Southasian Economic Integration and the role of Indian Punjab
TRIDIVESH SINGH MAINI

Introduction
Economic integration, which has become an important area of economic research, is not a recent phenomenon. Some communication and trade was prevalent between distant civilizations even in ancient times. This process of globalization in the economic sphere has not always been smooth. In spite of occasional interruptions like the collapse of the Roman Empire or the inter-war period in the twentieth century, the degree of economic integration has generally increased. Some of the important regional economic blocs today are the North American Free Trade Agreement (NAFTA), the European Union (EU), the Organization for Economic Co-operation and Development (OECD) and the Association of South East Asian Nations (ASEAN). The South Asian Association for Regional Cooperation (SAARC) is nowhere near any of these blocs in economic strength, although it definitely has the potential to develop into a strong economic bloc. In its 20 years of existence, SAARC has initiated any sincere, realistic and viable agreements on removing trade barriers or restrictions amongst its member countries, except at the summit held in January 2004. This paper focuses on South Asia in general and Punjab in particular, due to the following reasons: One, Punjab located on the Northwestern border of India, is the only Indian state, which has the strategic benefit of being a link to both Pakistan and the former CIS countries and Iran. Two, the two Punjabs via their peace initiatives, mostly in the form of track two exchanges, have set an example for other regions in South Asia.

One of the main reasons pointed out for the lack of cooperation within the South Asian region is the Kashmir dispute between India and Pakistan. Pakistan has generally suspected that
the Indian moves to improve relations on various fronts — through people-to-people contacts, closer economic and cultural ties, etc — are intended to divert attention from Kashmir. Once there is a dramatic improvement in India-Pakistan relations, Kashmir will be relegated to the back burner. India’s stand is quite the opposite. It believes that improved ties will facilitate the task of dealing with Kashmir. It does not believe that continuing ill-feelings are the best way to tackle the problem.

Kashmir Issue in South Asia: A Background
As the British prepared to end their rule in India, the future of the 600-odd princely states became an issue of immense concern and uncertainty. The partition plan for India, which divided India on the criterion of contiguous, communal majority areas, failed to take into consideration vast areas occupied by the princely states, of which Kashmir was one of the largest. The first option of joining India and Pakistan on the basis of religious composition was not possible since they were excluded from the June 3rd plan (which stipulated that Muslim majority provinces would decide whether to join Pakistan as a whole or be partitioned), thus they were left with the other option of joining either country on the basis of geographical contiguity. By the 15th of August 1947, the Muslim-ruled Hindu majority states of Junagarh and Hyderabad were forcibly integrated into the Indian Union while Maharaja (common Indian reference to a king or emperor in India) Hari Singh, the ruler of Jammu and Kashmir was unable to decide his kingdom’s fate. In September 1947, Pakistani troops invaded Kashmir. An earlier economic blockade of Kashmir from Pakistan had weakened the state, and the invasion moved quickly to occupy most of Northwest Kashmir, where the British garrisons entrusted with defending the state defected to join the Pakistani forces. In 1948 Pandit Jawaharlal Nehru agreed to have a plebiscite on the recommendation of the Viceroy Lord Mountbatten and took the matter to the UN to establish his case.

While presenting his case at the UN Security Council, Gopalaswami Ayyengar, leader of Indian delegation, said the following:
We desire only to see peace restored in Kashmir and to ensure that the people of Kashmir are left free to decide in an orderly and peaceful manner the future of their State. We have no further interest, and we have agreed that a plebiscite in Kashmir might take place under international auspices after peace and order have been established\(^5\).

Thus, as the case evolved through a divided UN Security Council, a cease-fire agreement was signed between India and Pakistan, which continued till the 1965 India-Pakistan war over Kashmir. In 1957, the state of Kashmir was, in effect, incorporated into the Indian Union under a new constitution. This was done in direct contravention of the standing UN resolutions and the conditions of the Instrument of Accession\(^6\).

