-economic feasibility problems. The only problem is a political one with economic and military security fall-outs. From Pakistan's point of view, any such cooperation would run counter to its policy since 1994 of holding economic cooperation contingent on the Kashmir issue. It also fears somehow being locked into an inferior relationship with India and thus losing political leverage. From India's point of view, a pipeline through Pakistan runs the risk of disruption, whether deliberate or due to attacks by terrorist groups. A religious extremist group in Pakistan, the Sipah-e-Sahiba, has already threatened to blow up any such pipeline. Any such disruption could threaten the flow of investment towards energy and other industrial plants at the receiving end of the pipeline.

However, there are mechanisms to enforce compliance. Since the project, whose cost is estimated at between \$2.5–3.5 billion, will necessarily involve Iran and/or some other country of origin, as well as international firms and lenders, Pakistan will surely not want to antagonize them and lose their confidence by uncooperative behavior. It is possible to involve Japan and Korea as stakeholders if surplus gas is piped to India for conversion to LNG destined for these countries. It may also be feasible to involve US companies in the event of a US–Iran thaw in the coming years. It may even be possible to have a mutually interlocking agreement, as a confidence building measure, wherein part of the gas is used to fuel thermal power stations near the Pakistani border for export of power to Pakistan.<sup>14</sup> There are clauses that can be incorporated in any agreement whereby Pakistan would have to take or pay for the entire volume of supplies if there is any disruption in transmission to India, something it would not be able to do. In June 2000, Pakistan agreed, in principle, after Iranian persuasion, to an Iran–India gas pipeline over its territory. This was a complete change from its earlier position on the subject. After Kargil, India is not interested in the plan and is contemplating the LNG import route though it is costlier in the long run.

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<sup>14</sup> R. K. Pachauri, "Not a Pipedream: Back to Iran Gas Pipeline Option", *Times of India*, 17 August 2000.

A meeting of the Indo–Iran Joint Commission in August 2000, in which Iran attempted to persuade India to consider the more economical and technically sound trans-Pakistan pipeline, was inconclusive. Iran was sensitive to Indian concerns about security of supply through Pakistan and undertook to bring Pakistan on board. Iran also outlined various measures in the design of the agreement and project to ensure Pakistan's cooperation. Nevertheless, the Indian side remained unconvinced about the credibility of Pakistani assurances cited by Iran. However, India is clear that Iran is the ideal supplier in the long term, especially for gas-fueled thermal power for the northern grid, and has not closed the door on a possible deal since the alternatives are much more expensive. India is not taking the initiative on talking to Pakistan on this matter.<sup>15</sup>

Will a gas pipeline have positive security spill-overs? What if Pakistan uses the revenues from such a pipeline to boost the insurgency in Kashmir? This would not be surprising given that gas pipelines from the former Soviet Union to Western Europe would probably not have ended the strategic antagonism if the Soviet Union and Warsaw Pact had not collapsed. It is most likely that Pakistan will continue to support the insurgency, as it is a low-cost option and its main bargaining chip in trying to get India to talk about Kashmir on Pakistani terms. Nevertheless, cooperation on a gas pipeline will still help to narrow the conflict by removing a major issue area, energy cooperation, from the arena of conflict as the Indus Waters Treaty removed river waters as an area of contention. This would narrow the scope of conflict to Kashmir-related issues while simultaneously building cooperation and mutual interests in the key energy sector. One can plausibly argue that the narrower the scope of conflict, and the broader and deeper the areas of cooperation, the more likely mutual concessions on the really difficult issues will be reached.

Another proposal, which has been discussed since 1996 under the United Front government in India, is the export of surplus electricity from Pakistan to northern India. Prime Minister Nawaz Sharif made the proposal to Prime Minister Vajpayee when they met at the United Nations in September 1998.<sup>16</sup> A power surplus for years to come was anticipated for Pakistan from the end of the Pakistani Eighth Plan in 1998. A proposal

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<sup>15</sup> K. V. Rajan, Secretary (East), Ministry of External Affairs, who led the Indian delegation in Indo–Iran Joint Commission talks in August 2000, New Delhi, September 7, 2000, interview with author

<sup>16</sup> Nadeem Iqbal, "Working for a Regional Energy Supply Network", in Dipankar Banerjee, ed., *CBMs in South Asia: Potential and Possibilities* (Colombo: Regional Centre for Strategic Studies, 2000).

was backed by the IPPs, who had come on stream in Pakistan with the liberalization of the power sector in the 1990s, to export power to the Power Grid Corporation of India to meet the shortfall in India's northern grid.

The Vajpayee government set up a high-level committee to examine the deal shortly after the proposal was made. The estimate was that if Pakistan had a surplus capacity of 200 megawatts for export it could earn as much as \$1.2 billion per year for perhaps up to twenty years.<sup>17</sup> However, the deal fell through over price, with India expecting the power to cost less than heavily subsidized domestic power. Pakistan's IPPs disagreed with the Indian demand and wanted counter-guarantees since they had no confidence in the ability of India's bankrupt State Electricity Boards, who distributed the power, to pay. It also fell through because of a quarrel between the IPPs in Pakistan and the Nawaz Sharif government over high power tariffs within Pakistan.

The important point to note here, though, and a reason why a deal can still be struck, is the fact that, from October 1998, both governments were keen on quickly finalizing the deal so that it could "...considerably rev up the then ongoing foreign secretary-level talks ...."<sup>18</sup> The 1998 nuclear tests were apparently not an obstacle to the deal being proposed and seriously being considered. More significantly, the tests were not an obstacle to the proposal being made by Pakistan, traditionally the party resisting greater economic cooperation.

To sum up, there are several reasons for the low level of economic cooperation so far. First, quite apart from political conflict, the main reason for the low level of India-Pakistan trade and investment relations until now appears to be the fact that low-income economies, following a closed, import-substitution industrialization strategy, are largely complementary. They produce primary commodities or labour-intensive manufactures, exporting their products to developed markets, and importing machinery and technology from developed countries. Such economies do not need each other much except for some raw material or agricultural products, and even this level of trade is not prevalent between India and Pakistan. Thus, intra-South trade tends to remain very low until a certain level of industrialization and product differentiation is reached. This, combined with economic liberalization policies and spurred on by regional and international divisions of labor under the aegis of multinational corporate investment, pushes intra-regional trade.

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<sup>17</sup> Lama, *Energy Cooperation in South Asia*, 30-31.

