

**Address by Satyabrata Pal,
High Commissioner of India in Pakistan**
(at the Roundtable on SAFTA 18 April 2007)

Mr. Chairman, Ladies and Gentlemen,

The problem with speaking at a valedictory session, without being at the earlier sessions, is that you do not quite know what it is you are saying goodbye to. Today, however, that is less of a problem, because none of us is bidding SAFTA goodbye; it needs a benediction, which I hope you have pronounced, not a valediction.

Your Roundtable follows what has been described as the smoothest SAARC summit ever. It went so well because all its members perhaps now believe that it can help them, and that it must roll up its sleeves and work, moving quickly from declarations to implementation.

In this transition, SAFTA is important, in itself and as a symbol, because, when it was signed at the Islamabad summit, it seemed to show that SAARC was moving from exhortations to action. It is a pity therefore that problems have beset SAFTA. Though studies show that globalisation is local, deepening linkages within regions, SAARC remains an exception. 52.5 percent of EU trade is within the Union; the comparable figure for NAFTA is 51.7 percent, for ASEAN 21.4 percent. For SAFTA, it is just over 5 percent.

The New Delhi Summit asked for more. Its Declaration

“...emphasised that SAFTA should be implemented in letter and spirit. Successful implementation of SAFTA will catalyse other areas of regional economic cooperation. They stressed that to realise its full potential, SAFTA should integrate trade in services. They called for a finalisation of an Agreement in the services sector at the earliest. They also directed that the Agreement on Investment Promotion and Protection be finalised.”

Pakistan and India are by far the two largest economies in SAARC, and we simply have to accept that, unless Pakistan overcomes its hesitations about entering into normal relations with India, including in trade and investment, SAFTA will be hamstrung. Let me therefore try to address what I believe are Pakistan’s concerns, which seem to be as follows:

- Kashmir is the core issue; normal relations, including in trade and investment, will only be possible after that is resolved;
- India wants free trade with Pakistan because this would greatly help its companies, and divert attention from the core issue;

- Pakistan must tread cautiously because, quite apart from its political reservations, opening up to Indian exports would damage the Pakistani economy;
- For the same political and economic reasons, it would be unwise to allow Indian companies to invest in Pakistan; they might swallow up smaller Pakistani companies;
- In continuing to trade with India on a country-specific positive list, Pakistan is not in breach of SAFTA because its acceptance of a SAARC treaty is subject to domestic law; and
- India also violates the spirit of SAFTA by putting up a variety of barriers to Pakistani exports.

On the first of these points, what are the core issues that all of us face? The New Delhi Declaration spelt out some of them, on which the members of SAARC have agreed to work urgently together: poverty alleviation, food security, energy, water, the environment and climate change. Our region is among those furthest from meeting the UN's Millennium Development Goals; we have our own SAARC Development Goals, which too are nowhere near being met. If these are the core issues for India and Pakistan, individually, as members of the UN, and of SAARC, can, or should, something else be the core issue bilaterally, with everything else predicated on it?

We do not belittle the importance of putting the problem of Kashmir behind us, not least because it has been the cause of conflict. Pakistan and India are addressing it seriously, through a more sustained dialogue than we have ever managed before. We will continue to work on this, but we hope that everything else will not be held hostage to it.

In fact, cooperating in meeting common challenges often helps remove some of the fears and animosities bred by political mistrust, leading to a quicker reconciliation than might otherwise have been possible. On long-standing problems left over by history—as the Chinese elegantly put it—it is important to build up trust in other areas, precisely to be able to address the most difficult issues. This is what we have done in our relationship with China. While we continue to talk to each other to resolve the difficult issues on our border, our ties in other areas have grown stronger every year.

Ultimately, we cannot allow ourselves to believe that our relations must always be tense or rooted in hostility. The European Union is a model to follow. For centuries the countries of Europe lived, in W.H. Auden's vivid words, "each sequestered in its hate", in a state of perpetual commotion that ended with the two World Wars. The political communion and the peace that now reign in Europe were made possible by economic integration, by the creation of a common market, before they moved on to a closer cooperation in other areas.

Which is why the Foreign Affairs Committee of the European Parliament, which sent a Rapporteur last year at Pakistan's request to do a study on Kashmir, has just adopted a Resolution on it in which, among other things, it:

"Underlines that, as the EU's own experience demonstrates, one of the keys to improving bilateral relations between countries is through increasing bilateral trade flows".

And goes on to say:

“Welcomes the commitment given by all South Asian states in SAARC to work effectively towards making SAFTA a political and economic reality which will maximise the benefits for the three parts of Jammu and Kashmir, and calls on the Government of Pakistan to end the “positive list” system...”

