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Editors' Note

In today's era of globalisation, regional growth and trade have become imperative. Regional economic co-operations are mushrooming all over the world with an aim to create synergies across states thereby creating interdependency and ultimately leading to regional power and stability. The South Asian region expects such co-operation to lead to economic growth and development and most importantly create socio-political stability. A range of projects have been proposed over the years, and treaties have been signed between the countries. Although, bilateral trade agreements between India, Sri Lanka and Bangladesh have come up, full-blown regional co-operations have been largely unsuccessful. Economic development and intra-regional trade shall continue to be a mirage until the archenemies, India and Pakistan do not resolve to co-operate and work together for the growth and stability of the region. Their contentious issues are far reaching and end up plaguing every move towards regional economic co-operation. More recently, the gas pipeline projects have highlighted energy security concerns for this region especially in the face of depleting petroleum resources, alternative energies and burgeoning population. While India is a lucrative market and Pakistan an obvious transit route, the countries have failed to successfully negotiate the modalities of such projects.

The first article in this issue by Tridivesh Singh Maini suggests a return to the position of pre-1965 trade links between India and Pakistan. He navigates through the various bilateral agreements made between successive governments of the two countries but considers that trade liberalisation especially through land routes is the only solution to revitalising trade connections between the countries. He is hopeful that the current governments being pro-business shall do what is needed to establish strong trade links between the countries.

In the second article, Ali Arslan considers the viability of the Iran-Pakistan-India gaspipeline project juxtaposed with the problems that the region faces which are preventing this project to surface. The project was proposed a few decades ago but since then has been ambushed by rounds of negotiations over transit routes, tariffs, and security. While energy is a dire need for both Pakistan and India, and selling of gas is one for Iran, the countries have been unable to move forward largely due to the mounting pressure of the US forbidding India and Pakistan to enter into trade agreement with Iran. Such a project, he suggests, would play a pivotal role in reducing friction between the countries.

The last article of the bulletin by Rashid Memon discusses the inequalities Pakistan is trapped in which is leading to a downward trend in development. He notes that despite much effort upward mobility is rarely witnessed. Those who are born rich shall remain rich or become richer while those who are born poor shall remain poor and same is the case with education. People who tend to defy these classifications are a rare sight. He also notes that the educational gap between the rich and the poor is increasing.

India and Pakistan: Can they Move Back to Pre-1965 Levels of Trade and Connectivity?

By Tridivesh Singh Maini



Introduction

Since the late 1990's, significant efforts have been made by successive governments of India and Pakistan, to increase the level of physical connectivity through rail and bus services with the objective of increasing the level of people to people interactions, as well as strengthening trade relations and increasing economic interdependence between both countries.[1] The Civil Society, Business Community, intellectuals, media, and sections of the diaspora on both sides have also played a positive role in building linkages between both countries . The role of all these groups has been especially crucial during periods when engagement at the governmental level has been suspended for it is they who have been the voices of sanity and countered the jingoistic discourse during such times.

Some of the important initiatives taken for enhancing people to people contact include relaxations – specifically for senior citizens and businessmen -- introduced to the Visa Regime by IK Gujral in 1997, Delhi-Lahore bus service in 1999, initiated by the Atal Bihari Vajpayee and Nawaz Sharif Governments respectively followed by other initiatives, such as the Srinagar-Muzzafarabad bus service, Amritsar-Nankana Sahib Bus Service and the Munabao-Khokhrapar rail servicewhich began during the previous Dr. Manmohan Singh-Musharraf eras respectively.[2]

Irrespective of political affiliations, governments in India have realized the relevance of both bilateral trade and people to people contact. While on the Indian side, Dr. Singh repeatedly laid emphasis on the need for 'making borders irrelevant' alluding to greater people to people contact, improved connectivity and stronger economic linkages between both countries. Perhaps the best articulation of this vision was an address which the former PM delivered to FICCI in January 2007. Said the former PM:

"I dream of a day, while retaining our respective national identities, one can have breakfast in Amritsar, lunch in Lahore and dinner in Kabul. That is how my forefathers lived. That is how I want our grandchildren to live." [3]

On the Pakistani side current PM, Nawaz Sharif while in opposition (2008 and 2012) had recommended, that Pakistan should unilaterally announce a visa on arrival for Indian citizens. As Prime Minister too has spoken in favour of easing visa restrictions. [4]

In 2012, both sides signed a visa agreement of which the important provisions were; visa on arrival for senior citizens over the age of 65, while the visa will be city specific, the new visa agreement increased the number of cities which applicants can visit to 5 from the earlier restriction of 3. This agreement however, could not be implemented due to tensions across the LOC in January 2013. The service resumed in April 2013.[5]

It would be important to point out that while relations between both countries have faced some serious challenges, some of these Confidence Building Measures, along with trade through the

Wagah-Attari Land route which has gone upto over 2.5 Billion USD have helped in creating a counter narrative – which is small, but is growing in number nevertheless. [6] It is not just the business community, but also sections of the political class which realize the benefits of better ties between both countries. [7] A strong illustration of this point is former Pakistan President Asif Ali Zardari's emphasis on the need for India and Pakistan to follow a model similar to the China-India model of engagement where economic ties have been de-hyphenated from other disputes. [8]

In border states on both sides, there is an even stronger yearning for opening more land routes for trade and liberalizing visa regimes both within the political class and business community. [9] It is no longer the business community from the two Punjabs, which is lobbying hard for better relations but also those from Gujarat-Sind and Rajasthan-Sind.[10]

It is interesting to note, that many of these routes which have been opened up recently existed before the war of 1965 which took place fifty years ago. [11] While a lot of material has appeared on the war itself, and more is likely to be published since this is the 50th year, there is scant literature on the close links which existed pre-1965. With regard to pre-1965 interactions it has been remarked:

'people travelled freely on easily-available documents, the rail border at Wagah bustled with business even if the occasional customs officer bristled with pompousness in an effort to disguise harassment and petty corruption, the border on both wings was so porous that humans and goods were easily smuggled in both directions, businessmen retained cross-border investments, media was freely available and conflict was the prerogative of politicians and military brass. In 1965, we built a wall between neighbours that the Cold War architects of the Berlin rampart could have envied'. [12]

The main aim of this paper is to give an overview of some of the links – trade and transportation – which existed pre-1965,as well as how they got snapped in the immediate aftermath of the war.It will then examine attempts being made to rekindle such ties and the opportunities as well as challenges to the same.

Interactions between 1947 and 1965

While the Nehru-Liaqat Pact (1950), and The Indus River water treaty (1960) are often cited as examples of the fact that in the years ensuing after independence the political leaderships of both sides were keen to find solutions to some of the compelling issues. Significantly, at this time,trade as well as people to people linkages ties between both countries were reasonably strong in spite of some serious differences.

Economic Links Pre-1965

If one were to examine the level of trade and business linkages between both countries. One telling statistic is that [13]:

'…in 1948-1949, India accounted for 56 percent of Pakistan's total exports and 32 percent … India was Pakistan's largest trading partner and this continued to be the case till 1955-1956'.