<sup>18</sup> Siddiqi, "India-Pakistan Cooperation in Energy and Environment," 162.

The best example of such intra-South trade is the growing intra-regional trade within ASEAN, and between China, Hong Kong, and Taiwan. In the 1980s, Japanese and other multinationals relocated labor-intensive manufacturing to Southeast Asia. With the elevation of Hong Kong and Taiwan to developed country status, companies again relocated such industries to coastal China. The low volume of India–Pakistan trade is, therefore, not surprising and parallels the low volume of each country’s trade with other developing countries, even those with whom they have no political conflict.

Second, this pattern is beginning to change as is reflected in the growth of such trade in the 1990s. This has more to do with the general growth of their trade, India’s in particular, as a result of economic liberalization and a higher rate of GDP growth than because of the SAPTA process.

Third, political conflict is a factor in South Asia today. Pakistan has been unwilling to grant India Most Favored Nation status (although it is only a question of time under its WTO commitments) and both countries have created other obstacles for trade. This has resulted in the growth of trade through third countries.

Fourth, it is unlikely that even without political conflict there could have been a great deal more economic cooperation between India and Pakistan until now. There is certainly not enough trade to give each a stake in the other’s economy to a degree that commerce might spill over as a significant driver of security cooperation. The real potential for growth in trade is in the future. This is because of the inevitable liberalization of both economies coupled with more than 5 percent, perhaps sustained over 6 percent growth in India and diversification of its industrial structure. Trade will be concentrated in agricultural and other primary commodities, such as tea, and simpler manufactures, such as industrial intermediates and specific consumer goods; niches in which one or the other can be competitive and in which transport costs make it cheaper to import from each other than from elsewhere. Nevertheless, it is unrealistic to visualize either country, particularly India, having a large impact on the total trade of the other. Furthermore, the private sector players will be firms that are unlikely to cooperate or have the collective economic and political clout to drive policy on core security and non-economic foreign policy issues.

Fifth, even more than trade, the real potential for complementarities and economic cooperation is in infrastructural goods, particularly gas pipelines from Central Asia, Iran and the Gulf, and the joint development and distribution of electric power. Harnessing information technology to provide IT and IT-related services for world markets is another possibility. In these areas, deals leading to further economic cooperation, such as downstream gas-based fertilizer, petrochemical and power plants, and ultimately, security cooperation, look possible since these will have to be major inter-governmental initiatives to begin with.

### **The Indus Waters Treaty: An Exceptional Instance Of Economic Cooperation**

The Indus Waters Treaty, signed in 1960, has been the only major economic cooperation agreement between India and Pakistan. It has survived the 1965 and 1971 wars, the Siachen border skirmishes since 1984, and the continuous tension over Kashmir, which was particularly intense in the nineties. This is remarkable given that three of the six rivers of the Indus basin flow from Jammu and Kashmir into Pakistan. However, the treaty has not led to further economic cooperation or security cooperation. What explains the fact that an agreement on the Indus Waters could have been negotiated at all in the 1950s and the fact that it has survived all the subsequent wars and tensions?<sup>19</sup>

Immediately after their partition, India and Pakistan found themselves in conflict over the sharing of the Indus basin waters. The Radcliffe line cut right through the basin with five of the six rivers, the Indus, Jhelum, Chenab, Ravi, Beas, and Sutlej, flowing from India (including the Indian side of Jammu and Kashmir) into Pakistan. On 1 April 1948, with the expiry of the Standstill Agreements on waters, the Indian state of East Punjab shut off water from the Upper Bari Doab Canal, which it controlled, to the Central Bari Doab Canal in Pakistani Punjab, triggering the conflict.

Following a temporary compromise agreement of 4 May 1948, efforts were made to establish a formula for the quantitative sharing of the Indus rivers waters. The core problem however, was using what was called a politico-legal approach. This approach was founded on the fact that there were no clear-cut rules of international law on river

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<sup>19</sup> Ramaswamy R. Iyer, former Secretary, Water Resources, and S. K. Singh, former Foreign Secretary. conversation with author

waters until the 1966 Helsinki Rules on the Uses of Waters on International Rivers. Pakistan wanted to go to the International Court of Justice in 1952 but India advocated bilateralism. At this juncture, in May 1952, the World Bank offered its good offices as a mediator and offered a comprehensive plan for the joint development of the Indus system's waters. This failed to win acceptance by either state, making it apparent that "the only formula which was likely to provide in principle, an acceptable basis...was the quantitative 'division of the waters' between [India and Pakistan]...."<sup>20</sup>

In February 1954, the World Bank followed up with a proposal that was based on this principle. The core features of the 1954 proposal were: 1) a division of the waters such that the waters of three Western rivers, the Indus, Jhelum, and Chenab, were to be exclusively for Pakistan's use and those of the three Eastern rivers, the Ravi, Beas, and Sutlej were to be exclusively for India's use; 2) a system of "replacement" canals would be built to convey waters from the Western rivers into those areas in Pakistan which had hitherto depended on the Eastern rivers for their irrigation, i.e., the eastern and southern parts of the Pakistan Punjab; and 3) a transition period while the necessary link canals in Pakistan were being constructed, during which time Indian withdrawals of water from the Eastern rivers would be linked to Pakistan's capacity to "replace" these withdrawals by withdrawals from the Western rivers.

While India accepted these proposals with minor caveats, Pakistan rejected them. The main difficulty was that Pakistan insisted on not just "replacement" by canals alone but also by construction of headworks on Western rivers, which were more costly and time-consuming and would result in a longer transition period. The World Bank supported Pakistan on this, and India eventually agreed. India, for its part, wanted to use the Western rivers for the irrigation needs of Jammu and Kashmir before they entered Pakistan-controlled territory. Pakistan conceded this in principle but disputed the amount of water needed. India also wanted to exploit the hydro-electric potential of the Western rivers in Jammu and Kashmir but eventually agreed to only run-of-the-river installations which would not store or divert water.