This brings me to the fear in Pakistan that Indian companies are eyeing this market greedily, and India proposes wider and freer trade with Pakistan because it will benefit greatly from it. The truth however is that, though the balance of trade is in India's favour, the volume is small. Our official bilateral trade with Pakistan this year may touch \$1.5 billion, which is not much. As an order of comparison, our trade with

- China will cross \$20 billion this year, rising to \$40 billion by 2010
- ASEAN will cross \$30 billion this year, and is growing 30 percent p.a.
- US was \$30 billion in 2006, growing at 30 percent p.a. and expected to double to \$60 billion by 2009
- EU was \$35 billion last year, again growing at around 30 percent

Pakistan's global trade is around \$45 billion; India's trade just with ASEAN and China will be more than that this year. In the last financial year, India's global trade was \$275 billion; trade with Pakistan was 0.5 percent of that. Indian companies will of course want to trade more with Pakistan, but given Pakistan's relatively small market, this is not of critical importance to them. In my last two postings in the United Kingdom and in South Africa, our High Commissions were inundated with enquiries from Indian trade and industry anxious to explore those markets; we get hardly any enquiries in Islamabad. Their interest in the Pakistan market seems to be desultory.

For Pakistan, however, in addition to what comes here as official exports from India, we hear that perhaps goods worth \$2 billion are imported through other countries and other means. If this is so, trade with India is already around 8 percent of Pakistan's global trade.

It might be useful to spend just a few minutes on the Indian goods that come in through third countries, because these are sourced from India out of compulsion and sold here at exorbitant prices. The Indian exporter sells his product in any case, even if it is not on the positive list, and the middle-man makes the killing; the victim is the Pakistani consumer and economy. Let me give you a few examples out of many:

- vaccines; in Delhi I was told in FICCI about vaccines made in India, which are sold in Pakistan with third country markings at ten times the price;
- locomotive spares; Pakistan has ALCO locomotives, as we do. The production line has shut down in the US, and the only source of spares is India, but these are not on the positive list, so they are apparently imported through a third country, and sold here at hugely inflated prices;
- automobile spares: a major European car manufacturer, which has a large plant in India, wants to also invest in Pakistan. It wanted ancillaries for its Pakistani car imported from India, but was told that it should either source these elsewhere, or have the Indian spares sent to a third country for re-export here. I am told the company is weighing its options, but even if it agrees, it will simply mean that the car will be more expensive for the Pakistani consumer.

The point that emerges, and which I want to stress, is this: while open trade is not something that would bring great opportunities to Indian companies, artificially regulated trade simply causes hardship for the Pakistani consumer.

I also want to dispel the fear that a more open economic relationship, which might permit Indian companies to invest in Pakistan, perhaps through a SAARC Agreement on Investment Promotion and Protection, would lead to massive take-overs of Pakistani companies by Indian counterparts. It is quite true that, when the process of normalisation began, some leading Indian companies were interested in investing in Pakistan. However, that interest has largely evaporated for a number of reasons.

When these companies showed interest earlier, these were also the early days of their exploration of global opportunities, when they were unsure of venturing too far afield, and perhaps felt that they would be more welcome in the neighbourhood. Now, however, the world is their oyster. In 2005, Indian companies spent \$4.5 billion in investments abroad; last year, that rose to \$19.5 billion.

By and large, Indian companies are investing abroad for three reasons:

- to establish global size; in steel, Tata bought Corus earlier this year, and Essar has just bought the Canadian company Algoma for \$1.6 billion, for this reason; in aluminium, Hindalco bought Novelis in February this year for \$6 billion and is now the world's largest aluminum rolling company.
- to get access to cutting-edge technology; this has driven the series of acquisitions last year, at an investment of over \$1 billion, by Indian pharmaceutical companies of firms in the European Union.
- to get access to a regional market; Apollo Tyres bought the South African operations of Dunlop last year with the Southern African Customs Union in mind. Videocon is putting \$1.5 billion into an LCD TV manufacturing unit in Italy, which will give it preferential access to the EU.

None of these reasons applies to Pakistan, because Pakistani companies do not yet have the size or the technology to attract Indian investment, nor will investment here give Indian companies any regional access. I am sure that there will remain some interest in investing in Pakistan, simply because it is a country of a certain size, but there is unlikely to be a rush of Indian companies here about which either the Pakistani Government or Pakistani industry need to be worried.

Let me then address the argument that Pakistan's acceptance of SAFTA is subject to its own laws, one of which lays down that trade with India will be on the positive list. On this, with the greatest respect, I wish to make two points:

(i) Article 23 of the **Agreement on SAFTA** stipulated that:

“This Agreement shall not be signed with reservations, nor will reservations be admitted at the time of notification to the SAARC Secretariat of the completion of formalities.”

No signatory can therefore qualify its acceptance of its terms.

(ii) And if it is argued that Pakistan is not entering a reservation, but simply having to follow its own laws, Article 27 of the **Vienna Convention on the Law of Treaties** lays down that:

“A party may not invoke the provisions of its internal law as justification for its failure to perform a treaty.”

Again with the greatest respect, I want to point out that Pakistan's excluding India from the provisions of SAFTA could call into question its credibility as a negotiating partner. SAFTA was painstakingly negotiated between member states, each of which had the fullest possible opportunity to spell out its stand. At no stage in these negotiations did Pakistan indicate that as and when SAFTA came into force, it would not apply to India.