The brief period of cease-fire was followed by two wars, one in 1965 and another in 1971, which saw the creation of Bangladesh (formerly East Pakistan). The result of the war in 1971 - a defeat for Pakistan and the creation of Bangladesh - had profound implications for Kashmir. The crucial part was an official ceasefire between India and Pakistan, and the setting up of a ceasefire line in the valley of Kashmir. The status of this line, which was referred to as a ‘ceasefire line’ or the ‘line of control’ and later, the ‘border’, became a key issue in the following years. Clearly this line separated Indian and Pakistani forces, but to acknowledge it as a ‘border’ was to give the status some sort of geo-political legitimacy, which satisfied neither side. The nature of this line is still unclear today. What is clear is that this line has been patrolled by troops at both sides for decades, often engaged in armed conflict amounting to a ‘secret war’ costing both countries millions of dollars every year. It would not be until 1989 that Kashmir again became a flashpoint of conflict between India and Pakistan\(^7\).

While India continues to accuse Pakistan of encouraging cross-border terrorism since 1989, Pakistan maintains that Indian troops violate human rights and have impinged on the basic rights of Kashmiri people who have themselves taken up arms.

The problem continued to escalate in 1990s and there have been two occasions when the two countries nearly fought wars. The arms race between the rivals escalated dramatically in 1990s.
In May 1998, India conducted underground nuclear tests in the western desert state of Rajasthan near the border with Pakistan. In response, Pakistan conducted six tests in Baluchistan. In the same year, Pakistan tested its longest range missile, the 1,500 km (932 mile) Ghauri missile, named after a 12th century Muslim warrior who conquered parts of India. In May 1999, in response to Pakistani-backed forces that had infiltrated into the Kargil region in the mountains of Indian administered side of Kashmir, India launched air and ground strikes. Pakistan responded by putting its troops on high alert as the fighting built up towards a direct conflict between the two countries. India repeatedly claimed that Pakistani forces belonging to the northern light infantry, based in the Pakistani-administered northern areas, were engaged in the operations - a claim Pakistan consistently denied. Pakistan insisted that the forces were "freedom fighters" fighting for the liberation of Indian-administered Jammu and Kashmir. At the height of the conflict, thousands of shells were fired daily, and India launched hundreds of air strikes. The Red Cross reported that at least 30,000 people had been forced to flee their homes on the Pakistani side of the Line of Control. Correspondents reported that about 20,000 people became refugees on the Indian side. The conflict ended when, under pressure from the United States, Prime Minister of Pakistan Nawaz Sharif called upon the infiltrating forces to withdraw.

In the year 2001, tension along the line of control continued. The worst fighting for more than a year broke out in October 2001, as India started shelling Pakistani military positions. October 2001 also saw a devastating attack on the Kashmiri assembly in Srinagar in which 38 people were killed. After the attack, the chief minister of India-administered Kashmir, Farooq Abdullah, called on the Indian government to launch a war against militant training camps across the border in Pakistan. On 13 December 2001, an armed attack on the Indian parliament left 14 people dead. India again blamed Pakistani-backed Kashmiri militants. The attack led to a dramatic build-up of troops along the Indo-Pakistan border, military exchanges and raised fears of a wider conflict. It is only after the signing of the Islamabad Declaration in December 2003 that things began to change for the better.
A careful analysis of the whole issue reveals that lack of economic integration in South Asia is not merely the result of the Kashmir dispute. In fact, to a large degree, it is the outcome of South Asian scholars’ obsession with first world economic ideas (without understanding the differences in the overall economic structure of South Asia) and not enough attempt has been made to develop a pliable ‘developing country model’. It is only in recent times that South Asians talk about models that are akin to African models.

Some organizations like the South African Development Community (SADC) have been an exception to this rule by following an innovative/thoughtful model of functional integration. Before moving on to the approaches that are feasible for South Asia and the two Punjabs, it would be useful to first discuss the neo-classical model of economic integration, which is considered most plausible/realistic of the region in question.

**Neo-Classical Model of Economic Integration: Limitations for South Asia**

The principal economists of the neo-classical model of economic integration are Balassa (1961), Viner (1950), Tinbergen (1962), and Krugman (1979, 1987, and 1992). They believe in stage wise economic integration and giving importance to trade creation and diversion. These models are applicable to countries which desire to trade with each other, specialize in the production of different types of goods, and which possess well-developed means of communication and transportation.