The World Bank proposal of 1954 was accepted by both sides as a basis for negotiation, not settlement. Both sides had also previously agreed on a common project

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<sup>20</sup> Niranjana D. Gulhati, *The Indus Waters Treaty: An Exercise in International Mediation* (Bombay: Allied Publishers, 1973), Xiv. Gulhati, an irrigation engineer and native of West Punjab, was the chief Indian negotiator of the Indus Waters Treaty. He had worked on the irrigation system of West Punjab for nineteen years (1926–45) and personally knew as former colleagues many of the engineers on the Pakistani negotiating team.

that was to be functional, not political in nature, to separate Indus waters from their political differences over other issues. On this basis, negotiations over 1954–60 were conducted by engineers rather than politicians or diplomats and resulted in the Indus Waters Treaty of 1960. The treaty gave the three Western rivers to Pakistan for its exclusive use, barring some run-of-the-river installations and some irrigation withdrawals in Jammu and Kashmir by India, and the three Eastern rivers to India for its exclusive use, after the system of headworks and replacement canals had been constructed in Pakistan within an agreed transition period.

A Permanent Commission on the Indus Waters was set up with engineers on both sides meeting once every two months to exchange data on cultivation and irrigation. These exchanges continued right through the periods of maximum tension in Indo–Pakistan relations for the past forty years. In 1977, there was even an agreement that was, strictly speaking, a deviation from the Treaty. The Salal hydroelectric project on the Chenab in Jammu and Kashmir was negotiated by the Janata Party government in India and the Bhutto administration in Pakistan and has not been disputed by subsequent governments in Pakistan. The project provides waters to Pakistan in a regulated manner but involves no diversion by India. At present there is an ongoing minor dispute over the Wular Barrage (Tulbul navigation project) on the Jhelum in Kashmir. India wants to dam up the waters, temporarily retarding the rapid depletion of flood waters, to maintain navigability for a longer period. Pakistan has objected to it on the grounds that storage of water, barred by the Treaty, would be involved. India has thus not been permitted to go ahead, but there is reason to believe that this will be resolved. This is only the second case where any dispute went beyond the official (technical) level of the Permanent Commission and up to the inter-governmental (political) level; the Salal project was the first.

How did the Treaty come about in the 1950s despite the Indo–Pakistan dispute over Kashmir? How did international mediation by the World Bank come about and why was it successful? Why has the Treaty survived despite subsequent wars and tensions?

The answer to the first question is partly linked to the second, i.e., international mediation. Three key features distinguishing the Treaty from earlier river dispute settlements were: 1) water supplies must continue to be given to areas receiving them historically, but they need not be from the existing sources, i.e., Pakistani areas dependent hitherto on the Eastern rivers could get their supplies from the Western rivers; 2) the greatest possible freedom of action by each country in the operation, maintenance, and

future development of its irrigation facilities; 3) assistance for Pakistan from six friendly nations and the World Bank to construct a system of replacement-cum-development works worth \$1 billion. The first feature was necessary for India's acceptance of the Treaty, since it freed the eastern rivers for India's exclusive use so long as replacement canals could be built. The second was necessary for the survival of the agreement by not requiring continuing interaction for decision-making and implementation over joint development of the waters by two countries at loggerheads over Kashmir. The third was necessary for Pakistan's acceptance of the Treaty by providing the finances for the headworks and replacement canals.<sup>21</sup> In addition to these features of the Treaty, there was international mediation by the World Bank, without which the Treaty may perhaps never have been negotiated.

However, before coming to the World Bank's role, the further question can be asked as to why India, despite its inherently strong position as the upper riparian, agreed to the division of waters. India treated it as a purely technical issue to be negotiated within the parameters of the 1954 proposal by engineers without any political or diplomatic mandate. Why didn't India try to use its position for leverage in the dispute over Kashmir by employing cross-issue linkages? The answer to this is not entirely clear but it appears to be comprised of the following factors. First, the Indian leadership could not have been unaware of the fact that India was the lower riparian of the Brahmaputra, Chenab, and Sutlej which rose in Tibet, and of several smaller rivers in Nepal.<sup>22</sup> Second, both India and Pakistan needed World Bank and Western aid, particularly American, for their development, something that might have induced cooperation. Third, despite Partition and the Kashmir dispute, the Indian leadership in the 1950s did not see and did not want to write off Pakistan as a permanent enemy. They saw the Kashmir dispute as perhaps solvable, and were aware of the fact that from 1954, Pakistan was a recipient of US military aid, later joining US-led Cold War pacts such as SEATO and CENTO. India probably wanted to avoid the possibility of Pakistan approaching the International Court of Justice or otherwise internationalizing the dispute more widely. Fourth, it was technically not possible to turn off river waters like turning off a tap or switching off a light and thereby to use them for political leverage in the short run. Large rivers need massively capital-intensive dams and canals to take care of the diverted waters without flooding, and these would take years to build.

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<sup>21</sup> Ibid., 336–7.

<sup>22</sup> Gulhati, *The Indus Waters Treaty*, op. cit. Gulhati discusses these rivers but does not mention them as relevant to decisions regarding the Indus Waters Treaty.

The following factors explain the emergence of the World Bank as a mediator.<sup>23</sup> Both the United States and Britain kept a close watch on the dispute from the beginning. The United States encouraged US Atomic Energy Commission chairman David Lilienthal's visit to the subcontinent in 1951. As a result of this visit, Lilienthal recommended the joint development of the Indus Basin waters, an idea reflected in the World Bank's 1952 proposal. The United States also encouraged World Bank president Eugene Black's offer of good offices in 1952. Furthermore, both India and Pakistan considered the World Bank to be neutral. The Bank had the funds to finance the headworks and replacement canals that Pakistan demanded as a necessary condition for any agreement based on the 1954 proposals. The Bank also had the finances necessary for hydroelectric projects that both countries needed, and non-cooperation by one country may have hurt its prospects. In 1952, Pakistan had objected to the loan application by India for the Bhakra project on the Sutlej. Later, India objected to the Pakistani project for the Kotri Barrage on the Indus. Both countries thus had an incentive to cooperate on coming to a Bank-mediated agreement and an internationally financed solution.

Third, as to why the Treaty has been successful despite the 1965 and 1971 wars and chronic tension over Siachen, Punjab, and Kashmir in the past fifteen years, the following factors are explanatory. First and foremost, is the technical feature of the Treaty that divided up the waters into three rivers each to India and Pakistan for their separate and independent development, rather than joint development. This removed the scope for protracted conflict that is typical when river waters are shared between upper and lower riparian countries or provinces. The result has been that India and Pakistan have experienced less conflict over river waters, despite wars, than India and Bangladesh over the Ganges waters despite the latter pair's much less strained relationship. Indeed, India and Pakistan have experienced less conflict over the Indus waters than even Karnataka and Tamil Nadu over the Cauvery waters in India.<sup>24</sup> In fact, it took India and Bangladesh eight years from the expiry of the previous Memorandum of Understanding in 1988 to negotiate the Ganga Waters Treaty of December 1996. Second, the technical fact that major rivers cannot be turned on and off like a tap precluded use for political

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<sup>23</sup> For the politico-legal and international factors impinging on the dispute, see Gulhati, *The Indus Waters Treaty*, 310–337.