Trade did witness a dip once India devalued its currency yet there were some important accomplishments in the pre-1965 periodwhen the two countries signed over 18 trade agreements [14]

Post 1965 however, trade was disrupted nearly for a decade, and it only resumed in 1974 after the introduction of a protocol. While in the decade

of the 1970's and 1980's there were some phases which witnessed an increase in trade, it could never match the levels which were witnessed in the immediate aftermath of independence. [15] While currently, there is only trade through one land route the Wagah-Attari land route, pre-1965 a number of land routes were open for trade including Hussainiwala-Kasur land route. Kugelman while referring to the especially close economic linkages through the Punjab states [16]

'…. people fondly remember the trade corridors and other economic linkages with present-day Punjab province in Pakistan—links that flourished pre-Partition and persevered until the Pakistan-India war of 1965.' [17]

It is not just that was more trade and a higher number of trade routes were operational in the pre-1965 period, but that inspite of partition, a number of Indian houses had business interests in Pakistan. Says E Sridharan :

'..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 (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'.

The two countries also had banking links. While there were 9 branches of Indian Banks in Pakistan, and 1 Branch of a Pakistani Bank Habib Bank in Mumbai [18] . Currently, there are no branches though in 2012, both sides had decided to issue licences to 2 banks each. In February 2014, Pakistan's Minister of State for Commerce Khurram Dastagir Khan had said that 3 Pakistani banks had written to the Reserve Bank of India and expressed their interest in opening branches in India. There has been no real movement on this issue ever since [19].

Similarly, if one were to do an analysis of people to people contact in the phase between 1947 and 1965, there is enough evidence to suggest that borders were treated as conflict zones. Some of the instances of people to people contact were visits by Indians to Pakistan and vice-versa for sporting events.

Guha provides an instance of this:

In 1955, an Indian team led by Vinoo Mankad, toured Pakistan for a series of five Tests. It was now seven years since Partition. The wounds had begun to heal. A Karachi Hindu, writing to the newspapers, said the warm reception the team received spoke for 'a changed feeling for the better between India and Pakistan now which is very good and will be helpful for both countries'. Illustrating this changed feeling, some 10,000 Indian fans crossed the Wagah border to watch the Lahore Test, including many Sikhs and Hindus who had been forced to flee West Punjab in 1947 [20].

There were many instances of individuals on both sides visiting their erstwhile homes and meeting with their friends. Some were even fortunate enough to get their belongings

Closer interactions were not just witnessed between the two Punjabs, but even on the Rajasthan-Sindh border. The royal family of Umerkot, (Sindh) had relatives in Rajasthan and would often visit till 1965[21]. Intermarriages between Rajasthan and Sindh were not restricted only to the royal family, in fact till date this has been one of the major links which binds some of the Rajput sub-castes of Sindh and Rajasthan. The Munabao-Khokhrapar rail link which connected Rajasthan and Sindh was closed for over 4 decades, it resumed in 2005 [22].

One of the important reasons cited for greater people to people movement in the aftermath of partition is the fact that till 1948 people could actually move without a visa. From 1948 to 1952, a permit system was used for travel, and it was only in 1952 that a visa regime was introduced

Perhaps what is most fascinating is that that despite the violence and trauma which accompanied partition there was a yearning on both sides of the divide for greater interaction. It would now be appropriate to examine some of the plausible reasons for disruption of trade ties as well as people to people contact.

Disruption of ties and recent changes:

1965 witnessed not just the growth of nationalism, but the disruption of basic people to people links which have been discussed above.

In addition to the nationalist sentiment on both sides, there could have been some other reasons as well. The first was a re-orientation of foreign policy of both countries. While Pakistan began to veer towards the Middle East, India first focused on Non Aligned (NAM) countries and after the liberalization of the economy, it began to focus more on South East Asian Countries. Over the past decade and a half however, there has once again been a renewed thrust on improving relations with neighboring countries.

Second, both countries became extreme security states and borders began to be viewed as dividers and not connectors, it was only with the beginning of confidence building measures such as the Lahore-New Delhi bus service that this mindset began to change [23].

Since the late 1990's things have begun to change and successive governments irrespective of political affiliation have realized the importance of people to people contact and trade between both countries. In this regard there are specific phases where people to people contact and trade agreements have raised hopes for improved relations between the two countries. One phase was in 2004 when Prime Minister Vajpayee visited Islamabad for the SAARC Summit, and the South Asian Free Trade (SAFTA Agreement) was signed. Barely three months later, there was a cricket series in which a large number of fans from India received a rousing welcome in Pakistan -then Prime Minister, Atal Bihari Vajpayee in his meeting with members of the cricket team categorically told them to not only win the matches in Pakistan, but also the hearts of the people there' [24]. Similarly in 2011-2012 significant headway was made in the sphere of trade - not only was there a rise in bilateral trade, but in April 2012 an Integrated Check Post at Attari was inaugurated. Moreover, business lobbies on both sides have been pushing for liberalization of the trade regime and a redressal of the logistical issues which are impeding trade. In fact Pakistan came very close to granting India the Most Favoured Nation Status in 2012, however this was delayed due to domestic political compulsion [25]. Apart from MFN status, the possibilities of Pakistani Banks setting up branches in India and vice-versa were also explored. However, tensions in 2013, and the general elections meant that all these issues were stalled [26]

Challenges which need to be addressed:

It is quite evident, that India and Pakistan need to undo the restrictions and barriers which have been imposed in the past 50 years.

While a number of pre-1965 land routes need to be opened both for trade and connectivity, in certain

cases such as Munabao-Khokhrapar, land routes are already open, but need to be utilized for trade links [27].

From a pure trade perspective the two main recommendations from governments, Chambers of Commerce, Research institutes and educational institutions from both sides that have examined the barriers to trade, the two biggest issues obstructing an increase in trade that have been identified as visas and other logistical issues such as the absence of any Pakistani bank branches in India and vice-versa [28].

Conclusion

Both Prime Ministers have pro-business instincts and seem committed to closer economic ties and greater connectivity. Thus both countries have an opportunity for strengthening economic ties and enhancing connectivity. While there are likely to be a number of political and logistical road blocs, both countries would do very well to achieve a pre-1965 level of trade, people to people contact and connectivity. Hopefully, both countries have learnt some lessons in the last 50 years.

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The 'Peace Pipeline' Project: Balancing The Geo-Political And Legal Seesaw

By Ali Arslan



The Iran-Pakistan-India (IPI) gas pipeline project, popularly known as the 'Peace Pipeline,' was tabled for discussion in the 1990s. It is bemusing that, even after two decades of gestation, the idea has not fully materialised into a binding trade agreement. The project was always technically and economically viable; however geo-political dilemmas and legal predicaments have been delaying the project.

Faced with an acute shortage of energy resources, owing largely to rapidly burgeoning industrial and residential demand for energy, the developing economies of Pakistan and India seek exploitable reserves of natural gas and other fuels. This drive has brought them to Iran's doorstep. Both India and Pakistan perceive this deal as a major breakthrough in trade with Iran. However, energy security concerns, magnified by the geo-politics of the region, continue to tarnish the prospects of a successful energy project. The two rivals have long been entrenched in zero-sum thinking, and India is greatly reluctant to give political leverage to Pakistan, lest it be used against India's economic and foreign policy interests in the future.

Since energy plays a vital role in economic development, environment, and society, detailed legal frameworks are constructed for such projects. However, these frameworks are typically eclipsed by the political backdrop against which international relations tend to operate. For the IPI, transit, pricing, and security concerns have been major impediments and were addressed in every round of negotiations.

Iran, Pakistan, and India apparently wish to pursue this project in a political vacuum. However, the geo-politics of the region are such that it has rarely seen a day without international interest in its everyday affairs. The IPI is effectively forced to walk a very fine line, balancing the see-saw of geo-political concerns and legal obligations.