This group of economists generally refer to three features of economic integration: liberalization (movement of resources without any barriers), development (scale, capital and competition) and coordination of policies. In their view, integration is the phenomenon that leads to the creation of a desirable structure of the international economy, by removing artificial obstacles to optimal market operations and deliberately introducing elements of coordination or unification. The process of economic integration moves through clearly definable stages of integration toward market equilibrium, that is, uniform prices and free factor mobility.
According to Balassa and Tinbergen\textsuperscript{14} economic integration proceeds by five stages:

1. **Free trade area**: Removal of quantitative restrictions on commodity movements, e.g. tariffs, among member states;
2. **Customs union**: Equalization of tariffs with non-member countries;
3. **Common market**: A scenario where restrictions on factor movements are eliminated;
4. **Economic and Monetary union**: The suppression of restrictions on commodity and factor movements with coordination of national economic policies to some extent; and
5. **Complete economic integration**.

The neo-classical approach lacks universal applicability for the following reasons: First, third world countries, especially South Asian nations, specialize in the production of a similar basket of goods. Secondly, while in the developed world, institutions are homogeneous, developing countries have varying institutional structures. Finally, transportation and communication are extremely poor in the third world\textsuperscript{15}.

The neo-classical model of economic integration has been suggested for developing regions too, but no consideration has been given to the disadvantages of this model in the context of developing regions, especially with regard to the problem of production of similar goods, which has been discussed. The South Asian region is a good example of this scenario. The region’s main players compete to export textiles, garments, and agricultural commodities like tea, coffee and sugar. On the contrary, in the European Union and other economic blocs, countries specialize in the production of different types of goods\textsuperscript{16}. This problem results in the non-applicability of the theory of comparative advantage. The theory of comparative advantage mainly supported by Samuelson (1949, 1953, 1954) and Hecksher Ohlin (see Samuelson) believes that trade between countries is always beneficial as countries can then produce what they are best at\textsuperscript{17}.

As a result of the above-mentioned constraints, it is not possible to begin by conventional means of economic integration and it would be useful to start with limited cooperation in two
stages, which will be discussed in more detail in the approaches section.

**Types of Possible Integration for South Asia**
The two stages of integration approaches, which are highly plausible for Third World countries, are the ‘functional integration’ and ‘development integration’ approaches. While the former approach - functional integration (used by SADC) can be used for laying the foundations of economic integration in the region, the second approach - that of development integration - which aims at increasing policy coordination, can help in moving towards a model of regional governance.

(a) **Functional Integration**
This model was initially propagated by Mittrany (1944, 1966)\(^{18}\) who felt that: (i) Cooperation in mutually beneficial areas is always an asset, and (ii) Trans-national networks of social and economic affairs are necessary for economic development. One major drawback in his assumption was that he made a clear demarcation between politics and economics, which is certainly not true for developing regions, although this demarcation does not always hold good even for developed regions. Some of the later proponents of this school have been Haas (1964, 1971), Hill (1985) and Oden (1993)\(^{19}\).

Haas\(^{2}\) suggested a more realistic version of functional integration where a guarded yet reasonable beginning, focusing on project-based cooperation in areas like infrastructure, is made towards economic integration. The main functionalist assumptions are:

- Global cooperation should be started in technical spheres.
- Once positive results have been achieved in these areas, it will lead to cooperation in other spheres.
- The integration process in functional spheres will lead to political cooperation\(^{20}\).
- This approach is acceptable to all as it does not threaten the sovereignty of any country and lays the basic foundation for
regional integration, apart from giving countries an opportunity to familiarize themselves with each other’s political, economic and social structures. The South African Development Community (SADC) bloc has moved in accordance with the path prescribed by this approach.

This model can lay the foundations for economic integration and trade but is no substitute for full-fledged regional economic cooperation. I would like to add that the two Punjabs are moving in a similar direction as the South African Development Community (SADC) model where the initial focus was on project development, with significant emphasis on cooperation in the areas of transport and communications. Later the SADC expanded to other areas like food security, energy, industry and trade. Some of the moves, which could be broadly described as steps towards functional integration in the case of the two Punjabs, are the following:

First, the West Punjab leadership has given in to a demand from Indian Punjab to facilitate better links between Amritsar (Indian Punjab, which is not only a holy city of the Sikhs, but also an important economic focal point in the future, for the whole of South Asia) and Nankana Sahib (in West Punjab). Nankana, where Guru Nanak, the founder of Sikhism was born, is the holiest of shrines for the Sikh community. However, it has remained inaccessible to Indians for many years. On his recent Lahore visit, Captain Amarinder Singh, the Chief Minister of Indian Punjab along with Chaudhry Pervaiz Elahi, the Chief Minister of Pakistani Punjab, laid the foundation stone for a new road to Nankana Sahib. The first lot of 10 buses carrying Sikh devotees from Amritsar to the historic town is likely to start operating very soon. In fact, if a few more roads are to come up like the one between Amritsar and Nankana Sahib, South Asian regional cooperation may move even faster than expected, without SAFTA actually coming into force (as one of SAFTA’s important provisions (Article 1k), which aims at development of communication systems and transport infrastructure would already be implemented. The road will not only make it easier for pilgrims from India, but could also emerge as an important trade route for the future. A major problem for the
South Asian region is that infrastructure and transportation facilities are inadequate for trade.

Second, the proposal of State Mandi (Marketing) Board of Indian Punjab to link the fruit and vegetable markets of Ludhiana (Indian Punjab) and Lahore (Pakistani Punjab) by giving them the status/nomenclature of sister market committees is a welcome development. After returning from a visit to Pakistan, the Mandi Board chairman Sant Ram Singla said that a proposal to this effect had been moved by the Pakistan Agricultural Department authorities. He further said that the Mandi Board would put forward a case for closer cooperation between the market committees of the two Punjabs. According to him, the Mandi Board would also exchange expertise on grading and packing of fruits and vegetables with its counterpart, besides extending cooperation towards creating a cold chain to ensure effective transportation of goods. The Pakistan Punjab government was in the process of setting up an agricultural marketing board on the Punjab pattern. This move would give both Indian Punjab and Pakistani Punjab an opportunity to modernize their marketing systems by learning new facets of agricultural marketing from each other.

Among other important measures, the government of Pakistan is seriously thinking of giving non-resident Indian Sikhs the right to construct their houses at Nankana Sahib. Chaudhary Pervaiz Elahi and top bureaucrats of Pakistan have agreed to explore the possibilities of establishing a large colony of NRI Sikhs. At present, there is no provision for allowing any Indian or NRI Sikhs to build their houses in Pakistan. If this is materialised, it will be a good opportunity for both the Punjabs to know each other’s economic needs better.

Thus the two Punjab governments are giving serious thought to trade from the very beginning. In December 2004, the first ever Punjab games, where athletes and sportsmen from both the Punjabs participated, were held in Patiala (Indian Punjab). At that time, Captain Amarinder Singh was quick to take advantage of the bonhomie prevailing and took one of the first crucial steps, in converting track two exchanges into a useful economic process. At a press conference he asked some visiting Pakistani businessmen, “Why are you buying wheat from Russia? We have
huge reserves and can supply it immediately," "If the Berlin Wall could be demolished, what stops us from breaking barriers?". Markfed (Marketing Cooperative of Indian Punjab) is awaiting clearance from the external affairs ministry to supply 2 million tonnes of wheat to flour mills in Pakistan through the Wagah border.

(b) Development Integration
The next stage of integration, which South Asia needs to think of is development integration. The main proponent of this is Hans Blomqvist. This approach basically stresses on cooperation in policy making, building joint economic institutions and paying attention to the interests of smaller regional players. It begins by dealing with basic infrastructure and institutional problems in the two countries. If implemented in a sensible way it provides chance to grass root actors to play an important role as in some SADC countries. Some of its key assumptions are: one, a clear thrust on cooperation amongst member states, and two, political cooperation is considered imperative for implementation. It believes in an even distribution of the benefits produced by regional cooperation. At the lowest level this is done by compensatory measures. At a higher level it is resolved by corrective measures such as planned regional industrial development that favours less developed members and funds or regional development banks that give priority to LDC loans.

This model could be a good second stage in the case of South Asian regional integration, where political cooperation would help in a large degree to do away with the mutual hatred and suspicion of the past. Following such a model will also keep smaller countries interested in economic integration, as their interests will not be ignored or brushed aside. Political cooperation in areas of governance may be helpful in dealing with many problems of religion as well.