<sup>24</sup> For an account of India–Nepal negotiations over the Mahakali Treaty and Indo–Bangladesh negotiations over the Ganga Waters Treaty, see Ramaswamy R. Iyer, “Conflict Resolution: Three River Treaties”, *Economic and Political Weekly* Vol. 34, No. 24 (June 12, 1999).

leverage in the short term. Third, the Treaty can be significantly violated only by the upper riparian, India, which is a *status quo* power, and not by the revisionist power, Pakistan. India has no incentive to violate the Treaty since any such violation will provoke war and internationalize the Indo–Pakistan dispute, which India has always wished to avoid. Violation would also render India, in the long term, vulnerable to non-cooperation by China and Nepal, its upper riparians on other vital rivers. Fourth, the wars between India and Pakistan have been relatively short, “gentlemanly” wars in which neither side felt pushed to the wall (at least about what it considered to be core territory, which in December 1971 probably did not include East Pakistan for the Pakistani side) and neither side targeted industrial, infrastructural, or urban centers. Fifth, extreme suspicion and distrust led to very careful drafting of the Treaty, something that pre-empted conflicting interpretations.

Finally, what if there had been no Treaty? The chief Indian negotiator was clear that had there been no Treaty there would have been no development of the Indus basin waters, especially in Pakistan. There would also have been severe restrictions on the Bhakra project, and no Rajasthan canal or Beas–Sutlej link canal, both of which greatly increased the coverage of irrigation in Indian Punjab and Rajasthan. Moreover, the India–China war of 1962 could well have included an opportunistic attack on India by Pakistan.<sup>25</sup>

What can we infer from the Indus Treaty case about international mediation between India and Pakistan? First, according to the testimony of the chief Indian negotiator, the Treaty would not have come about without World Bank mediation. Second, the technical feature key to its survival, that of quantitative division and separate development of the waters, came about not because of international mediation but because of the insistence of both parties. In fact, the original World Bank proposal of 1952 suggested joint development. The later 1954 proposal, premised on division of waters and separate development, incorporated the views of both countries because they felt it was politically and administratively more practicable despite being technically less efficient than joint development. Third, while the Treaty may have come about due to international mediation, its survival is due to the factors above rather than the fact of its origin in international mediation. If, for example, the upper riparian had been a territorially revisionist power and/or pushed to the brink of defeat in one of the wars, the Treaty may not have survived the political tensions between the two countries. We can conclude that the Indus Waters Treaty does not allow us to generalize about international

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<sup>25</sup> Ibid., 370–2.

mediation either on river waters or on other issue areas, such as territory and borders between states in conflict.

Why has the Indus Treaty not produced spill-over of economic cooperation in related areas, or in negotiations on confidence-building and war prevention measures, let alone conflict resolution about territorial claims? The most obvious answer is that Treaty was specifically designed, at the insistence of both parties, to facilitate separate development of river waters, hydroelectric power, and resulting agricultural and industrial development, rather than joint development. In fact, it was designed to obviate the need for continuing economic cooperation, anticipating that such cooperation would be difficult given the background of Partition and continuing political conflict over Kashmir, despite the fact that it was technically and economically a second-best solution.

## **SECURITY SPILL-OVERS FROM ECONOMIC COOPERATION AND INTERNATIONAL RELATIONS THEORY**

In this section, I view India–Pakistan relations and the prospect for enhanced economic cooperation, and perhaps security cooperation, through the prism of IR theory, specifically, the concepts of relative gains, cumulation, and common projects as an approach to conflict resolution. The first two concepts, and the theorizing based on them, emerged in the evolution of the debate between neorealism and neoliberalism in IR theory. Neorealism is a world-systemic theory of international relations that locates the roots of war in the state of anarchy which characterizes the international system. The theory essentially argues that in a world of anarchy where states are forced to fend for themselves for their physical survival, territorial integrity, and political independence, states will seek power for security. Neorealism claims that it is ultimately the distribution of capabilities that determines outcomes in international politics. Neorealists are skeptical of the potential for international peace and cooperation through building intergovernmental organizations or as a result of growing international economic interdependence. To the contrary, they tend to see economic relations as instrumentalities for building state power.

Neoliberalism or neoliberal institutionalism shares neorealism’s fundamental description of the international system as anarchic and the depiction of its unit states as internally hierarchic, as well the notion of unequal distribution of capabilities, but comes

to different conclusions about the behavior of states.<sup>26</sup> In this theory, international institutions, both formal organizations and regimes, which spring from increased economic interpenetration, shape the behavior of states through the incentives and constraints that they set up, inducing states to redefine their interests in the process. Given the gains from, and hence, increased stakes in cooperation, states would be loath to disturb cooperative arrangements and would tend to settle disputes peacefully and, over time, internalize peaceful dispute settlement and cooperation as norms governing international behavior.

The extended debate between neorealism and neoliberalism led to a focus on what drives states' behavior.<sup>27</sup> Neoliberals argue that anarchy does not necessarily mean neorealist assumptions and imply neorealist conclusions. There are three issues at the core of the debate. These are: the meaning and implications of anarchy, the debate on relative versus absolute gains, and the issue of coordination and distribution. For our limited purposes and for the India–Pakistan case, what is most important for the prospects for cooperation versus continuation of conflict is the debate on absolute versus relative gains, the impact on this of nuclearization and how the incentives for behavior toward the other country are affected.

In the neorealist view, (a) anarchy is the driving force molding states' motives and impelling their actions; (b) states are preoccupied with power and security, predisposed to conflict and competition, and often fail to cooperate even in the face of common interests; and (c) international institutions affect the prospects for cooperation only marginally.

Keohane responded to these assumptions by showing that a repeated prisoner's dilemma game could lead to cooperation under anarchy.<sup>28</sup> Grieco responded that Keohane assumes absolute gains; what are relevant are relative gains.<sup>29</sup> To elaborate,

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<sup>26</sup> For an early and classic statement of neoliberal institutionalism, see Robert O. Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984).

