

Enhancing India-Pakistan Trade
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SPEAKING NOTES FOR PSM

INDIA-PAKISTAN ENERGY TRADE: BACKGROUND

- Just a week ago (December 25, 2015), in one of the worst power failure experienced by Pakistan has caused fourth major breakdown of the system within the past one month plunging countless cities, towns and villages in Punjab, Khyber Pakhtunkhwa, Balochistan and Sindh into darkness. As per official records blackout began after midnight when a transmission line connecting a privately-run power plant to the national grid was damaged. Such happenings can be prevented in future with a comprehensive system in place.
- Pakistan and India account for more than 90 percent of South Asia's GDP. Intra-regional trade amounts to just over 1 percent of the region's GDP compared with 2.7 percent for the Middle East and Africa and 7 percent for Latin America and East Asia. The rate for Europe and Central Asia is 16 percent.¹
- The formal trade between India and Pakistan increased from USD 144 million in 2001 to USD 2.7 billion in 2010-11. The informal trade including third country trade between India and Pakistan is estimated at

¹ <http://www.pymnts.com/in-depth/2014/politics-economy-limiting-india-pakistan-trade-growth-officially-that-is/#.VMeSDdKUC24>

USD 10 billion. The formal trade potential is estimated at USD 12 billion.²

- The greatest economic benefit of improved relations between India and Pakistan would occur in the sphere of energy cooperation. As, India is one of the most rapidly growing energy markets in the world and will be able to absorb new sources of supply as they materialise in the region. Pakistan's potential role in fulfilling this need is not as a supplier but as a potential transit route for energy from Iran and Central Asia. This would require construction of one or more new pipelines, a major capital investment that makes sense only if the political stability and economic feasibility of the project can be counted on.

FACTS & FIGURES

- As of 2013, the total installed electrical generation capacity in Pakistan was 21,593MW and producing net capacity approximately 15,000MW against demand of approximately 22,000MW resulting in net deficiency of 7000MW during peak hours.³ Currently, Pakistan is facing a shortage of 6000MW, which is increasing approximately 15 percent annually.⁴
- India has an installed electricity generation capacity of 255,681MW. Out of the total, thermal accounts for 178341MW, nuclear 4780MW,

² *ibid*

³ http://www.pcjcci.org/press/fast%20news_16-3-2014.pdf

⁴ <http://www.dawn.com/news/1102945>

hydro 40867MW and renewable energy sources 31692 MW. The peak energy deficit of India is around 3-4 percent.⁵

- Both the neighbours have huge potential of energy trade; India can supply excess energy to Pakistan whereas Pakistan can trade its huge coal reserves.

ON-GOING INITIATIVES

- The two major projects under consideration for a very long period of time are the Iran-Pakistan-India (IPI) pipeline and Turkeministan-Afghanistan-Pakistan-India (TAPI) pipeline. The TAPI pipeline project is approximately pegged at a cost of USD 7.6 billion. As per the latest arrangement agreed on - India will pay transit fee to Pakistan and Afghanistan to get its share of 38 million standard cubic meters a day of gas through the pipeline, while Islamabad will pay ferrying charges to Afghanistan.
- Iran-Pakistan-India (IPI) pipeline project is a 2700 km pipeline from Iran's South Pars fields in the Persian Gulf to Pakistan's major cities of Karachi and Multan and then further to Delhi.
- Proposals to lay a 110-km pipeline from Jalandhar in India to the Wagah border to supply gas to Pakistan are now in place, with the

⁵ http://www.cea.nic.in/reports/monthly/executive_rep/dec14.pdf, as of December 31, 2014

Indian government exempting Pakistan from paying the basic customs duty on the supply of natural gas.

COST OF NON-ECONOMIC COOPERATION

- The electricity shortage roughly cost \$13.5 billion to the Pakistan's economy (Shah 2013).⁶ Planning Commission of Pakistan (2013) estimates that per annum nearly 2-3 percent of the GDP of Pakistan is lost as a result of energy deficit.⁷
- Consumers are one of the key sufferers of non-economic cooperation within the region, as it directly affects the consumer welfare cost. CUTS had undertaken a study to enquire into the potential benefits of increase in intra-regional trade to consumers in the South Asia region, based on a hypothesis that ineffective and insufficient trade liberalisation is resulting in high cost by way of loss of consumer welfare. The cost of non-cooperation between India and Pakistan in terms of consumer welfare gains is estimated to be at \$3 billion per annum.⁸

⁶ Eweje G (2014), 'Corporate Social Responsibility and Sustainability Emerging Trends in Developing Economies' Published by Emerald Group

⁷ *ibid*

⁸ http://www.cuts-citee.org/COENCOSA/pdf/Consumers_and_Economic_Cooperation-Cost_of_Economic_Non-cooperation_to_Consumers_in_South_Asia.pdf

WAYS TO ENHANCE COOPERATION

- Regional differences can be resolved through trade and investment, as potential mutual benefits would force political and social leaders to bring harmony and stability within the region.
- Involving private players in regional integration process will make it more economic oriented instead of politically or socially motivated and thus brings quick & better results. If private players start investing, then it will be a responsibility of the government to ensure peace and harmony in the region to protect the investment of their stakeholders.
- Trade brings more stability to the region; every country in the market has a certain role to play. IP pipeline (Iran-Pakistan), which was later extended till India has been primarily named as peace pipeline to send the message that the countries in the region are concerned about stability.
- Relations between India and Pakistan is over politicised and a pragmatic development agenda is needed to promote economic cooperation between both the countries. Private players are sceptical about any investment between these countries due to price fluctuation, political instability, security threats, etc. Thus, there is a need of stable Government with a defined political will and institutionalised markets to enhance energy trade between both the countries.

- Further, one of the major barriers in regional integration is trust deficit between the countries and that can effectively be resolved through involving Civil Society Organisations (CSO's). Being a consumer representative and government watchdog, CSO's plays a vital role in trust building at grassroots and policy level.
- The recent SAARC Framework Agreement for Energy Cooperation (Electricity) is expected to improve power availability in the entire SAARC region and would facilitate integrated operation of the regional power grid.
- In the light of this development, both the nation should harmonise their energy policies to facilitate South Asian Energy Grid. Further, national energy policies of each South Asian country should be compared and analysed to come up with a consolidated regional energy policy to facilitate regional energy trade.
- Both India and Pakistan should take the lead and go beyond bilateral energy trading and develop more integrated markets. This in turn could pave the way for the regeneration of SAARC's institutional framework to utilize intra-regional trading, as well as greater cooperation in the vital areas of energy security and regional peace.