Depleting energy resources show cracks in the global village

The astounding increase in demand in emerging economies, such as India and China, has created strong competition for energy resources with the West. Although industrialised countries are looking towards new sources of energy, oil and gas are still the backbone fuels in these economies. Russia's, a major gas supplier to EU, current goal is to dissuade any of the Central Asian gas reserves from reaching European or North American markets. [1] Russia is clear in its support for the IPI, which faces eastwards as opposed to the westward-facing Nabucco pipeline. Moreover, the IPI could potentially foster a strong bond between India and Pakistan to ensure regional unity.

Sceptical of this eastwards development, the USA has been pressuring the governments of Pakistan and India against entering into any agreement with Iran and openly supports the alternative Turkmenistan - Afghanistan - Pakistan - India

gas pipeline (TAPI).[2] The US is opposed to the IPI because it would act as an economic lifeline for Iran and would blunt the sanctions imposed on Iran by the US subsequent to its attempts at developing chemical and nuclear weapons.[3]

The noxious blend of political turmoil and depleting resources gives rise to energy security concerns. The concept of energy security does not have a uniform meaning, underpinned as it is by regional intricacies and dimensions of the global market. The World Bank defines energy security as the sustainable production and use of energy at reasonable costs to ensure a certain quality of life.[4] Similarly, Deese defines it as a condition whereby a nation perceives a high probability that it will have adequate energy supplies at affordable prices. [5]

After the political sea-change across the world following 9/11, energy security concerns have multiplied. Besides escalating consumption, energy resources have become a prime target for insurgent activity and armed conflict. In recent years, Pakistan itself has suffered numerous attacks on its gas pipelines in the province of Balochistan. The concept of "energy security" must encompass not only diversification, but the safety of the entire process of energy supply. This requires close collaboration between producers and consumers. [6]

Energy security and the IPI

Pakistan's energy security concerns are myriad. Not only is there swiftly rising demand, Pakistan is fraught with domestic and regional terrorist cells which intermittently disrupt the supply of natural gas. [7] In order to utilize its strategic position and act as an energy corridor, Pakistan must secure energy installations against sabotage.

It is critical to consider energy security in the context of international and regional relations. The IPI shall bring together two rivals: India and Pakistan. It is expected to be a landmark step towards economic co-operation which has largely been absent between the two neighbours. Bilateral trade has never flourished, hampered not only by political rivalry, but also due to weak economic structures and limited import-substitution. India's real concern is providing political leverage to Pakistan through the IPI whereby Pakistan shall be able to hold the supply hostage to resolve contentious issues, especially Kashmir.[8] Drawing an analogy with France and Germany in cross-border energy projects, the doctrine of 'integrative bargaining' could moderate political tension. Integrative bargaining binds countries in a common project whereby, without prejudice to political and social interests and differences, such projects ensure long-term commitment.[9] I support the argument that integrating resources would compel Pakistan and India to co-operate and shall, therefore, minimise politically-motivated disruptions in the project. The project's prospects are aptly described as not being a 'panacea for the ills of the peoples of both nations,' but possible to materialise with 'political will'.[10]

Being the founding members of the Economic Cooperation Organisation (ECO), Iran and Pakistan share close relations with respect to such projects. However, Iran shall not be content by entering into the project with only Pakistan as a partner. Pakistan, conversely, is drawn by its relations with Iran and the US. India is in a similar situation. The US has imposed unilateral economic sanctions on Iran, details of which shall be discussed later, as a result of which the US does not want either India or Pakistan to enter into the IPI. Pakistan is currently a frontline ally of the US in the War on Terror whereas India, although

a pioneer of the non-aligned movement, has succumbed to political expediency and entered into a civil nuclear technology agreement with the US. This places both countries in complicated positions with respect to the US foreign policy and regional politics. Iran, on the other hand, looks for India's affirmative support in order to enter international market and shore up its non-US support; it already shares cordial business relations with China and Europe, as neither has given in to the US exhortations. Maleki suggests that India could be inducted into the ECO as an observer in order to facilitate such a project and this project could be a part of a pipeline system controlled by a consortium within this organisation. This would greatly allay the concerns over the operation and security of pipelines. [11] However, it remains to be seen if India would want to join hands with an organisation constituent of Muslim-majority countries while combating rising Islamist militancy within its territory.

Pakistan's role as a transit country

In international law, transit, to fit the global structure of states, could be defined as goods or persons moving from one country to another. [12] The concept of the "freedom of transit" was first introduced in the Barcelona Convention and Statute on Freedom of Transit 1921 addressing petroleum movement through waterways and railways. This was a steppingstone for Art. V of the General Agreement on Tariffs and Trade (GATT) and Art. 7 of the Energy Charter Treaty (ECT). The Convention states that all member-states shall facilitate trade and transit without distinction on the basis of nationality. Moreover, even-handed tariffs shall be applied to facilitate international traffic. [13]

With increasing global interdependence, there was a need for a more balanced and efficient framework to succeed the complex web of bilateral agreements and non-binding legal instruments. In pursuit of this goal, the ECT came into force in 1994, based on integrating European and Russian energy sectors to create a world energy market. Pakistan and Iran both have observer status at the Energy Charter Treaty. With particular reference to energy transit, Art. 7 does not grant a transit right to states; it imposes obligations to be applicable when a right of transit has been given. Para 10 forbids states to disrupt or obstruct supply of energy products in transit even when in dispute. It also extends to private companies thereby resolving the shortcomings in the GATT. Although the ECT has not been signed by India or Pakistan, it does offer guidance to the gradual inclination of the global order towards a norm of free and safe transit.

Any agreement which is finalised between India and Iran for the trade of natural gas crossing the Pakistani *terra firma* would have to include Pakistan, imposing upon it the responsibilities of a transit state. This is not to suggest that there is some legal obligation on Pakistan to grant a transit right. The grant of such a right is the exclusive prerogative of a country on a project by project basis. However, once that right has been given it remains to be seen if international law would be able to secure a safe passage for natural gas. Being a member of the WTO, Pakistan has been implementing the GATT rules in various sectors, especially agriculture and trade-related investment measures.[14] Less has been seen for energy products. Freedom of transit has not been a right woven into domestic law and policy till now.

By and large, a singular concern with all transit states to date has been the renegotiation and

disruption of energy supply.[15] The transit state, however, sits over the trade route and could theoretically sabotage the pipeline at any time, holding supply as a bargaining chip for renegotiation or greater and cheaper off-take. In other pipeline projects such as the IPC and Tapline, Syria and Turkey posed problems to Iraq (sending country) with respect to transit fees, which kept increasing.[16] Although states keen on foreign investment and development projects will typically not risk such an act, the prize for this disruption might be incentive enough for them to cut supply.

Political tension between Pakistan and India obviously deepens concerns with respect to the role of Pakistan as a transit country. With political and economic leverage over major energy contribution to India, Pakistan would always have the upper hand. If the IPI materialises Pakistan would be earning annual transit fees of nearly US$ 600 million.[17] Promises of greater wealth still could drive Pakistan to suspend supplies and force India to renegotiate transit fees on a profit-maximising basis. Besides, India considers it highly probable that Pakistani leadership would use their transit position as tool in the contentious issue of Kashmir.