<sup>27</sup> See Robert Powell, "Anarchy in international relations theory: the neorealist–neoliberal debate," *International Organization* Vol. 48, No. 2 (Spring 1994) for a detailed discussion on the neorealist–neoliberal debate.

<sup>28</sup> Keohane, *After Hegemony*.

<sup>29</sup> Joseph Grieco, "Anarchy and the Limits of Cooperation," in Baldwin, ed. *Neorealism and its Critics*.

(since this point is very important for South Asia), neorealists like Grieco, hold that states are sensitive to relative gains more than to absolute gains in cooperation. That is, even if a cooperative deal were to yield absolute gains to a state, it would still be willing to forgo cooperation and the resulting gain if it believed that other states would gain relatively more. Hence, cooperation can be successful only if it does not upset the perceived power balance that states are sensitive to, no matter what absolute gains one can point to as the fruits of cooperation. Grieco views states as defensive positionalists, seeking to defend their relative position, rather than relative gains maximizers. However, Snidal has shown that cooperation can take place under conditions of sensitivity to relative gains too.<sup>30</sup>

While neorealists assume that states under anarchy are preoccupied with relative gains in transactions with other states, neoliberals argue that the degree of a state's concern for relative gains is conditional, and depends on the intensity of the security dilemma it faces. A predominant concern with relative gains is an effect of the state's perceived strategic situation. Citing Grieco, Powell argues that a state's sensitivity to relative gains depends on six factors, two of which are: the fungibility of power across issues, and whether relative gains or losses occur over the military or the economic sphere. The greater the fungibility of power across issues, and where relative gains occur over the military sphere, the greater the degree of sensitivity to relative gains. Relative gains sensitivity is part of the outcome or effect of the perceived strategic setting influenced by several factors.

For our purposes, the criticism that neorealism's spare definition of structure concentrates wholly on the international system's ordering principle, i.e., the distribution of capabilities, is important. This needs other elements to complete it, and can even be misleading. For example, Liberman has shown that sensitivity to relative economic gains in trade, even between powers engaged in political-military rivalry, is very low in a regime of multipolarity.<sup>31</sup> However, he argues that under bipolarity, and when economic gains can, over time, translate into military power, relative gains sensitivity is important.

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<sup>30</sup> Duncan Snidal, "Relative Gains and the Pattern of International Cooperation," *American Political Science Review* No. 85 (September 1991).

<sup>31</sup> Peter Liberman, "Trading with the Enemy: Security and Relative Economic Gains," *International Security* Vol. 21, No. 1 (Summer 1996). Liberman shows that the hypothesis of sensitivity to relative economic gains between rival military powers, which perceived each other as a potential military threat, fails in the case of trade between Britain and Germany from 1890 to 1914, and the United States and Japan from 1931 to 1941, with both Britain and the United States not restricting trade with their perceived military rivals despite also perceiving their rivals to be gaining relatively more from the trade, until the outbreak of war.

This was the case during the Cold War when the United States restricted trade against the Soviet Union in the 1950s and 1960s, believing that trade would provide greater benefits to the less developed Soviet economy.

To cite another example, nuclear capability is not just a unit (state)-level attribute but a systemic attribute since an international (or regional) system in which some states have nuclear capabilities has different properties and propensities to war than one based on conventional capabilities. Nuclear weapons being “absolute” weapons create new incentives for restraint. Under nuclear weapons, balancing may not occur despite anarchy, instead cooperation to prevent war may take place. This is because, to draw on the concept of the offence-defense balance, nuclear weapons shift the balance towards defensive advantage since they enable a state to survive an attack and retaliate, inflicting unacceptable damage, far more surely than conventional weapons do. Hence, a relative gain in the security sphere, or an economic gain that may translate to military capability, will not lead to a crippling relative loss to the other side. Thus one can expect relative gains sensitivity to both gains in the security sphere and the economic sphere to be reduced as a factor of state behavior under a nuclear deterrence regime.

The neorealist–neoliberal debate has thrown into relief the effects of anarchy and the degree of concern about relative gains. The challenge is to specify more closely, in regional and issue regimes, the conditions which lead to such relative gains-sensitive behaviors and the institutions which can transcend this and lead to the realization of cooperation.

Matthews advanced the discussion on relative gains sensitivity by introducing the concept of cumulation.<sup>32</sup> He defines cumulation as occurring when “a relative gain in a current round of interaction creates advantages that allow additional gains in future rounds....” When this happens, relative gains will be more important in states’ behavior, whereas when “a relative gain on a current round produces only absolute gains in that round and does not have implications for the future interactions,” relative gains will be less important and absolute gains will be more determinative of states’ behavior.<sup>33</sup> This greater sensitivity to relative gains when there are cumulation effects, and more to

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<sup>32</sup> John C. Matthews III, “Current Gains and Future Outcomes: When Cumulative Relative Gains Matter,” *International Security* Vol. 21, No. 1 (Summer 1996).

<sup>33</sup> *Ibid.*, 114.

absolute gains when there are no cumulation effects, applies to both the economic and security spheres.

Now let us take a further conceptual step and bring in the offence-defense balance. In a military-technological regime where the offence-defense balance favors defense, such as in a nuclear face-off, relative gains sensitivity would be reduced precisely because, in terms of the above argument, the cumulation effect is less with the event of an assured second-strike capability. That is, the current round loser (in a surprise attack) will still be able to resist the winner, unlike the current round loser in a war between only conventionally-armed states, where a current round winner destroying or overrunning the other state's forces and making territorial gains would have an increased probability of victory in an immediately succeeding round.<sup>34</sup> Similarly, when commerce in non-strategic technologies and industries is involved, the current round loser is not going to lose competitiveness in critical products, firms and underlying technologies.<sup>35</sup>

Finally, an important theoretical position on conflict resolution that may be useful in the Indo-Pakistan context, is that of the common project school.<sup>36</sup> Malitza makes a distinction between "distributive bargaining" and "integrative bargaining," the latter being less a question of mutual concessions as in distribution, but of a search for mutually profitable alternatives. He argues that this approach is particularly suited to the resolution of persistent conflicts based on identity, values and culture. The key is the adoption of an integrative, interaction-generating project, and the stabilization and institutionalization of such interaction, leading ultimately to transcendence of the values that dominated the confrontation. He gives France and Germany as the key example, the common project being European economic integration. In practical terms, the approach means finding a common project that can produce common interests, overlap diverging interests, and have

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<sup>34</sup> Matthews contrasts the growth of arms control agreements in the nuclear sphere between the United States and the Soviet Union over 1970-90 with the relative failure of the Mutual and Balanced Force Reduction talks in Europe to show that relative gains sensitivity, in the former case being less due to defensive advantage prevailing, made agreements possible, while it was exactly the opposite in the latter case.