Conclusion: Economic and Political Implications
First, signing of the SAFTA agreement augurs well for South Asian integration. However, it remains to be seen whether stipulations in SAFTA can be implemented early next year as some minor road
blocs will continue to disturb the Indo-Pak peace process. Second, track two exchanges between India and Pakistan must carry on and move purposefully towards fulfilling clearly defined economic objectives. If they can, then basic problems of economic unemployment can be tackled. According to an estimate, liberalized India–Pakistan trade in the agro-sector itself would generate around 2.7 hundred thousand jobs in India and 1.7 hundred thousand jobs in Pakistan. The food and agri-business industry has a significant impact on the regional economy. This industry has one of the highest economic multiplier effects and is even ahead of telecom or power sectors.

Third, where Indo-Pak cooperation would also be beneficial is production of basmati rice. They could leverage areas of mutual strengths to be world leaders in rice export. Direct trade between them could be beneficial in terms of freight component, which is merely 5%, in comparison to 15-20% if traded through a third country. They are strategically located and have ideal climatic conditions for the desired quality of basmati rice. Together, the two countries could cater to the demand of this rice globally.

Fourth, a different approach to economic integration may be needed from that of the European Union’s model. Perhaps a gradualist and minimalist beginning to economic integration in the form of project-based and development-based integration would be most appropriate and practical, allowing for corrections to take place on a manageable scale. Besides, the road between Amritsar and Nankana Sahib has pushed other states in India to examine the feasibility and viability of improving connectivity with neighbouring countries in South Asia. This point was brought out very well in an article on Indo-Pak relations.

In Assam, there is mounting pressure from regional leaders of all political hues to open up the old Stilwell Road that links India and China through upper Myanmar. The chief minister of Sikkim, Pawan Chamling, wants a bus service between Gangtok and Lhasa. In Jammu and Kashmir, the people of Ladakh want to know why the border with China cannot be opened to facilitate tourism into western Tibet? If a bus can run between Srinagar and Muzafarrabad, and between Amritsar and Lahore, why not one
between Ladakh and Mount Kailash? Kolkata and the two Bengals will gain immeasurably from the revival of transit trade between India and China across the many passes in the Eastern Himalayas. Why can’t Chittagong in Bangladesh regain its status as the main seaport for Northeast India?

The increasing interaction between the two Punjabs and ultimately other regions in South Asia could be the beginning of “dialogue of cultures and civilizations” and prove that the “clash of civilizations” theory is highly biased.

Fifth, track two diplomacy can in no way replace track one diplomacy, but it only shows the way towards track one diplomacy. Ideally, track two diplomatic efforts should set the ball rolling for track one negotiations.

Finally, the example of the two Punjabs shows that it is time to think beyond the traditional nation-state. While this in no way means that borders are reversible, it certainly calls for a transformation in mindsets and more imaginative thinking on the part of governments in South Asia.

No one, of course, knows what the future holds for Indo-Pak relations. At present it certainly seems that the two states have a golden opportunity to emerge as an economic unit in South Asia and also gain access to the whole of Central Asia. This opportunity should not be missed as a result of some jingoistic elements or political rivalries. In fact, if Indo-Pak relations continue in the same vein there is a distinct possibility of having a joint Special Economic Zone between India and Pakistan around Amritsar and Lahore. In fact very recently according to a Pakistani newspaper:

The Chief Minister of Indian Punjab, Amarinder Singh, has proposed a free trade zone at Wagah. In his address at Lahore Chamber of Commerce and Industry, the visiting chief minister pointed out that both countries could take advantage of infrastructure available at Lahore dry port or special export zone coming up in Amritsar. If trade was opened through Wagah, he said, both the sides would have transit facilities.
There is an overall change in the dynamics of the Indo-Pak relationship. At the forefront of this change are the two Punjabs both of which have used unconventional means of diplomacy to improve ties. This is a rare opportunity for the two countries in general and the two Punjabs in particular, especially Indian Punjab, for its strategic location as a gateway to Pakistan and Central Asia has been wasted so far. Opening up of trade between two countries will not only help in countering propaganda of hardliners in both countries, but could also bring about a reduction in poverty in South Asia.

Notes and References


3. Ibid., p. 10.


14. See Belassa, ibid., and Tinbergen, ibid.


16. See Kelegama, ibid.


Peace and Democracy in South Asia, Volume 1, Issue 2, 2005.


20. See Oden, *ibid*.

21. See Ravenhill, *ibid*.


27. See *ibid*.