However, I do not suggest that entering into transit contracts is impracticable or detrimental to the concerns of sending and receiving states. The Transmed pipeline between Algeria, Tunisia, and Italy is an excellent recent example of a successful transit project. It must be noted, however, that political and economic pressure from Italy and Algeria forced Tunisia to adhere to the contract. That might not always be the case, especially in the IPI. Other solutions do exist. One of the major solutions is to have alternative routes available whereby just the threat of an alternative would act to deter the transit country from malevolent activities.[18] With respect to the IPI, however, Pakistan stands assured that any alternative would be extremely expensive.

However, although Indian apprehensions are not entirely without merit, the IPI is Pakistan's opportunity to reinforce its economic backbone rather than crush a fiscal artery. Such a project, involving foreign investment from multinational institutions, would require supply continuity guaranteed by Pakistan.[19] Currently, following the pattern of a commercial project for the IPI might be more feasible. As and when India joins in, the project would become a transit project. However, owing to the long history of animosity and conflict between Pakistan and India, the IPI could not be similar to Transmed, wherein leaving Algerian territory the gas became Italian property and any transit dispute was between Tunisia and Italy.

A more plausible commercial arrangement would be where Pakistan shall purchase gas from Iran and then sell the requisite amounts to India. Thereby Iran shall be free from any financial risk and India would be sold gas by Pakistan eventually in order to meet costs of the project.[20] Iran proposed in, October 2008 that any reduction in supply from Pakistan to India shall result in a proportionate reduction of supply to Pakistan as well.[21] In lieu, Pakistan wants an MFN status clause in the GSPA to be signed with Iran, whereby any favourable terms afforded by Iran to another country shall have to be afforded to Pakistan as well. None of the clauses have been agreed to till date. It has also been suggested that India could sell the electricity produced to Pakistan as collateral for gas supply, whereby disruption on either side would mean disruption on the other. As already suggested, any politically-motivated disruption might not be free of peril as both countries shall be locked

into energy-related agreements which are hard to sever. It is submitted that entering into such projects would ensure economic co-operation and reduce political mayhem and compensate for lack of regional energy regulation.

A serious concern shared by India and Pakistan is the territory of Balochistan which shall also host the IPI. This mineral rich province is the economically weakest and physically largest in Pakistan. Over the years, poor government policies and hostile attitudes towards domestic and foreign involvement by the indigenous population have created a province that will be most troublesome to navigate. For India, this concern is limited to possible disruptions of supplies. For Pakistan, conversely, non-cooperation by Balochi chieftains could mar its standing in the international arena with respect to any further development and foreign investment in such transboundary projects. The discord with the nationalist movement of Balochistan has left its mark on the recent history of Pakistan through the sabotage of domestic pipelines. Although monitoring and patrolling systems could be used to ensure freedom of transit and energy security, acquiring land rights poses a paramount hindrance.[22]

In the former USSR, acquisition of encumbrance-free land was unproblematic due to government ownership. The ownership of property in most countries, however, is inalienable.[23] The competing concern, of course, is that land has to be reclaimed by the government in order to facilitate construction and development projects for economic progress.

In Pakistan, there are various means by which land can be provided. First, a right of user or easement could be granted over a piece of land for laying the pipeline after notifying the landowner and paying him the due compensation.[24] Besides leasing the land, landowners could enter into joint ventures. Once having constructed the pipeline, the parties could share profits earned from the transit fees and off-take from the pipeline. The last option to acquire land is through compulsory acquisition under the Land Acquisition Act 1894 and Articles 172 and 173 of the Constitution of Pakistan 1973. Although unclaimed land belongs to the state, privately-owned land could be acquired from owners for substitution or compensation.

The task then is to identify the best solution to acquire land, keeping in mind the concerns of sabotage, supply disruption, and state responsibility. In the Baku-Tbilisi-Ceyhan pipeline (BTC), governments have acquired land in lieu of compensation and leased the land to the consortium. However, as the IPI only involves state corporations, compulsory acquisition would be the best solution for security and exclusivity.

In addition, overarching rights of landowners and third parties such as licensees, easement-holders, and mortgagees shall have to be circumnavigated and appeased for the successful operation of the gas pipeline project. Thus, the only plausible solution is compulsory acquisition following compensation. In line with international law on expropriation, compulsory acquisition of land and assets on the land could only be for a public purpose following a due process of compensation.[52] The final declaration for public purpose with respect to the IPI shall be made by the Oil and Gas Regulatory Authority (OGRA), Government of Pakistan.[25] If foreign private investment is involved, the International Financial Corporation's Performance Standard 5 might apply whereby all such acquisition shall be accompanied by the payment of adequate compensation. Despite provision of land being the responsibility of the

host government, the project-investor needs to make a replacement plan and present that as a part of the Economic and Social Impact Assessment.[26]

Conclusion

Despite the ebb and flow in its relationship with geo-politics, the IPI could be a constructive move for the region. Besides stabilising regional relations, this project shall be a gateway for further progress. Although energy matters are not regulated by any multilateral treaty in the region pertaining to the IPI, in my opinion, Pakistan shall in all probability be able to trounce maximum legal apprehensions associated with the project through its domestic legislation. Foremost, the domestic legislation requires a detailed EIA which would ensure protection of the environment. Foreign investment is highly supported by the government. As the IPI would be a unique venture in energy trade for Pakistan, its success would determine future projects and investment, thus Pakistan shall try its utmost to facilitate the project in every respect.

The socio-political conundrum, however, requires regional cooperation for its resolution in order to ensure energy security and safety of the pipeline. Safeguarding human rights is not the sole responsibility of Pakistan, but all three countries involved should ensure that human right violations are kept to a minimum. As for geo-politics, it is for the regional powers to engineer a mechanism which would ensure immunity of economic prosperity from instability of politics. With more of such projects, soon the time shall come when a regional or international covenant, in this region, shall police energy-related matters ensuring that no 'Peace Pipeline' would have to be tossed between geo-politics and the law.

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Notes

[1] S. Akbarzadeh, 'India and Pakistan's geostrategic rivalry in Central Asia' (2003) 12:2 Contemporary South Asia 224-225.

[2] See Steve Mann's statement in A. Maleki, 'Iran-Pakistan-India Pipeline: Is it a Peace Pipeline?' (2007) 7:16 MIT Center for International Studies 2.

[3] S. Verma, 'Energy Geopolitics and Iran-Pakistan-India Gas Pipeline' (2007) 35 Energy Policy 3287.

[4] World Bank Report, 'Energy Security Issues', (2005) The World Bank Group Moscow, Washington.

[5] D. Deese, 'Energy: Economics, Politics and Security' (1980) 4:3 International Security 140.

[6] D. Yergin, 'Ensuring Energy Security' (2006) 85:2 Foreign Affairs 78.

[7] M. Sahir and A. Qureshi, 'Specific concerns of Pakistan in context of energy security issues and geopolitics of the region' (2007) 35 Energy Policy 2036.

[8] T. Siddiqi, 'An India Pakistan Détente: What it could mean for Sustainable Development in South Asia and Beyond' (2004) 75 Analysis from the East-West Center 4.

[9] M. Malitza, 'Ten Thousand Cultures: A Single Civilisation' (2000) 21:1 International Political Science Review 82-85.

[10] R. Tongia and V. Arunachalam, 'Natural Gas Imports by South Asia: Pipelines or Pipedream?' (1999) 34:18 Economic and Political Weekly 1063.

[11] Maleki, n. 4 above, p. 2-3.