<sup>35</sup> Matthews argues that there was much greater tension in US-Japan bargaining over supercomputer market access than over steel since it was perceived that loss of market share in supercomputers, perceived to be a strategic technology affecting future competitiveness in general, was far more serious because it was cumulative in its effects, in his terms, and hence relative gains-sensitive in policy than was loss of market share in steel.

<sup>36</sup> Mircea Malitza, "Ten thousand cultures, A Single Civilization," *International Political Science Review* Vol. 21, No. 1 (January 2000).

minimal cultural, value or belief considerations. This common project would have to generate long-term interaction without prejudicing the distinct cultures of the parties, and also result in tangible material advantages from the standpoint of the global or at least, extra-regional, arena.

Eventually, such projects create economic integration and political trust in a way that may make mutual concessions over vital security issues like territory and borders less difficult because “when a country joins a common entity with others, territorial possession becomes less relevant.”<sup>37</sup> This may be a difficult approach to apply in the case of a nuclear India and Pakistan sharing a common border and a territorial dispute over Kashmir, but it appears to have more potential now, since the nuclear tests and Kargil, than ever before. Gas pipelines and electricity grid interlinking constitute potential common projects, along with the growth of trade as part of the SAPTA process, nested in the broader regional cooperation process of SAARC.

Looking at India and Pakistan in these terms and against the backdrops of the limited trade and other economic relations, the Indus Waters Treaty, the proposals on gas pipelines and electricity grid links, I put forward propositions on three possible spill-overs. These are spill-overs from economic cooperation to further economic cooperation, spill-overs from economic cooperation to security cooperation, and reverse spill-overs from security cooperation and/or nuclear deterrence to economic cooperation.

First, economic cooperation in terms of trade and investment did not occur over the past fifty years, not so much because of political conflict as because of the inherently limited scope for such cooperation between two import-substituting low-income countries with very high trade barriers, in line with the limited growth of South–South trade in general. The Indus Waters Treaty was specifically designed to separate, not join, the two economies, and could not be used as a military or political weapon in the short run. Therefore, it is not surprising that so thin an economic relationship did not have a security spillover. However, with the strengthening, diversification and growing globalization of both economies, and the growth of the SAPTA process and WTO commitments to further liberalization, the real scope for trade and investment is in the future and begins now.

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<sup>37</sup> Malitza, “Ten thousand cultures, A Single Civilization,” 83.

Second, one cannot expect either country to become a major trading partner of the other, even India for Pakistan, given their competing, rather than complementary endowments, except for in certain sectors such as some agricultural and plantation products, raw materials, some bulk goods like fertilizers, cement, and some manufactures. The real potential for economic cooperation today is in energy, for example, a gas pipeline and the export of electricity, preferably in the context of a South Asian electricity grid. Such cooperation can catalyze the greater growth of trade in the future. These examples would also constitute common projects that integrate the two countries, develop common interests and foster continued interaction.

Third, after the heightened security sensitivities post-Kargil, the major obstacles to both the proposed gas pipeline and the electricity export possibility are politico-military and concern security fall-outs. Given the unresolved territorial dispute over Jammu and Kashmir and the various wars, both countries have been in a state of military confrontation in a covert or overt nuclear weapons regime since 1987. Under these circumstances, one can expect sensitivity to relative gains in the security sphere to be very high, especially from the point of view of the weaker state, Pakistan.

Fourth, Pakistan's policy of linking most economic cooperation with Kashmir has been rooted not just in Pakistan's capacity to defend against a possible Indian attack, but also in its capacity to mount conventional and low-intensity military pressure on India to keep Pakistan's claim on Jammu and Kashmir alive. The issue for the Pakistani establishment is not only the defense of Pakistan proper, but the sustenance of its revisionist territorial ambitions. This has been heightened greatly since the outbreak of the Kashmiri separatist insurgency in December 1989 and its subsequent support by Pakistan. To the extent that Pakistan considers economic gains translatable into the security sphere, it could also be highly sensitive to economic gains by India in terms of trade transactions, such as large Indian trade surpluses and threats to Pakistani industry from Indian products. This sensitivity would be accentuated if economic gains are believed to have a cumulative character leading to additional economic gains in further rounds of interaction.

Pakistan would also be sensitive to the emergence of economic interests with a stake in increased economic cooperation, and implicitly, a political interest in scaling down its confrontation with India. The latter development would threaten to undermine, from within Pakistan's own polity, its revisionist ambitions about Kashmir. This is probably a factor in resisting trade cooperation. As long as Pakistan defines its goals as

not only defending itself against a possible Indian attack but also the preservation of an offensive option in Jammu and Kashmir, economic cooperation will be seen as producing cumulative relative security gains for India since it will have cumulative effects that will erode the offensive option by creating common economic interests and political lobbies.

Fifth, the developments following the 1998 nuclear tests, and especially Kargil, have changed Pakistan's options in two ways, both of which would probably make it less inclined to resist greater cooperation in trade and energy infrastructure in the future, provided economic transactions are not of the cumulative relative gains type, and not translatable into security gains. One, explicit nuclearization with a demonstrated missile capability has assured Pakistan's security in a way that reduces the sensitivity to relative gains in the military sphere. This is in line with other experiences worldwide in nuclear deterrence relationships. Two, the Kargil conflict, and the US role in ending it, demonstrated to Pakistan that using nuclear capability as a shield to launch a military offensive to force India to come to the table on its terms on Kashmir is not a feasible option and is unlikely to be so in the future.

Following these two points, Pakistan is more secure *vis-à-vis* a possible Indian military threat than ever before, as well as less able to threaten conventional force to resolve the Kashmir dispute. It, therefore, has less to fear and much to gain from greater economic engagement with India, especially given the growing complementarities deriving from the momentum of industrial diversification, general liberalization and regional integration, and hence, less need to be sensitive about relative gains. This is particularly true since the system structure is multipolar, due to the China factor and the overarching role of the United States, and in economic terms highly multipolar. Even if Pakistan perceives its military rivalry with India as essentially bipolar, *de facto* nuclear deterrence reduces the importance of this perception. Thus, nuclear deterrence and Kargil may have actually set the stage for greater trade and infrastructural cooperation on common projects. Such projects may, over time, lead to security spill-overs by building the mutual confidence necessary for some resolution of the Kashmir dispute, whatever that may be.