As you know, Pakistan and India are presently embarked on a series of complex and delicate negotiations in the format of the Composite Dialogue, including on Kashmir. For Indian negotiators, it is obviously a matter of extreme worry that Pakistan has taken the stand it now has on SAFTA. Sceptics would argue that Pakistan might very well take exactly the same stand on other issues after an agreement has been signed. If doubts arise about the value of Pakistan's formal commitment to a negotiated agreement, it will become much more difficult for us to reach closure on many other issues not at all concerned either with SAARC or with trade.

Let me turn then to the complaint that, while India is on paper committed to open trade, in practice it does not honour SAFTA because Pakistan's products face non-tariff barriers in India, forcing a large trade imbalance in our favour. On this I want to make the following points:

- it is true that the balance of trade is in India's favour, but Pakistan runs large deficits with most of its major trading partners, including Saudi Arabia, UAE and China, with which the gap is over \$2 billion each, and Japan and Kuwait, where it is almost \$2 billion; it does not follow from this that all these other countries, which are among Pakistan's closest friends, use discriminatory trade practices against it;
- Our trade regime and tariff structures apply to all countries and are in consonance with our WTO obligations. Our imports of goods last year were worth over \$150 billion, and they are increasing by 25 percent each year, so clearly it is fairly easy to sell to India;
- in SAARC, as Prime Minister Manmohan Singh said in his speech to the New Delhi summit, “India is ready to accept asymmetrical responsibilities, opening her markets to her South Asian neighbours without insisting on reciprocity;”
- with our other neighbours, SAFTA is doing well, and we will deepen our linkages through it; with Pakistan, even though it does not extend the benefits of SAFTA to India, we have not retaliated, but we think it would be a pity for Pakistan to remain alone on the fringes of SAFTA, when it should be central to it;
- the Prime Minister has announced at the summit that we will give duty free access before the end of this year to SAARC members who are Least Developed Countries and further reduce the sensitive list for them;
- since Pakistan is not an LDC, it will not benefit from this measure, but there are no barriers in India specific to Pakistan. However, to address what Pakistan feels are specific problems, we have a Joint Study Group under the two Commerce Ministries, that has already made recommendations on steps in

India that would help Pakistan's exports; we have acted on these and are prepared to do more;

- a task force has been set up in our Ministry of Commerce to recommend steps that would reduce non-tariff barriers substantially; though these would help all our trading partners, Pakistan would also benefit;
- I have urged the members of every trade and industry body that I have met here to let me know the problems they face in trading with India. I have assured them and I repeat this assurance here today that the High Commission will do everything it can to try to have these problems looked at quickly and sympathetically in India, and try to have them removed.

Ladies and Gentlemen,

The New Delhi summit invoked the vision of a South Asian community, where there was a "smooth flow of goods, services, peoples, technologies, knowledge, capital, culture and ideas in the region". The supportive theme of your Roundtable is "SAFTA as an Enabler of Regional Integration". Trade is an enabler, because so much else that binds countries together goes with it. Trade cannot take place unless people, goods and services can move easily between countries; if they can, you have both commerce and closer integration.

The multimodal transport system the summit called for will take a while to set up but we must use the infrastructure we have to the fullest both to make SAFTA work and as a step towards regional integration. Again, much remains to be done between Pakistan and India. Presently,

- Islamabad is the only SAARC capital to which there are no direct flights from New Delhi; we would like to correct this at the earliest; (by comparison, though we have over a hundred flights each week between several Western countries and India, there are 120 from Sri Lanka, whose national airline is the foreign carrier with the largest number of flights into India.)
- We now have two rail services, but only a small volume of freight runs through Wagah-Attari, because there is a problem of capacity at Lahore, and no freight is carried on the Munabao-Khokhrapar line;
- Pakistan allows only a few items to be imported overland, and trucks from India cannot cross into Pakistan, though this would greatly help your importers, including, for instance the textiles exporters, operating on slim margins, who need to bring in cotton from India, but have to use the more expensive and time-consuming sea route.
- Indian trucks are not allowed to transit through Pakistan to Afghanistan, now a member of SAARC, which means that, for its trade with India, Afghanistan, which perhaps needs the support of all its neighbours the most, cannot benefit fully from the provisions of SAFTA.

We are perhaps beginning to see the first glimmers of change. There is great interest here in pressing ahead with the Iran-Pakistan-India gas pipeline, which has been described by Pakistani leaders as a "peace pipeline". This project is predicated on trust and a mutuality of benefits, the same values that underpin SAFTA, and it will entail a

trade and transit across Pakistan that will help India. If this massive, high-profile project, which too would help integrate the larger region, is politically acceptable in Pakistan, why should normal trade and transit, bilaterally and in SAFTA, not be?

We have to grasp the nettle. Do we allow a single issue to stymie us, as it has for 60 years, or do we redefine the cause-effect relationship and reap the benefits from normal trade relations? Will closer trade help bring about rapprochement, or must it be the other way around? I think history shows that trade helps to pave the way. As I said earlier, the Europeans have proved it. India's experience with China demonstrates it. The World Bank and others believe it, believe that trade between India and Pakistan will anchor the political rapprochement and the peace process. That after all is what we both want, what the region needs, and what we should work towards.