[12] A. Stanic, 'International Law Framework for the Transit of Oil and Gas: The Caspian Perspective' in I. Bantekas et al (eds.), Oil and Gas Law in Kazakhstan (Kluwer Law and Taxation Publishers 2004) p. 281.

[13] Art. 2.

[14] Art. 4.

[15] See www.wto-pakistan.org; Z. Mahmood, 'WTO and Pakistan: Opportunities and Policy Challenges' (1998) 37:4 The Pakistan Development Review 695-696.

[16] P. Stevens, 'Pipelines or Pipe Dreams? Lessons from the History of Arab Transit Pipelines' (2000) 54:2 Middle East Journal 225.

[17] Ibid., p. 227-230.

[18] E. Sridharan, 'Economic Cooperation and Security Spill-Overs: The Case of India and Pakistan' in M. Krepon et al (eds.) Economic Confidence-Building and Regional Security Report 36 (Washington DC Stimson Centre October 2000) 70.

[19] Stevens, n.21 above, p. 238.

[20] T. Siddiqi, 'India and Pakistan: Pipe Dream or Pipeline of Peace?' (2004) 5.1 Georgetown Journal of International Affairs 39.

[21] Ibid., p. 40.

[22] Reported in Shana, available at http://www.shana.ir/135033-en.html

[23] Siddiqi, n. 25 above, p. 39.

[24] Universal Declaration of Human Rights 1948, Art. 17.

[25] Oil and Gas Regulatory Authority Ordinance 2002, S. 32.

[26] Land Acquisition Act 1894, Ss. 6, 11, 16 and 31.

Inequality Traps in Pakistan

By Rashid Memon



There is broad agreement that Pakistan is an unequal society. A recent study suggests that, measured in a particular way, inequality has not only persisted over time but, in some instances, has actually worsened. It turns out that Pakistan is not alone in facing persistent inequality. A large body of literature has addressed similar concerns in different countries across the world, leading Tilly (1999) to name the phenomenon 'durable inequality'.[1] Rao (2006) subsequently formalized these ideas in the framework of what he called an 'inequality trap'. This he defined as 'describing situations where the entire distribution is stable because the various dimensions of inequality (in wealth, power and social status) interact to protect the rich from downward mobility and the poor from being upwardly mobile' (Rao, 2006).

There are two characteristics of an inequality trap (Bebbington, 2008). Firstly, there is the persistence of ranking, where income distribution may shift without affecting the relative ranking of different population sub-groups, i.e. incomes increase (or decrease) at all points in the distribution.[2] Secondly, an inequality trap draws attention to the causal interaction between multiple dimensions of advantage. Let us suppose, for instance, that income mobility is achieved through acquiring higher levels of good education. If good education is expensive, then poor people would need access to public or subsidized education. If poor people have minimal representation in state legislatures, they might not be able to legislate towards good public education. On the other hand, those who are rich and have meaningful representation in the legislature do not need public education and do need to legislate for it. In short, inequalities in political power may reinforce inequality in incomes by denying access to affordable education.

Similarly, consider the status of women in societies that have strong norms regarding masculine 'outside' activities and feminine 'inside' activities, with a semi-permeable border between the inside and the outside. In such regimes, women are often denied property and inheritance rights and their physical mobility is curtailed. To the extent that girls' access to education is disrupted by lack of mobility, they are more likely to work from home than outside the home and may choose occupations that pay less as a compensating differential. This reduces the options for women outside marriage and increases their economic dependence on men. Social inequalities therefore may reinforce economic inequalities along lines of gender. Moreover, social norms are transmitted across generations: If the norm is that women do not get educated and 'good' women stay at home, these beliefs are easily passed on to daughters who then make decisions similar to those made by their mothers (Akerlof and Kranton, 2000).

Inequality traps in Pakistan

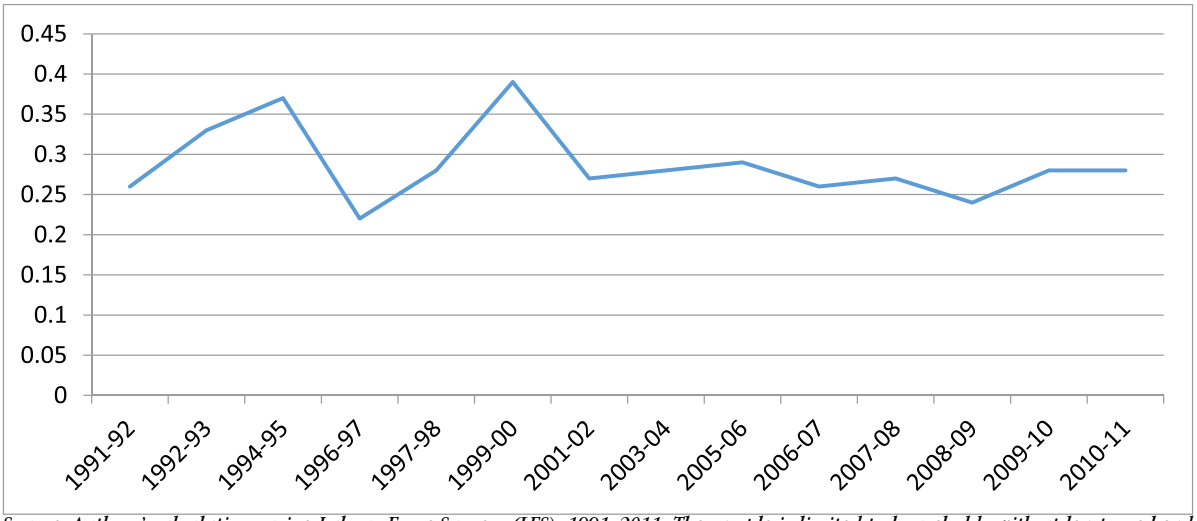
Trap 1: Inter-generational persistence in income

As noted above, the definition of an inequality trap requires stability of income distribution and

the preservation of relative ranks: those who are poor remain poor and those who are rich remain rich. One way of getting an empirical handle on this phenomenon is through measures of inter-generational mobility. The relevant literature focuses on two basic measures, inter-generational earnings elasticity and inter-generational transition matrices. This section focuses on each in turn.

Figure 1 presents measures of elasticity for the 21 years from 1991 to 2011, which show an average elasticity of 0.29: this suggests that a 1 percent increase in a father's income is associated with a 0.29 percent increase in the income of his son.[3] Given differences in data collection and estimation protocols, comparisons with other countries need to be made cautiously. However, having said this, most countries perceived to be egalitarian (e.g. Finland) have a lower elasticity than Pakistan, and countries perceived to be unequal (e.g. the USA) have a higher elasticity (see Table 1). It would not be incorrect to say: (1) that fathers' earnings are significantly associated with sons' earnings, and (2) the stability of elasticity over the most

Figure 1: Inter-generational earnings elasticity in Pakistan (father–son), 1991–2011



Source: Authors' calculations using Labour Force Surveys (LFS), 1991–2011. The sample is limited to households with at least one head and one son in the labour market. All coefficients are statistically significant at the 5 percent level.