Sixth, the only possible snags are whether the expansion of trade poses a threat to Pakistan or India in the form of relative economic gains for the other that could translate into relative security gains, especially if gains are cumulative. This seems most unlikely since the overwhelming bulk of the trade is, and will continue to be, in agricultural, mineral, and relatively labor-intensive, standard technology manufactures which have

nothing to do with military or dual-purpose technologies, and in which both are competitive. Relative gains in one round of interaction, say, a given year's trade surplus, are not cumulative and can be reversed in succeeding years, unlike in cases where strategic technology and research and development bases in leading national firms are eroded. In any case, both countries' military industries and technological establishments remain in the public sector, and both countries import rather than develop most of their major classes of armaments, except for in the nuclear and missile areas. Therefore, there will be no threatening translation of economic cooperation into direct military capability, let alone cumulation of either. As for the much-feared large Indian trade surplus that is evident in India's trade with its other SAARC neighbors, Pakistan's trade with India will most probably remain relatively small in terms of Pakistan's overall trade at under 10 percent. Likewise, India's surplus, if any, would be relatively non-threatening.

Seventh, will a gas pipeline from points west through Pakistan to India, or the interconnection of power grids for the import or export of electricity, create relative economic gains that could translate into relative security gains, particularly those of a cumulative character, for either side? Here again, I argue that relative economic gains are not cumulative and a win-win focus on absolute gains is possible, as in the Indus Waters Treaty. As for Indian dependence on Pakistani electricity exports, it will at best be only a small part of the deficit, and a smaller part of total supply, even for the northern grid.

The disruption of a gas pipeline or power supplies would hurt Pakistan economically in case of a politically motivated cut-off. It would also provoke foreign power-producing firms and hence threaten to shake international investor confidence. As outlined earlier, there are ways of ensuring Pakistan's compliance in any gas pipeline deal which would deter the stoppage of gas supplies as a political weapon. However, inter-linked electricity grids could be more prone to misunderstandings than a gas pipeline in the event of power shortages, even if not politically motivated, and have more of a trade-like, arms-length character than the binding character of a gas pipeline. In the long run, however, a gas pipeline could integrate cooperation in both gas and electricity if it extends to downstream gas-based power plants.

Would cooperation in gas and power produce a lock-in effect where dependence on the other's economy or decisions could translate into relative security gains? Both the gas pipeline and the electricity export proposal, especially the former, will lock Pakistan and India together in greater economic interdependence that would be hard to sever. Both proposals would require more joint management than the Indus Waters Treaty did.

While the Indus Waters Treaty was about walling off the issue area of water from the sphere of conflict by separation, with both parties to the Treaty committed to merely refraining from negative actions, cross-border pipelines and power grids mandate integration. They require positive action in the form of an everyday commitment by the parties to cooperate, but could be designed with disincentives to counter negative actions such as cutoffs of gas or power. Pipelines and power grids would constitute archetypal new common projects that bind the countries together.

It is an open question as to who the relative gainer might be, but such interactive interdependence would certainly have a cumulative character. The interdependence would spur trade, perhaps beginning with joint development of gas-based power and fertilizer industries, and lead to the emergence of groups in each country with an economic stake in trade with the other. This might, over time, lead to a greater relative dependence of Pakistan on India, although the absolute level of dependence might be small in comparison to the totality of Pakistan's external economic relationships. It might erode the political feasibility of the option of withholding economic cooperation in the future as a bargaining chip over the Kashmir issue. However, given that the option of forcing a military solution is no longer feasible after Kargil, and that insurgency can be supported at low cost anyway, this would be a perceived, rather than real loss of flexibility, and not a security threat. In a scenario in which there is an interconnection of their economies by a gas pipeline and an electricity grid, there is nothing that India can do unilaterally to threaten Pakistan. Again, this is not a loss of a military option since nuclearization has removed such possibilities anyway.

Eighth, quite contrary to the model of economic cooperation spilling over to security cooperation, the relative gains sensitivity of states locked in a military confrontation over territory and borders, especially if relative gains are cumulative, does not lead to economic cooperation unless there are significant security pacts to begin with, or alternatively, assured nuclear deterrence. In the case of India and Pakistan since explicit nuclearization in 1998, it is the latter—assured nuclear deterrence—that greatly removes the fear of, and the option of, a major conventional or nuclear attack. Deterrence has, therefore, enabled the conditions for the growth of economic cooperation without fear of adverse security spill-overs. In other words, the potential for spill-over is from nuclear deterrence to growing economic cooperation. The spill-over effects would be like the growth of economic *détente* between the United States and the Soviet Union after 1972 following the SALT I accords. Nuclear deterrence and the failure of the Kargil operation, have set the stage for assured security, but without an offensive option.

This, in turn, sets the stage for economic cooperation on infrastructure and trade, which, over time, leads to further economic cooperation in succeeding rounds of interaction, eventually spilling over to growing security cooperation on the most contentious issues.

For this process to begin, Pakistan has to change tack on its “Kashmir first” policy, shifting gear to a process of building cooperation and confidence in other areas without necessarily giving up its position on Kashmir. The signs of change exist, with Pakistan initiating the electricity export proposal in 1998 and finally agreeing to a possible gas pipeline in mid-2000. India, too, has to contribute its share by remaining, most importantly, a secular, pluralistic state where minority rights are assured in law and justice is done in practice. The latter is an area in which there have been major shortcomings in the past decade. Finally, India must also take the lead in economic openness to its smaller neighbors.

