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*“Unlocking the full potential
of the U.S.-India relationship”*

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India-Pakistan Trade and “Other Channels of Engagement”

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On March 3, an article by Dr. Sunil Khilnani (School of Advanced International Studies at Johns Hopkins University) and Dr. Arvind Subramanian (Peterson Institute for International Economics) appeared simultaneously in *The Times of India* and *The News in Pakistan*. It began “As government-to-government talks resume between India and Pakistan, it is time to consider other channels of engagement that can contribute to improving relations or at least minimizing distrust...The best option would be to intensify trade between the two countries.”

The Economist makes the same point about “the best option,” as have many other studies (see “Links of Interest”). The U.S. government strongly supports these efforts. But, as Khilnani and Subramanian rightly note, there is a complicating factor. “While there is consensus that this is a good idea, little has been done to realize it.” And why? “A major obstacle to expanding Indo-Pak trade is in fact our two governments.”

Hence, say the two authors, “It’s time to think beyond the traditional.” Or, as Khilnani said at CSIS on April 5, “We need to widen the repertoire of policy options that are available.”

That is exactly what they did in their March 3 article. In short, the two authors are calling on the private sectors of both countries to join in a collaborative undertaking to build on India’s extraordinary success in the information technology (IT) sector to create the basis for a new IT sector in Pakistan, in five years time. Success, they say, would bring with it “real social and economic benefits” to Pakistan, including modern technical education opportunities, as well as political gains to India by contributing to a “stable and prosperous Pakistan.”

Recently, it was announced that the commerce secretaries of India and Pakistan would meet on April 27. At that time, they will be looking at the issues hindering the growth of bilateral trade and a “roadmap” for how to address them.

Certainly such a roadmap would be a positive step forward. But while it is being worked on in the government-to-government channel, another “channel of engagement” could also be activated. As Subramanian said at the CSIS event, we are hopeful that “the Indian IT sector and private sector will dare to tread where governments have not tread in the past.”

To underscore this point, the two authors made a rather pointed suggestion in their article. In a call to some of India’s most successful IT entrepreneurs, Khilnani and Subramanian encourage Narayana Murthy, Aziz Premji, Shiv Nadar, Anand Mahindra and Ratan Tata (“the quintet”) to help create a dynamic IT sector in neighboring Pakistan, taking on a challenge that would “be a chance for our increasingly mature and confident private sector to take the lead in a matter vital to the subcontinent’s future.”

Please find below the March 3 article by Sunil Khilnani and Arvind Subramanian and [click here](#) for a transcript of their April 5 appearance at CSIS discussing in greater detail their proposal.

Links of Interest

“[A Willow Branch](#),” *The Economist*, March 31, 2011.

Nabiha Gul, “[Enhancing Indo-Pak Trade: Perspectives from Pakistan](#),” IPCS Issue Brief 122, Institute of Peace and Conflict Studies, September 2009.

Mohsin S. Khan, “[India-Pakistan Trade: A Roadmap for Enhancing Economic Relations](#),” Policy Brief 09-15, Peterson Institute for International Economics, July 2009.

Nisha Taneja, “[India-Pakistan Trade](#),” ICRIER Working Paper No. 182, Indian Council for Research on International Economic Relations, June 2006.

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India's stake in a stable Pakistan¹

Sunil Khilnani and Arvind Subramanian

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

But the interaction needs to be constant rather than episodic: and it needs to move beyond the symbolic and dialogic to the substantive and tangibly beneficial.

The best option would be to intensify trade between the two countries. It is true that when countries trade goods, they are less likely to trade blows (although there are famous and violent exceptions as with Germany and the rest of Europe prior to World War I). While there is consensus that this is a good idea, little has been done to realize it.

A major obstacle to expanding Indo-Pak trade is in fact our two governments. Pakistan does not grant most-favored nation status to exports from India. India does – but Pakistan claims that MFN status does not translate into greater exports from Pakistan because trade barriers, especially in areas of Pakistani comparative advantage such as textiles and clothing, remain high. Claims and counter-claims fly between the two capitals, echoing the stilted sound of the security discourse. It's time, therefore, to think beyond the traditional, and to look for other economic options.

Consider the following possibility. Both Pakistan and India are searching for ways to improve their educational outcomes. Recent Indian experience offers one interesting lesson – which could benefit Pakistan. The demand for education, especially English-language education, changed dramatically in India with the rise of the information technology sector. The returns to possessing English language-cum-computer skills increased so dramatically that parents started seeking education and the private and non-government sector stepped in to make up for the dysfunctionality of the public sector. All over the streets of metropolitan and small town India, it's possible to see the evidence – proliferating signage, announcing hole-in-the-wall operations teaching English and computing.

In Pakistan, the spread of modern technical education is not just an economic necessity as in India; it's also something of an existential imperative. Modern education may be a way to check some of the more pernicious effects of those madrassas that spread religion-inspired illiberalism. Creating the incentives for seeking such technical education will require a dynamic information technology sector, and here the Indian private sector could make a difference.

Suppose, for example, that Narayana Murthy, Azim Premji, Shiv Nadar, Anand Mahindra, and Ratan Tata announced the following. Together the quintet would commit to creating the basis for a new IT sector in Pakistan within five years. The commitment would require as a first step physical investments in IT-technical institutes as well as imparting skills – including English language competence – to thousands of young Pakistanis in newly created facilities within Pakistan itself. It would also involve locating BPO centers in Pakistan, to provide employment for the newly-trained youth.

To that end, the crowning commitment that our business leaders could make would be a declaration that says five percent of the value added on all international contracts that they receive over the next 10 years would be from the newly created Pakistan-based facilities. In other words, when Indian IT firms deliver a final product overseas, they will have to ensure that the quality of Pakistani input is up to world standards: that is the risk that they will have to incur. But if successful, Pakistan can show the world its capability in this sector. In that sense, India would be committing to creating a Pakistan brand for IT – as part of its own, inclusive and forward-looking 'Brand India'.

This initiative is minimally demanding on the two governments, especially the Indian government. While some forms of distance-training, making use of the technology itself, could be developed, no doubt some initial movement of Indians to Pakistan would inevitably be required, in order to help establish and run the training centers. Therefore, some reliable security arrangements would be necessary. But since the emphasis would be on self-skilling, with a view to Pakistanis rapidly moving into training and management positions, the physical presence of Indians in Pakistan could be minimized.

The prospects for success would be good. After all, the basis of India's comparative advantage in IT – low cost and qualified English-speaking technical personnel – is replicable in Pakistan. In terms of infrastructure requirements on Pakistan too, the IT sector is relatively less demanding, both in terms of sheer scale of investment and challenges of security management. Creating the necessary forms of digital connectivity is easier than trying to build power plant infrastructure or to police a gas or oil pipeline.

Success would bring with it real social and economic benefits to Pakistan, as well as political gains to India. There would be economic costs to India – the foregone Indian value-added for example – but incurring them would demonstrate India's stake in, and contribution to, a stable and prosperous Pakistan. And it would be a chance for our increasingly mature and confident private sector to take the lead in a matter vital to the subcontinent's future – to step boldly where neither of our two governments has been willing to tread.

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