Table 1: International estimates of inter-generational elasticity

Country	Estimate of inter-generational elasticity
Finland	0.18
Canada	0.19
Netherlands	0.22
Sweden	0.27
Germany	0.32
France	0.41
United States	0.47
United Kingdom	0.50

Source: Corak (2006)

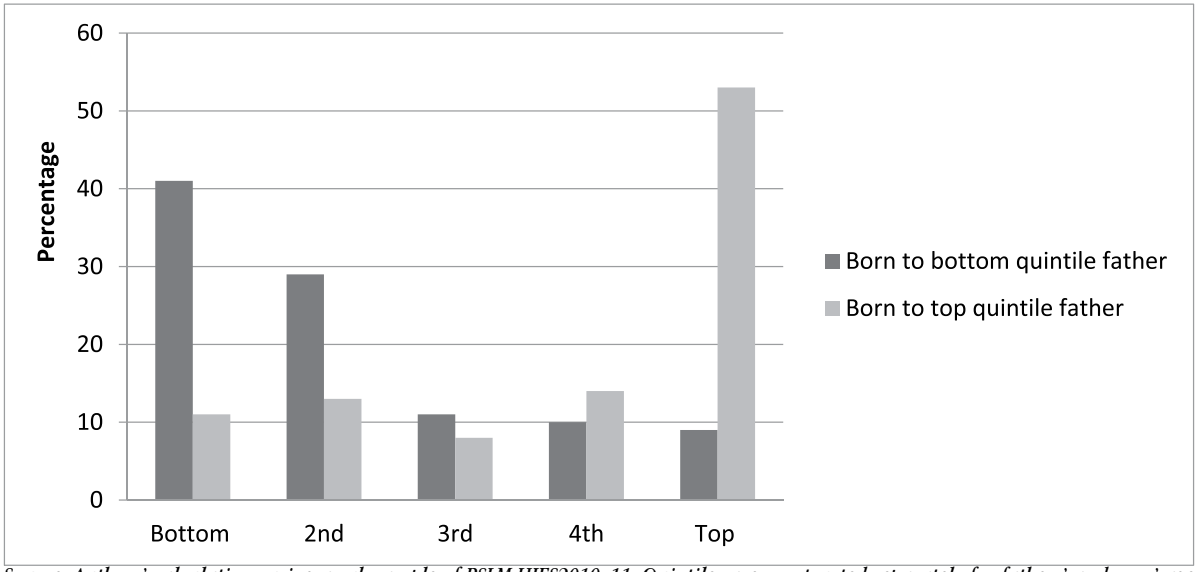
recent11-year period (2000–11) is consistent with the idea of an inter-generational trap: not only does the father's earnings status predict that of the son, but this relationship does not appear to have weakened over the years. [4]

A drawback of the elasticity measure is that it offers a summary measure of mobility without offering any insight into actual mobility. Elasticity does not tell us, for example, the number of sons who are upwardly or downwardly mobile. The easiest way to do this is to count how many sons of poor fathers have been able to 'transition' out of the fathers' income class.[5] To be precise, we need to look at a son's movement out of his father's income quintile. This investigation is interested in knowing whether the son of a bottom-quintile father is in the bottom quintile himself. If the son of a bottom-quintile father turns out to be in the top quintile instead of in the bottom one, he has 'transitioned' from a poor background to being rich.

Figure 2 shows how the sons of top- and bottom-quintile fathers have fared. Sons of top-quintile fathers are represented by the light-coloured bars and sons of fathers in the bottom quintile by the dark-coloured bars. The results show that 40 percent of sons born to bottom-quintile father remain in the bottom quintile, while only 9 percent make it to the top quintile. Similarly,52 percent of sons born to top-quintile fathers are themselves in the top quintile; it is quite evident that privilege is passed on from father to son.

Despite a strong tendency for sons to be in the same quintile as their fathers, there is nevertheless some evidence of upward mobility. 9 percent of sons born to bottom-quintile fathers do make it to the top quintile. However, the bulk of upward mobility for these sons is to the second quintile – even when sons improve upon the father's position, the 'distance' travelled is quite limited.

Figure 2: Income quintiles of sons born to bottom- and top-quintile fathers, 2010–11



Source: Authors' calculations using a sub-sample of PSLM-HIES2010–11. Quintiles are constructed separately for fathers' and sons' age cohorts.

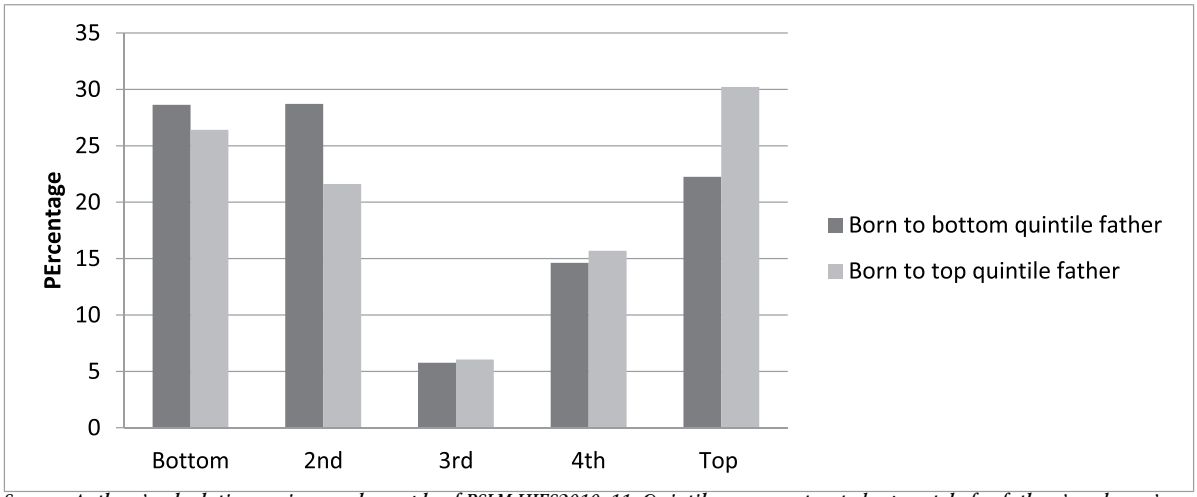
It is useful, at this stage, to consider what such a graph would look like if people were allocated to quintiles randomly. Then 20 percent of the sons of bottom-quintile fathers should make it to the top quintile and 20 percent of the sons of top-quintile fathers should be in the bottom quintile.

To further contextualize mobility, or the lack thereof, compare the 2010–11 figures with a similar snapshot from 1994, depicted in Figure 3. The evidence is suggestive of worsening mobility, which is consistent with the earlier discussion of elasticity estimates. In 1994–95, roughly 30 percent of those born to both top- and bottom-quintile fathers remained in those quintiles. In 2010, the percentage born to rich fathers remaining rich themselves was higher than the percentage born to poor fathers remaining poor – though both percentages were large. Finally, the relative position of the quintiles (at least in terms of earnings) has changed quite dramatically over the past 15 years. Figure 4 shows that the earning distribution in 1994–95 was more 'compressed' compared with the 2010–11 distribution. In 1994–95 the top 20 percent earned twice as much as the bottom 20 percent, but in 2010–11 they earned almost three times as much.

Why is it that the quintiles are pulling apart? Why is it that so many sons of bottom-quintile fathers are stuck in the bottom quintile themselves? To some extent, wage persistence across generations could be driven by the effect of parental background on cognitive skills acquired by children in formal and informal education – productivity (Causa and Johanson, 2010).Recent studies show a clear connection between inter-generational wage mobility and inter-generational mobility in education, although educational mobility cannot account for all estimated persistence in incomes (Blanden and Machin, 2008). The extent to which educational mobility is responsible for wage persistence depends on how strongly educational achievement is tied to family background, i.e. the degree of persistence in education as well as the returns to education in the labour market.