**Table 1**  
**India–Pakistan Trade**

**1992–98**

	<b>Imports (\$ million): Pakistan to India</b>			<b>Exports (\$ million): India to Pakistan</b>		
	<b>Imports</b>	<b>Total Indian Imports</b>	<b>% of Total Indian Imports</b>	<b>Exports</b>	<b>Total Indian Exports</b>	<b>% of Total Indian Exports</b>
1992	146	23,227	0.63	52	18,500	0.28
1993	47	21,100	0.22	58	20,259	0.29
1994	47	24,845	0.19	59	24,196	0.24
1995	37	34,484	0.11	70	30,537	0.23
1996	39	36,055	0.11	141	32,325	0.44
1997	21	39,080	0.05	186	33,248	0.56
1998	217T	43,458Y	0.50	137T	36,739Y	0.37
	<b>Exports (\$ million): Pakistan to India</b>			<b>Imports (\$ million): India to Pakistan</b>		
	<b>Exports</b>	<b>Total Pakistani Exports</b>	<b>% of Total Pakistani Exports</b>	<b>Imports</b>	<b>Total Pakistani Imports</b>	<b>% of Total Pakistani Imports</b>
1992	136	7,269	1.87	52	9,375	0.55
1993	53	6,701	0.79	67	9,493	0.71
1994	46	7,332	0.63	72	8,885	0.81
1995	39	7,991	0.49	81	11,461	0.71
1996	41	9,299	0.44	212	12,150	1.74
1997	33	8,632	0.38	142	11,611	1.22
1998	203	8,433	2.41	154	9,308	1.65

Source: IMF, *Direction of Trade Statistics Yearbook 1999*. Note: Both tables are from the same source and do not add up with complete accuracy. This seems to underscore the notion that all such figures are tentative; T = One to five months of reported data and seven to eleven months of estimates; Y = Consolidated data estimated by other methods, sometimes including the use of partner records; Pakistan's statistics are incomplete. India's 1998 data are estimates.

**Table 2**  
**Composition of India's Imports from Pakistan**

Particulars	Million Dollars							
	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
All Commodities	58.03	143.32	43.55	52.78	42.90	35.73	42.05	209.95
Food & related items	12.06	20.33	24.18	44.50	23.56	27.77	34.90	188.49
Export related items	5.45	3.74	3.50	4.67	2.65	1.71	1.42	2.17
Capital goods	0.01		0.05	0.02	0.02	0.06	0.25	0.21
Raw materials & intermediates	4.65	69.31	8.43	2.57	3.79	4.41	3.13	6.79
Manufactured goods	0.08	0.11	0.11	0.15	12.11	0.29	0.36	2.30
Other commodities	1.17	2.44	0.96	0.87	0.75	1.49	2.00	9.97
Particulars	% Share of Principal Items in Total Imports							
	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
All Commodities	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Food & related items	20.78	14.18	55.53	84.31	54.93	77.74	82.98	89.78
Export related items	9.40	2.61	8.03	8.84	6.19	4.78	3.37	1.03
Capital goods	0.02		0.11	0.03	0.05	0.17	0.60	0.10
Raw materials & intermediates	8.00	48.36	19.35	4.87	8.85	12.33	7.44	3.24
Manufactured goods	0.14	0.08	0.25	0.29	28.23	0.80	0.85	1.10
Other commodities	2.02	1.70	2.20	1.64	1.75	4.18	4.76	4.75

Source: Foreign Trade & Balance of Payments, July 1999, Centre for Monitoring Indian Economy. Note: The figures and % shares for 1991-92 to 1993-94 are suspect since the individual items do not add up to the total for all commodities.

**Table 3**

## Composition of India's Exports to Pakistan

Million Dollars

	Particulars		
	1991-92		
	1992-93		
	1993-94		
	1994-95		
	1995-96		
	1996-97		
	1997-98		
<b>1998-99</b>			
All Commodities			38.25
			56.14
			64.04
			57.27
			73.04
			155.34
			135.44
			109.70
Agricultural & allied products			9.65
			21.71
			25.22
			21.76
			36.97
			119.11
			70.49
			48.38
Ores & Minerals			10.12
			5.58
			9.57
			5.78
			6.29
			4.41
			9.58
			6.79
Manufactured goods			13.25

	24.44
	24.79
	25.66
	26.29
	28.41
	52.40
	49.92
Leather & leather manufactures	
	0.02
	0.01
	0.01
	0.04
	0.01
	0.01
	0.55
Chemicals & related products	
	9.30
	14.75
	14.58
	11.59
	18.66
	20.20
	24.37
	31.24
Engineering goods	
	2.06
	2.86
	2.04
	2.82
	4.30
	4.98
	13.52
	7.42
Textiles (excl. RMG)	
	0.35
	0.39
	0.40
	1.04
	0.55
	0.37
	0.71
	0.90
Readymade garments (RMG)	
	0.03

	0.01
	0.30
	0.01
	0.05
	0.07
Other manufactured goods	1.52
	6.41
	7.75
	9.90
	2.74
	2.84
	13.74
	9.74
Other commodities	5.23
	4.40
	4.46
	4.07
	3.50
	3.39
	2.98
	4.62

**% Share of Principal Items in Total Exports**

	<b>Particulars</b>
	<b>1991-92</b>
	<b>1992-93</b>
	<b>1993-94</b>
	<b>1994-95</b>
	<b>1995-96</b>
	<b>1996-97</b>
	<b>1997-98</b>
<b>1998-99</b>	

## All Commodities

100.00  
 100.00  
 100.00  
 100.00  
 100.00  
 100.00  
 100.00  
 100.00

## Agricultural &amp; allied products

25.23  
 38.67  
 39.38  
 38.00  
 50.61  
 76.68  
 52.04  
 44.10

## Ores &amp; Minerals

26.45  
 9.95  
 14.94  
 10.09  
 8.62  
 2.84  
 7.07  
 6.19

## Manufactured goods

34.64  
 43.54  
 38.71  
 44.81  
 35.99  
 18.29  
 38.69  
 45.50

## Leather &amp; leather manufactures

0.05  
 0.01  
  
 0.01  
 0.05  
 0.01  
 0.01  
 0.50

Chemicals & related products	24.32
	26.27
	22.77
	20.24
	25.55
	13.00
	17.99
	28.48
Engineering goods	5.38
	5.10
	3.19
	4.92
	5.88
	3.21
	9.98
	6.76
Textiles (excl. RMG)	0.92
	0.69
	0.63
	1.82
	0.75
	0.24
	0.53
	0.82
Readymade garments (RMG)	0.05
	0.01
	0.52
	0.01
	0.04
	0.07
Other manufactured goods	3.97
	11.41
	12.11
	17.30
	3.76
	1.83
	10.15
	8.88
Other commodities	

13.68  
7.84  
6.97  
7.10  
4.79  
2.18  
2.20  
4.21

Source: Foreign Trade & Balance of Payments, July 1999, Centre for Monitoring Indian Economy. Note: Items in italics are sub-categories of Manufactured goods.