Trap 2: Inter-generational persistence in educational attainment

Figure 3: Earnings quintiles of sons born to bottom- and top-quintile fathers, 1994–95



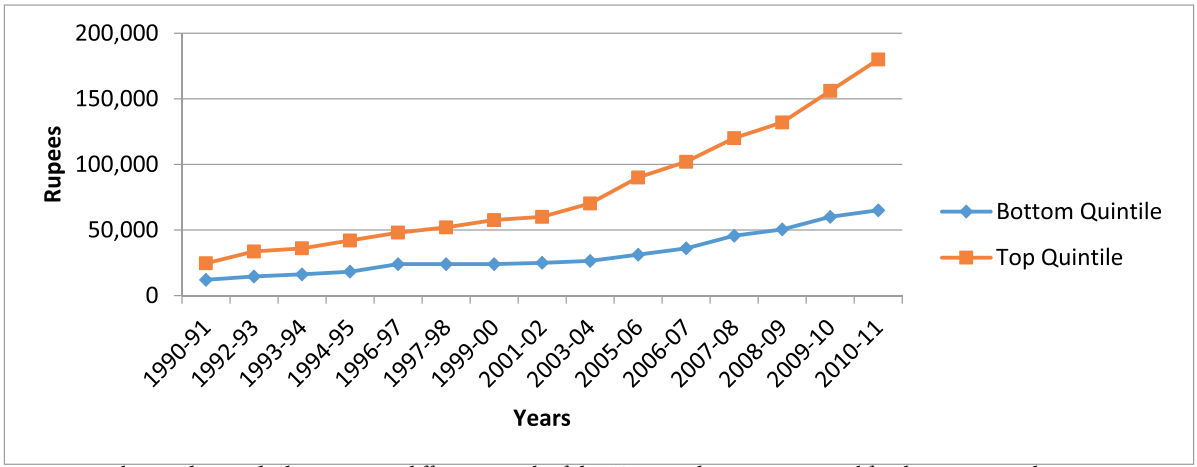
Source: Authors' calculations using a sub-sample of PSLM-HIES2010–11. Quintiles are constructed separately for fathers' and sons' age cohorts.

It is generally difficult to establish whether poor people (a) genuinely do not have the opportunity to get more education;(b) are constrained by budget and make investment decisions that are different from the decisions of rich people; or (c) make decisions that do maximize expected income stream, but expectations are low for the bottom quintile because of segmented labour markets. As Munshi and Rosenzweig (2009) have pointed out, sons of blue-collar workers choose (low) levels of education commensurate with their expectation of getting blue-collar jobs through their own social networks. On the one hand, remaining blue-collar is a choice, but on the other hand this choice is a response to the low (expected) probability of getting a white-collar job, even if the individual works towards it (as Marx would have said, people do make choices, but not in the circumstances of their choosing). Discussing the fine line between choice and social constraint is beyond the scope of this paper. For now, it explores whether there is empirical evidence for an 'educational trap' and whether this line of investigation is useful for understanding economic mobility. Figure 5 suggests that the educational gap between rich and poor people in Pakistan increased significantly in the 16-year period between 1995 and 2011. [5]

Note firstly that fathers in the bottom and top quintiles in 1995 were statistically very similar in terms of mean years of attainment, and that the richer fathers' sons fared only marginally better than their the sons of their poor counterparts. However, this picture has changed dramatically in the past 15 years. Rich fathers now have three times as many years of education as poor fathers and rich sons have twice as many as poor sons. So, even though for a given year – 2010–11 – it appears as if the gap between the rich and the poor has closed, the gap has actually widened in comparison with 1995.

A very striking change over the 15 years has been the uptake of schooling for women of higher classes. In 1995 mothers in both the top and bottom quintiles were poorly educated; this seems to have changed dramatically in 2011. While there is a big gap between rich and poor daughters, the gap between sons and daughters within each quintile has decreased: the ratio of son/daughter mean years of education has reduced from 2.6 to 1.7 for the bottom quintile and from 2.7 to 1.2

Figure 4: Earnings quintiles over time



Source: Based on authors' calculations using different rounds of the LFS.Quintiles are constructed for the entire sample in any given year.

for the top quintile. These figures seem to suggest that son preference may have decreased in the domain of education.

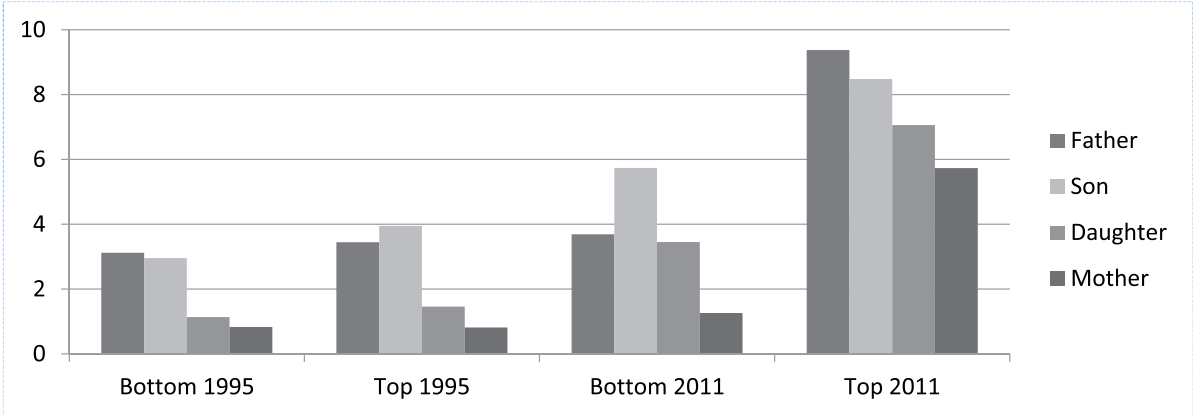
It can only be conjectured as to why the gender gap in education has diminished; there are several possibilities. Firstly, educational uptake for boys is known to be responsive to income (Aslam and Kingdon, 2008) With limited income, families invest only in the education of their sons. As incomes rose steadily over the 1994–2011 period, it could be that families no longer have to discriminate between their sons and daughters. Secondly, labour force participation for women has increased over the last 20 years (Siegmann and Majid, 2014). This could be due either to changing attitudes towards working women or simply to the creation of jobs considered appropriate for women. Since returns to education for women are quite high (Aslam, 2009), it is possible that increasing investment in girls' education is a response to this earnings potential. Thirdly, anecdotal evidence suggests that education increases the chances of receiving a good marriage proposal, and higher educational levels could be a response to this cultural phenomenon.

Finally, sons in the top quintile in 2010–11 had an educational level lower than that of their fathers. Two data artefacts account for this result. Firstly, this is an average over (possibly) multiple sons. If, instead of the mean, the measure chosen is the maximum level of education that any son in a given family has acquired, then the sons' education level does go up. The fact that there are sons who have education levels lower than those of their fathers suggests that it is indeed possible, for at least some sons, to be downwardly mobile. Secondly, it is important to note that the top quintile has a mean level of education around 'Matric',[7] suggesting that this is not a very highly educated population and that there might be an even starker difference between the top 1percent and the bottom 1 percent. Unfortunately, the datasets available do not allow a reasonable statement to be made at that level of disaggregation.

Conclusion

The discussion above on inequality traps identifies four peculiarities: (1) a majority of the sons of poor fathers remain poor and the majority of the sons of rich fathers remain rich; (2) the educational gap

Figure 5: Earnings quintiles of sons born to bottom- and top-quintile fathers, 1994–95



Source: Authors' calculations using a sub-sample of PSLM-HIES2010–11. Quintiles are constructed separately for fathers' and sons' age cohorts.

between rich and poor people is increasing; (3) sons follow fathers in their choice of occupation. While it has not been possible to link the first three traps together rigorously, a reasonable narrative can still be offered. It is not far-fetched to suggest that income, education and occupational choice are all linked together, reinforcing one another. The son of a sweeper does not go to a school where his talents are honed and where his aspirations are developed. While limited education is itself a barrier to upward mobility, the fact that the labour market operates through networks suggests that his chances of getting a good job are limited, despite a certain level of education. He therefore drops out of school and takes a job in the occupation of his father – where his connections do work. Naturally, he is then in the lower end of the income distribution – and the cycle continues.

It appears evident that the natural space for discussing government intervention is in schooling. Given that the fiscal space is not going to improve, the priority is to figure out how to spend current allocations. There are two ways to proceed. One is to focus on the quality of primary education. Average attainment levels have gone up for those of both rich and poor backgrounds. While there is little data on schooling quality, it is anecdotally clear that the quality of private schools – which the children of rich families attend – is higher. This is not to say that there are no public schools where good-quality instruction is provided. These schools can be emulated and expenditure can focus more on quality than on quantity. This feeds into the income inequality trap, since better-quality education leads to higher productivity and the possibility of a better occupation later on.

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Notes

[1] Discussing different mechanisms that allow inequalities to persist, Tilly focuses on the relations of exploitation between dominant and subordinate groups and the maintenance of institutions and practices that support these relationships.

[2] In the same vein, it is possible for absolute poverty to diminish considerably without changing the relative ranking of different population sub-groups. It is straightforward, then, to see how an inequality trap is different from a poverty trap: the latter involves persistence in the absolute level of advantage, whereas the former involves persistence in relative advantage.

[3] Inter-generational earnings elasticity is derived from an ordinary least squares (OLS) regression model as the estimate of the coefficient of β in the equation, where Y represents earnings for fathers and sonsfrom a particular family. The constant term α captures the trend in average incomes across generations, due, for example, to changes in productivity, international trade, technology or labour market institutions. The coefficient β indicates the degree to which earnings are 'sticky' across generations within the same family. The higher the value of β, the higher the influence of a parent's income on the child's income.

[4] These results are preliminary in nature.

[5] The formal method involves computing transition matrices.

[6] Before comparing the results for 1995 and 2011, note that those characterized as fathers in 2011 had an average age of 46, implying that they were 30 years old in 1995. Meanwhile, those who were characterized as sons in 1995 were 18-year-olds – so the same age-cohorts are not being compared across years.

[7] Matriculation examinations are the final exams for the ninth and tenth grades, taken at age 15–16.

Revealing Facts: Pakistan as the Trade and Energy Corridor

Strategically positioned Pakistan sits at the trade artery of the region. It is the connection with sea routes for the landlocked Central Asia and the south-western provinces of China. In addition, Pakistan connects the petroleum hubs of Iran and Turkmenistan with India. Figure 1 shows how Pakistan's shape and position allow her to share borders with Iran, Afghanistan, Central Asia, China and India allowing easy flow of trade and transport.

Despite this, Pakistan has been unable to stabilise its economy and foster healthy trade relations with her neighbours largely owing to the rivalry with India and the unparalleled interest of the US in the region.

Being the transit gateway for land-routes of petroleum products from Iran and Turkmenistan, Pakistan has a great opportunity ahead of it to boost its economy. While the IPI (Iran-Pakistan-India Gas Pipeline)

Figure 1



Source: Pakistan Defence Forum. Retrieved from http://defence.pk/threads/energy-corridors-pakistan-provides-shortest-routes-says-zardari.136385/

is economically more viable, TAPI (Turkmenistan-Afghanistan-Pakistan-India Gas Pipeline) is endorsed by the USA since it would not involve Iran. Figure 2 shows the proposed routes for these pipelines to secure energy for the escalating energy demand in India and Pakistan.

Cross-Border Trade between India and Pakistan:

The Indian and Pakistani governments have made repeated attempts at increasing cross-border trade but have failed to make a marked difference.

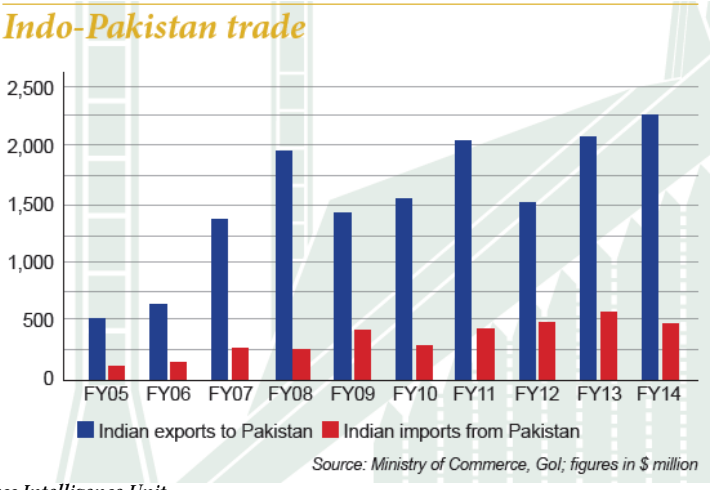
In spite of a population exceeding 1.5 billion, Indo-Pak Trade is yet to cross the $3 billion mark. Figure 3 shows that there is an increase in Indian exports to Pakistan, the Pakistani exports to India have been largely stagnant.

Figure 2



Source: The Hindu Business line. Retrieved from http://www.thehindubusinessline.com/economy/the-iranpakistanindia-gas-pipedream/article5405591.ece

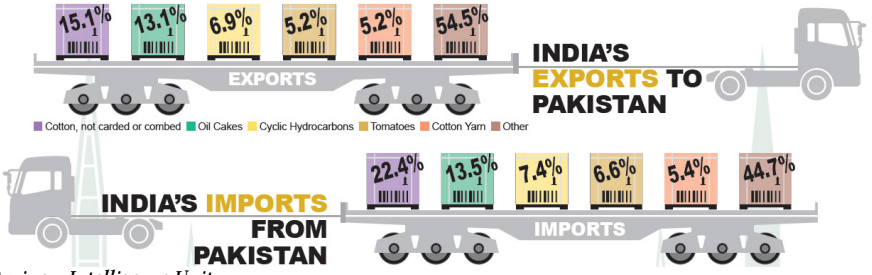
Figure 3



Source: The Dollar Business Intelligence Unit

Figure 4 shows Indo-Pak trade categorisations which manifest a trend of importation of fruits (22.4%) and petroleum (15%) by India from Pakistan whereas India exports cotton (15.1%) to Pakistan.

Figure 4



Source: The Dollar Business Intelligence Unit

Notes:

Figure 3 and 4 are printed with permission from The Dollar Business; originally published in the October 2014 issue of The Dollar Business magazine; data source: The Dollar Business Intelligence Unit (www.thedollarbusiness.com).

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